



Police and Fire Pension Fund Bank Accounts Audit 2016 - #795

Executive Summary

Why CAO Did This Review

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Municipal Code, we conducted an audit of the activity surrounding the Police and Fire Pension Fund's separate bank accounts. We commenced an audit of this area based on initial work that was done for the Subcommittee on Subpoenas Related to the Police and Fire Pension Fund (the Fund). This committee looked into the fund's compliance with records requests made by the forensic investigator hired by City Council. To assist the committee we performed limited work related to the broker commission recapture program of the fund. While we did not find anything particularly wrong with the operations of the program, we determined the nature of the activities warranted an audit of these separate bank accounts.

What CAO Recommends

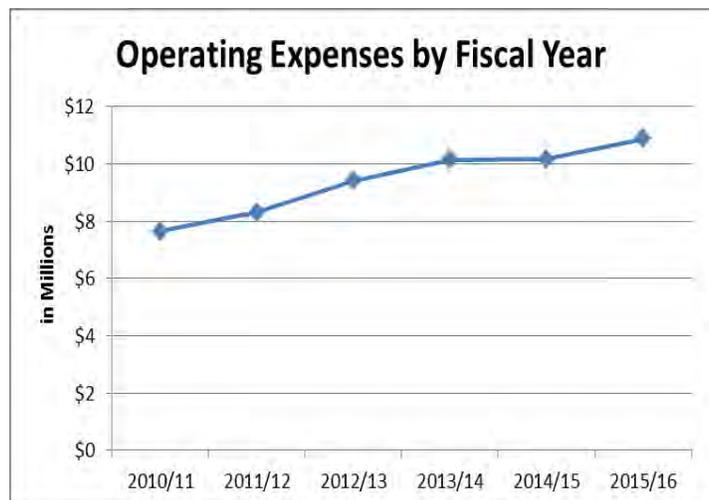
We recommend that the Fund discuss with the City's Finance and Administration Department and the Tax Collector's Office the possibility of utilizing the City's receivables and payables processes. This would allow the fund to close their separate local bank account and stop using their outdated and unsupported financial information and check writing system that supplements their use of the City's Financial Information System. We also recommend that the fund conduct extensive training with their employees on proper financial procedures and processing.

What CAO Found

Overall, we found the internal control structure, specifically with regards to proper segregation of duties, would be improved if the fund stopped collecting payments directly and ceased operation of a separate checking account. The revenue could be directed to the Tax Collector and the normal operating expenses could be processed by the City's Finance Department. This would increase the controls for the funds collected and expended, eliminate the need for the separate check writing and information system, and create a clearer audit trail of the operations of the Fund.

By objective:

1. We found that payments made by the Police and Fire Pension Fund from their separate bank accounts were in general properly supported, accurate in amount, properly authorized, processed timely, and appeared to be for legitimate business purposes despite several audit findings we noted.
2. We found issues with the accuracy and timeliness of the deposits of revenues received directly by the Fund (excluding pension contributions and fines/fees remitted to the City first).





Council Auditor's Office

Police and Fire Pension Fund Bank Accounts Audit - 2016

October 20, 2016

Report #795

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EXECUTIVE SUMMARY

AUDIT REPORT #795

INTRODUCTION - 1 -

STATEMENT OF OBJECTIVES - 1 -

STATEMENT OF SCOPE AND METHODOLOGY - 2 -

REPORT FORMAT..... - 3 -

SUGGESTED ADDITIONAL AUDIT WORK..... - 3 -

STATEMENT OF AUDITING STANDARDS - 3 -

AUDITEE RESPONSES - 4 -

AUDIT CONCLUSIONS - 4 -

AUDIT OVERALL - 4 -

AUDIT OBJECTIVE #1 - 5 -

AUDIT OBJECTIVE #2..... - 10 -

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



October 20, 2016

Report #795

Honorable Members of the City Council
City of Jacksonville

INTRODUCTION

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Municipal Code, we conducted an audit of the activity surrounding the Police and Fire Pension Fund's separate bank accounts.

