

COUNCIL AUDITOR'S OFFICE

HOUSING & NEIGHBORHOODS DEPARTMENT
BANK ACCOUNTS AUDIT



Background

This audit is a part of a series of audits being conducted on imprest accounts located throughout the City. Pursuant to City policy, imprest checking accounts are utilized to assist with purchases of low priced items that are needed immediately and when it is not cost effective (and/or feasible) to issue a check in a normal manner. The imprest checking accounts are meant to assist and not circumvent the City's procurement and accounting code policies. The Housing and Neighborhoods Department has one imprest checking account which has an authorized balance of \$2,500.

The department has other bank accounts that are utilized as collateral for loans which we included in this audit due to the risks associated with them being maintained outside of the City's Treasury Division. The accounts were typically funded with federal funding that was utilized as collateral and interest subsidy to assist individuals obtaining low-income financing. We looked at these accounts to make sure that there were no large changes in balance without proper support. We did not review the process behind the establishment of these accounts.

Conclusions and Findings

1. There is a breakdown in the internal control structure surrounding the Housing and Neighborhoods imprest checking and other bank accounts. We noted the following during our testing:
 - a. Reconciliations are not being signed-off and dated when performed and in some instances they are not performed at all.
 - b. For all the accounts utilized as collateral, the balances held with the bank appear to be able to be reduced and in some instances the account could be closed.
 - c. Bank and City account authorization forms are not being updated after changes in the authorized signers on the account.
 - d. The imprest checkbook is not maintained in a secure location.
2. Overall, it appears that most disbursements were supported; however, disbursements from the imprest account were never properly authorized with two signatures prior to disbursement.

Summary of the Non-Imprest Accounts

Description	Non-imprest (Open as of 9/30/10)			
	Wachovia #1	Wachovia #2	SunTrust	BBVA Compass
Balance/Authorized Amount as of 9/30/10	\$102,803.40	\$48,343.85	\$1,497,889.88	\$185,078.73
Loans Outstanding as of 9/30/10	\$ -	\$ -	\$77,047.27	Unknown
Difference Between Balance and Loans Outstanding	\$102,803.40	\$48,343.85	\$1,420,842.61	Unknown

(Please refer to the full report for more detailed information)

**Housing and Neighborhoods Department
Bank Accounts Audit**

March 25, 2011

Report #705

Released on: November 17, 2011

AUDIT REPORT #705

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



March 25, 2011

Report #705

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 examined the bank accounts that are separately maintained by the Housing and Neighborhoods Department of the City. This audit is a part of a series of audits being conducted on imprest accounts located throughout the City. Although, five of the six accounts are not imprest checking accounts we are including them in this audit due to the risks associated with them being housed outside of the City's Treasury Division.

The Housing and Neighborhoods Department has one imprest checking account. The account has an authorized balance of \$2,500 and is utilized to assist in recording liens. Pursuant to City policy, imprest checking accounts are utilized to assist with purchases of low priced items that are needed immediately and when it is not cost effective (and/or feasible) to issue a check in a normal manner. The imprest checking accounts are meant to assist and not circumvent the City's procurement and accounting codes.

The Housing and Neighborhoods Department has other bank accounts that are utilized as collateral for loans. At the beginning of FY 2009/10, there were five accounts that were utilized and at the end of the fiscal year there were four remaining. The majority of these accounts are associated with loans that were made several years ago. The accounts were typically funded with federal funding that was utilized as collateral to assist individuals obtaining low-income financing. In addition to being utilized as collateral (and being reduced whenever there was a default in the loan), some of these funds were utilized to subsidize interest payments to the bank. This lowered the amount of interest paid by the borrower. The exact amount of collateral required for each dollar loaned out and the interest subsidy were different for each agreement. We mainly looked at these accounts to make sure that there were no large changes in balance without proper support. We did not review the process behind the establishment of these accounts.

Description	Non-imprest (Open as of 9/30/10)			
	Wachovia #1	Wachovia #2	SunTrust	BBVA Compass
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Difference Between Balance and Loans Outstanding	\$102,803.40	\$48,343.85	\$1,420,842.61	Unknown

STATEMENT OF OBJECTIVES

The objectives of the audit were as follows:

1. To determine whether internal controls were in place and functioning as intended for the imprest checking and the collateral accounts managed by the Housing and Neighborhoods Department.
2. To determine whether the disbursements from the imprest account and changes in the balance from month to month for the collateral accounts were properly supported and authorized.

