

COUNCIL AUDITOR'S OFFICE

ANNUAL REPORT 2004

December 31, 2004

Report #604

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



December 22, 2004

Report No. 604

Honorable Members of the City Council
Jacksonville, Florida

The annual report of the City Council Auditor's Office of Jacksonville, Florida for the year ended September 30, 2004 is presented for your review. This report provides a description of the mission and goals of the Council Auditor's Office and an explanation as to the types of work performed.

A very productive year resulted in the issuance of 16 reports. A listing of the reports and a synopsis of each are included as Appendix A. Work was near completion on four additional audits. The Council Auditor's Office (CAO) also provided 528 hours of staff time to assist Ernst & Young, LLP with the annual financial statement audit of the City as required by the City's Ordinance Code. Two CAO staff provided 154 total hours to assist Ernst & Young, LLP with the financial audit of JEA.

In addition to conducting audits and issuing reports, many staff hours are spent in the weekly review of legislation being brought before the City Council and the attendance at City Council committee meetings. Over 3,100 staff hours were spent from July 2004 through September 2004 reviewing the Mayor's proposed 2004/2005 budget. This report is not intended to address the results of performing these responsibilities.

We appreciate the strong support given to us by the City Council and the cooperation extended to us by the Mayor and the Administration. We look forward to continuing to work with elected officials and the Administration on finding ways to improve our City and its Independent Agencies.

Respectfully submitted,

Richard Wallace, CPA
Council Auditor

CITY COUNCIL AUDITOR'S OFFICE ANNUAL REPORT - 2003/2004

Mission and Goals

Charter Authority of the City Council Auditor

The position of the Council Auditor is authorized by Section 5.10 of the Charter of the Consolidated Government of the City of Jacksonville. The Council Auditor is appointed by the City Council and is the head of the Council Auditor's Office that is a department of the legislative branch of the consolidated government. The Council Auditor is responsible for conducting a continuous internal audit of the fiscal operations of the consolidated government and all independent agencies. The Council Auditor's Office renders assistance to the independent auditor appointed by the Council and performs such other research as the Council President, the Finance Committee or individual Council members may request.

Our Mission

The mission of the Council Auditor's Office is to improve the accountability and effectiveness of local government by actively providing independent and informative services to the City Council of Jacksonville. The Mayor, City Council, Independent Agencies and the public need timely, objective, and accurate information about the efficiency and effectiveness of the operations of the City and its Independent Agencies. We seek to accomplish our mission by evaluating department and program performance.

Statement of Values

- ◆ We expect excellence in the services we provide: excellence achieved through motivated personnel upon whose abilities, initiative, and creativity we depend.
- ◆ We are committed to sustaining a work environment that provides opportunities for personal growth, fosters cultural diversity, and supports innovation and change as essential to achieving our vision in a rapidly changing world.
- ◆ We expect the development of new ideas and enhancements in our ability to perform and work effectively at all levels of the organization.
- ◆ We highly value the importance of our relationship with others.
- ◆ We demonstrate integrity and honesty in all facets of our work.

Our Work Products

The work of the Council Auditor's Office includes different types of auditing and research. Audit work is conducted in accordance with government auditing standards. These standards require due professional care in conducting audits, professionally qualified staff, independence, adequate supervision and planning of audit work, reporting

of audit results, and periodic review of the office by outside professionals. The following briefly describes the scope of work performed.

Performance Audits

A performance audit is an objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making by the parties with responsibility to oversee or initiate corrective action.¹

Financial-related Audits

Financial-related audits include determining whether (1) financial information is presented in accordance with established or stated criteria, (2) the entity has adhered to specific financial compliance requirements, or (3) the entity's internal control structure over financial reporting and/or safeguarding assets is suitably designed and implemented to achieve their objectives.²

Performance and financial-related audits result in recommendations that will improve resource utilization, reduce the risk of loss or abuse of assets, increase productivity, and correct wasteful practices. Audit recommendations can improve services to the public by making programs more effective and efficient.