We commenced an audit of this area based on initial work that was performed for the Subcommittee on Subpoenas Related to the Police and Fire Pension Fund. This committee looked into the Fund's compliance with records requests made by the forensic investigator hired by City Council. To assist the committee, we performed limited work related to the broker commission recapture program of the Fund. While we did not find anything particularly wrong with the operations of the program, we determined the nature of the activities warranted an audit of these separate bank accounts.

The Police and Fire Pension Fund is charged with administering the pension plan that covers all full-time police officers and firefighters of the City. Administering the plan includes managing the investments and employees of the Fund. The operating budget for the Fund in FY 2015/16 was approved by City Council at \$11,969,865. This funded the building and garage operations of the Fund which includes maintaining and renting office and parking space(s). The approved budget also funded the cost of eight employees and other operating expenses for legal, actuarial and auditing services as well as for the Fund's money managers and custodian. Besides pension contributions and other revenues directed by state and local law, the revenue budgeted in FY 2015/16 to offset operating costs included \$567,908 from building lease revenue and \$114,816 in parking garage rental fees. Our audit focused on the revenue and expenses from these activities and did not include work related to pension payments which was included in our prior audit (Report #736) which we recently followed-up on (Report #736A).

STATEMENT OF OBJECTIVES

The objectives of the audit were as follows:

1. To determine whether payments made from the Police and Fire Pension Fund bank accounts were properly supported, accurate in amount, properly authorized, processed timely, and appear to be for legitimate business purposes.

2. To determine whether revenues received directly by the Fund (excluding pension contributions and fines/fees remitted to the City first) were accurately and timely collected and deposited.

STATEMENT OF SCOPE AND METHODOLOGY

Objective 1:

The scope of our testing of disbursements was payments made by the Police and Fire Pension Fund from April 1, 2011 through March 31, 2016 that were not processed by the City. The length of the audit scope was selected so we could observe activity under the different management structures of the office and to get a better idea of the normal level of activity. To identify our population, we obtained payment detail from four sources:

1. Their local bank account which is used for day-to-day purchases and payments. This account does not include payroll for employees compensated directly by the City or the pension payments. Within this account there was \$4 million of payments included within our audit scope.
2. Their “paid receipts account” with the custodian, which is utilized for payments to their professional service providers. Within this account there was over \$34 million of payments included within our audit scope.
3. Their accounting and check writing system which records most transactions and processes their payments for their local bank account.
4. The City’s accounting system where all transactions of the Fund should be included in some manner.

We utilized the above information to identify our population for testing. For all payments from the local bank account and for payments to professional service providers from the “paid receipts account” we verified the payment was properly supported, accurate in amount, properly authorized, processed timely, and appeared to be legitimate. We then verified if the payment was recorded in the City’s ledger and was included on the detail or summary of payments included in the monthly Board Minutes. For select businesses we looked up the business with the Florida Secretary of State to attempt to determine if there appeared to be any improper relationships.

We then obtained account authorization and signature forms for each of the accounts for our entire audit scope and reviewed the forms for reasonableness and compared dates authorized to actual sign-offs. We also contacted the external auditors and performed limited other procedures to identify other bank accounts.

Lastly, we performed analytical procedures to attempt to identify any anomalies.

Objective 2:

The scope of our testing was revenues received and deposited into the local bank account for the period of April 1, 2011 through March 31, 2016. For this testing we utilized information from the local bank account, the accounting system utilized by the Fund and the information input into the City’s accounting system. We confirmed whether deposits were supported, deposited timely, appeared to be related to legitimate activity, and that the revenue was recorded in the City’s accounting system. There was over \$4 million of deposits made within our audit scope, of which

about half were transfers from the custodial account to supplement the expenses of the local bank account.

We also performed additional procedures in an attempt to make sure the Fund was receiving all revenues owed. This included reaching out to recapture firms with which the Fund has a contract, but did not receive revenues during our audit scope. We also performed work related to securities litigation.

Lastly we performed analytical procedures to determine whether we were receiving monies owed to the Fund. This included analyzing revenue by month and payee. We reviewed Board Minutes to verify revenues discussed were deposited.

