



## Debt Management Fund Audit - #850

### Executive Summary

#### ***Why CAO Did This Review***

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Municipal Code, we conducted an audit of the City's Debt Management Fund.

The Debt Management Fund, previously referred to as the Banking Fund, is an internal service fund that accounts for individual project needs in connection with a large, typically annual, external borrowing. The Debt Management Fund is responsible for periodic collections from end users to ensure funds are available to satisfy external debt service payments.

As of September 30, 2018, the Debt Management Fund had participated in the issuance of 15 special revenue bonds (SRB), 5 commercial paper issuances, and 1 line of credit, with recognized proceeds totaling \$766,104,980. Additionally, the outstanding notes and bonds payable from the Debt Management Fund totaled \$375,907,708, and the outstanding debts were slated to be fully satisfied by October 1, 2047.

#### ***What CAO Found***

Overall, the Debt Management Fund collected (and was scheduled to collect) more funds through billings to Departments than were needed to meet the Debt Management Fund's portion of the City's external debt service. This has resulted in the Debt Management Fund accumulating a \$19.5 million fund balance. The \$19.5 million would have been \$28.5 million if not for \$9 million that the Debt Management Fund contributed to other subfunds over the years as approved by various legislation (mainly General Fund/GSD). Additionally, the Debt Management Fund was slated to accumulate an additional \$43 million more in available fund balance by October 1, 2047, assuming no changes are made to the planned collections.

Specific issues noted included:

- Lack of documented procedures related to the loan management system.
- Issues with the initial set-up of internal loans resulting in overcollections.
- Various issues with the actual collection of internal loans.
- Issues with duplicate internal loans created in the loan management system resulting in some double billing.
- Issues with restructuring of internal loans after refunding of external bonds or when funds were transferred to other projects.

#### ***What CAO Recommends***

We recommend the Treasury Division:

- Establish procedures related to the loan management system.
- Implement a method to structure internal collections that does not result in significant excess funds accumulating in the Debt Management Fund.
- Perform reconciliations between the loan management and financial systems to ensure the accuracy of various activities.



**Council Auditor's Office**  
**Debt Management Fund Audit**  
**January 9, 2020**  
**Report # 850**

**Released on: September 9, 2021**

**EXECUTIVE SUMMARY**

**AUDIT REPORT #850**

INTRODUCTION ..... 1

STATEMENT OF OBJECTIVES ..... 1

STATEMENT OF SCOPE AND METHODOLOGY ..... 1

REPORT FORMAT..... 3

STATEMENT OF AUDITING STANDARDS ..... 3

AUDITEE RESPONSES ..... 3

AUDIT CONCLUSION ..... 3

AUDIT OBJECTIVE..... 4

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



January 9, 2020

Report #850

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 City's Debt Management Fund. The Debt Management Fund, previously referred to as the Banking Fund, is an internal service fund that provides funding for individual projects with large, typically annual, external borrowings. The Debt Management Fund is responsible for periodic collections from end users to ensure funds are available to satisfy external debt service payments.

As of September 30, 2018, the Debt Management Fund had participated in the issuance of 15 Special Revenue Bonds (SRBs), 5 commercial paper issuances, and 1 line of credit, with recognized proceeds totaling \$766,104,980. The outstanding notes and bonds payable from the Debt Management Fund totaled \$375,907,708 (excluding unamortized premiums), and these outstanding debts were slated to be fully satisfied by October 1, 2047.

## **STATEMENT OF OBJECTIVES**

To determine if the Debt Management Fund has collected and has scheduled to collect funds from the appropriate funding sources to meet the Debt Management Fund's portion of the City's external debt service payments.

## **STATEMENT OF SCOPE AND METHODOLOGY**

The scope of our audit was all transactions impacting the Debt Management Fund from October 1, 2006 through September 30, 2018. We went back to the start of the fund to get an understanding of what caused the fund balance to accumulate. This included all transactions impacting the primary Debt Management Fund account (i.e., subfund 592), the Composite Reserve account (i.e., subfund 59A) and the individual debt issuance accounts (e.g., subfund 59B, 59C, etc.). Transactions impacting the old Internal Loan Pool (i.e., subfund 591) were not tested, unless related to the transition between the Internal Loan Pool and the Debt Management Fund. The primary types of activity impacting the Debt Management Fund were the receipt of debt proceeds (debt issuance), the distribution of those proceeds to various City areas to fund activities, the periodic collection of principal and interest on those internal distributions, and the payment of external debt service.

