



OFFICE OF INSPECTOR GENERAL CITY OF JACKSONVILLE

REPORT OF INVESTIGATION CASE NUMBER: 2016-0002 ISSUE DATE: OCTOBER 11, 2016

Steven E. Rohan
Interim Inspector General

"Enhancing Public Trust in Government"

COJ REWARDS AND RECOGNITION GIFT CARDS ACCOUNTED FOR LACK OF INTERNAL CONTROLS AT ONSET OF PROGRAM

EXECUTIVE SUMMARY

The Office of Inspector General (OIG) of the City of Jacksonville (COJ) reviewed an online Florida Times Union (www.jacksonville.com) article dated November 2, 2015, concerning the unaccountability of approximately \$27,000 of COJ Rewards and Recognition Program (Program) gift cards purchased by COJ Officials during the 2011-2015 Mayoral Administration. This issue arose after newly elected Mayor Lenny Curry's Administration conducted an internal review in October of 2015. On November 3, 2015, Mayor Curry requested that OIG open an investigation regarding this matter.

On November 4, 2015, pursuant to COJ Ordinance §602.303 (j), the complaint was referred to the Office of the State Attorney, Fourth Judicial Circuit (SAO) due to concerns that Florida Statute § 812.014, Theft, might apply. As such, OIG deferred an administrative investigation pending review and direction by the SAO.

In November 2015, in support of the SAO, the OIG conducted an independent review of the gift cards procurement, retention and disbursement records. The OIG independent review determined that gift cards in the amount of \$3,175 in value were unaccounted for and not the \$27,000 as previously reported. The OIG independent review determined that the current Administration reported the gift card value in error. The OIG provided this information to both the SAO and the Administration and continued to defer the matter under review by the SAO.

On May 3, 2016, the SAO concluded their jurisdiction of the matter and referred the matter back to OIG for an administrative investigation. On May 19, 2016, the OIG conducted a physical review of the safe and found the unaccounted for gift cards. During the November 2015 OIG independent review, OIG had no reason to believe that any additional gift cards were in the safe.

The OIG investigation determined that a lack of internal controls relating to the purchase and retention of the nine-hundred and seventy-five (975) gift cards for the Program, valued at \$59,956.25 (face value and associated fees) by the 2011-2015 Mayoral Administration in 2013 and in 2014, led to the gift card confusion. As a result of the lack of internal controls, the internal review conducted by the Administration in October 2015 was inaccurate in part because the reviewers were not provided with all of the gift cards that were secured in the safe.

During the course of the OIG investigation the Administration took immediate corrective action relating to the lack of internal controls by immediately cancelling all gift cards and obtaining a reimbursement in the amount of \$52,100. Additionally, the Administration issued a revised Standard Operating Procedure relating to safe security in January 2016.

Given that the gift cards had never been removed from the possession of the City, or misappropriated, any concern of theft or misuse of the COJ Rewards and Recognition Program Vystar gift cards from the Finance Department safe was determined to be **unfounded**.

Finally, the OIG investigation revealed that the fee associated with each gift card purchased was \$2.75. This fee amounts to an 11% fee for \$25.00 gift cards; a 5.5% fee for \$50 gift cards and a 2.75% fee for \$100 gift cards. Though the OIG has not investigated whether, due to the City's significant banking relationships, the prior Administration was fiscally responsible in its negotiations related to such fees; the OIG recommends that the City consider these fees when purchasing gift cards in the future.

INVESTIGATIVE REPORT

ALLEGATION

COJ Rewards and Recognition Program Vystar Gift Cards from the City of Jacksonville's Finance Department and Administration Department's (Finance Department) safe may have been lost, misused or stolen.

GOVERNING DIRECTIVES

- COJ Code of Ordinance Title V, Administration and Personnel, Chapter 116, Employees and Employee Benefits, Part 11, Incentive and Retreat Programs (Ordinance 97-970-E);
- COJ Office of the Mayor, Executive Order 99-1, COJ Rewards and Recognition Program; and
- COJ Cash Receipts Standard Operating Procedure (SOP) (dated January 28, 2016), specifically the safe security policy.