REPORT FORMAT

Our report is structured to identify Internal Control Weaknesses, Audit Findings, and Opportunities for Improvement as they relate to our audit objectives. Internal control is a process implemented by management to provide reasonable assurance that they achieve their objectives in relation to the effectiveness and efficiency of operations and compliance with applicable laws and regulations. An Internal Control Weakness is therefore defined as either a defect in the design or operation of the internal controls or is an area in which there are currently no internal controls in place to ensure that objectives are met. An Audit Finding is an instance where management has established internal controls and procedures, but responsible parties are not operating in compliance with the established controls and procedures. An Opportunity for Improvement is a suggestion that we believe could enhance operations.

SUGGESTED ADDITIONAL AUDIT WORK

In limiting the scope of this audit, we did not pursue the following areas, and as such they should be considered for future audit work:

- The procurement procedures utilized by the Police and Fire Pension Fund.
- Compliance with new governance requirements added by Ordinance 2015-304-E (i.e. Police and Fire Pension Reform).

STATEMENT OF AUDITING STANDARDS

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDITEE RESPONSES

Responses from the auditee have been inserted after the respective finding and recommendation. We received these responses from Police and Fire Pension Fund, Tim Johnson, Police and Fire Pension Fund Executive Director, in a memorandum dated May 8, 2017.

AUDIT CONCLUSIONS

Overall, we found the internal control structure, specifically with regards to proper segregation of duties, would be improved if the fund stopped collecting payments directly and ceased operation of a separate checking account. The revenue could be directed to the Tax Collector and the normal operating expenses could be processed by the City's Finance Department. This would increase the controls for the funds collected and expended, eliminate the need for the separate check writing and information system, and create a clearer audit trail of the operations of the Fund.

By objective:

1. We found that payments made by the Police and Fire Pension Fund from their separate bank accounts were in general properly supported, accurate in amount, properly authorized, processed timely, and appeared to be for legitimate business purposes despite the findings noted below.
2. We found issues with the accuracy and timeliness of the deposits of revenues received directly by the Fund (excluding pension contributions and fines/fees remitted to the City first).

AUDIT OVERALL

Overall Finding 1 *A Financial Information System Used by the Fund is Outdated and No Longer Supported*

The Fund uses a small business accounting software package for check writing and as its supplementary financial system for recording local and custodial bank transactions. The software does not interface with the City's financial system and is the only location that vendors are actually detailed for the local bank account. The software has not been supported by the software company since 2011. A "sunset" version was released, but support is limited to users helping each other by answering questions posted in an on-line forum. Backups and data storage are limited to an employee shared drive (a network drive that is maintained by City ITD for access only by the employee). At the time of our testing the program was not password protected; however, it was secured by the data file being exclusively saved on the one employee's shared drive.

Recommendation to Overall Finding 1

The Police and Fire Pension Fund and the City should explore the possibility of the Fund utilizing the City’s Financial System on the front-end for all checks currently cut from the local bank account. This would allow for checks to be cut from the City’s System which already has controls in place. This would eliminate the need to separately input detail into the City’s System and create a better back-up of data by using a system that is supported and maintained.

Auditee Response to Overall Finding 1

Agree Disagree Partially Agree

In the near future, we plan to replace Microsoft Money and upgrade to a new accounting software by Intuit. The Intuit accounting software has security features that safeguard and back-up the data file automatically. That said, we are open to a discussion with the City Finance Department and the Tax Collector to explore the possibilities and benefits of utilizing this system.

AUDIT OBJECTIVE #1

To determine whether payments made from the Police and Fire Pension Fund bank accounts were properly supported, accurate in amount, properly authorized, processed timely, and appear to be for legitimate business purposes.

Internal Control Weakness 1 – 1 *Fund Employee Creating a Vendor’s Invoice*

The Fund retains a doctor who conducts examinations of new hires, potential disability cases, and re-examinations of police officers and firefighters who are joining or are making a claim against the Police and Fire Pension Fund. The Fund tracks the number of examinations and prepares the invoice for the doctor and pays based on this self-created invoice. Creating of the invoice in-house removes a basic control for normal payments where the invoice is created by the seller or service provider and sent to the recipient of the goods or services for review and payment.

Recommendation to Internal Control Weakness 1 – 1

The Fund should suspend this process immediately and implement new procedures whereby the invoices are received from the medical doctor and then reviewed prior to payment.