Follow-up Reviews

The Council Auditor's Office conducts follow-up reviews to determine the progress made in addressing findings and recommendations identified in previous audits. It is substantially less in scope than an audit conducted in accordance with generally accepted government auditing standards.

Special Reports

The Council Auditor's Office also performs other reviews to fulfill the City Charter and Ordinance Code requirements of providing the City Council with reports of financial analysis and information pertaining to the operations of the City and its independent agencies. As a part of this effort, the Council Auditor compiles and reviews quarterly financial reports from the City and its independent agencies and presents reports thereon. The Office also is responsible for reviewing the annual Mayor's proposed budget. A report is prepared annually outlining the Mayor's proposed budget and Council actions regarding that budget.

Legislative Review and Special Projects

In addition to its audit requirements, the Council Auditor's Office performs research concerning the financial or management affairs of the consolidated government. This task is accomplished through the review of all legislation before the Finance Committee and

¹ Comptroller General of the United States, *Government Auditing Standards* (Washington, DC: U.S. Government Printing Office, 1994), p.14.

² Comptroller General of the United States, *Government Auditing Standards* (Washington, DC: U.S. Government Printing Office, 1994), p.13.

other committees to which the legislation is assigned. Individual Council members are also provided with financial information as requested.

Special and Ad Hoc Committees

Council Auditor's staff attends special committee meetings to provide background information and aid committee members in their review and deliberations on tasks assigned the committee (e.g. Living Wage Sub-committee). Staff also participates in the committee meetings associated with the Better Jacksonville Plan.

Office Operations

Audit Selection

We select areas to audit based on several considerations. We consider areas that provide services to the government and community that may have potential for improvement in the areas of economy and efficiency. Areas at risk for the misuse of assets or resources are also considered as areas for audit. We also consider areas with a high volume of complaints, as well as concerns from the City Council, Mayor, and management. The length of time since the last audit is also considered. Appropriate staff is assigned to the audit based on individual staff qualifications and the number of staff needed to conduct the audit.

Expenditures

The Council Auditor's Office had expenditures of approximately \$1.7 million in fiscal year 2004.

<u>Category</u>	<u>Fiscal Year</u>		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Personnel	\$1,349,532	\$1,585,695	\$1,556,979
Operating	102,054	\$129,279	\$116,221
Capital	903	\$14,880	\$2,013
Total	\$1,452,489	\$1,729,854	\$1,675,212

Staffing

Staff Qualifications

The office was authorized 18 full-time positions in fiscal year 2004. Positions included the Council Auditor, three Assistant Council Auditors, fifteen (15) auditors, and one Executive Secretary. All professional auditors have degrees in accounting including several with Master degrees. As of September 30, 2004, the office had two (2) vacancies; nine of the fifteen filled professional positions were Certified Public Accountants (CPA). The remaining six (6) were in the process of preparing for or taking the exam. All audit staff members are encouraged to sit for the CPA examination. A part-time auditor who is also a CPA was added to the staff in September 2002.

Professional Development

Summary

The work of the Council Auditor's Office requires professionals with high standards of integrity, independence, and conduct. Principles are established as a guide for development and improvement of the employee's professionalism. The Council Auditor's Office emphasizes professional development to improve our skills, effectiveness and efficiency. The office provides required continuing education, encourages professional certification, and supports staff involvement in professional associations.

Continuing Education

Government auditing standards require that our staff complete at least 80 hours of continuing education every two years including 24 hours in subjects directly related to the government environment or government auditing. Those auditors who are CPA's must also complete the 80 hours every two years to retain their active status as CPA's. Some of the training received in 2004 included review of changes in Government Auditing Standards, conducting fraud examinations, computer-assisted auditing techniques, performance auditing, and IT auditing.

Professional Associations

Staff members are active in organizations for auditors. The Council Auditor and other staff members are active in organizations such as the National Association of Local Government Auditors, the Florida Government Finance Officers Association, the Government Finance Officers Association, both the Southeast and National Intergovernmental Audit Forums, and the Florida Audit Forum. The office is also a member of the Institute of Internal Auditors and the Association of Airport Internal Auditors. Some staff is also members of the American Institute of Certified Public Accountants and the Florida Institute of Certified Public Accountants.

