

Audit Follow-up Report - 2011

July 3, 2012

Report #717

Released on : July 3, 2012

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



July 3, 2012

Special Report #717

Honorable Members of the City Council
Jacksonville, Florida

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 as well as items which were found to be non-compliant 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 the Auditee 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 six reports requiring follow-up review, as well as three reports for which compliance had not yet been achieved in our previous follow-up review.

Six Reports Requiring Follow-up Review

1. Public Buildings Audit Report #664 (June 2009)
2. Treasury Division Check Pick-Up Audit Report #671 (September 2009)
3. Northwest Jacksonville Economic Development Trust Fund Audit Report #672 (October 2009)
4. Tax Collector Audit Report #678 (March 2010)
5. JPA Dredging Procurement Audit Report #679 (May 2010)
6. JEA Franchise Fee and Public Service Tax Audit #682 (June 2010)

Three Reports for Which Compliance Had Not Been Achieved Per Previous Follow-up Review

7. Procurement – Sole Source/Proprietary Purchases Audit Report #647 (May 2008)
8. Jacksonville Children’s Commission Revenue Audit Report #649 (June 2008)
9. Overtime Audit Report #644 (February 2008)

We sent follow-up letters to the six auditees inquiring as to the status of the original audit report recommendations. We reviewed the recommendations from our audit reports, the auditee’s responses to the recommendations, and the auditee’s 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 auditee’s response. We also contacted the three auditees for which compliance had not previously been achieved and investigated to ascertain the level of compliance. The following is a brief summary of the results of our follow-up inquiry and testing.

1. Public Buildings Division Audit Report #664 (June 2009)

Based on the responses received from the Public Buildings Division and our follow-up testing, it appears that the Public Buildings Division has complied with some of our audit recommendations but has not complied with many recommendations as noted below:

A. Follow-up Audit – Finding #1-1 *JPL Administering Its Own Janitorial Services*

Public Buildings Division's follow-up response concerning administrative duplication of janitorial services was "With assistance from Public Buildings the oversight of contractor performance is managed by JPL staff. They are in the best position to monitor contractor performance. Public Buildings does not have sufficient staff to effectively inspect and oversee every location and the work by the JPL supplements the work of Public Buildings' staff and enables the City to have better control and knowledge of the services that we receive. We do not view this as a deconsolidation of services nor a result in the ability of Public Buildings to perform this service. As we continue to face budgetary cuts we must look at innovative ways to stretch our resources to get the best value for goods and services. This is such a method, doing more with less."

The Jacksonville Public Library's response was "As part of the outsourcing of JPL's ground delivery services and FY 2010 budget reductions the custodial inspector position was eliminated in June 2010. The realignment of Facilities Management and Planning staff consisted of the consolidation of three jobs (Custodial Inspector, Security Supervisor and Distribution Services Supervisor) into one Contract Administration Coordinator position. This new position is responsible for managing contractual services for custodial, security, and delivery."

Based on both Public Buildings' and JPL's response it appears that JPL is still administering its own contract with the concurrence of the Public Buildings Division and has not implemented the Council Auditor's recommendation.

Original Audit Report – Finding #1-1

The Jacksonville Public Libraries (JPL) administers its own janitorial services under the City's janitorial contract. Previously, the Public Buildings Division was the administrator of the janitorial services for the Libraries. We consider this to be a duplication of services because the JPL's custodial inspector performs the same function as the Public Buildings custodial inspectors, such as the review of invoices and inspection of services provided by the custodial contractors.

Original Audit Report – Council Auditor Recommendation for Finding #1-1

We recommend that the janitorial supervision responsibilities of the JPL's buildings revert to the Public Buildings Division due to the experience of the personnel in the Division regarding janitorial services.

A. Public Building Division's Follow-up Response

There are currently only two contracts for janitorial service; one is restroom cleaning at various Park locations, the other is city buildings at various locations, and oversight of those contracts rests with the Public Buildings Division. However, Public Buildings relies on support from JPL in how the contractor is performing their duties at the library locations. If there are any issues

with service at the library locations, the library manager has Public Buildings' permission and approval to contact the contractor to resolve issues at the lowest possible level. If the results are unsatisfactory, the issue would be brought to the attention of Public Buildings for interventional action and resolution.

We do not view this as an administration of contract by JPL but rather an efficient use of personnel and stake holders to achieve the best possible results at the lowest cost to the City.

B. Follow-up Audit – Finding #3-1, #3-2 and Internal Control Weakness #3-1 *Inventory Count Deficiencies*

Our follow-up revealed that annual inventory counts are performed along with monthly counts. However, while various procedures have been established and followed since our last audit, the procedures had not been reduced to writing, there are no written standard operating procedures for the inventory.

Original Audit Report – Finding #3-1

The physical count did not match the inventory records during our inventory count. During our testing we found that:

1. Out of 144 items tested, the physical count for 64 (or 44%) items did not match to the Maximo balance. (Maximo is the inventory tracking system.) Per Maximo, the total cost of all 144 items tested was \$68,091.84 (calculations are based on average cost times quantity). The physical count was different from Maximo's balance by \$18,243.46 (or 27% of total value). Out of those 64, the physical count for 22 items revealed that there were more items counted than was listed in Maximo. The fiscal value of this discrepancy is \$13,787.95 (or 20% of the total value of the 64 items mentioned above).
2. Out of 16 items, randomly picked at different storerooms, the physical counts for 12 (or 75% of the cases) items did not agree with Maximo's balance for those items. The fiscal value of this discrepancy is \$376.21 (or 21% of the total value of the 16 items mentioned above). It should be noted that out of 16 randomly picked items, there were three instances when we were not able to find the randomly picked items in Maximo's inventory records.

Original Audit Report - Finding #3-2

When we obtained a listing of the supplies inventory in Maximo from ITD, we observed that 39 out of the 6,284 line items listed had negative quantity balances.

Original Audit Report – Internal Control Weakness #3-1

No physical inventory count is performed on a regular basis. When asked about physical inventory counts, the Public Buildings Division Chief stated that if inventory counts are done, it is done for the purpose of inventory replenishment and not reconciliation with Maximo. It is considered good business practice to do physical inventory counts on a regular basis for the purpose of reconciliations to the accounting records.

Original Audit Report – Council Auditor Recommendation for Finding #3-1, #3-2 and ICW #3-1

The Division should create procedures regarding inventory control to ensure that all supplies bought and used are properly accounted for in Maximo. Also, the Division

should conduct inventory counts on a regular basis in order to check the counts to Maximo and investigate any differences in amounts.

B. Public Building Division's Follow-up Response

To date, Public Buildings has not reduced to writing, a standard operating procedure. However, such a procedure will be written and a copy of said procedure sent to Council Auditors for their record and review. This document will be provided by March 30, 2012. (Council Auditor's Note: We have not received a written copy of the referenced standard operating procedures as of May 2, 2012.)

C. Follow-up Audit – Internal Control Weakness #3-3 *Lack of Segregation of Duties*

It appears that a lack of segregation of duties still exists within Public Buildings' inventory management of its operating supplies since the Supply Supervisors still have the ability to add and delete inventory in Maximo and still have physical access to the inventory. Public Buildings' follow-up response was that "Maximo maintains within it a record of transactions with the employee number of the individual that is logged in performing the actions. This gives a documented audit trail of transaction thus providing automatic protection eliminating the need for additional personnel for segregation of duties. Annual reconciliation of physical inventories with Maximo is performed by personnel assigned to ASD. Inventory counts are performed by Public Buildings and sent to ASD to reconcile."

Original Audit Report – Internal Control Weakness #3-3

There is inadequate segregation of duties in Public Buildings' inventory management of its operating supplies. Both Supply Supervisors have the ability to add new inventory to Maximo, delete inventory from Maximo and have physical access to the inventory.

Original Audit Report – Council Auditor Recommendation for Internal Control Weakness #3-3

We recommend that the individuals who maintain the supplies inventory in Maximo not have physical access to the inventory.

C. Public Building Division's Follow-up Response

With the continual reduction in staff of Public Buildings' personnel, it is not prudent or efficient to hire someone in a position for inventory control in Maximo. With our current process, the supply supervisors do not delete any items from Maximo. If a correction or adjustment is required, it will be performed by ASD personnel. As previously stated; there is a tracking mechanism within the automated system that records all transactions and is available for management and control purposes. We believe this automation to be sufficient in providing the necessary oversight in controlling supply inventory access.

It would be great to have complete separation as recommended, but we do not see a way to make that change at this time and keep our current service level. We must maximize the use of all our personnel in an effort to be responsive and provide the greatest service possible. The size of our work force is constantly shrinking while our work load and demands continue to grow.

D. Follow-up Audit – Opportunity for Improvement #1 *Allocation of Electric and Water/Sewer Expenses*

Public Buildings’ follow-up response concerning the allocation of electricity and water/sewer expenses to the applicable City departments was “Public Buildings is currently in the process of accurately identifying all meters that are associated with city property and their location. If at some future date it is decided to allocate the responsibility of utilities to the various departments, this will better enable that process to take place. Currently there is no mechanism that will allow the utility expenses to be allocated to the using Agency.”

The City’s Budget Officer (at the time of the follow-up) responded “ASD as well as someone from Public Works have been analyzing the City’s utility accounts and meters in an effort to reduce utility costs and I believe they have made progress in that area. At this time I would not propose a change in how utility costs are budgeted.”

Based on the responses of Public Buildings and the City’s Budget Officer (at that time), it appears there has been some progress on this item, however this has not been fully implemented.

Original Audit Report – Opportunity for Improvement #1

The City should consider allocating the electricity and water/sewer expenses to the applicable City departments based on usage. In our observations, we found that:

1. The Public Buildings Division pays the entire amount of electricity and water/sewer bills for all City buildings because meters are not linked to the buildings.
2. There appears to be a lack of utility cost analysis by the Public Buildings Division.

Original Audit Report – Council Auditor Recommendation for Opportunity for Improvement #1

The Public Buildings Division should create a comprehensive cost management system for the City’s utilities. All water/sewer and electric meters need to be identified and matched with the City’s buildings/departments. Enhanced cost management will lead to more accurate accounting for utility expenses, and it will ultimately create opportunities for cost savings for the general fund.

D. Public Building Division’s Follow-up Response

Work has continued on the identification of a system which will enable us to move forward with this concept; however, we are not there yet. The newly formed office of Public Private Partnerships is also looking for a tool that would benefit the City’s efforts to help better manage all city resources and this is one component of that effort.

Council Auditor’s Rebuttal

To clarify Public Building’s response, they have not implemented the Council Auditor’s recommendation for Opportunity for Improvement #1.

E. Follow-up Audit – Opportunity for Improvement #2 *Recycling*

Public Building’s follow-up response concerning the promotion of recycling activities was “This item is still under consideration but no action has taken place for the recycling of aluminum cans and plastic bottles.”

Original Audit Report – Opportunity for Improvement #2

The City of Jacksonville should consider promoting recycling activities by providing recycling receptacles for aluminum cans and plastic bottles in the City’s public buildings and possibly purchasing bailing equipment for cardboard recycling. Currently, the City has no recycling program and pays about \$5,000 annually (per the Division) to a contractor to pick up the City’s card board. However, some recycling companies will pick up the card board and pay the City if it was bailed.