Auditee Response to Internal Control Weakness 1 – 1

Agree Disagree Partially Agree

Management has modified the process to accept invoices directly from the medical doctor.

Internal Control Weakness 1 – 2 *Local Bank Account Checks Only Require One Signature*

The general rule used by the Fund is that payments for professional services are processed through the custodial account and all other transactions (excluding pension payments and staff payroll) are processed by the Fund through their local bank account. When a check is needed, the Fund will print it using their small business accounting software onto blank check stock which comes pre-numbered with only one signature block. The Fund check writing procedures for the local account only require one signature. Even though the Fund does not utilize this account for professional services, there are still large purchases made from this account at times and since the Fund is a governmental entity it is standard practice to require two authorizing signatures to enhance the controls surrounding public funds. We did find that two signatures were required for disbursements from the custodial account.

Recommendation to Internal Control Weakness 1 – 2

The Police and Fire Pension Fund should revise its procedures to require two authorizing signatures for all disbursements regardless of amount or bank that the funds are disbursed from.

Auditee Response to Internal Control Weakness 1 – 2

Agree Disagree Partially Agree

Two signatures are required for disbursements from the custodial account. That same procedure will be applied to disbursements from the local bank account.

Finding 1 – 1 *Payments Were Made Based on Inadequate Support*

We reviewed the Fund’s financial records to determine if sufficient support existed for payments made. Examples of what we considered support included invoices, signed reimbursement forms (with receipts attached), and contracts. During our testing we found that for the local bank account, 13 of 2,442 payments were made based on either a credit card statement alone or on support that did not substantiate what was purchased and/or being reimbursed. For the custodial account we found one (1) payment for \$58,973 that was reported as overdue by the vendor on an invoice, but there was no invoice to support the amount owed. Although there was not a detailed invoice for the amount owed, based on payment history, some amount would have been due during the period.

Recommendation to Finding 1 – 1

We recommend the Fund explore the possibility of using the City’s Accounting Division so that there will be consistent support retained and the checks can be cut by the City’s Treasury Division.

Auditee Response to Finding 1 – 1

Agree Disagree Partially Agree

As stated above we are open to exploring the possibility; however, in the meantime, management plans to conduct training to appropriate staff that all payments require evidence of receipt or invoice. Substantiations of reimbursable expenses must detail who incurred the expense, what was purchased, the date, the transaction occurred and the business purpose of the expense.

Finding 1 – 2 *Authorized Signors Were Not Always Removed Timely*

We found that authorization forms were not always being updated in a timely manner to reflect changes in staff and board members. Although we did not find anyone who should have had their authority already removed sign for a check during the questionable period, this still creates an unneeded risk. For the local bank account authorized signature cards are updated at the local branch. To protect against unauthorized changes it is best practice to immediately update these forms when a signor leaves for any reason. During our testing we found that for the local account, three (3) of the eight (8) individuals that were authorized at any point during our scope did not have their authorization removed in a timely manner and for the custodial account we found that one (1) of ten (10) signors did not have their access removed timely.

Recommendation to Finding 1 – 2

The Fund should revise the current policy so that authorized signature forms are updated immediately with any change to the Board or the staffing of the Fund. Please note that the issue with the local bank account would be resolved if this account was no longer utilized, consistent with our recommendation to overall Finding 1.

Auditee Response to Finding 1 – 2

Agree Disagree Partially Agree

Management agrees only current authorized employees and board members should be authorized signer. Management will ensure compliance with board policy.

Finding 1 – 3 *Questionable Payments*

We looked closely at payments made by the Fund to see if we could determine whether the payments appeared to be for a legitimate business purpose. During our testing we found that 20 out of 2,242 payments from the local bank account or .082% totaling \$4,849.69 were made for items such as:

- travel insurance even though it was inconsistent with Fund policy.
- frequent flyer website membership which provided information on when to get the best flight upgrades and the most points for travel.

- sales taxes for government travel which should not be paid for travel in Florida, but since the Fund was not using a City check, they were charged sales tax and it was reimbursed.
- annual fees for a personal business platinum credit card account used for Fund travel, even though the points associated with the card were retained by the employee.