We conducted staff interviews to obtain an understanding of the debt issuance and management process. We reviewed the applicable laws, rules, and regulations regarding the issuance of debt and management of internal loans. We evaluated the current processes and tools in place to manage debt and related internal loans. We also reviewed the information system controls that were relevant to our audit objective.

We identified all external debt issuances related to the City's Debt Management Fund in the City Comprehensive Annual Financial Reports. We obtained intended payback schedules related to external debt and all current internal loan data from the City's loan management system, which was the system that was used to monitor loans made from the Debt Management Fund. In total, we identified 1,339 separately listed internal loans that were collected on and 862 that were created within our audit scope. These loans were primarily funded by the 15 bond issuances, five commercial paper issuances, and one line of credit. Some of the internal loans tested were funded by pre-scope short-term notes or internally available funding (cash on hand). We evaluated the external debt and internal loans for compliance with applicable laws and City policies. We also compared the intended internal loan collections to the planned external debt service on borrowings used to fund those loans to ensure that the appropriate amount was planned to be collected. This required us to account for planned activity as far into the future as October 1, 2047.

We compiled a listing of all general ledger entries impacting the Debt Management fund. We then separated our listing into eight different categories to ensure that the proper testing was applied to each transaction.

1. Debt proceeds were tested to ensure that an accurate amount was recognized by the City in the appropriate accounts. We also reviewed those amounts for reasonableness based on support included in the bond issuance documents.
2. Loan distributions were tested to confirm that internal loan repayment schedules were accurately set up in the loan management system. We also performed various testing on related activity such as redistributions and loan restructuring.
3. Internal loan collections were tested to confirm that the revenue recorded in the Debt Management Fund matched the associated expenses. Further testing was performed on the expense side of the transaction to confirm that collections were accurate and were recorded in the proper payee account. This testing was generally performed at the subfund level but in some cases at the activity level.
4. External debt service payments related to long term debt were tested to ensure that accurate amounts were recognized in the Debt Management Fund for both principal and interest. Short term debt service payments were analytically tested for reasonableness, as it relates to interest rates, with accuracy testing only being performed when rates appeared abnormal.
5. Investment pool earnings were evaluated for reasonableness based on historical interest rates (provided by the Treasury Division) and the cash balance of the Debt Management Fund.
6. Payments to financial service providers were tested to ensure reasonableness over the audit period and in connection with known debt issuances.

7. Transfers from the Internal Loan Pool (predecessor to the Debt Management Fund) were tested for accuracy and overall reasonableness at the time of the transfers.
8. Other/atypical transactions were tested in various manners to ensure accuracy and/or reasonableness, as needed.

## **REPORT FORMAT**

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

## **STATEMENT OF AUDITING STANDARDS**

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

## **AUDITEE RESPONSES**

Responses from the auditee have been inserted after the respective finding and recommendation. We received these responses from the City's Treasury Division, via Randall Barnes, Treasurer in a memorandum dated August 5, 2021.

## **AUDIT CONCLUSION**

Overall, the Debt Management Fund collected (and was scheduled to collect) more funds, through billings to Departments, than were needed to meet the Debt Management Fund's portion of the City's external debt service. This has resulted in the Debt Management Fund accumulating a \$19.5 million fund balance. The \$19.5 million would have been \$28.5 million if not for \$9 million that the Debt Management Fund contributed to other subfunds over the years as approved by various legislation (mainly General Fund/GSD). Additionally, the Debt Management Fund was slated to accumulate an additional \$43 million more in available fund balance by October 1, 2047, assuming no changes are made to the planned collections.

Although we did note some exceptions, it does appear that the funds were collected from the appropriate funding sources.

---

**AUDIT OBJECTIVE**

**To determine if the Debt Management Fund has collected and has scheduled to collect funds from the appropriate funding sources to meet the Debt Management Fund’s portion of the City’s external debt service payments.**

**Internal Control Weakness 1 – Lack of Documented Procedures Related to the Loan Management System**

The Treasury Division did not have any documented procedures regarding data input into the loan management system, nor was there a review or approval process in place. The loan management system is where the internal loans of the debt management fund are setup and reports from the system are utilized for monthly billings. Additionally, the Treasury Division did not have any documented procedures related to generating system reports, which were regularly used for processing collections.