Original Audit Report – Council Auditor Recommendation for Opportunity for Improvement #2

Section 403.7032 of the Florida Statutes established a new statewide recycling goal of a 75% reduction of recyclable solid waste by the year 2020. Therefore, we recommend that the Public Buildings Division begin to work towards accomplishing this goal. Also, Public Buildings Division should perform a cost analysis and decide if it is economically feasible to invest in bailing equipment.

E. Public Building Division’s Follow-up Response

Public Buildings currently has a contract with Southland/Republic for the recycling of office waste and cardboard. Southland pays to the City \$60.25 per ton for office paper.

We have also asked them to perform a waste stream audit to identify the type and quantity of waste, along with a recommendation as to whether it is beneficial to attempt to capture for recycle those waste streams.

2. Treasury Division Check Pick-Up Audit Report #671 (September 2009)

Based on the responses received from the Treasury Division and our follow-up testing, it appears that Treasury has complied with our audit recommendations, with the following exceptions:

A. Follow-up Audit – Finding #1-1 *Pick Up Logs Not Utilized Effectively*

1. Our follow-up testing to determine if the Accounting Division (GAD) is specifying the name of the persons authorized to pick up checks on the write-up lists revealed that out of thirty-eight instances of check pick-ups, four (or 11%) did not have a specific name listed on the check pick-up lists.
2. Our follow-up testing to determine if the check pick-up logs were complete revealed that out of thirty-nine instances reviewed eighteen (or 46%) of the check pick-up logs were not complete as required (i.e. all required information such as initials, check number, signatures etc. was not included).

Original Audit Report – Finding #1-1 *Pick Up Logs Not Utilized Effectively*

Check pick-up logs are not being utilized in the most effective manner. According to Treasury’s check pick-up policy, when an individual picks up a check from the Treasury, he/she must sign a log at the front desk upon receipt of the check. The log includes the date, check number(s), department/company, and signature.

While reviewing the check pick-up logs maintained by Treasury, we observed the following:

1. Individuals' names on the write-up reports prepared by GAD did not match the signatures on the check pick-up logs for 152 out of 219 checks (68%) picked up from Treasury. (We considered our population to be 219 in this instance because that is the number of checks that were legibly notated on the write-up lists AND the pick-up logs.) Per Treasury, a majority of these checks were picked up by runners, which is why so many of the signatures did not match. However, we have no way of verifying if the runners were authorized to pick up the checks.
2. Five out of 413 checks (1%) picked up were not signed for on the log. The signature column had been left blank.

Original Audit Report – Council Auditor Recommendation for Finding #1-1

1. GAD should specify the person or persons authorized to pick-up a check on the write-up list and Treasury should enforce a rule or policy to require that only the person(s) on the write-up lists can pick up the check.
2. All portions of the check log should be completed before the check is released.

A. City Treasury's Follow-up Response

1. *Of the four items lacking a specific name on the GAD write up lists, three had the designation of "ASD Staff". These checks are picked-up by known, rotating runners from the Ed Ball Building. This procedure was implemented at the insistence of Claire Stine to prevent a loss of productive time of having each division under ASD, picking up their own checks individually. Treasury proposes maintaining a list of "approved" runners for ASD at the front counter in lieu of specific identification of individuals on the GAD write-up.*

The fourth was a batch of monthly payroll garnishment deduction payments that were picked up by payroll and matched to back-up data identifying the individuals from whom the monies were withheld. These checks are no longer picked-up by payroll, but are mailed directly from Treasury.

2. *A careful review of completeness exceptions, revealed a misinterpretation of the log notations in 5 of the 18. In four of the five the check was not picked up on the day indicated, explaining why the entry was not considered complete. The other was actually signed for on the line above with "ditto" marks in the space below considered as incomplete by the auditor. The practice of pre-filling check pick-up log in advance to save time has been halted and neatness has been stressed to front counter personnel and back-ups.*

A. Council Auditor's Rebuttal

1. As was mentioned in the original audit recommendation, GAD should specify the name on the GAD write up lists. ASD should provide the specific name of the person picking up the check. "ASD Staff" is not acceptable. This item will be included in the next Follow-up Audit.
2. Treasury states that five of the eighteen were a "misinterpretation of the log" and gives their reasons as to why, however this does not explain why thirteen of the remaining

eighteen were not complete. This item will be followed up on in the next Follow-up Audit.

B. Follow-up Audit – Finding #1-3 *Checks Picked Up Without Written Authority*

Our follow up testing revealed that for thirteen of thirty-eight instances or 34% there was no supporting documentation on file when a non-authorized person picks up a check. Also, we could not find evidence of Treasurer or designee review of the check logs for our test period. Therefore, it appears that the check pick-up logs are not being reviewed on a consistent basis.

Original Audit Report – Finding #1-3 *Checks Picked Up Without Written Authority*

Some checks weren't properly authorized for pick-up according to Treasury's policies and procedures. Ninety-four out of 413 checks (23%) were picked up from the Treasury Division without proper written authorization. We requested authorization documents for checks that were picked up but not noted on the write-up lists. We were provided with a number of email requests to pick up the checks; however, these emails were not sent to the Treasurer for approval, as required by internal policies and procedures.

Original Report – Council Auditor Recommendation for Finding #1-3

We recommend that the Division's policy be followed in order to require approval by the Treasurer for check pick-ups not on the write-up lists and to retain documentation confirming approvals for all checks that are picked up.

B. City Treasury's Follow-up Response

Each of the instances where the names on the GAD write up differed from the individual picking up the check were runners for the various departments/divisions not located in the St. James building, such as Sheriff, Clerk of Court, ASD, Children's Commission and Supervisor of Elections. Treasury proposes maintaining a list of "approved" runners for off-site departments/divisions at the front counter in lieu of specific identification of individuals on the GAD write-up.

Treasury administration will review check logs on a more formal basis with written documentation of the review.

B. Council Auditor's Rebuttal

Treasury's written policy requires that proper written authorization be submitted for those persons picking up checks. Our follow-up testing revealed that for thirteen of thirty-eight or 34% of the checks picked up by a non-authorized person, there was no written documentation on file. Therefore, we do not think a list of "approved" runners would make a difference if Treasury is not following its own written procedures. This item will be included in the next Follow-up Audit.

C. Follow-up Audit – Internal Control Weakness #1-3 *Write Up Reports*

During our follow up testing we noted that while the write-up list almost always consisted of a first and last name and a phone number, we did note four out of thirty-eight instances or 11% where three times "ASD Staff" was provided instead of a name and one instance where there was no name provided at all. It appears that Treasury is not making a meaningful effort to implement our recommendation.

Original Audit Report – Internal Control Weakness #1-3 *Write Up Reports*

Some write-up reports contained first names only of people picking up checks. GAD creates the write up reports by notating the daily check register with the name and phone number of the City employee or vendor representative who will pick up a check.

Original Audit Report – Council Auditor Recommendation for Internal Control Weakness #1-3

We recommend that the full name be included on the write-up reports. Even though employees of GAD and Treasury may be familiar with the City employees who frequently pick up checks, including the full name is a preventative measure to ensure that checks are only released to those authorized individuals.

C. City Treasury’s Follow-up Response

Of the four items lacking a specific name on the GAD write up lists, three had the designation of “ASD Staff”. These checks are picked-up by known rotating runners from the Ed Ball Building. This procedure was implemented at the insistence of Claire Stine to prevent a loss of productive time of having each division under ASD, picking up their own checks individually. Treasury proposes maintaining a list of “approved” runners for ASD at the front counter in lieu of specific identification of individuals on the GAD write-up.

The fourth was a batch of monthly payroll garnishment deduction payments that were picked up by payroll and matched to back-up data identifying the individuals from whom the monies were withheld. These checks are no longer picked-up by payroll, but are mailed directly from Treasury.

C. Council Auditor’s Rebuttal

As was mentioned in the original audit recommendation, GAD should specify the name on the GAD write up lists. ASD should provide the specific name of the person picking up the check. “ASD Staff” is not acceptable. This item will be included in the next Follow-up Audit.

3. Northwest Jacksonville Economic Development Trust Fund Audit Report #672 (October 2009)

Based on the responses received from the Housing and Neighborhoods Department (HAND) and our follow-up testing, it appears that HAND has complied with some of our audit recommendations, but has not complied with many recommendations as noted below:

A. Follow-up Audit – Internal Control Weakness #1-1 *No Formal Standard Operating Procedures*

Our follow-up testing revealed that while the Northwest Jacksonville Economic Development Trust Fund Advisory Board did approve the new Standard Operating Procedures (SOP’s) it appears that the new SOP’s do not appear adequate in that they do not address all of the topics, specifically the application process, loan approval, credit and underwriting policies, contract compliance monitoring, payment remittance, applications involving loan software and delinquent payments as was recommended in the original audit.

Original Audit Report – Internal Control Weakness #1-1 *No Formal Standard Operating Procedures*

We noted an overall lack of formal written Standard Operating Procedures (SOPs) related to the Northwest Jacksonville Economic Development Trust Fund (NWJEDF). Although the establishing legislation and subsequent ordinances provided general guidelines for the NWJEDF, there are no formal written policies and procedures that specifically address areas such as the application process, loan approval, credit and underwriting policies, contract compliance monitoring, payment remittance, applications involving loan software and delinquent payments. Standard Operating Procedures provide guidance to employees, ensure consistency over time, provide role clarification, and are a useful training tool.

Original Audit Report – Council Auditor Recommendation for Internal Control Weakness #1-1

We recommend implementing a formal written set of SOPs for the NWJEDF to ensure consistency and comparability among all aspects of the fund, as well as to assist any new employees in their job duties.

A. Housing and Neighborhood Department’s Follow-up Response

Agree Disagree Partially Agree

The Housing and Community Development Division (formerly the Housing and Neighborhoods Department) did have summary SOP’s prepared for the “Application Review and Processing” and “Compliance Monitoring” functions. These SOP’s were reviewed and approved by the Board. We concur that these summary SOP’s do not cover all of the topics included in the original audit and that the topics covered were not covered in sufficient detail to fully describe the various tasks involved or the approval processes required. While the legislation governing the administration of the trust fund establishes the parameters for its activities, we agree that the development of fully detailed policies and procedures will provide valuable guidance to employees, ensure consistency over time, and provide role clarification.

The development of detailed policies and procedures outlining the various tasks associated with the administration of the fund is in process. Attached to this letter as Exhibit 01, is a draft index of the topics for which procedures are either being developed or have been completed. While the attached draft index is in the early stages of development, we would appreciate your office’s input on that index to insure that we have covered all of the areas of concern. The new Division SOP’s, which will include the NWJEDF, are currently scheduled to be complete and ready for publication by June 30, 2012. (Council Auditor’s Note: Please see Exhibit 01 at the end of this report)

B. Follow-up Audit – Internal Control Weakness #1-2 *No Standard Funding Structure*

HAND’s follow-up response concerning benchmarks and guidelines for grant and loan applicants was “It is our position to continue to rely upon the recommendations of our underwriters to suggest a funding structure that adequately allows for the success of the project and provides maximum protection of taxpayer interests. We continue to believe that the guidelines approved by City Council establish parameters which allow for unique structuring of financing for NWJEDF projects.”

Based on the response from HAND it appears that nothing has been done to implement the Council Auditor's recommendation listed below.

Original Audit Report – Internal Control Weakness #1-2 *No Standard Funding Structure*

There are no standard guidelines or benchmarks in place for determining if applicants will be offered a grant, loan, or combination of both. During the initial meetings with applicants, NWJEDF staff recommends available funding based on the individual project's circumstances. This approach could lead to preferential treatment and also results in less funding available for future applicants if a grant is awarded rather than a loan.