We also found a payment from the custodial account totaling \$19,219.66 which was made for the purchase of a 2012 Ford Expedition. This payment is questionable from a stand point of why the Fund needed the vehicle and from the stand point of why it was paid from the custodial account which is supposed to only be utilized for professional services.

Recommendation to Finding 1 – 3

To avoid future issues noted above, we recommend that the Fund:

- Conduct training so that Fund employees understand what are and what are not appropriate expenses, as well as to reinforce to only process payments consistent with Fund policy.
- At the least, limit the use of the custodial account to professional service payments and consider whether it would be more prudent to limit payments to money managers and the Fund custodian (e.g. exclude payments to lawyers and external auditors).

Auditee Response to Finding 1 – 3

Agree Disagree Partially Agree

Management plans to conduct training for appropriate staff that all payments require evidence of receipt or invoice. Substantiations of reimbursable expenses must detail who incurred the expense, what was purchased, the date the transaction occurred and the business purpose of the expense.

The custodial account will be limited to payment of professional services, money managers and large administrative and operating expenses. Building and other miscellaneous expenses will be paid from the local bank account.

Finding 1 – 4 *Payments Were Not Made Timely to Vendors*

We found that payments were not always paid timely. In general terms the Florida Prompt Payment Act states that payments should be processed within 45 days of receipt. Based on that standard, we found that 37 of 2,449 payments from the local bank account totaling \$91,638.96 were made more than 45 after the invoice date. We had to use the invoice date because, for most of the audit scope, the Fund did not stamp invoices with the date received. They have since changed this policy, but based on observation, often times it is the envelope which is not retained that is getting stamped rather than the invoice.

Recommendation to Finding 1 – 4

The Fund needs to train all employees who receive and open mail to stamp the invoice with the receipt date. The Fund also needs to ensure it is meeting the requirements of the Florida Prompt Payment Act.

Auditee Response to Finding 1 – 4

Agree Disagree Partially Agree

Management has recently trained staff to open, date stamp and distribute mail in a timely manner to help ensure that payments to vendors are made promptly.

Management has reviewed The Florida Prompt Payment Act and will work to ensure prompt payment to contractors who enter into agreement with the JPPPF.

Finding 1 – 5 *Not All Payments Presented to Board*

On the Police and Fire Pension Board meeting agenda and minutes, payments from the local bank account were included in total with revenues sometimes netted, while payments from the custodial account were always detailed by payment. On the consent agenda, it was the practice of the Fund to include all payments from the local bank account. As part of our testing we compared actual payments to Board detail and did find that:

- From the Local Bank Account:
 - Over \$160,000 in payments was not included in the Board Minutes for their review and approval.
 - Over \$90,000 in payments was repeatedly reported by being included in multiple Board Minutes.
- From the Custodial Account
 - Over \$1.8 million in payments was not approved in the Board Minutes.
 - Over \$30,000 in payments was approved at the wrong amount in the Board Minutes.
 - Over \$40,000 in payments was repeatedly reported by being included in multiple Board Minutes.

The issues typically were caused by how the date ranges on the reports were run which resulted in some items being skipped and other items being included on multiple consent agendas. We reviewed the larger items that were not included to make sure they were supported and consistent with past practice and payments.

Recommendation to Finding 1 – 5

We recommend that the Fund disclose revenue and expenditures to the Board Members so that they can make appropriate approval as well as be able to have a true understanding of the Fund’s operations.

Auditee Response to Finding 1 – 5

Agree Disagree Partially Agree

In the past, expenses were reported to the Board as close as possible to the meeting dates. Because reporting dates were inconsistent, this caused errors at times in disbursements reported in meeting minutes.

Currently, disbursements are reported to the Board at scheduled meetings on a prior month-end basis. This includes itemization of payments from the custodial and local bank account.

Additionally, the Board now receives a month-to-date vs. actual budget report at its scheduled meetings.

Management will consider procedures to report revenues to the Board.

AUDIT OBJECTIVE #2

To determine whether revenues received directly by the Fund (excluding pension contributions and fines/fees remitted to the City first) were accurately and timely collected and deposited.