INVESTIGATIVE FINDINGS

Records Review

Per a review of COJ Employee Services records (corroborated by testimony), on October 17, 2013, seven hundred twenty-nine (729) Vystar Credit Union gift cards (gift cards) totaling \$34,979.75 were purchased for the COJ Rewards and Recognition Program (Program). The October 2013 gift cards were preloaded as follows: 399 in \$25 denominations (\$9,975), 200 in \$50 denominations (\$10,000) and 130 in \$100 denominations (\$13,000). Of the \$34,979.75 paid for the gift cards, \$32,975 was for the value of the gift cards purchased in the various denominations, and the remainder of \$2,004.75 was charged as a service fee at a rate of \$2.75 per gift card.

An additional two-hundred and forty-six (246) gift cards totaling \$24,976.50 were purchased per COJ Employee Services records (corroborated by testimony) on November 25, 2014. The November 2014 gift cards were preloaded as follows: 52 in \$25 denominations (\$1300), 52 in \$50 denominations (\$2600), 80 in \$100 denominations (\$8000), and 62 in \$200 denominations (\$12,400). Of the \$24,976.50 paid for the gift cards, \$24,300 was for the value of the gift cards purchased in the various denominations, and the remainder of \$676.50 was charged as a service fee at a rate of \$2.75 per gift card.

At the time the gift cards were purchased in October 2013 and November 2014, the total nine hundred seventy-five (975) gift cards were ready for activation but were not yet activated. Per a review of COJ records, \$59,956.25 was paid by the City to obtain 975 gift cards during October 2013 and November 2014. No records were provided by the City that reflected that a detailed inventory of the 975 gift card numbers had been conducted at the time of the respective purchases.

The OIG investigation confirmed through testimony that once the gift cards had been purchased (for each of the October 2013 and the November 2014 batches) the gift cards were placed in a safe located within the Finance and Administration Department (Finance Department) and that no inventory records had been maintained by Finance Department upon receipt or thereafter of the gift cards placed or removed from the safe. However, Employee Services provided records which reflected dates and amounts of gift cards (with partial numbers annotated on some records) which had been removed from the safe for distribution to employees through the Program.

Records provided by COJ showed that handwritten receipts dated December 4, 2014, for 77 gift cards, and an additional 7 gift cards on December 17, 2014 (a total of 84 gift cards) were retrieved from the safe by Finance Department personnel and transferred over to Employee Services personnel. Per a review of Employee Services records in December 2014, 84 gift cards totaling \$2,100 (in \$25 denominations) were distributed to employees as part of the Program.

Per a review of COJ records, on March 31, 2015, one hundred thirty-seven (137) gift cards totaling \$3,425 (in \$25 denominations) were retrieved from the safe by Finance Department personnel and transferred over to Employee Services personnel. On April 14, 2015, an additional two (2) gift cards (in \$25 denominations) were retrieved from the safe by Finance Department personnel and transferred over to Employee Services personnel which brought the total to 139 gift cards that had been retrieved from the safe. Per a review of Employee Services records during April 2015, 139 gift cards totaling \$3,475 (in \$25 denominations) were distributed to employees as part of the Program. [Of note, one \$25 card was returned unused to Employee Services in December 2015; therefore the total amount distributed was actually 138. The OIG determined that the extra card was retained by Employee Services and cancelled during the investigation.]

In summary, 975 gift cards were purchased and 222 gift cards were distributed by Employee Services through the Program. Therefore, seven hundred fifty-three (753) gift cards totaling \$51,725 should have remained secured in the safe. More specifically, five hundred seven (507) gift cards from the October 2013 batch, and all 246 gift cards from the November 2014 batch should have been in the Finance Department safe.

On October 7, 2015, staff from the Mayor's Office and Finance Department conducted an internal review (inventory) of the gift cards purchased in October 2013 and November 2014. It was reported to OIG that the internal review determined that five hundred and seven (507) gift cards out of 729 gift cards purchased in October 2013 were unaccounted for (approximating \$27,425). The Administration's internal review accounted for the entire 246 gift cards purchased in November 2014.

On November 13, 2015, the OIG conducted an independent review of the gift cards previously inventoried by the Administration on October 7, 2015. The OIG's review found a discrepancy with the Administration's internal review and confirmed that 379 gift cards from the October 2013 batch were accounted for. Additionally, the OIG independent review verified that all 246 gift cards purchased in November 2014 were accounted for.

As a result, of OIG's independent review it was determined that 625 cards were physically accounted for and based on distribution records (reflecting 223) only 127 gift cards in the amount of \$3,175 were unaccounted for.