Original Audit Report – Council Auditor Recommendation for Internal Control Weakness #1-2

We recommend implementing guidelines that will better define the criteria for determining whether a loan, grant or combination of the two should be awarded to a particular applicant. Criteria could include the income of the applicant, overall financial strength of the applicant, such as total years the organization has been in existence and the organization's ability to repay the City, and economic impact to the community, such as the number of jobs to be created. We also recommend that staff be required to document in the project folder the rationalization and criteria for determining the funding to be provided to an applicant, especially when an applicant is provided a significant amount of grant funding.

B. Housing and Neighborhood Department's Follow-up Response

Agree Disagree Partially Agree

It is important to note that the underwriter is providing us with a recommendation regarding the funding amount required to complete the project and their use of the term loan does not take into account the mission of the NWJEDF to encourage economic development in the targeted area. We rely heavily on the underwriter to verify the costs of the projects within their established guidelines and to explore the borrower's credit worthiness. We have not been asking them to propose the actual structure of the funding, merely the amount.

Once the underwriter recommends a funding amount, staff prepares a funding recommendation to the Board that suggests the best way to structure the project within the parameters established by legislation. Any differences between the underwriter's recommendation and the ultimate Board recommendation are discussed during the meeting action to approve the project. Additionally, as discussed in the response to ICW #1-4 (and Exhibit 02), a memorandum will be placed in the file documenting any differences. As the approved project moves through the legislative process, the underwriting report is provided to the Council Auditor's Office and any concerns regarding structure recommendations are addressed.

C. Follow-up Audit – Internal Control Weakness #1-4 *Recommendation From a Third-Party Underwriter Subject to Change*

Our follow-up testing revealed that the SOP's in place adequately respond to the original audit recommendation. However, we noted that there have been two loan agreements since the

original audit. In reviewing the two loan agreements, we found where HAND made changes to one of the loan term agreements that differed from the underwriter's recommendation and no documentation was on file supporting the reason for the change.

Original Audit Report – Internal Control Weakness #1-4 *Recommendation From a Third-Party Underwriter Subject to Change*

Currently, HAND utilizes a third-party underwriter to conduct a thorough examination of the applicant's financial status. This third-party underwriter is in the best position to independently recommend funding terms and evaluate the financial stability of the applicant. However, loan/grant terms ultimately approved may vary from the underwriter's recommendations based on changes made by management or the Northwest Advisory Board. This could result in biased or preferential loan/grant terms, increased risk for default from extending repayment terms too far into the future, or the loan term may exceed the useful life of the asset that is being funded.

Original Audit Report – Council Auditor Recommendation for Internal Control Weakness #1-4

The recommended funding terms from the third-party underwriter should be incorporated into all redevelopment agreements between the City and the applicant to protect the City's best interests. We recommend that HAND adopt a standard operating procedure to implement the underwriter's recommendation for funding terms. If any departures from the underwriter's recommendations are made, project files should include documentation as to why the departures are deemed necessary. The underwriters have the financial knowledge to make the best well-informed decision and other parties should not have the power to change aspects like the amount of funding offered and loan terms (amortization period, interest rate, etc). This policy negates the purpose of utilizing an underwriter to provide such services.

C. Housing and Neighborhood Department's Follow-up Response

Agree Disagree Partially Agree

Staff has reviewed the projects approved by the Board and agrees that, where Board recommendations deviate from the underwriter's recommendation, adequate documentation should be placed in the project file outlining the reasons for the deviation. The individual project files have been compared to the underwriter's report and, where there is a departure from the underwriter's recommendation, a memorandum outlining the justification for the deviation has been placed in the file. An example of the memorandum is attached to this response as Exhibit 02. (Council Auditor's Note: Please see Exhibit 02 at the end of this report)

D. Follow-up Audit – Internal Control Weakness #1-5 *Checks Picked Up In Person*

Based on the response from HAND it appears that a policy has not yet been put in place to require Housing and Neighborhoods to send checks through the US Mail service or through electronic means as previously recommended. HAND's follow-up response was "It is the current practice of HAND to wire the funds electronically when possible. If that option is unavailable, the practice is to mail NWJEDF checks directly to the developer, their contractor or financial institution. Where a check(s) is needed for mortgage or loan closing, it is picked up by OGC staff for distribution at the closing. The SOP being developed will formalize this process."

Original Audit Report – Internal Control Weakness #1-5 *Checks Picked Up In Person*

City employees as well as NWJEDF recipients are permitted to pick up NWJEDF payments at the City’s Treasury Division, rather than having the payment sent by the Treasury Division through routine mail service or electronically as a wire. Approximately 23% of all checks issued from the NWJEDF from October 1, 2006 through September 30, 2008 were picked up by a NWJEDF recipient or Housing and Neighborhoods Department employee directly from the Treasury Office. It is considered a good business practice to safeguard an organization’s assets by limiting access to cash and cash equivalents. The practice of directly mailing out checks or sending payments electronically is done to minimize the risk that inappropriate vendors will be paid.

Original Audit Report – Council Auditor Recommendation for Internal Control Weakness #1-5

We recommend implementing a policy that fund recipients must receive checks through the standard means, including US Mail service and electronic payments. Exceptions to this policy should be a rare occurrence rather than the norm and should require management approval.

D. Housing and Neighborhood Department’s Follow-up Response

Agree Disagree Partially Agree

While the formal written policies and procedures have not been finalized for the disbursement of funds related to the NWJEDF, the internal policies and procedures implemented by management encourage borrowers to enroll in ACH payments with the Treasury Division and real estate closing transactions are being handled via wire transfers to approved title/closing agents in coordination with the Office of General Counsel’s office. The SOP being developed for disbursements from the NWJEDF will require the wire transfer of any proceeds to be paid at the real estate closing to be handled via wire transfer and any further disbursements from the NWJEDF subsequent to the real estate closing will either be made via ACH or, if the borrower is not enrolled in this service, by check payment to be mailed directly from the City’s Treasury Division.

E. Follow-up Audit – Finding #1-1 *Technical Amendments Without Council Approval*

Our follow-up testing revealed that the Housing and Neighborhood Department is not consistently meeting the annual reporting requirement to the City Council Finance Committee. We found that Housing and Neighborhoods submitted an annual report in 2009 but did not submit one for 2010.

Original Audit Report – Finding #1-1 *Technical Amendments Without Council Approval*

The open-ended definition of a “technical amendment” in each of the redevelopment agreements allows for changes to be made to the redevelopment agreements without obtaining the City Council’s approval.

In one instance out of 23 non-Façade projects reviewed in our sample testing, changes were made to the scope or terms of the original Council-approved project that were

considered to be technical in nature and therefore, were not brought back to the City Council for approval. These changes included the following:

1. The applicant was initially approved for a \$250,000 grant from the NWJEDF and a separate Recaptured Enhanced Value (REV) Grant of \$520,000 to expand their existing facility and construct a new facility. The scope of the project was reduced from 88,000 square feet to 60,000 square feet. In a technical amendment to the redevelopment agreement, the recipient did lose the \$520,000 REV grant.
2. The “Completion of Construction Date” was extended two years.
3. The “payback” provision to protect the City’s interest in the event the developer did not create and maintain a certain number of jobs was reduced from \$10,000 to \$3,300 per job. The redevelopment agreement required that 117 jobs be retained and in addition, that 77 new jobs be created.

Redevelopment agreements contain clauses that allow for “technical” amendments. A technical amendment is defined as follows: “No modification to the Redevelopment Agreement may increase the financial obligations or the liability to the City and any such modification shall be technical only and shall be subject to appropriate legal review and approval of the General Counsel, or his designee, and all other appropriate action required by law (“technical” is herein defined as including, but not limited to, legal descriptions and surveys, ingress and egress, easements, and rights of way, schedule of performance and development, design standards, access and site plan).”

Original Audit Report – Council Auditor Recommendation for Finding #1-1

Because the definition of a “technical amendment” is so broad in scope, we recommend that all technical amendments be disclosed to the City Council Finance Committee in HAND’s annual report to ensure that Council Members are made aware of all such changes. The annual report is an existing requirement specified in Ordinance 2006-356-E.

E. Housing and Neighborhood Department’s Follow-up Response

Agree Disagree Partially Agree

The Housing and Community Development Division agrees with the Council Auditor’s comments related to this finding. There was a cumulative report provided to the City Council Finance Committee in November 2009 and again in August 2011. There was no report submitted during the 2010 year, however the cumulative activities of the NWJEDF for that period were included in the August 2011 report. The Division remains committed to providing the report annually as required and anticipates presenting the annual report that will reflect the cumulative activities of the NWJEDF through each September 30th during the first fiscal quarter of following fiscal year.

F. Follow-up Audit – Finding #1-4 *Delinquent Tangible Property Taxes*

HAND’s follow-up response concerning delinquent tangible property taxes was “HAND concurred with the JEDC interpretation of property taxes. The City’s interest is in the project parcel and the improvements to them. A review of the feasibility of the project and the financial stability of the applicant is done in the credit underwriting process. If deemed necessary, additional personal guaranties are placed on the project to further secure the City’s interest. Proof

that real property taxes on the secured parcel continues to be required prior to the disbursement of funding. Our position remains unchanged.”

Based on Housing and Neighborhood’s follow-up response it appears that nothing has been done to implement the Council Auditor’s recommendation.

Original Audit Report – Finding #1-4 *Delinquent Tangible Property Taxes*

One out of 23 of the non-Façade projects that received a loan from the NWJEDF had delinquent taxes. The developer had \$1,307.62 in overdue tangible property taxes assessed in 2003. This project was approved by City Council in 2003 and the loan payment was not issued to the Developer until December 14, 2004. Article IV of the Redevelopment Agreement states, “The City’s obligation to pay the SBDI loan to the Developer or its designee is conditioned upon the prior occurrence of the following....All property taxes on the subject property must be current or paid current at the loan closing...” Per the Northwest Jacksonville Economic Development Fund guidelines attached to Ordinance 2006-356-E projects will be deemed in default for non-payment of property taxes. JEDC staff interpreted the term “property taxes” to mean “real property taxes”, thus excluding Tangible Property Taxes.

Original Audit Report – Council Auditor Recommendation for Finding #1-4

Recent redevelopment agreements executed by the Housing and Neighborhoods Department define property taxes as “real property taxes.” Although failure to pay tangible property taxes is not considered a default provision within the redevelopment agreements, we recommend that delinquent tangible personal property taxes be reported to the City Council Finance Committee in HAND’s annual report on the NWJEDF.

F. Housing and Neighborhood Department’s Follow-up Response

Agree Disagree Partially Agree

Staff has been verifying that all monitored NWJEDF projects within the Division are current with their tangible personal property taxes since January 2011, with no noted delinquencies. In future reports to the City Council Finance Committee, the compliance status for tangible personal property taxes will be included, even if there are no delinquencies within the portfolio.

G. Follow-up Audit – Finding #1-5 *Job Creation and Reporting Requirements Not Met*

Based on our follow-up testing, two of three projects reviewed did not provide sufficient supporting documentation for job reports. It appears that Housing and Neighborhoods has not complied with the Council Auditor’s recommendation on requesting additional supporting documentation for the job reports.