Internal Control Weakness 2 –1 *Checks Were Not Restrictively Endorsed Upon Receipt*

A basic internal control for any entity that receives checks is to restrictively endorse them upon receipt. We observed that checks received are not restrictively endorsed upon receipt by the employee receiving checks. Instead, we observed that this was done when the deposit was being prepared by another employee. Another issue that we observed was that while some of the checks are logged upon receipt, the practice is not always occurring. When parking garage revenues are received they are forwarded to the employee who prepares the deposit slip and that employee notes them on a master spreadsheet as received. This same employee also restrictively endorses any received checks.

Recommendation to Internal Control Weakness 2 – 1

Checks need to be restrictively endorsed and logged immediately upon receipt. It is preferable that this person is outside of the deposit and reconciliation process; however, due to the limited staffing at the Police and Fire Pension Fund that may not always be possible.

Auditee Response to Internal Control Weakness 2 – 1

Agree

Disagree

Partially Agree

Management has trained employees that manage daily mail to date stamp incoming invoices and stamp checks “For Deposit Only” and list checks on a log before turning over to the person responsible for depositing.

Finding 2 – 1 *Incorrect Amounts Received for Lease Payments and Invoice Issues*

As part of their operations, the Fund leases office space to municipal, state, and private agencies. We tested the lease payments for all three of their current tenants and found that, based on the signed and executed contracts we were provided, the Fund was not receiving the correct amount of rent for two of their rental contracts which resulted in the Fund being underpaid an amount totaling \$103,505.37. Of that amount, \$102,195.37 relates to one contract and \$1,310 relates to the other.

For the \$102,195.37 amount, the current payments are based on an unexecuted contract that was presented to the Board which was based on lesser square feet, which resulted in a lesser payment. The Chief Financial Officer (CFO) for the Fund contends that there is not as many square feet in the applicable space that is the basis for the payment amount per the executed contract. The CFO bases this comment on the fact that the original contract had a total rentable space less than the amount in the executed contract. However, that amount could have changed due to different definitions of rentable space. Based purely on the outline of the building, it appears reasonable that there could be as many square feet available as identified in the fully executed contract.

For the \$1,310 amount, the Fund was underpaid because a scheduled rate increase which did not occur. While we did identify this during our testing, this amount was found by the Fund independently of us several months after the issue arose. We have been provided support that shows the amount has since been corrected.

Recommendation to Finding 2 – 1

Based on what we found, tenants should be invoiced monthly to ensure that the correct amount is being received. It may also be beneficial to include detail on the invoice noting what period that rate is set to change so that it will be more noticeable when a change is needed.

Additionally, support for the amounts billed should be retained in the Fund’s financial records so that payments received can be verified if necessary from a historical perspective. Finally, the Fund should seek payment for the previous lease underpayments and/or amend the contract if the fully executed agreement is inaccurate.

Auditee Response to Finding 2 – 1

Agree Disagree Partially Agree

There was no underpayment of rent. Inadvertently, an early draft of the lease was attached to the Board agenda for approval. A motion to amend the lease agreement to correct this clerical error will be made as soon as possible at a 2017 Board meeting.

Finding 2 – 2 *Deposits Were Not Being Made in a Timely Manner*

We found that deposits were not occurring in a timely manner. Since, as mentioned in Finding 2-1, checks were not consistently logged, we were not able to determine the deposit date compared to receipt date. Therefore, we had to compare the check written date to the deposit date and allowed for ten (10) days to allow for the time delay of any mail service. We found that 385 of 1,733 (or 22.2%) deposits which totaled \$613,908 occurred more than ten (10) days after the check date.

Recommendation to Finding 2 – 2

Deposits should be made on a more frequent basis and the Fund should consider utilizing the Tax Collector like other areas of the City. Doing this would further enable them to close their separate local bank account and to start using a system that already has appropriate controls in place. Also, the Tax Collector has more convenient locations for daily deposit and this would mitigate inherent risks related to cash since it would not be directly received by the Fund.

Auditee Response to Finding 2 – 2

Agree Disagree Partially Agree

Management plans to establish procedures to ensure that revenues are deposited daily if possible or within the next business day from receipt. Revenues that are held overnight are safeguarded in a lockbox.

We appreciate the assistance and cooperation we received from the Police and Fire Pension Fund throughout the course of this audit.

Respectfully submitted,

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Council Auditor

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