Performance

Outputs

The Council Auditor's Office issued a total of 16 reports including eight performance audits, two financial-related audits and six special reports. One audit letter was also issued. (See Appendix A for a list of reports.)

Outcomes

Reduced costs, increased revenues, improved services, improved internal controls, and government accountability to the public are the primary benefits of the work of the Council Auditor's Office. However, auditing alone cannot produce these benefits. These benefits can only come with the implementation of audit recommendations and it requires

management to implement most recommendations. As part of our audit process, it is our responsibility to present accurate and convincing information that clearly supports our recommendations.

Recommendations cannot be effective without the support of management. Through discussion with and working with management throughout the audit process, we are able to achieve the support of management. Management agreement is the first step toward implementing recommendations, but is not a guarantee that recommendations will or can be implemented. It is through our audit follow-up process that we determine the extent to which our recommendations have been implemented.

Quality Assurance

In compliance with generally accepted government auditing standards, the Council Auditor's Office must undergo an external quality control review at least once every three years by an organization not affiliated with the Council Auditor's Office. We participate in the peer review program of the National Association of Local Government Auditors (N.A.L.G.A.) through which our office had a peer review and was found to be in compliance with the government auditing standards in May of 2003.

Audit Committee

In 2000, the Council President assigned the Taxation, Revenue, and Utilization of Expenditures (TRUE) Commission the responsibility of serving as the Audit Committee for the City Council. All audit reports are submitted to the TRUE Commission for their review and recommendations and feedback is then given to the Council President and Chairman of the Finance Committee as needed. Council Auditor staff is available to the TRUE Commission along with the appropriate auditee to answer any questions regarding each audit released.

Effective July 1, 2003, an Audit Committee of the City Council was established as a standing committee. The responsibilities of this committee were expanded in July 2004 when it became the Government Performance, Audit, Technology, and Education Committee.

Appendix A

Reports Released in Fiscal Year 2004

Performance Audits

First Coast Black Business Investment Corporation & Urban Core Enterprises (Report No. 580)/September 2003

Duval County Property Appraiser's Office (Report No. 583)/September 2003

Shands Jacksonville Indigent Care Agreement-2002 (Report No. 585)/December 2003

First Coast No More Homeless Pets, Inc (Report No. 586)/December 2003

JEA Pipe Bursting (Report No. 589)/April 2004

Fleet Management (Report No. 592)/June 2004

Animal Care and Control Revenue Audit (Report No. 593)/August 2004

Oceanfront Parks Revenue Audit (Report No. 598)/August 2004

Financial-Related Reports

Report on Audit of Statement on Expenditures, Allocations of Funds, Additional Court Costs Section 27.3455, FL Statutes FYE 9/30/03 (Report No.591)/March 2004

Conflict Attorney Fees FY 9/30/03 (Report No. 596)/June 2004

Special Reports

2003/2004 Budget Summary (Report No.584)/October 2003

2002/2003 Annual Report (Report No.587)/December 2003

Quarterly Summary for the FYE 9/30/03 (Report No.588)/December 2003

Quarterly Summary for the 3 Months 12/31/03 (Report No.590)/February 2004

Quarterly Summary Report for the 6 Months Ended 3/31/04 (Report No.594)/May 2004

Quarterly Summary 6/30/04 (Report No.599)/August 2004

Audit Letters

Tax Collector-6/30/03 Transition Inventory and Cash (Letter No. 03-02)/October 2003

Performance Audits

First Coast Black Business Investment Corporation & Urban Core Enterprises

(Report No. 580)/ September 2003

First Coast Black Business Investment Corporation (FCBBIC), a private not-for-profit company, receives Public Service Grants from the City. In addition, Urban Core Enterprises (Urban Core), a private not-for-profit company, formerly known as First Coast Business Investment Corporation, has received three grants and one loan from the City. The objectives of our audit were to determine that funds from all City contracts were used in accordance with the terms of the contract and in accordance with the Municipal Code and to determine that the appropriate City department or agency was properly monitoring the contracts. We found that there was a need for improvement for the City department or agency monitoring contracts. We also noted several instances where funds from City contracts were not used in accordance with the terms of the contract and in accordance with the Municipal Code.