Original Audit Report – Finding #1-5 *Job Creation and Reporting Requirements Not Met*

Two out of 23 non-Façade projects did not meet the job creation requirement set forth in the redevelopment agreement and two non-Façade projects failed to provide sufficient documentation (i.e. Job Reports) confirming job creation. Each redevelopment agreement specifies the number of jobs to be created, length of time new jobs must be maintained, and payback amount for not creating specified jobs. One company only created eight jobs

but was required to create approximately twenty jobs per the redevelopment agreement. Although this shortfall was recognized by JEDC staff, no default action was pursued, including an increase to the interest rate charged on the loan repayment or early repayment of the loan as permitted per the default action in the redevelopment agreement. Another company created no jobs because the project defaulted prior to completion, but they did receive City funding of nearly \$1.8 million. The other two companies indicated that they met the job requirements, but the City was never able to obtain supporting documentation even after repeated attempts. No action was taken against these companies for their noncompliance.

Original Audit Report – Council Auditor Recommendation for Finding #1-5

We recommend that the level of monitoring over contract compliance be increased and that recipients be required to submit more detailed documentation to verify job creation, such as payroll tax returns. We also recommend that the remedies for failing to meet the job creation requirement be consistently pursued as a default, as specified in the redevelopment agreements. This type of information should also be submitted to the City Council in the reports required to be submitted to the Finance Committee.

G. Housing and Neighborhood Department’s Follow-up Response

Agree Disagree Partially Agree

As recommended by the Council Auditor’s Office, the Division increased the level of monitoring over contract compliance and required recipients to submit more detailed documentation to verify job creation, such as payroll tax returns. Beginning in fiscal year 2011, recipients are required to submit their Florida form UCT6 (a sample is attached as Exhibit 04) or, if the form cannot be provided, an alternative such as a payroll register from a third party payroll administrator. The alternative must have detailed information concerning each employee and must be approved by the Division’s Contract Compliance Manager and Director – Finance. (Council Auditor’s Note: Please see Exhibit 04 at the end of this report)

G. Council Auditor’s Rebuttal

As mentioned in our original recommendation, in order to verify job creation more detail documentation is needed. We do not believe that a UCT6 form by itself provides sufficient detailed documentation in that the UCT6 could possibly overstate the number of people employed. For example, if a company were to hire and fire three people for one particular job in the first quarter of the year, the UCT6 Quarterly Report would show that this company would have hired three people in the quarter. Whereas actual payroll records will show the number of people actually working and on the company payroll for a specific time period. We believe documents such as actual payroll records combined with the UCT6 form would be sufficient detailed documentation.

H. Follow-up Audit – Internal Control Weakness #2-1 *Cash Control Deficiencies*

Our follow-up testing revealed that the various internal control deficiencies were solved by outsourcing the cash handling process to the City’s Administrative Services Division (ASD). However, we were informed that the Housing and Neighborhoods Department will still accept payments if the payer hand delivers it to Housing and Neighborhoods. This greatly diminishes

the effectiveness of outsourcing the cash handling procedures to ASD. All payments should be handled through ASD.

Original Audit Report – Internal Control Weakness #2-1 *Cash Control Deficiencies*

Several cash control deficiencies were noted during our interviews of staff members and observations throughout the course of the audit.

- Access to Check Log- Although a check log is maintained of all loan repayments received through the mail, employees that have physical custody over the revenue collections and process the recording of the checks also have access to the check log. Allowing employees that process checks to have access to the check log compromises the reliability of the check log, increasing the risks that checks are diverted without detection.
- CR Preparation- For all revenue collections, the Department receiving any revenue must enter a Cash Receipt (CR) into the Tax Collector System before physically depositing the funds. We noted that the person who generally prepares the CR is the same person who deposits the funds. Per the City's Standard Operating Procedures for cash receipts, the person who prepares the Deposit Receipt (CR) in the Tax Collector System must be performed by a person not handling cash receipts.
- Safekeeping of Cash/Checks- Checks stored overnight are kept in an employee's desk drawer. The City's Standard Operating Procedures for cash receipts state, "money should be locked in a safe or cash box with adequate security." HAND has a safe available for securing receipts, but staff informed us that the safe is broken and needs to be rekeyed.
- Restrictive Endorsements- Checks are not immediately endorsed by the receptionist upon receipt in the mail. Per the City's Standard Operating Procedures for cash receipts, "If a check is received through the mail, mail handler is to use restrictive endorsement, verify check is completed properly and initial."
- Segregation of Duties- There are no adequate segregation of duties currently in place surrounding revenue collections. Employees serve as backups to each other, giving employees access to all phases surrounding cash, including the creation of the deposit in the Tax Collector's system, the physical custody of funds, and the reconciliation of the deposit to the City's Accounting System (FAMIS). The City of Jacksonville's Standard Operating Procedures for cash receipts state, "A segregation of duties has to be established to avoid the same employee receiving, receipting, maintaining custody, and reconciling the cash receipts." In addition, the employee responsible for preparing the deposit and recording payments in the mortgage tracking software also reconciles the deposit to what is posted in FAMIS. Proper segregation of duties reduces the risk that a single employee can carry out and conceal errors/irregularities in the course of performing daily activities.

Original Audit Report – Council Auditor Recommendation for Internal Control Weakness #2-1

We recommend that the Housing & Neighborhoods Department comply with all aspects of the City’s Cash Receipts SOPs to ensure that adequate internal controls are in place to safeguard all revenue collections. Employees must be provided the proper training to ensure that they are aware of and understand the requirements set forth in these SOPs. To specifically address the deficiencies noted above, we recommend the following:

- Access to the check log should be restricted to employees who receive checks in the mail. An employee who is not responsible for receiving checks or preparing the deposit should reconcile the check log to actual deposits posted to FAMIS.
- Cash and checks stored overnight should be kept in a safe or cash box with restricted access.
- Employees who handle cash should not be able to record payments in the mortgage tracking software. The duties of recording cash receipts and reconciling the deposits should be performed by two different employees to reduce the likelihood that errors or theft of funds will remain undetected.

H. Housing and Neighborhood Department’s Follow-up Response

Agree Disagree Partially Agree

The Finance and Compliance staff of the Housing and Community Development Division, addressing concerns regarding the separation of duties in the cash receipts process that were created following multiple reductions in staff, sought out the assistance of ASD in a desire to “outsource” the function to foster an improved internal control environment. ASD was instrumental in assisting with the development of the policies and procedures governing the new process. Those policies and procedures are attached to this response as Exhibit 03. (Council Auditor’s Note: Please see Exhibit 03 at the end of this report)

Prior to the transition of the cash receipts function to ASD on January 1, 2010, payment coupons for mortgage payments were updated to reflect the new remittance location with ASD. These payment coupons were sent to all borrowers who made regular monthly mortgage payments. However, as it was acknowledged in ASD’s policies and procedures, “customers may continue to send payments to Housing after the transition date of 1/1/2010. These payments will be hand delivered to ASD by Housing staff”. While the Division’s staff makes every effort to have payments delivered directly to ASD, sometimes payments unrelated to the mortgage portfolio and payments related to real estate closings attended by staff or counsel are still received at the Division’s office. These payments are then, according to the established policies and procedures delivered directly to ASD for deposit.

I. Follow-up Audit – Finding #2-2 *Late Fees Not Properly Assessed*

In our follow-up testing we reviewed six months of loan payments for four loans. One loan had late fees waived once, and two loans were late all six months and all six times the late fees were waived.

Original Audit Report – Finding #2-2 *Late Fees Not Properly Assessed*

Two non-Façade projects submitted late loan payments but were not assessed late fees, resulting in lost revenue of approximately \$1,000. One of the projects submitted multiple late payments. Promissory notes state “if any scheduled payment hereunder is ten (10) or more days late, the borrower shall pay a fee equal to ten percent (10%) of the unpaid portion of the scheduled payment. The fee is not a penalty, but liquidated damages to defray administrative and related expenses due to such late payment. The fee shall be immediately due and payable and shall be paid by the borrower to the lender without notice or demand...” Promissory notes do not include provisions for “grace periods”.

Original Audit Report – Council Auditor Recommendation for Finding #2-2

Late fees should be applied consistently. Loan recipients are aware of the terms of their loan and the penalty for late payments, which are specified in the signed promissory notes. Coupon books given to the loan recipients also serve as a reminder of payment due dates.

I. Housing and Neighborhood Department’s Follow-up Response

Agree Disagree Partially Agree

The Housing and Community Development Division, under certain well defined circumstances that will be outlined in the SOP being developed will work with borrowers under a forbearance agreement designed to deal with short term financial difficulties. In those instances, a borrower will be allowed to “skip” payments for a short period of time. The procedures for reflecting that forbearance in the mortgage software will be detailed so that no late fee is charged during the agreed upon forbearance period, however, any late fees already incurred will not be waived under any circumstances. Interest will continue to be accrued during the forbearance period and when payments begin following its expiration, all accrued interest and fees will be applied first.

Additionally, the recent update of the Division’s mortgage software enhanced the ability to limit users to specific activities. We are examining the new detailed assignment of rights to enhance our own internal controls by limiting specific users from posting transactions contrary to the Division’s policy and requiring a higher level of security access to perform tasks outside the normal course of servicing.

4. Tax Collector Audit Report #678 (March 2010)

It should be noted that when Report #678 was released and our follow up testing was performed, the Tax Collector was Mr. Mike Hogan, and the initial responses are those of Mr. Hogan’s office. The current Tax Collector is Mr. Michael Corrigan. Based on the responses received from the former Tax Collector and our follow-up testing, it appears that the former Tax Collector has complied with our audit recommendations with the following exceptions:

A. Follow-up Audit – Finding #1-3 *Service Fees for Returned Checks*

The Tax Collector’s Office has adopted a policy for the waiving of returned check service fees. However, Ordinance Code Section 110.202(b) has not been amended. The \$5 service fee imposed per Ordinance Code Section 110.202(b) has not been increased in over three decades. We recommend that the Tax Collector meet with the Administration regarding the obsolete

service fee found in the Ordinance Code. We believe the Ordinance Code should be amended to replace the City service fee with a reference to Florida Statute Section 832.08(5).

Original Audit Report – Finding #1-3 *Service Fees for Returned Checks*

We reviewed all payments for returned checks for the period of January 1, 2008 to March 30, 2009 to determine whether service fees had been received and whether they were the correct amount as compared to the Tax Collector’s internal policies and procedures. We found that Tax Collector personnel are inconsistent in their collection of service fees. More specifically we found the following:

- a. 17 of 1,275 or 1.3% of service fees tested were not paid.
- b. 147 of 1,275 or 11.5% did not pay the appropriate amount per the Tax Collector’s internal guidelines.
- c. There was not sufficient documentation to determine whether 20 of 1,275 or 1.6% of the service fees were collected.

The Tax Collector’s Office subsequently provided additional documentation that was able to clear 8 of the 17 service fees that were not paid and 10 of the 20 service fees where documentation was not initially sufficient to determine collection.

Based on our review of applicable Florida Statute Sections, Municipal Code Sections and Tax Collector internal guidelines for service fee collection, it is unclear what service fee amounts should be collected for returned checks.

Florida Statute Section 832.08(5) State Attorney Bad Check Diversion Program; Fees for Collections states that “The amount of the fee for each check shall not exceed: (a) Twenty-five dollars, if the face value does not exceed \$50. (b) Thirty dollars, if the face value is more than \$50 but does not exceed \$300. (c) Forty dollars, if the face value is more than \$300.”

Florida Statute Section 832.06 Prosecution for Worthless Checks Given Tax Collector for Licenses or Taxes provides for the prosecution of worthless checks paid to the Tax Collector except for ad valorem tax payments.