The lack of documented procedures could result in the inconsistent application of a given process, possibly resulting in errors, which are exacerbated by employee turnover.

**Recommendation to Internal Control Weakness 1**

We recommend that written procedures be created for key processes related to the loan management system. At a minimum, these procedures should cover data input, input reviews, and report generation.

**Auditee Response to Internal Control Weakness 1**

Agree                       Disagree                       Partially Agree

*Treasury will develop written procedures that govern the key processes related to the loan management system. The procedures will be developed in conjunction with the implementation of a new system, DebtBook, which was recently procured to manage all of the City's debt and internal loans.*

**Internal Control Weakness 2 – Issues with User Access Rights to the Loan Management System**

We identified issues with six of the eight user accounts for the loan management system. Specifically:

- 1) Three (or 37.5%) of the eight user accounts in the loan management system were unnecessary.
  - a) Two accounts were previously used by Treasury employees to complete their daily tasks, but as of 2015, their access was no longer needed due to changes in job responsibilities.
  - b) One generic account was no longer in use. It was previously used for administrative management and application setup by the City’s Information Technologies Division.
- 2) An employee who separated in 2015 still had an active user account in the loan management system. Following our inquiry, the employee’s account was removed. The Treasury Division stated that City network access and access to the application through a user’s station (computer) is necessary to utilize the program. While we do not disagree, that does not alleviate the need to remove the access.
- 3) Two of the user accounts in the loan management system utilized generic usernames, such as “ADMIN”, that did not clearly identify the user.

Furthermore, no periodic review of user access rights was being performed, and no review had been performed in recent years.

**Recommendation to Internal Control Weakness 2**

We recommend that the Treasury Division implement a process to periodically review access to the loan management system to ensure appropriate access and to ensure all accounts clearly identify the user.

**Auditee Response to Internal Control Weakness 2**

Agree                       Disagree                       Partially Agree

*Treasury will ensure there is a process in place to periodically review access to DebtBook.*

**Finding 1 – Over Collections Based on Internal Loan Set-up**

Section 110.504 of the Municipal Code states, “Principal and interest payments assigned for the repayment of debt shall be based on the useful life of each capital item or project being financed, inclusive of costs related to the issuance and management of debt.” Regarding the period of October 1, 2006 through October 1, 2018, our testing indicated that the Debt Management Fund collected \$19 million more than was needed to satisfy external debt service based on internal loan set-up. It appears that for the period of October 2, 2018 through October 1, 2047, the Debt Management Fund was slated to collect \$43 million more than will be needed to satisfy external debt service on the debt outstanding as of September 30, 2018. Note that this future assessment assumes that all outstanding debt will be satisfied in the manner set forth by the Treasury Division in preparation for the fiscal year 2018/2019 budget and that all collections are made in accordance with the schedules maintained in the loan management system as of September 30, 2018.



The main cause of the overall increase is due to issues with the planning and structuring of internal collections. This includes not properly taking into account the availability of a cumulative \$23 million in reserves that were set aside as required at issuance, general issues with structure of the internal loans compared to the external loans that would result in the collection of an additional \$37 million, and other issues noted in the report below. Additionally, investment pool earnings (\$11 million) were not factored in nor were all payments to financial service providers (\$5 million). This combined with other issues (which are noted in other findings below) would have resulted in the fund having an even larger balance if not for the \$9 million the Debt Management fund contributed to other funds over the years.

### **Recommendation to Finding 1**

We recommend that the Treasury Division utilize a method to structuring internal collections that does not result in significant excess funds accumulating in the Debt Management Fund, while still collecting sufficient funds to satisfy the Debt Management Fund's portion of external debt service. To accomplish this, the Treasury Division may need to make adjustments to the internal loans over the life of the loan.

Additionally, the Treasury Division needs to research these items and take appropriate actions to address issues that have occurred in the past and will occur in the future based on current planning.