Duval County Property Appraiser's Office (Report No. 583)/ September 2003

The Property Appraiser is a constitutional officer within the consolidated City of Jacksonville. As established in Article 10 of the Jacksonville Charter, the Property Appraiser is responsible for assessing all real and personal property in Duval County. The Florida Statutes and the Jacksonville Municipal Code govern the Property Appraiser's Office. Pursuant to Section 193.1142 of the Florida Statutes, the Department of Revenue is responsible for reviewing and approving the Property Appraiser's assessment roll on a yearly basis. The objectives of our audit included the following: to determine whether the Property Appraiser was in compliance with the laws, rules, and regulations applicable to residential and commercial property assessments and exemptions, in regards to cash collections and cash disbursements, to determine whether all property sales from the year 2001 were properly reflected on the 2002 tax roll, and to determine whether the personal leave and attendance records of the Property Appraiser's Office were accurate, properly supported and in accordance with the City's Leave Procedures. We found that residential and commercial properties were not physically inspected every three years as required by Section 193.023 of the Florida Statutes. The Property Appraiser's Office was not depositing funds in accordance with the City's Cash Receipt Procedures. We also noted several weaknesses involving cash collection and disbursement processes. Also, the Property Appraiser was not in compliance with all aspects of the City's Appointed Officials and Employees Salary and Compensation Plan or the City Leave Procedures. We found that all property sales tested from 2001 were properly reflected on the 2002 tax roll.

Shands Jacksonville Indigent Care Agreement-2002 (Report No. 585)/ December 2003

This is an annual audit of client financial evaluation records at Shands Jacksonville to insure compliance with the Indigent Care Agreement between the City and Shands to provide medical care to qualified indigents in Duval County. The Charity Cost Report, required by the Indigent Care Agreement, was reviewed by Shand's independent auditors for compliance with Medicare rules and regulations. We relied on their review to help us

determine compliance with the Indigent Care Agreement. We also tested client financial evaluation records to insure eligibility for City assistance. We noted four instances in which charges were inappropriately written off to the Charity Services Contractual Account. However, these errors were not considered material to the total charges written off to charity care. We also noted an inherent limitation exists within the computer system used to account for the City Charity charges and write offs that allows Departments other than the Financial Evaluation Department to write off charges to the Charity Services Contractual Account.

First Coast No More Homeless Pets (Report No. 586)/ December 2003

The City of Jacksonville and First Coast No More Homeless Pets, Inc. (FCNMHP) entered into a one-year agreement for professional services associated with the creation and implementation of a no cost spay and neuter program (the SpayJax Program). The objectives of our audit were to determine whether applicants whose pets were altered through SpayJax Program administered by First Coast No More Homeless Pets, Inc. met the requirements of SpayJax contract and to determine whether FCNMHP is operating in compliance with the SpayJax contract and to ascertain whether reimbursements submitted to the City and the participating veterinary offices for alterations performed through the SpayJax Program were accurate and properly supported. We noted that we cannot ensure that all applicants whose pets were altered through the SpayJax Program met the requirements of the Program due to a combination of missing and insufficient documentation. We also noted that FCNMHP was not operating in full compliance with the SpayJax Contract with regard to program administration. However, it was noted that reimbursements submitted to the City and made to the participating veterinary offices were properly supported by a voucher and an invoice and were accurate, in most instances.