Florida Statute Section 166.251 Service Fee for Dishonored Check states that “The governing body of a municipality may adopt a service fee not to exceed the service fees authorized under 832.08(5) or 5 percent of the face amount of the check, draft, or order, whichever is greater, for the collection of a dishonored check, draft, or other order for payment of money to a municipal official or agency.”

Municipal Code Section 110.202(b) Checks Payable to City; Fee for Dishonored Instruments state that “A \$5 service fee is hereby imposed for the collection of each dishonored check, draft or other order for the payment of money to the City, or its agencies or officials.” This section was last revised in 1976.

The Tax Collector’s internal guidelines state that fees for dishonored checks are \$25 if the face value does not exceed \$50, \$30 if the face value exceeds \$50 but does not exceed \$300, \$40 if the face value exceeds \$300 or 5% of the face value whichever is greater.

Original Audit Report – Council Auditor Recommendation for Finding #1-3

We recommend that the Tax Collector pursue an amendment to Municipal Code Section 110.202(b) to reflect service fees that are allowed to be collected by the Tax Collector's Office according to Florida Statute Sections and that the Tax Collector's internal policies and procedures be updated accordingly. The new policies and procedures should include the process for collecting service fees and the documentation required for waiving any service fees. Documentation should be maintained with each returned check memo payment.

A. Current Tax Collector's Follow-up Response

The Tax Collector's Office will continue to work with the General Counsel's office to obtain a written opinion documenting the appropriate fees to be charged for returned checks that encompasses both State Statutes and the Municipal Code.

B. Follow-up Report – Internal Control Weakness #1-4 *Imprest System Not a Cashiering System*

It appears that the Tax Collector's Office has attempted to comply with the Council Auditor's recommendation and is currently waiting on ITD to finish the development and implementation of the Returned Item System. The Tax Collector's follow-up response was "The Tax Collector has been working with ITD on the development of the Returned Item System (RIS) that will replace the imprest system. It will interface with our current cashiering system and will no longer be attached to a separate bank account. There are numerous enhancements and efficiencies with RIS, especially related to increased controls. The system specifications have been scoped out, use cases developed, wire frames reviewed and tentatively approved and will next head to programming, quality assurance and testing. It is expected to be in production by the end of the third quarter 2011."

Original Audit Report – Internal Control Weakness #1-4 *Imprest System Not a Cashiering System*

Overall, the imprest system used is not designed as a cashiering system and therefore lacks the inherent controls needed to safeguard funds. Specifically we noted the following:

- a. There is a lack of segregation of duties for the imprest desk. Personnel have the capability to enter/create a memo, delete a memo, receive payments, pay memos in the system and prepare deposits. Furthermore, there is no restricted access level in the system. The lowest level of access allows personnel to input or alter information in the system.
- b. Approval is not needed to delete or void a memo and the imprest desk does not retain information or an audit trail related to deleted or voided memos.
- c. Manual manipulation is sometimes necessary in order to force the balancing of the imprest desk. When manual overrides are necessary for the balancing of the imprest balance sheet, approval is not needed. Imprest desk personnel have the capability of making that request of ITD.

Original Audit Report – Council Auditor Recommendation for Internal Control Weakness #1-4

We recommend that the Tax Collector work with the City's ITD to come up with solutions for the internal control weaknesses within the system. Specifically the following internal controls should be put in place:

- a. Controls need to be put in place to uphold proper segregation of duties within the system so that the same user is not capable of entering/creating a memo, deleting a memo, receiving payments, paying memos and preparing deposits. The system should also have restricted access levels in place so that all users within the system are not capable of making changes.
- b. Controls need to be put in place preventing users from deleting or voiding memos without proper approval. The system should also provide an audit trail for all changes that are made within the system so that users are held accountable.
- c. Adjustments within the system should be made so that forced balancing is not necessary.

B. Current Tax Collector's Follow-up Response

The Tax Collector relies on ITD to update and maintain our systems. Due to a reduction in force, the programming for the Returned Item System (RIS) has been suspended. ITD has not given the Tax Collector an estimated delivery date for RIS.

C. Follow-up Report – Internal Control Weakness #3-6 *Transfers to the City for On-Line Parking Transactions*

The Tax Collector's follow-up response regarding on-line parking transactions was "The Tax Collector's Office has continued to communicate with ITD on this matter." Per discussions with the Tax Collector's Office for our follow-up, it was stated that the Tax Collector's Office is currently waiting on ITD to address this issue. Based on the Tax Collector's response, it appears there has been little progress in implementing the Council Auditor's recommendation.

Original Audit Report – Internal Control Weakness #3-6 *Transfers to the City for On-Line Parking Transactions*

The daily payments to the City for on-line parking transactions could be duplicated due to a computer interface flaw. The Tax Collector interface allows payments to be made to the Parking Division. Amounts that are transferred for these types of transactions do not get removed from the system so payments made on the previous days can still be selected which could result in duplicate payments.

Original Audit Report – Council Auditor Recommendation for Internal Control Weakness #3-6

We recommend that the Tax Collector's Office work with the City's ITD to eliminate the possibility of duplicate payments.

C. Current Tax Collector's Follow-up Response

The Tax Collector relies on ITD to update and maintain our systems and will continue to communicate with ITD to resolve this matter.

5. Jacksonville Port Authority Dredging Procurement Audit Report #679 (May 2010)

Based on the responses received from the Jacksonville Port Authority (JPA) and our follow-up testing, it appears that JPA has substantially complied with our audit recommendations.

6. JEA Franchise Fee and Public Service Tax Audit Report #682 (June 2010)

Based on the responses received from JEA and our follow-up testing, it appears that JEA has complied with the Council Auditor's recommendations. However, during the JEA audit, we made a finding related to the City of Jacksonville Finance Department. Our follow-up on this item revealed that the City Finance Department has not complied with the Council Auditor's recommendation, as detailed below:

A. Follow-up Report – Additional Finding *Missing Franchise Agreement*

The City Finance Department's follow-up response concerning gas utility reporting requirements was that "A search of local ordinances and conversations with Real Estate and Public Works has not revealed any knowledge of franchise agreements with Heritage, Sawyer or Metro-Lift." Based upon the City Finance Department's response it appears that the City Finance Department has not implemented the Council Auditor's recommendation.

Original Audit Report – Additional Finding

In a separate issue noted during our audit, we found that the City's CFO does not receive the reports and documentation for one natural gas provider as required by the City's Ordinance Code. The purpose of receiving the reports is so the City can verify that the correct amount of revenue is being remitted to the City.

Ordinance Code Section 711.321(a) states that annual financial reports, that are acceptable to the CFO, "shall be submitted within 30 days after completion of the grantee's annual audit"; including a revenue letter audited by the grantee's independent CPA verifying revenue generated in the Jacksonville franchise area.

In our research, we found where the City Council approved a franchise agreement waiving the reporting requirements of another gas utility. However, we have not been able to find a utility franchise agreement between the City and this gas provider or a waiver excusing the utility from the requirements of the ordinance code.

Original Audit Report – Council Auditor Recommendation for the Additional Finding

We recommend that the City's Director of Public Works or their designee research this issue further to determine whether a franchise agreement or a waiver exists. If neither is found, the Director of Public Works or their designee should pursue the execution of a franchise agreement. The Director of Finance or their designee should seek submission of the required reports. The reports should be reviewed by the CFO or his designee on a regular basis to ensure that the City receives all monies due.

A. City Finance Department Follow-up Response

The finance department is unable to implement the Council Auditor's recommendation due to lack of information regarding any franchise agreement with Heritage Propane, Sawyer Gas or Metro-Lift Propane or knowledge of any City right-of-ways in use by this company or

companies. Upon receipt of proper notification of agreement, we will proceed with implementation of obtaining the necessary reports and documentation in support of collected franchise fees.

A. Council Auditor's Rebuttal

The Finance Department should take the initiative to resolve this issue. Between the City Finance Department, the Real Estate Office and Public Works this issue should be able to be resolved. This item will be followed up in the future.

Outstanding Items from Follow-Up Audit Report #687 dated September 30, 2010

7. Procurement – Sole Source/Proprietary Purchases Audit Report #647 (May 2008)

In our previous follow-up of our Procurement – Sole Source/Proprietary Purchases Audit Report (Original Audit Report #647) we had the following findings that needed follow-up:

A. Follow-up Audit – Finding #1 *Misclassification of Sole Source and Proprietary Purchases*

Our follow-up testing from the Council Auditor's Follow-up Report #687 revealed that Procurement has not pursued any revisions to Chapter 126 since Report #647. We included this item to follow-up on this year and the response from Procurement was that "Procurement confirms that there have been no revisions to Chapter 126 since the last response." This item will be included in next years' Follow-Up Audit.

Original Audit Report #647 - Finding #1 *Misclassification of Sole Source and Proprietary Purchases*

The distinction between a sole source and proprietary purchase as defined in the Administrative Code was not clear. There were five out of 44 or 11% of the formal purchases that were misclassified and 15 out of 65 or 23% of the informal purchases misclassified. The purchases were either misclassified by the using agency or by the Procurement Division. The misclassification of the purchases has no effect on the level of review performed by the Procurement Division, but it does cause confusion for the agency requesting a purchase.

Original Audit Report #647 – Council Auditor Recommendation for Finding #1

We recommend that the Procurement Division eliminate the sole source and proprietary terminology and have one type of purchase called "single source" to mirror the Florida Statutes under Chapter 287.057(5)(c).

A. Procurement's Second Follow-up Response:

As requested, the following is offered as the follow-up response from Procurement:

This recommendation is still under consideration for the next revision of Chapter 126. There has not been a revision since the referenced audit. Since the original and follow-up audit, the Procurement Division has experienced a change in leadership at the division and department level. One of the high priority items for me and the new Department Director is to thoroughly review the code and make necessary changes. The item referenced in this finding will be a top priority.

B. Follow-up Audit – Finding #2 *Dates are not input into the Database*

Our follow-up testing from the Council Auditor’s Follow-up Report #687 revealed that the Bids Tracking Database had not been modified to make certain database fields required and we found that the Procurement supervisory staff were not always checking the dates entered in the bids tracking database to ensure that the seven day advertisement period is met.

We included this item to follow-up on this year. Our follow-up testing this year revealed that Procurement is still using its’ bid tracking database. We judgmentally selected seven out of fifty-six formal bids in the bids tracking database to ensure the advertisement time frames were being met by Procurement. Our testing had no exceptions so it appears that Procurement supervisors are ensuring the advertisement time frames are being met. We still believe that the easiest way to ensure compliance is to modify the database to make certain fields required.

Original Audit Report #647 – Finding #2 *Dates are not input into the Database*

The advertise date, which is the first day of advertisement on Procurement’s website, and/or the open date, which is the last day of advertisement, were not input into the database for a number of the formal purchases. Due to the fact that the advertise and/or the open dates were not input into the database we were unable to determine whether or not 14 out of 44 or 32% of the purchases were advertised on Procurement’s website for seven calendar days. As a result 30 purchases were left for testing purposes. It should be standard operating procedure to input all dates into the database. This will ensure that the sole source or proprietary purchases will be properly advertised for seven days.

Original Audit Report #647 – Council Auditor Recommendation for Finding #2

We recommend that the database be enhanced to make the advertise date and open date “required fields” for formal purchases to ensure that they are advertised for seven calendar days.