### **Auditee Response to Finding 1**

Agree                       Disagree                       Partially Agree

*Subsequent to the timeframe of this audit, Treasury reconstituted the loans in the Debt Management Fund to ensure that significant excess funds do not accumulate. It should be noted that the original purpose of the Banking Fund was to create excess funds that could be re-lent. As such, there are still a few loans in the Debt Management Fund that are not tied to actual debt. As the conversion to DebtBook takes place, Treasury will work to ensure loan schedules are tied to external debt and do not accumulate excess balances.*

### **Finding 2 – Various Internal Collection Errors**

We identified various exceptions that resulted in the apparent net over billings of \$905,176 by the Debt Management Fund. The over billings totaled \$1,901,517 and included:

1. \$849,278 due to interest being billed based on a report that improperly considered and charged interest on principal that had previously been defeased.
2. \$454,228 due to interest being billed based on the use of outdated system reports;
3. \$330,844 due to the billing for loans that were not supported by a distribution;
4. \$256,745 due to subtotals and grand totals of the same loans being billed; and
5. \$10,422 due to more interest being billed more than what was planned in the loan management system.

The overbillings were partially offset by the underbilling of \$996,341:

6. \$491,992 due to an adjustment/correction associated with missed billing that did not fully correct all billings missed;
7. \$260,806 due to a negative transaction not connected to any collection within the period;
8. \$141,014 due to whole payments for specific projects not being billed;
9. \$60,746 due to specific projects listed in the loan management system, but not included in billings;
10. \$22,985 due to the billing of an incorrect amount; and
11. \$18,798 due to less interest being billed than what was planned per the system report.

Additionally, we identified instances where payments were billed to an incorrect account. Specifically, \$112,168 in payments was billed to Radio Communication (subfund 534) and \$219,734 in payments to Stormwater (subfund 461) when the payments should have been billed to the General Fund/General Services District (Non-Departmental). These were the result of manual input errors with the monthly billings.

### **Recommendation to Finding 2**

We recommend that the Treasury Division ensure that loan collections for the Debt Management Fund are accurate and made from the appropriate account.

Additionally, the Treasury Division needs to research these items and take appropriate actions.

### **Auditee Response to Finding 2**

Agree                   Disagree                   Partially Agree

*During the conversion to DebtBook, Treasury will review loan collections to ensure they are being made from the appropriate account. Any issues found will be corrected.*

### **Finding 3 – Duplicate Loans in the Loan Management System**

We identified two apparent duplicate loans in the loan management system with total principal maturities of \$2,286,310 (Duplicate Loan A for \$2,250,000 and Duplicate Loan B for \$36,310).

- Our review indicated that Duplicate Loan A has been fully satisfied, but only resulted in \$675,000, plus approximately \$195,000 in interest, being over billed. This was due to recognition of the error by the Treasury Division on the date of the final payment, which would have been for \$1,575,000.
- Duplicate Loan B was still outstanding but had already resulted in overbillings of \$26,558 (including interest) and would have resulted in an additional \$19,793 (including interest) in over billings if left uncorrected.

Both duplicate loans were billed to the General Fund/General Services District.

### **Recommendation to Finding 3**

We recommend that a process be implemented to limit the possibility of duplicate loans being entered into the loan management system. This could be accomplished as part of an overall reconciliation process between the financial and loan management systems.

Additionally, the Treasury Division needs to research these items and take appropriate actions to address issues that have occurred in the past and will occur in the future based on current planning.

### **Auditee Response to Finding 3**

Agree                       Disagree                       Partially Agree

*Treasury will develop a process for entering loans that includes a reconciliation with the financial system to ensure there are no duplicates. While we believe these issues may have been corrected subsequent to this audit, Treasury will review for any outstanding issues and make adjustments as necessary.*

### **Finding 4 – Inaccurate Restructuring of Internal Loan Schedules**

Of the 73 internal loans that were restructured, three (or 4%) were not properly accounted for in the loan management system. Note that the amounts identified are all related to principal.

- 1) One loan was reduced by \$1,751,620 to account for an external debt refunding, but the replacement loan only totaled \$1,172,400. The remaining \$579,220 in then outstanding borrowed funds does not appear to have been included in a new loan, nor was there an early payoff associated with this internal loan. If left uncorrected, this will result in an under collections from the General Fund/General Services District in the amount of \$579,220 plus interest.
- 2) One loan was reduced by \$2,201,505 due to early loan payoffs, but those payoffs amounted to \$2,592,732. The excess \$391,226 in the payments does not appear to have been corrected, nor was it identified as being an interest factor associated with the early payoff. This has resulted in an over collection of \$391,226 from the Building Inspections subfund.
- 3) One loan was reduced by \$58,387 when the funds were redistributed to a different project. When the reduction of the existing loan was processed, no new loan was created, and no existing loan increased. This inaccuracy has resulted in under collections from the General Fund/General Services District of \$5,719 (plus associated interest) as of September 30, 2018. If left uncorrected, this inaccuracy will result in additional under collections of \$52,668 (plus associated interest) from the General Fund. Additionally, the reduction amount of \$58,387 was erroneous as the redistributed funds only amounted to \$55,387.