OIG promptly notified the Administration and the SAO of the discrepancy between the Administration's internal review (October 7, 2015) and the OIG independent review. Subsequently, a follow up review with the Administration determined that in fact, the Administration had accounted for the same 625 gift cards as OIG accounted for on November 13, 2015, but the number of missing cards had been mistakenly reported.

On November 2, 2015, per email records, the Administration, working in conjunction with Vystar, requested that all remaining gift cards be cancelled and deactivated. The COJ was subsequently refunded \$52,100 during November 2015. [Note: The OIG verified that the COJ was reimbursed in the amount of \$52,100 for gift cards that had not been activated.]

On May 3, 2016, the SAO declined further involvement and referred the investigation back to the OIG, based on the cancellation of the gift cards and the subsequent refund to the City.

On May 19, 2016, the OIG conducted a physical review of the contents of the items in the safe, in conjunction with a Finance Department manager. During this physical review, OIG located a separate box within the safe that contained one hundred twenty-seven (127) gift cards (totaling \$3,175). Per records (and testimony) these gift cards were not previously provided to the Administration during the internal review in October 2015 or provided to OIG during the independent review in November 2015.

Note: These 127 gift cards found within the safe had not been presented to the Administration by Finance Department staff to be inventoried during the October 7, 2015 internal review or during OIG's independent review on November 13, 2015. However, per a review of OIG photographs taken during OIG's independent review on November 13, 2015, the box which contained the 127 cards was in fact in the Finance Department safe on November 13, 2015, the date of OIG's independent review.

On January 28, 2016, Finance Department's Comptroller issued a revised Cash Standard Operating Procedure (effective January 28, 2016) which included a safe security policy to correct the lack of internal controls.

Testimony

Through testimony obtained during this OIG investigation, a lack of internal controls existed within Finance Department prior to January 2016 regarding the controlled area to the safe, access to the safe and the retention of items in the safe. More specifically, in regards to the October 2013 and the November 2014 gift card purchases and the retention of the gift cards, testimony was provided by several Finance Department employees as follows:

- (1) No documentation of who accessed the Finance Department safe and the access purpose existed;

- (2) No prior inventory of the safe had ever been conducted;
- (3) No detailed gift card inventory or receipts for the October 2013 and November 2014 purchases accompanied the gift cards when they were placed into and/or removed from the safe; and
- (4) Finance Department employee(s) with access to the Finance Department safe could not recall or were unaware that gift cards were stored in the safe.

CONCLUSION

The OIG investigation located the previously reported unaccounted for Vystar gift cards in the Finance Department safe pursuant to a physical inventory conducted in May 2016. The OIG investigation determined that a lack of internal controls relating to both the October 2013 and the November 2014 purchase records and the retention records of the gift cards for the COJ Rewards and Recognition Program in the Finance Department safe contributed to their unaccountability.

As a result of the lack of internal controls, the COJ internal review conducted in October 2015 was inaccurate in part because the reviewers were not provided with the all the gift cards that were secured in the safe and in part due to an accounting error. During the course of the OIG investigation, the Administration took immediate corrective action relating to the lack of internal controls, immediately cancelling all gift cards, obtaining reimbursement in the amount of \$52,100, and by issuing a revised SOP relating to safe security.

Given that the gift cards had never been removed from the possession of the City, or misappropriated, any concern of theft or misuse of the COJ Rewards and Recognition Program Vystar gift cards from the Finance Department safe was determined to be **unfounded**.

Finally, the OIG investigation revealed that the fee associated with each gift card purchased was \$2.75. This fee amounts to an 11% fee for \$25.00 gift cards; a 5.5% fee for \$50 gift cards and a 2.75% fee for \$100 gift cards. Though the OIG has not investigated whether, due to the City's significant banking relationships, the prior Administration was fiscally responsible in its negotiations related to such fees; the OIG recommends that the City consider these fees when purchasing gift cards in the future.

RECOMMENDED CORRECTIVE ACTIONS

During the course of this investigation a lack of internal controls was identified. The OIG recognizes that the Administration took immediate action to rectify the lack of internal controls.

Additionally, the OIG recommends the following corrective actions:

1. Review and update the internal controls for Finance Department's controlled area which houses the safe. Verify that enhanced internal controls are being implemented.
2. Ensure that the Finance Department's employees (if applicable) adhere to the Cash Receipts SOP (effective January 28, 2016) including the safe security policy and that they are being implemented.

3. Destroy and document the destruction of each gift card related to this investigation. OIG requests verification of the destruction.