B. Procurement’s Second Follow-up Response:

As requested, the following is offered as the follow-up response from Procurement:

As referenced in the follow-up audit finding, Procurement is in compliance as far as maintaining the advertising timeframes. However; no further modifications to the Bid Tracking will be requested as we are about to launch an entirely new web-based Procurement tracking system that will satisfy the technical requirements listed in this finding.

C. Follow-up Audit – Finding #3 *Formal Purchases Awarded before the Open Date*

During our follow up testing last year in the Council Auditor’s Follow-up Report #687 we found where none of the informal purchases were advertised on Procurement’s website for the seven day period prior to the purchases being awarded. We were told by Procurement staff that they do not advertise any informal Sole Source/Proprietary awards. However, Section XII of the Procurement Administrative Code states that, “Upon a recommendation by the Chief of Procurement, based on a written justification from the requesting using agency that a purchase can only be efficiently and effectively made from one proprietary or sole-source, the General Government Awards Committee or Professional Services Evaluation Committee, for formal purchases, and the Chief, for informal purchases, may approve the purchase in accordance with the Purchasing Code and the procedures set forth herein without competition or advertisement but only: (i) after posting prior notice of said purchase on Procurement’s website for no less than

seven (7) days; and (ii) if it is specifically found from all of the relevant facts that a proprietary or sole-source purchase is proper under the circumstances.”

Procurement’s response to our follow-up finding from the Follow-up Report #687 was that, “The verbiage reference is an excerpt from the Purchasing Code, Chapter 126. Procurement is currently posting formal sole source/proprietary requests prior to award as outlined in the verbiage for the required 7 day period. This language, if utilized for the posting of informal sole source requests, does not correlate with the current policy for the processing of informal actions that are subject to competition. For example; if an informal action is requested, it is required to be competitively solicited for a minimum period of 4 days. This would make the posting requirement for informal actions a non-conducive measure that may deter agencies from identifying an appropriate sole source/proprietary request to save time in the procurement process (7 day posting for sole source versus a 4 day solicitation period for non-sole source procurements). Procurement is of the opinion that this verbiage in Chapter 126 needs to be modified to reflect business/industry practices and will add this proposed change to the list of proposed changes that will be considered in the next revision of Chapter 126.”

We included this item to follow-up on this year and the response from Procurement was that “Procurement confirms that there have been no revisions to Chapter 126 since the last response.” This item will be included in next years’ Follow-Up Audit.

Original Audit Report #647 – Finding #3 *Formal Purchases Awarded before the Open Date*

There were three out of the 30 formal purchases that could be tested or 10% that were awarded before the open date, which is the last day of advertisement on the Procurement Division’s website. The sole source or proprietary award must be advertised for seven days per § 126.206 and §126.312 of the Procurement Code. Within the Microsoft Access database the advertisement stops displaying automatically on the open date. If the purchase is awarded before the open date it is unfair to other potential vendors due to the purchase being advertised for less than seven calendar days, which limits the time to contest the sole source or proprietary purchase.

Original Audit Report #647 – Council Auditor Recommendation for Finding #3

We recommend that all formal purchases be advertised for the full seven calendar days as required by the Procurement Code, and that all formal sole source or proprietary purchases are not awarded until the open date occurs.

C. Procurement’s Second Follow-up Response:

As requested, the following is offered as the follow-up response from Procurement:

This recommendation is still under consideration for the next revision of Chapter 126. There has not been a revision since the referenced audit. Since the original and follow-up audit, the Procurement Division has experienced a change in leadership at the division and department level. One of the high priority items for me and the new Department Director is to thoroughly review the code and make necessary changes. The item referenced in this finding will be a top priority.

D. Follow-up Audit Report – Finding #7 *No Indication of Sufficient Justification*

Our follow-up testing from the Council Auditor’s Follow-up Report #687 revealed that Procurement has not pursued any revisions to the Administrative Code since Report #647. We included this item to follow-up on this year and the response from Procurement was that “Procurement confirms that there have been no revisions to the Administrative Code since the last response.” This item will be included in next years’ Follow-Up Audit.

Original Audit Report #647 – Finding #7 *No Indication of Sufficient Justification*

In 52 out of 65 instances or 80% of the informal purchases reviewed, there was no indication from the Chief of Procurement that the justification was sufficient for the sole source or proprietary purchase. According to Section IV E. of the Administrative Code, “a written justification hereunder must include a sufficient explanation, as determined by the Director, as to why the only proposed proprietary or sole source purchase will only satisfy the needs of the using agency.”

Original Audit Report #647 – Council Auditor Recommendation for Finding #7

We recommend that the Chief of Procurement follow the Administrative Code and provide justification as to why proprietary or sole source purchases are authorized.

D. Procurement’s Second Follow-up Response:

As requested, the following is offered as the follow-up response from Procurement:

The modification referenced above has not been made to the Administrative Code. The Procurement Division staff acts on behalf of the Chief of Procurement when reviewing requests, issuing purchase orders, etc. This is an area that the staff, under the purview of the Chief, has certain dollar thresholds that they are authorized within. The Chief makes the determination for all formal sole source/proprietary request(s) prior to being placed on the committee agenda(s), subject to the approval by the applicable committee, as outlined in the Administrative Code.

E. Follow-up Audit Report – Finding #8 *Justification Memo was not Adequate for Informal Purchases*

Our follow-up testing from the Council Auditor’s Follow-up Report #687 revealed that Procurement has not pursued any revisions to the Administrative Code since Report #647. We included this item to follow-up on this year and the response from Procurement was that “Procurement confirms that there have been no revisions to the Administrative Code since the last response.” This item will be included in next years’ Follow-Up Audit.

Original Audit Report #647 – Finding #8 *Justification Memo was not Adequate for Informal Purchases*

There were six out of 65 instances or 9% where the justification memo did not appear to be adequate for informal purchases. According to Section IV E. of the Administrative Code, “Upon an adequate written justification by a using agency, through its Director, that an informal purchase can be made only from one justifiable source or via a proprietary purchase without competition...” These purchases should not have been approved as a sole source or proprietary purchase.

Original Audit Report #647 – Council Auditor Recommendation for Finding #8

We recommend that the Procurement Division deny a sole source or proprietary purchase that is not reasonable. We further recommend that the Procurement Division maintain consistency in the implementation of the Procurement Code.

E. Procurement’s Second Follow-up Response:

As requested, the following is offered as the follow-up response from Procurement:

As mentioned above, the new leadership in Procurement and at the Department level will be reviewing the Administrative Code and Chapter 126 to make the necessary changes recommended in this follow-up audit.

8. Jacksonville Children’s Commission Revenue Audit Report #649 (June 2008)

In our previous follow-up of our Jacksonville Children’s Commission Revenue Audit Report (Original Audit Report #649) we had the following findings that needed follow-up. Based on our follow-up testing it appears that the Jacksonville Children’s Commission (JCC) has substantially complied with our recommendations as discussed below.

A. Follow-up Audit Report – Internal Control Weakness #1 *Handling of Funds Received By Mail*

Our follow-up testing from the Council Auditor’s Follow-up Audit Report #687 revealed that the mail was being opened by the receptionist, with the exception of mail addressed to individuals. Our recommendation to JCC was “We recommend that the receptionist open all mail received at JCC regardless of whether it is addressed to an individual employee or to JCC. This will ensure that all checks received through the mail will be entered into the check log.”

As part of our follow-up testing this year, we observed the mail being opened by the receptionist and noted all mail regardless of whether it was addressed to an individual employee or JCC was opened by the receptionist. This item will be considered closed.

Original Audit Report #649 – Internal Control Weakness #1 *Handling of Funds Received By Mail*

Mail is delivered to the receptionist by a mail carrier and then picked up for each division within JCC by various employees depending on the availability of staff each day. This function is not designated and limited to specific employees. By designating the mail pick up activity to specific personnel there would be better control over incoming cash receipts.

Original Audit Report #649 – Council Auditor Recommendation for ICW #1

We recommend management create detailed written procedures that designate the responsibility of mail pick-up to specific employees in each division. This will provide better internal control over the cash collection process.

B. Follow-up Audit Report – Opportunity for Improvement

As part of our follow-up this year we tested a sample of checks received by JCC and found that all checks were either made out to JCC or the Duval County Tax Collector without exception. This item will be considered closed.

Follow-up Report #687 – Opportunity for Improvement

We noted that there were checks received where the JCC Finance Director's name was included as part of the "Pay to the Order Of" line on the check. The JCC Finance Director should notify all parties to make checks payable to the Duval County Tax Collector or the Jacksonville Children's Commission. No employee's name should be included in the "Pay to the Order Of" line.

9. Overtime Audit Report #644 (February 2008)

In our previous follow-up of our Overtime Audit Report (Original Audit Report #644) we noted that Central Payroll and the Information Technology Division were working on creating and implementing new overtime elements for the Solid Waste Division. Since the issuance of Report #644, the Administrative Services Division (ASD) was created, and ASD is now responsible for processing the electronic timesheets and getting them to Central Payroll.

As part of our follow-up testing for Council Auditor's Follow-up Report #687, we followed up with ASD to test whether the three overtime elements have been completed and implemented. Our testing revealed that the overtime elements had been completed but not yet utilized and implemented. As a result of our testing we included this item in our list of items that needed further follow-up.

As part of our follow-up this year we attempted to contact ASD to test whether the overtime elements had been utilized and implemented. After numerous attempts to contact ASD we finally received a response from ASD (via email correspondence only, our phone calls were not returned) stating that it is not feasible to implement the overtime elements for the Solid Waste Division due to limitations of computer access. Since this answer was contrary to the answers we received the previous two years, we contacted the Solid Waste Division to verify the information that ASD had provided our office. We were able to confirm this information with the Solid Waste Division. As a result of our communication with the Solid Waste Division, this item is considered closed.

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

Sincerely,

Kirk A. Sherman, CPA
Council Auditor

Northwest Jacksonville Economic Development Fund

SOP

DRAFT

February 2012

CONTENTS

Part I: Approval Process

Section 1. Application Process

Section 2. Credit Underwriting

Section 3. Loan Approval

Part II: Contract Compliance

Section 1. Document Review

Section 2. Loan Closings

Section 3. Disbursement of Funds

Section 4. Receipt of Payments

Section 5. Taxes & Insurance

Section 6. Required Reporting

Section 7. Site Visits

Section 8. Amendments

Section 9. Failure to Comply

Section 10: File Closeout

Part I: Approval Process

Applications are received from individuals soliciting assistance from the City of Jacksonville for projects to be located within the boundaries of the Northwest Jacksonville Economic Development Fund.