In total, these inaccuracies have or will result in the under collection of \$246,381 (plus associated interest) by the Debt Management Fund.

**Recommendation to Finding 4**

We recommend that the Treasury Division ensure, by way of reconciliation, that each loan modification is properly and accurately accounted for in the loan management system.

Additionally, the Treasury Division needs to research these items and take appropriate actions to address issues that have occurred in the past and will occur in the future based on current planning.

**Auditee Response to Finding 4**

Agree                       Disagree                       Partially Agree

*During conversion to DebtBook, Treasury will ensure loans are properly accounted for. Treasury will also review identified issues and take appropriate actions as necessary.*

**Finding 5 – Missing or Unidentified Loans in System**

While testing the initial values of loans created in the loan management system, we noted that 7 (or 1.15%) of the 608 loan distributions tested were understated within the system, which would result in under collections. Specifically, we found that:

- Six internal loans were created in the loan management system but did not match the loan distribution amount causing a net understatement of \$254,489; and
- One internal loan appears to have never been created, causing an understatement of \$9,141.

**Recommendation to Finding 5**

We recommend that the Treasury Division ensure that each loan distribution is properly and accurately entered into the loan management system (e.g., perform a reconciliation after all new loans are input). Additionally, the Treasury Division needs to research the items noted above and take appropriate actions.

**Auditee Response to Finding 5**

Agree                       Disagree                       Partially Agree

*Treasury will develop a process for entering loans that includes a reconciliation after all new loans are input. During conversion to DebtBook, Treasury will review any items noted and take appropriate actions as necessary.*

**Finding 6 – Issues with Funding Source of External Debt Payments**

Overall, the Debt Management Fund overpaid its portion of debt service payments by \$181,922.

- We found that 6 out of 26 (or 23%) short term debt payments tested were more than the amount due by \$288,074.
- We identified several instances, totaling \$106,152, where long-term debt service payments were underpaid by the Debt Management Fund in comparison to internal amortization schedules.

Note these over/under payments were completely offset by debt service payments made from other City areas, which means other areas over/under paid their portion of the debt service.

**Recommendation to Finding 6**

We recommend that the Treasury Division reconcile, at the fund level, external debt service payments recorded in the City’s accounting system to the internally maintained amortization schedules and account balance support.

Additionally, the Treasury Division needs to research these items and take appropriate actions to address issues that have occurred in the past and will occur in the future based on current planning.

**Auditee Response to Finding 6**

Agree                       Disagree                       Partially Agree

*The reconstitution of the Debt Management Fund that took place subsequent to this audit focused on reconciling internal loans to external debt at the fund level - so that now internal loan collections match the external debt paid by fund (with the slight exception of internal loans not tied to external debt). During conversion to DebtBook, Treasury will verify that internal loans and external debt reconcile at the fund level and make any adjustments as necessary.*

**Finding 7 – Distributions from the Debt Management Fund to Wrong Accounts**

Two (or 3.6%) of the 55 Debt Management Fund distributions associated with the Special Revenue Bond (SRB) 2017A issuance were incorrectly placed in the wrong account. In both instances, the project listed was correct but the specific account within the subfund was incorrect. These errors give the appearance that these accounts were over funded (distributed revenue in excess of related expenses) by \$1,383,734 as of November 25, 2018. However, the project (disregarding the account) does appear to be appropriately funded.

**Recommendation to Finding 7**

We recommend that all reviews of distributions and project expenditures be performed at the project and account levels. Additionally, the Treasury Division should consider an adjustment in the City accounting system to balance the accounts at both the project and account levels.