STATEMENT OF SCOPE AND METHODOLOGY

For the imprest account checking account, the scope of our audit was October 1, 2009 through September 30, 2010. For the collateral accounts, the scope was October 1, 2000 to September 30, 2010. To complete the audit, we conducted interviews with applicable personnel and reviewed supporting documentation relating to reconciliations and disbursements. More specifically, we:

- Obtained a listing from the City's Treasury Division of all checking accounts of the City and their location.
- Categorized all of the checking accounts into different groups by Department/Division. The accounts included in this audit were housed within the Housing and Neighborhoods Department.
- Reviewed all supporting documentation on file with the Treasury Division relating to the custodian, authorized signers, reconcilers, and authorized amounts for the imprest checking account selected for testing during this audit.
- Documented the process to issue a check from the imprest checking account.
- Obtained the signatures forms on file with the bank.
- Obtained inquiry access to the on-line banking system so that we could review cancelled checks.
- We planned to test all disbursements that cleared the bank in November 2009 and May 2010 for proper support and authorization. Due to low activity, we tested all disbursements during the time period October 1, 2009 to September 30, 2010.
- We confirmed whether bank reconciliations were taking place every month and re-performed the reconciliations for November 2009 and May 2010.
- We verified whether the checkbooks were being properly secured when not in use.
- For the non-imprest accounts we reviewed all material decreases in account balance per the City's Financial Management System. To accomplish this, we reviewed any change that occurred between October 1, 2006 and September 30, 2010 and anything over \$100,000 that occurred between October 1, 2000 and September 30, 2005.

Our report is structured to identify Internal Control Weaknesses, Opportunities for Improvement and Audit Findings 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:

- Determine the allowable usages of the excess collateral in each of the bank accounts separately maintained by the Housing and Neighborhoods Department.

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 Lacre C. Carswell, Acting Director of the Housing and Neighborhoods Department, in a memorandum dated November 8, 2011.

AUDIT CONCLUSIONS

By Objective

1. There is a breakdown in the internal control structure surrounding the Housing and Neighborhoods imprest checking and other bank accounts.
2. Overall, it appears that most disbursements were supported; however, disbursements from the imprest account were not always properly authorized.

AUDIT OBJECTIVE #1

To determine whether internal controls were in place and functioning as intended for the imprest checking and the collateral accounts managed by the Housing and Neighborhoods Department.

Finding 1 – 1 *Breakdowns in the Reconciliation Process*

We had multiple findings relating to the reconciliations of the Housing and Neighborhoods accounts. Per City policy there are to be monthly reconciliations performed of the imprest accounts. Furthermore best practice dictates that reconciliation should be performed immediately after receiving a bank statement so that any errors can be corrected in a timely manner and while they are still contestable. The reconciler should sign and date the reconciliation. This is done so it can be determined who is responsible for accuracy and confirmed whether it is being performed within the time period when transactions are contestable (generally 30-60 days after the bank statement date). If reconciliations are not being performed monthly and on time, the City could be at risk to any bank error that negatively affects the City. We specifically noted the following:

1. Timeliness - None of the reconciliations were dated as to when they were performed.
2. Sign-Off - There was no sign-off by the reconciler for any of the non-imprest accounts.
3. Performance - One of the accounts did not have evidence of any reconciliation occurring during the fiscal year; however, this account was closed midyear and did not have activity except when it was closed.

Recommendation to Finding 1 – 1

The Housing and Neighborhoods Department needs to perform monthly reconciliations that are signed and dated by someone who is not an authorized signer on the account.

Auditee Response to Finding 1 – 1

Agree Disagree Partially Agree

The Housing and Neighborhoods Department has updated its procedures regarding the reconciliation of bank accounts and the forms used for those reconciliations to include the signature and date of the individual reconciling the account and the signature and date of the individual reviewing the reconciliation. A copy of the Department's revised "Policies and Procedures for Imprest Checking Account" along with the revised "Monthly Bank Reconciliation" form are attached for your information. These new procedures are effective immediately.

[Please note the referenced attachments are on file in the Council Auditor's Office.]

Finding 1 – 2 *Reduction in Balance and/or Closure of Account*

For the four non-imprest bank accounts that remain open, it appears that the amount maintained in the bank accounts is in excess of the required collateral amounts. Best practice dictates it is essential to properly manage cash and utilize it to its fullest potential. Specifically, we found that:

- The two Wachovia accounts that served as collateral for rehabilitation loan agreements no longer have outstanding loans.
- The SunTrust account balance is over \$1.4 million in excess of the amount outstanding.
- Whether there is a need for the BBVA Compass account is unknown since the outstanding loan amount was unknown to the City at the time of our fieldwork. This is caused by the authorized individuals on the account no longer being with the Department and/or City. See finding 1-3.

Since the Housing and Neighborhoods Department has not continuously monitored these programs, the City is not utilizing grant funding to its fullest potential.

Recommendation to Finding 1 – 2

The City needs to determine the exact amounts of any excess collateral and determine how the funds can and should be utilized.

Please note that after the completion of our fieldwork, Ordinance 2011-372-E was approved by Council to re-appropriate the \$1.4 million in excess collateral that is in the SunTrust Account.

Auditee Response to Finding 1 – 2

Agree Disagree Partially Agree

Following the close of the 2011 fiscal year, the Housing and Neighborhoods Department will work with the banks that are holding federal funds as collateral for individual homeowner mortgages to close those accounts and transfer the funds back into the City's pooled cash account. The estimated time for identification and transfer of all excess collateral is December 31, 2011.

In addition, the Department will look at the underlying mortgages that require the collateral to determine if it would be appropriate to have those mortgages assigned back to the City, which would enable the collateral deposit accounts to be closed and all funds on deposit transferred back into the City's pooled cash accounts.