JEA Pipe Bursting (Report No. 589)/April 2004

We examined the activities of JEA Pipe Bursting Contracts in accordance with Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Jacksonville Municipal Code. In 1996 JEA committed to spend \$200 million for sewer repair projects. JEA began using pipe bursting as a method of sewer repair in 1999 because of the reduced cost and disruption to their customers. The objectives of our audit were to determine if JEA was in compliance with the Purchasing Code and their operational orders in regards to Invitations for Bids and Contracts for Pipe Bursting, to determine that this resulted in the lowest possible price and to determine whether all payments for Pipe Bursting work were appropriate. We found that JEA was in compliance with the Purchasing Code and their operational orders in regards to Invitations for Bids and Contracts for Pipe Bursting. We also found that the majority of the payments for Pipe Bursting work were appropriate.

Fleet Management (Report No. 592)/June 2004

The Fleet Management Division of the Administration and Finance Department is responsible for the overall management of motor vehicle service operations for the City of Jacksonville and the development and implementation of policies and procedures for motor vehicles and related equipment utilized by the City of Jacksonville. Our objectives

of the audit were to determine whether parts, tires, fuel, and oil were properly purchased, recorded into inventory, issued, and charged to the using department, to determine whether bids were in compliance with the City's Purchasing Code, and also to determine whether surplus vehicles and equipment were sold in accordance with Ordinance 2002-1296-E. We could not determine whether parts and tires were properly purchased, recorded into inventory, issued and charged to the using department due to the internal control weaknesses found involving the computer system and the lack of security in the Parts Department and the Tire Shop. We determined that fleet fuel and oil were properly purchased and recorded into inventory; however, we found numerous internal control weaknesses and findings involving oil, fleet fuel, and commercial credit cards. We found that all the bids tested were in accordance with the City's Purchasing Code and that all surplus vehicles and equipment sales tested were in accordance with Ordinance 2002-1296-E.

Animal Care and Control Revenue Audit (Report No. 593)/August 2004

Animal Care and Control is a division of the Department of Neighborhoods and is responsible for the enforcement of Chapter 462 of the Jacksonville Municipal Code and various State Statutes that relate to domestic and companion animals. The objectives of our audit were to determine whether Animal Care and Control was maximizing revenues for the services provided and to document Animal Care and Control's revenue sources and management controls established to ensure the accurate and timely collection, recording, and depositing of those revenues. We found that Animal Care and Control was not maximizing its potential revenues for the services provided and many weaknesses in the revenue generating and collection processes were identified. We also noted that inadequate management controls existed over the citation process. Proper segregation of duties had not been established over the cash receipts process to ensure the accurate and timely collection, recording, and depositing of revenues. However based on our testing, it did appear that adoptions, redemptions, and refunds were properly processed in most instances.

Department of Parks and Recreation Oceanfront Parks Revenue Audit (Report No. 598)/August 2004

Parks and Receptions Oceanfront Parks consist of Kathryn Abby Hanna Park and Huguenot Memorial Park. The objectives of our audit were to determine if Hanna Park and Huguenot Park were maximizing revenues for the services provided in order to be self supporting and to document Hanna Park and Huguenot Parks revenue sources and determine the adequacy of management controls established to ensure the accurate and timely collection, recording, and depositing of those revenues. We noted that the Oceanfront Parks could potentially increase its revenues by adjusting their fees to be more comparable to other Florida Parks and by improving collection efforts on returned checks. We also noted the Oceanfront Parks need to improve management controls to ensure the accurate and timely collection, recording, and depositing of revenues.

Financial-Related Audits

These are financial-related audits performed in accordance with the attestation standards established by the American Institute of Certified Public Accountants (AICPA).

Additional Court Costs for Fiscal Year 2003 (Report No.591)/March 2004

This is an annual audit required by Section 27.3455 Florida Statutes and consists of a review of the Statement of Revenues, Expenditures, and Allocation of Funds Additional Court Cost of the City of Jacksonville. The Statement is the responsibility of the management of the Court Administrator's Office of Duval County and the Council Auditor attested to its accuracy.