Section 1. Application Process

Pre-Application Project Discussion

- Potential applicants meet with NWJEDF Program Manager to discuss project.
- Project location determined to be within boundaries
- Project determined to be eligible use of NWJEDF based on guidelines
- Discussion of NWJEDF project eligible for and potential structure of funding

Receipt of NWJEDF Application

- Review of application for completeness
- Application fee
- Project Summary prepared

Section 2. Credit Underwriting

- Two copies of NWJEDF application submitted for underwriting
- Review of report and recommendations from underwriter
- Potential funding structure determined by NWJEDF Program Manager based on recommendations of underwriter and project variables. COJ staff will rely heavily upon the recommendations of the underwriter.
- Determine any defaults necessary to be included in the redevelopment agreement including the job clawback and reporting defaults. Job clawback should be a minimum of \$2,500 and should not exceed \$10,000 per job below the required number and is substantially determined by taking the total grant amount and dividing it by the total number of jobs required. The reporting requirement default should be set at \$2,500 for each instance of reporting requirements not being met.
- Substantial draft of redevelopment agreement initiated
- NWJEDF funding structure discussed with and agreed to by applicant. Modifications to the recommendations of the underwriter should be at a minimum, and only when the changes are made to strengthen the COJ position or to provide small changes in an effort to allow the borrower to increase economic sustainability.
- Legislative timetable prepared and discussed with applicant

February 2012

Section 3. Project Approval

Submission to NWJEDF Advisory Board

- Project Summary finalized with staff recommendation
- Staff recommendation along with supporting documentation assembled for NWJEDF Advisory Board meeting
- Meeting materials distributed to NWJEDF Advisory Board
- Staff recommendation discussed with NWJEDF Advisory Board

Post NWJEDF Advisory Board

- Substantial draft of redevelopment agreement completed
- Legislative fact sheet and BT prepared for submission to MBRC
- Legal Request for the drafting of the redevelopment agreement and all appropriate legal documents is prepared and submitted to Office of General Counsel
- Legislation prepared for introduction to City Council

City Council Legislative Process

- Legislation introduced to City Council
- Meetings scheduled with members of assigned City Council committees
- Attend Council Committee meetings
- City Council approval

Post City Council

- Three copies of redevelopment agreement presented for execution by applicant
- Signed redevelopment agreements submitted to General Counsel Office for full execution
- Fully executed redevelopment agreements presented to applicant with copy to project file and copy to Office of General Counsel
- Project file reviewed for completeness
- Project file presented to NWJEDF Compliance Manager

Part II: Contract Compliance

When a Northwest Jacksonville Economic Development Fund (NWJEDF) project is approved by City Council and the Redevelopment/Development Agreement ("Agreement") has been fully executed the project will be turned over to the Compliance Manager. At that time a monitoring file will be created.

Section 1. Document Review

Each of the Agreements has a unique signature and is tailored to the individual project. The Compliance Monitor must review each Agreement to understand the definition of the project, the performance schedule, funding mechanism (loan or grant) and the reporting requirements in order to monitor the project performance.

The loan documents must also be reviewed to ensure that all requirements associated with the mortgage and note are met.

Section 2. Loan Closings

Loan closings will be coordinated with the Northwest Program Manager, the Compliance Manager and the Office of General Counsel. The loan closing must occur prior to any loan funds being disbursed.

Section 3. Disbursement of Funds

Draw Request

The Company must submit loan draw requests in accordance with the Draw Schedule referenced in the Agreement. Draw request must be accompanied by paid invoices and cancelled checks. The documents will be reviewed before any monies are disbursed to make sure the use of funds is eligible under the Agreement. The Housing and Community Development Division has a right to certify the work completed as represented on a payment request by use of staff or an independent contractor or inspector.

The final draw request, as well as the grant request, shall be made upon completion of the Project. The draw request must be accompanied by paid invoices and cancelled checks, either a Certificate of Completion or Certificate of Occupancy whichever is applicable and proof of the release of all construction and mechanic's liens must also be provided. Additional documentation may also be required.

February 2012

Should the final project cost be less than anticipated the loan and or grant shall be proportionally reduced to maintain the percentage amount of the City contribution agreed upon in the Agreement.

Payment Request

Once a draw request has been reviewed and approved a memo to accounting is prepared requesting payment. The memo comes from the Finance Director of the Housing and Community Division and must include the contract number, vendor number, vendor name, amount of request, index code, sub-object and project number.

Once accounting has approved the payment request the funds are sent to the Company either by electronic deposit or us mail. The only time that a check would be physically picked up from accounting is if the funds were to be distributed at closing. In that instance a member of the Office of General Counsel would pick up the check. The payment request that is sent to accounting will clearly state if the check is to be picked up by a member of the Office of General Counsel.

Section 4. Receipt of Payments

See the attached SOP for handling Housing mortgage payments. The SOP was developed in cooperation with Administrative Services Division . The effective date of the SOP is January 2010.

Late Payments

Late fees will be charged on all Northwest projects. However, under certain circumstances Northwest staff along with the Director of Finance and the Chief of the Housing and Community Development Division may work with borrowers to develop a forbearance agreement designed to deal with short term financial difficulties. In those instances, a borrower will be allowed to "skip" payments for a short period of time. The procedures for reflecting that forbearance in the mortgage software will be detailed so that no late fee is charged during the agreed upon forbearance period.

Section 5. Taxes and Insurance

Taxes

NWJEDF loans are secured through a Mortgage and Security Agreement which requires that all taxes and assessments associated with property being used as collateral by the City be paid. Property taxes are checked annually. If taxes become delinquent the company will be contacted

February 2012

to discuss a remedy. Tangible Personal Property taxes are also checked annually and findings will be included in our annual report.

Insurance

NWJEDF loans are secured through a Mortgage and Security Agreement. The Mortgage requires that insurance be placed on the property at the Mortgagor's sole cost and expense and be maintained for the life of the loan. Proof of insurance must be provided at closing. Once the closing takes place the insurance company must send staff a certificate of insurance naming the City of Jacksonville as a loss payee.

Insurance expiration dates will be calendared to insure that renewals are received and placed in the file. If a renewal notice is not received by the expiration date a call will be placed to the insurance company requesting a copy of the current Certificate of Insurance. If the developer has chosen not to renew with the agency they must furnish us with new policy information.

Section 6. Required Reporting

The Agreement will determine what reports are required. For those Agreements that require an Annual Survey the Compliance Monitor will send the survey to the Company in late January or early February of each year requesting information concerning the previous year. If the survey is not returned within 30 days, a second request will be sent. If the second request for the survey is not answered staff will contact the Company to help expedite the return of the survey. If there is still not response the file will be transferred to the Office of General Counsel at which time a specific strategy will be put in place.

For those Agreements that require jobs reports the deadline will be calendared and reminders notices will be sent. Jobs reports will continue until all of the required jobs have been created and retained for two years. The reports should be in the form of a UCT6. If for some reason that report cannot be provided by the Company an alternative such as a Payroll Register from the Company may be accepted. The alternative must have detailed information concerning each employee and must be approved by the Compliance Monitor and the Housing and Community Development Finance Director.

Required financial information deadlines will be calendared and reminder notices sent. If the Company cannot meet the deadlines stated in the Agreement they must send a written explanation to the Compliance Monitoring within 10 days of the deadline. The request must be approved by the Compliance Monitor and the Housing and Community Development finance director.

February 2012

An Agreement may require additional reporting such as an occupancy report. Those reports will be monitored as directed by the Agreement.

Section 7. Site Visits

Periodic site visits will be scheduled as part of the compliance monitoring of all NWJEDF projects.

Section 8. Amendments

Any request for an amendment to the Agreement or modification to the Mortgage must be submitted to the Compliance Monitor along with all required documentation at least 90 days before the close of a transaction. The Compliance Monitor and the director of finance will evaluate the request and the documentation in cooperation with the Chief of the Housing and Community Development Division and the Office of General Counsel.

If an Agreement amendment and or Mortgage modification is approved the Compliance Monitor will work with the Office of General Counsel to prepare the appropriate amendment and or modification. Once the document(s) have been prepared the Compliance Monitor will insure that the document(s) are properly executed and recorded, if applicable.

Section 9. Failure to Comply

If the Company fails to comply with the requirements of the Agreement or provide information necessary to accurately determine the Company's compliance the Compliance Monitor in cooperation with the director of finance and the Chief of Housing and Community Development may decide to forward the file to the Office of General Counsel for further action. The Office of General Counsel will then take all steps necessary to fully exercise the City's legal rights and remedies under the Agreement.

Section 10. File Closeout

When a loan is paid in full a Satisfaction will be drafted and sent to the Mayor's office for execution. The fully executed document will then be recorded and sent to the Company. Once all the requirements of the Agreement are met the file will be closed and kept in the office of Housing and Community Development for one year after which time the file will be sent to storage.

NEIGHBORHOODS DEPARTMENT
HOUSING AND COMMUNITY DEVELOPMENT DIVISION



MEMORANDUM TO FILE

FROM: JAMES RICHARDSON

DATE: FEBRUARY 15, 2012

RE: FRESH MINISTRIES, INC – BEAVER STREET ENTERPRISE CENTER PHASE II

This memo is meant to provide a rationale as to why the funding structure for the above project was structured differently than the recommendations suggested by the underwriter.

The task of the underwriter is to review the financials and other pertinent information submitted via an application for funding from the NWJEDF. Their review of this documentation is requested to assess the project's economic viability and the credentials and capacity for the applicant to complete the project and sustain the project for the first years of operation. Additionally, to determine if the project was to carry debt provided by the City, what level of debt could be provided and the project remain successful. The underwriters reviewed the project and determined that it was a viable project that met the guidelines of the NWJEDF, was likely to be economically sustainable and that the applicant could likely complete the project. The funding requested from the City in the amount of \$492,265 was recommended for approval.

The use of the term loan was meant to imply funding. The recommendation, as suggested on the report provided, was subject to modification by the NWJEDF staff. In discussion with the applicant of the possible structure and terms of funding from the City, a review of the project details, the abandoned building being renovated, blighted area and the state of the road fronting the property, it was agreed that a combination of loan and grant was in order for the project. So, the funding request was recommended for approval structured as follows:

1. A NWJEDF Loan in the amount of **\$392,265** for financing of the building construction. 10-year term with a 25 year amortization schedule at a fixed 3% interest rate. Balloon payment due at the end of term.
2. A NWJEDF Grant in the amount of **\$100,000** to help offset the cost of infrastructure improvements associated with the building improvements, parking and fiber connectivity between the two buildings.

STANDARD OPERATING PROCEDURE

Administrative Services Division

FUNCTION: Accounts Receivable

PROCEDURE: Handling Mortgage Payments for Housing &
 Neighborhoods

Includes the following:

Procedure for depositing and recording mortgage payments to the Tax Collector on behalf of The Housing and Neighborhoods Department.

POLICY AND PROCEDURES:

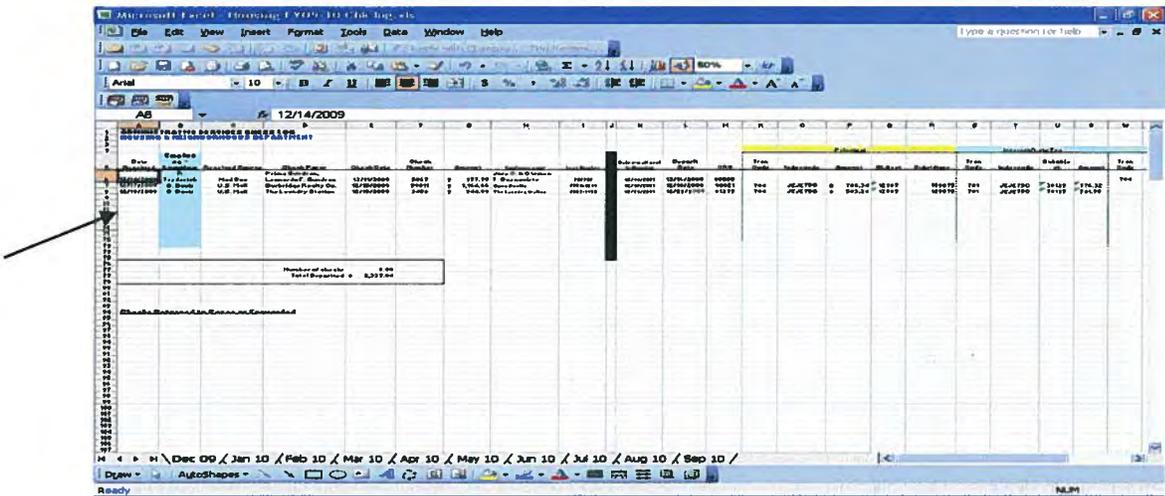
The Housing and Neighborhoods Department receives mortgage payments from customers within the Jacksonville community through public and private partnerships.