Following the transfer of excess collateral into pooled cash, it is anticipated that legislation will be submitted for City Council approval no later than March 31, 2012, appropriating the funding to eligible federal activities.

Finding 1 – 3 *Outdated Authorization Forms*

Paperwork with the bank and City is not being updated in a timely manner. Pursuant to City policy the bank and City authorization forms should be updated whenever there is a change in custodian, reconciler or reviewer. We found the following:

1. Paperwork with the bank is out of date for the SunTrust, BBVA Compass, and the Wachovia imprest checking account. As of the time of our field work, the authorized signer forms have not been updated for the:
 - a. SunTrust account for over 10 years.
 - b. BBVA Compass account for over 5 years.
 - c. Wachovia imprest account for over 4 years.
2. As of the time of our field work, the paperwork on file with the Treasury Division for the imprest account is over 4 years old, and there is no paperwork on file for any of the four other accounts.

Under the current situation, if anything goes wrong, it will be more difficult to determine who is at fault and liable due to the proper paperwork not being filed.

Recommendation to Finding 1 – 3

The Housing and Neighborhoods Department needs to bring these accounts into compliance by updating these forms.

Auditee Response to Finding 1 – 3

Agree Disagree Partially Agree

In conjunction with the corrective action contemplated for Finding 1-2, the signature authorizations for the SunTrust, BBVA Compass and Wachovia collateral accounts will be updated in preparation of closing those accounts with an estimated date of completion on or before December 31, 2011. The attached memorandum has been routed to the Treasury Division to update the account to reflect the change in the Department's leadership. Additionally, a review of signature authorizations for the Department's accounts will be performed annually in conjunction with the reviews of signature authorizations for internal City documents.

Finding 1 – 4 *Lack of Security Over Checkbook*

The checkbook for the imprest account is not placed in a secure location. Good business practice dictates that blank checks should be maintained in a secure location at all times. The checkbook for the imprest account sits in an unlocked cabinet in the custodian's office. This situation increases the risk that someone could steal one or more blank checks, forge signatures and attempt to cash it. This would not be caught until the bank reconciliation is performed after month end.

Recommendation to Finding 1 – 4

The checkbook needs to be maintained in a secure location at all times when not in use.

Auditee Response to Finding 1 – 4

Agree Disagree Partially Agree

The custodian of the account has been counseled regarding the importance of keeping the imprest checks in a secure, locked location. The imprest checkbook is now kept in a locked drawer.

AUDIT OBJECTIVE #2

To determine whether the disbursements from the imprest account and changes in the balance from month to month for the collateral accounts were properly supported and authorized.

Finding 2 – 1 *Disbursements without Two Signatures*

Disbursements from the Housing and Neighborhoods Department imprest account did not contain two signatures. There is a policy in the Treasury’s Imprest/Petty Cash Funds that states “Two check signers are required on the account ...” None of the disbursements from Housing and Neighborhoods imprest account contained two signatures as required. Although, we noted no issues during our testing, there is an increased risk for misappropriation of the imprest funds when only one signature is required.

Recommendation to Finding 2 – 1

All disbursements should contain two signatures on the checks.

Auditee Response to Finding 2 – 1

Agree Disagree Partially Agree

When the imprest account was established and the internal procedures were put into place, there was apparently a miscommunication between the Housing and Neighborhoods Department and the Treasury Division. While it was always understood that there needed to be two signers on the account, it was not clearly communicated that there needed to be two signers on each check. When the Treasury Division ordered the checks for the account, they only contained one signature line. The Department agrees that it is good business practice to require two signatures for disbursements, and has updated internal procedures to reflect this requirement, effective immediately. However, the Department believes that it acted in good faith based upon its understanding of the imprest fund policies.

Internal Control Weakness 2 – 1 *Lack of Support for Interest Entries*

There appears to be a lack of retention and/or motivation to obtain documentation from the bank to support changes in the account balances. Good business practice would dictate that Housing and Neighborhoods obtain documentation to support all increases and decreases in the carrying balance of any account. There does not appear to be anything materially wrong or missing, but there does appear to be a systemic problem with retention of support for activity within the non-impresst accounts to support changes due to interest earned on the account balance and paid for interest subsidy of the loans. Under the current practice, the City could be negatively affected by any bank error.

Recommendation to Internal Control Weakness 2 – 1

Housing and Neighborhoods should obtain and retain support to substantiate changes in account balances.

Auditee Response to Internal Control Weakness 2 – 1

Agree Disagree Partially Agree

The entries referred to relate to the deposits collateralizing certain mortgages held by private banks. These accounts are extremely old and are currently being reviewed as stated in the Department's response to finding 1-2 with the intention of closing the accounts by December 31, 2011. While the accounts are still open, the Department will work with the banks to fully support all transactions impacting the balances in those accounts.

We appreciate the assistance and cooperation we received from the Housing and Neighborhoods Department through the course of this audit.

Respectfully submitted,

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Council Auditor

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