Conflict Attorney Fees for Fiscal Year 2003 (Report No. 596)/June 2004

This is an annual audit required by Section 925.037(5)(a) Florida Statutes of the statements of Conflict Counsel Fees Form and Conflict Counsel Expenses and Costs Form of the City of Jacksonville. These statements are the responsibility of the management of the Court Administrator's Office of Duval County. The Council Auditor's Office attested to the accuracy of the statements in accordance with attestation standards of the AICPA.

Special Reports

Budget Summary Fiscal Year 2004 (Report No. 584)/October 2003

The Budget Summary is an annual report summarizing the Mayor's Proposed Budget and the Finance Committee and City Council actions taken before finalizing the budget. It includes various summary schedules of the general government budgets and all changes made by the Finance Committee and City Council.

2002/2003 Annual Report (Report No.587)/December 2003

This was the report of the activities and accomplishments of the Council Auditor's Office for the fiscal year ended September 30, 2003.

Quarterly Summaries (Report No's 588, 590, 594, 599)

Pursuant to Chapter 106 of the Municipal Ordinance Code, the City and its Independent Agencies are required to submit quarterly financial statements to the Council Auditor's Office by specified dates. The Council Auditor's Office compiles these statements and submits a report to the City Council. The statements are unaudited but are tested for reasonableness.

Appendix B

Reports Released in Fiscal Year 2003

Performance Audits

Special Events (Report No.563)/November 2002

Motor Vehicle Inspection (Report No.559)/November 2002

Shands Jacksonville FYE 6/30/01 (Report No.567)/December 2002

Jacksonville Airport Authority – Rental Car Concession Agreements
(Report No.570)/March 2003

Jacksonville Public Library – Cash/Revenue (Report No.581)/August 2003

Financial-Related Reports

Sheriff's Investigative Fund 2001 (Report No.564)/December 2002

Sheriff's Investigative Fund 2002 (Report No.573)/June 2003

*Report on Audit of Statement on Expenditures, Allocations of Funds, Additional Court
Costs Section 27.3455, FL Statutes FYE 9/30/02* (Report No.572)/March 2003

Jacksonville Beach Lifeguard (Report No.574)/May 2003

Neptune Beach Lifeguards & Beach clean- up (Report No.579)/May 2003

Atlantic Beach Lifeguards & Beach clean-up (Report No.578)/June 2003

Conflict Attorney Fees FY 9/30/02 (Report No.577)/August 2003

Special Reports

2002/2003 Budget Summary (Report No.565)/October 2002

2001/2002 Annual Report (Report No.566)/December 2002

Quarterly Summary for the FYE 9/30/02 (Report No.568)/December 2002

F. L. Gelero – School Buses (Report No.569)/February 2003

Quarterly Summary for the 3 Months 12/31/02 (Report No.571)/February 2003

Quarterly Summary Report for the 6 Months Ended 3/31/03 (Report No.576)/May 2003

Quarterly Summary 6/30/03 (Report No.582)/August 2003

Follow-up Reports

Post Audit Review of Jacksonville Children's Commission (Original Report No.541)/
December 2002)

Post Audit Review of JEA Purchasing (Original Report No.533)/September 2003

Audit Letters

Review of Animal Care and Control's Operations (Letter #03-01)/July 2003

All reports are public records and are available to the public in our office or on our web site at www.coj.net/city+council/council+auditor

City Council Auditor's Office Staff

FY 2003/2004

Richard Wallace, CPA, Council Auditor
Pamela Markham, CPA, Assistant Council Auditor
Kirk Sherman, CPA, Assistant Council Auditor
Jim Meyer, CPA, Assistant Council Auditor, Retired September 29, 2004

Renee Beckham, CPA
Janice Billy, CPA
Kyle Billy, CPA
Thomas Carter, CPA
Cabrina Hartley
Patrick Howell (resigned 11/5/04)
Carmen Johnson
Adam Mathews
Tasha Morgan, CPA
Heather Norsworthy
Jennifer Spinelli, CPA
Sonia Summerford-Danna
Kim Taylor, CPA (Part-time)

Executive Secretary
Mary Lundy

Administrative Assistant (Part-time)
Tamara Blankinchip