Beginning, January 1, 2010, ASD will facilitate the receipt of mortgage payments for deposit to the Tax Collector on the behalf of The Housing and Neighborhoods Department.

The following procedure will outline the Housing Mortgage Cash Receipts (CR) Process to ensure mortgage payments are received timely and posted accurately to the Housing revenue check log.

INITIAL RECEIPT OF PAYMENT

- 1. ASD will receive the customer's mortgage payment and coupon slip.
Note: Customers may continue to send payments to Housing after the transition date of 1/1/2010. These payments will be hand delivered to ASD by Housing staff.
- 2. Each piece of mail including envelope will be date stamped. The date stamp machines are located in the ASD copy mail rooms.
- 3. The ASD Budget Manager or assigned designee will update the Housing Check Log spreadsheet (**on the left side of the bar**) located: **H:\GROUPS\DOAdmin\Budget\Spreadsheets – Revenue\Check Log\Housing Check log\Housing FYxx-xx chk log.xls**



PAYMENT RECEIPT DOCUMENTATION

Once payment(s) are logged into spreadsheet as received, the ASD Budget Manager or assigned designee will give to ASD Budget/AR staff for preparation of deposit to Tax Collector.

The following steps should be followed to properly document receipt of payment.

1. ASD Budget/AR staff will scan all mortgage payments and coupons received. E-mail the documents to yourself and then copy the attachment to the e-mail to Housing mentioned in the next step. Print a copy of the attachment for the file.
2. An email is sent to Housing staff member main point of contact (GPayton@coj.net) or other designated Housing staff member with a courtesy copy (cc) to the ASD Budget Manager (veralynn@coj.net), ASD Division Chief (marlener@coj.net), Contract Compliance Manager (jbouda@coj.net) and the Finance Director (LStagner@coj.net).
(Attachment A)
 - a. The email should request for Housing to provide the index code, subobject, grant # & grant detail, principal, interest, late fee, and escrow amount due where monies will be deposited.
 - b. Enter the date that Housing was notified of the payment in the appropriate column in the Housing check log.
3. Housing staff member will review Mortgage Office to obtain account information and will apply payment.
4. Housing staff member will print out a customer screen for ASD with the payment information and scan to their self. Then will copy/paste the attachment to the original e-mail. **(Attachment B)**
5. There may be cases where some clients may not be listed in Mortgage Office. Housing staff will add the account and payment information to the copy of the check and scan the copy and send to the ASD Budget/AR staff with CC to all in original e-mail.
6. The account information will include the following.
 - a. Principal
 - i. Trans Code
 - ii. Index Code

- iii. GL Account
- iv. Subsidiary
- b. Interest
 - i. Trans Code
 - ii. Index Code
 - iii. Subobject
- c. Project / project detail
- d. Grant / grant detail

Note: Each customer may be different. Make sure that the correct information is identified correctly.

7. In both cases mentioned in #4 & 5 above, this account information will be submitted via e-mail to the ASD Budget/AR staff within one business day of receipt.
8. There are separate templates set up for Housing. Select the appropriate template based on the information submitted by Housing.
9. The ASD Budget/AR staff will create CR with the deposit information received from Housing staff member. **(Attachment C)**
 - a. Name: enter the name of the customer
 - b. Address: enter the address for the customer
 - c. Description: enter whether the payment is for escrow, principal/interest, interest only, interest/late fee; in parentheses enter the check#, date and the name of the person by which the check is being submitted if different from the customer. There may be instances where someone else may be paying for the mortgage on behalf of the customer.
10. ASD Budget/AR staff will print two copies of the CR to be validated.
11. The deposit will be taken to the Tax Collector's office located on the 2nd floor of the Ed Ball Building to have validated before 4 p.m. or within 24 hours of receipt.
12. The ASD Budget/AR staff will update the Housing Check Log spreadsheet **(on the right side of the bar)**.
NOTE: Make sure that the information is logged in accordance with Principal, Interest/Late Fee, Escrow and Project/Grant numbers.

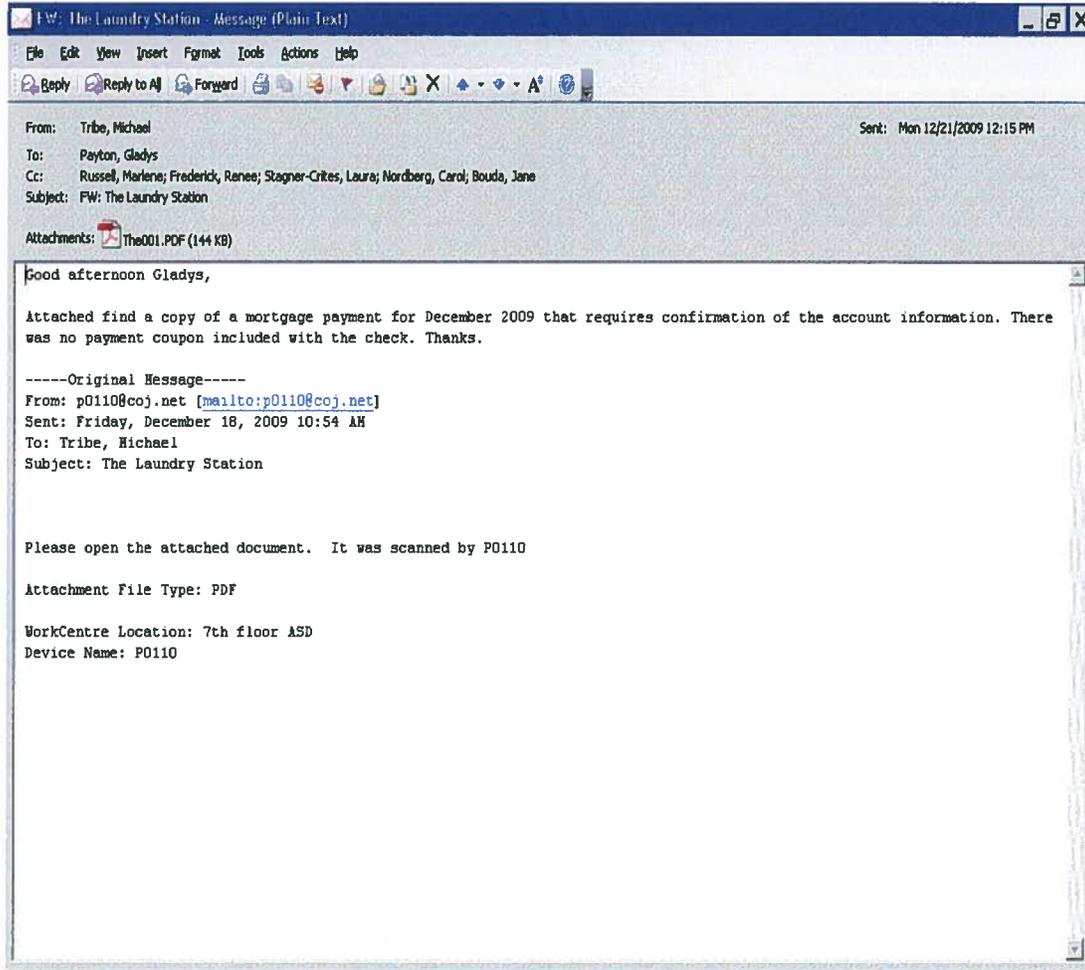
The screenshot shows an Excel spreadsheet with the following data:

| Loan Number | Date e-mail sent to Housing | Deposit Date | CFE | Tran Code | Interestcode | Amount | OLAmt | Subsidiary | Tran Code | Interestcode | Subsidiary | Amount | Tran Code | Interestcode | Amount | OLAmt |
|-------------|-----------------------------|--------------|-------|-----------|--------------|-----------|-------|------------|-----------|--------------|------------|-----------|-----------|--------------|-----------|-------|
| 797394 | 12/14/2009 | 12/18/2009 | 90506 | 704 | JE.JE75C | \$ 788.24 | | 129075 | 701 | JE.JE75C | | \$ 276.22 | 704 | JHSF PW5 | \$ 327.28 | 217X |
| 2001-1311 | 12/17/2009 | 12/18/2009 | 90821 | 704 | JE.JE75C | \$ 563.24 | | 129075 | 701 | JE.JE75C | | \$ 241.78 | | | | |
| 2002-158 | 12/21/2009 | 12/22/2009 | 91239 | 704 | JE.JE75C | \$ 563.24 | | 129075 | 701 | JE.JE75C | | \$ 241.78 | | | | |

13. ASD will send the second copy of the validated CR to Housing staff member by hand delivery via ASD mail courier.
14. ASD will file their copy of the documentation in the appropriate file drawer within ASD – Budget/Accounts Receivable.
15. **NOTE:** Housing will be responsible for reconciling FAMIS to Mortgage Office.

Attachment A

E-mail to Housing



Attachment B

Payment Confirmation from Housing

Loan: 2002-1159-Soap Bubble Laundromats, Inc. Housing & Neighborhoods Department

12/21/2009 1:31 PM

| | |
|---------------------|----------------------------|
| Field Name | Field Value |
| Tran Code | 704 |
| Index Code | JEJE75C |
| GL Account | 12807 |
| Subsidiary | 128075 |
| Tran Code Int | 701 |
| Index Code Interest | JEJF75C |
| SubObject | 35125 |
| Project | |
| Project Detail | |
| Funding Source | 8110 Lenn Turner Rd - JEDC |

Check Deposits

| | | |
|-------------|-------|--------------|
| Principal: | \$ | <u>50334</u> |
| Interest: | \$ | <u>25725</u> |
| Escrow: | \$ | _____ |
| Late Fee: | \$ | <u>8450</u> |
| Other: | \$ | _____ |
| Prepayment: | _____ | _____ |

34175

UNDER OR LIST

HW
JEDC

Northwest JEDC LOAN

Attachment C

Cash Receipt

Printing: CR91239 - Microsoft Internet Explorer
Address: http://financeweb.coj.net/TCR/Printing.aspx?cr=CR91239

Duval County, City Of Jacksonville
Mike Hogan, Tax Collector
231 E. Forsyth Street
Jacksonville, FL 32202

General Collection Receipt

Account No: CR91239
Date: 12/22/2009

User: Tribe, Michael
Email: MTribe@coj.net

HN - JEDC- NORTHWEST JED LOAN
Name: The Laundry Station - Soap Bubbles (JEDC)
Address: 8110 Lem Turner Road - Jacksonville, Florida 32208
Description: Mortgage payment - principal/interest (check #003458 dated 12/15/09) - \$844.99

| Trans Code | Index Code | Sub Object | GL Acct | Subst No | User Code | Project | Project Dtl | Quant | Grand Dtl | Doc No | Amount |
|------------|------------|------------|---------|----------|-----------|---------|-------------|-------|-----------|--------|---------|
| 704 | JEJE75C | | 12807 | 128075 | | | | | | | \$03.24 |
| 701 | JEJE75C | 36125 | | | | | | | | | \$41.75 |

Done Trusted sites