In addition, OIG requests that the Administration advise OIG of any personnel action(s) that are taken (including all outcomes) as a result of this investigation.

IDENTIFIED, QUESTIONED, AND AVOIDABLE COSTS

Identified Costs: N/A Questioned Costs: N/A Avoidable Costs: N/A

MANAGEMENT COMMENTS AND CORRECTIVE ACTIONS

On September 15, 2016, the Chief Administrative Officer, Office of Mayor Lenny Curry, City of Jacksonville, FL was provided the opportunity to submit a written explanation or rebuttal to the findings as stated in this Report of Investigation within twenty (20) calendar days, due on or before October 7, 2016. On October 10, 2016, a written response was received from the Office of Mayor Lenny Curry and is attached in its entirety to this report. [OIG considers this response timely, as the City was closed due to an oncoming hurricane on October 6-7, 2016.]

During the investigation, the Office of Mayor Curry implemented various corrective actions which included a safe security policy and has ensured that the employees are not only aware of the policy but that all security policies are being consistently followed by employees. Additionally, cancelled gift cards (at the request of the Administration, during the investigation) to prevent activation were shredded as of September 30, 2016.

Respectfully Submitted,



Steven E. Rohan
Interim Inspector General
October 11, 2016

Attachments:

Management's Response, dated October 10, 2016

cc: IG Distribution A

This investigation has been conducted in accordance with the ASSOCIATION OF INSPECTORS GENERAL Principles & Quality Standards for Investigations.



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To: Steve Rohan
Interim Inspector General

From: Marlene Russell *Marlene Russell*
Director of Organizational Effectiveness

Date: October 10, 2016

SUBJECT: Response – Draft Report of Investigation
Case No. 2016-0002

Based on the conclusions in subject report and the recommended corrective actions from the Office of Inspector General, below are management comments regarding same.

Report Conclusion

The OIG investigation located the previously reported unaccounted for Vystar gift cards in the Finance Department safe pursuant to a physical inventory conducted in May 2016. The OIG investigation determined that a lack of internal controls relating to both the October 2013 and the November 2014 purchase records and the retention records of the gift cards for the COJ Rewards and Recognition Program in the Finance Department safe contributed to their unaccountability.

As a result of the lack of internal controls, the COJ internal review conducted in October 2015 was inaccurate because the reviewers were not provided with all the gift cards that were secured in the safe and in part due to an accounting error. During the course of the OIG investigation the Administration took immediate corrective action relating to the lack of internal controls, immediately cancelling all gift cards, obtaining reimbursement in the amount of \$52,100 and by using a revised SOP relating to safe security. The allegation of theft of the COJ Rewards and Recognition Program Vystar gift cards from the Finance Department safe was unfounded.

Recommended Corrective Action 1:

Review and update the internal controls for Finance Department's controlled area which houses the safe. Verify that enhanced internal controls are being implemented and consistently followed.

Management Comments:

Management was unable to locate all the gift cards during their internal review. The cards were reported as missing, not stolen.

In accordance with the City's Cash Receipts Standard Policy and Procedures, the Finance Department has reviewed their internal control processes regarding the control of the safe. A safe inventory log and a

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procedure was created which includes the current contents of the safe. The Finance Department developed and implemented a sign-in sheet for controlled access to the safe. Employees in the Treasury Division has signed the Acknowledgement of Safe Security Policy and the City of Jacksonville Cash Receipts Policy, Security Agreement.

Recommended Corrective Action 2:

Ensure that the Finance Department's employees (if applicable) adhere to the Cash Receipts SOP (effective January 28, 2016) including the safe security policy and that they are being implemented.

Management Comments:

The Cash Receipts Policy, including the safe security policy is implemented. The Finance Department employees are aware of the policy and the policy is being consistently followed by employees.

Recommended Corrective Action 3:

Destroy and document the destruction of each gift card related to this investigation. OIG requests verification of the destruction.

Management Comments:

The remaining gift cards were shredded by Marlene Russell, and Beth Mangold, Finance Department on Friday, September 30, 2016. Per our request, Vystar cancelled the gift cards, preventing activation.

The Administration takes the investigation findings listed which occurred under the previous administration very seriously and has reviewed each recommended corrective action and responded accordingly.

Please let me know if you have any questions.

cc: Lisa Green, Director of Investigations
Sam E. Mousa, P.E., Chief Administrative Officer
Mike Weinstein, Chief Financial Officer
Marsha Oliver, Director, Public Affairs
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