**Auditee Response to Finding 7**

Agree                       Disagree                       Partially Agree

*Treasury will ensure project funding from the Debt Management Fund be applied to the correct account, and we will review any identified issues and make adjustments as necessary.*

**Finding 8 – Internal Loans were not Properly Modified to Reflect Changes in External Debt Structure**

We found that no bond related internal loans were restructured when the Special Revenue Bond (SRB) 2016A refunding bond was issued. The SRB 2016A issuance was used to refund maturities of the 2008, 2009 C-1, 2010A and 2012B SRB issuances. We reviewed the potential impact refunding would have on the debt service associated with the refunded maturities and found that restructuring was needed for the internal loans associated with the SRB 2012B issuance due to a significant change in the interest rate on the debt. Specifically, the SRB 2012B issuance had an interest rate of 1.12% while the SRB 2016A issuance had rates ranging from 3% to 5%. Failing to adjust internal loans in this scenario is a cause of the issues noted in Finding 1 and has resulted in a departure from Section 110.504 of the Municipal Code which states, “Principal and interest payments assigned for the repayment of debt shall be based on the useful life of each capital item or project being financed, inclusive of costs related to the issuance and management of debt.”

**Recommendation to Finding 8**

We recommend that procedures be implemented in the refunding process to evaluate internal loans for possible modifications to mirror any changes in the related external debt.

Additionally, the Treasury Division needs to research these items and take appropriate actions to address issues that have occurred in the past and will occur in the future based on current planning.

**Auditee Response to Finding 8**

Agree                       Disagree                       Partially Agree

*Treasury will create procedures that govern the Debt Management Fund, including the refunding process of external debt, which might lead to modifications to internal loans. The reconstitution of the Debt Management Fund likely corrected any issues, but Treasury will review during the conversion to DebtBook and make any adjustments as necessary.*

**Finding 9 – Issues with the Treatment of Bond Premium**

We identified that the premium proceeds, associated with 6 of the 15 (or 40%) long term debt issuances recorded in the Debt Management fund, were not proportionate to the amount of par

proceeds the Debt Management Fund received. Due to how the internal loans were structured, this generally did not result in any excess accumulation of fund balance in the Debt Management Fund because the recipients of the debt management fund proceeds paid a lessor effective interest rate than the areas that received direct bond proceeds. However, it is important to consider that the major recipient of both funds is ultimately the general fund/general services district.

Five issuances resulted in an over recording of premium to the Debt Management Fund and one issuance resulted in an under recording of premium. A net total of \$23,569,790 in additional premium was assigned to the Debt Management Fund, based on the par amounts assigned. Our review has indicated that the majority of the variance noted was associated with governmental funds, which is consistent with the Treasury Division's unwritten policy of over recording premium in the Debt Management Fund in order to simplify the amortization process. We did note that \$129,950 of the variance was associated with the Sports Complex Capital subfund, an enterprise fund, which would be inconsistent with that policy.

**Recommendation to Finding 9**

We recommend that the Treasury Division establish and document a policy for the distribution of bond premium between issuing funds that ensures the financial statements are properly stated and to ensure that all areas are properly charged for their portion of the debt.

**Auditee Response to Finding 9**

Agree                       Disagree                       Partially Agree

*Treasury agrees that distribution of bond premium between issuing funds would be the best way to properly account for all costs. During the conversion to DebtBook, Treasury will work to develop a policy that takes these items into account.*

**Opportunity for Improvement 1 – Data Integrity Improvements to the Loan Management System**

As part of our testing, we noted an opportunity for improvement regarding the integrity of data maintained in the loan management system. The following instances are examples of where changes were or were not made to the loan management system, which have resulted in data integrity issues:

- Deleted and undocumented changes to loans in the system were made during fiscal year 2013/14, that resulted in loan and billing information being erased.
- Some loans with payments between fiscal years 2010 and 2015 had the interest rates removed, making it impossible to recalculate amounts due using the system.
- In many instances where loaned funds were transferred to an alternative project, but the funding source remained the same (e.g., General Fund/GSD), no adjustment to the loan management system was made to accommodate for the transfer.

Additionally, the loan management system has an audit log feature that was not being utilized. If active, this may have assisted with understanding the cause of different issues.

**Recommendation to Opportunity for Improvement 1**

We recommend that the Treasury Division stop making undocumented changes to the loan management system, consider updating loan information in the system to mirror changes made to project funding, and turn on the audit log function.

**Auditee Response to Opportunity for Improvement 1**

Agree                       Disagree                       Partially Agree

*DebtBook is a state-of-the-art, cloud-based debt management system with audit log functionality and several access control administrative features. The conversion to DebtBook will be a significant upgrade from the existing loan management system.*

---

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

Respectfully submitted,

*Kim Taylor*

Kim Taylor, CPA  
Council Auditor

Audit Performed By:

Brian Parks, CPA, CIA  
Edward Linsky, CPA  
Alexandra Lee