



## Audit of JPA Accounts Payable - #760

### 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, all agencies of the Consolidated Government, including independent agencies, are subject to audit by the Council Auditor's Office. As an independent agency of the City of Jacksonville, the Jacksonville Port Authority (JPA) is responsible for operating and maintaining three public marine terminals and one passenger cruise terminal. It is also JPA's responsibility to market these facilities and promote the growth of maritime and related industries in Jacksonville. We performed an accounts payable (AP) audit of JPA since we have recently performed similar audits of the City and some of some of its Independent Agencies based on our audit risk assessment.

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

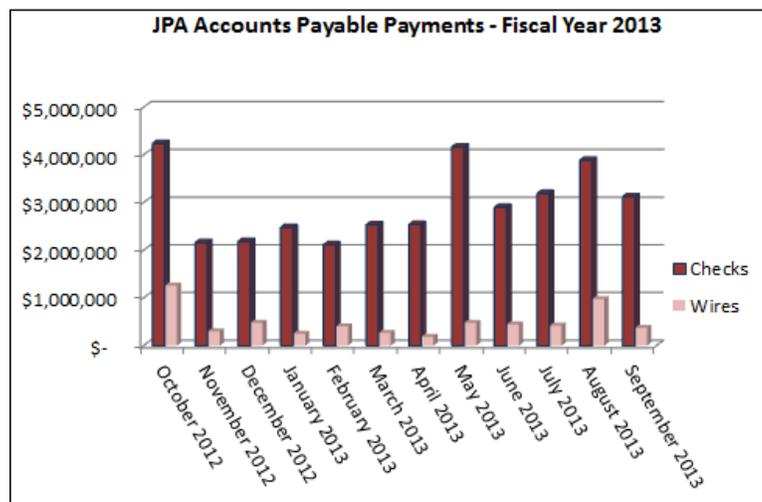
We recommend that JPA reconfigure its audit log, update its signature cards with the bank, and reduce the number of employees that have the ability to perform certain duties in regards to the AP process. We also recommend that JPA's staff receive training on its signing authority policy for purchases and that JPA take advantage of any trade discounts that may be available from vendors.

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

Based on the testing performed, payments made to vendors appeared to be accurate in amount, properly supported and processed in a timely manner. However, we did find a few payments that were not properly authorized and a few internal control weaknesses that need to be addressed.

Specifically, we found the following:

- The audit log for JPA's accounting system appears to be inadequately designed to detect changes made to accounts payable related transactions.
- Outdated signature cards on file with financial institutions.
- Payment of purchases that had not been properly authorized.
- Failure to deduct trade discounts from payments.
- Excessive access rights granted to some employees in JPA's accounting/AP system.



\*This does not include payroll activity.



**Council Auditor's Office**

**Jacksonville Port Authority – Accounts Payable Audit  
July 9, 2014**

**Report #760**

**Released on: January 29, 2015**

**EXECUTIVE SUMMARY**

**AUDIT REPORT #760**

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



July 9, 2014

Report #760

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, all agencies of the Consolidated Government, including independent agencies, are subject to audit by the Council Auditor's Office. As an independent agency of the City of Jacksonville, the Jacksonville Port Authority (JPA) is responsible for operating and maintaining three public marine terminals and one passenger cruise terminal. It is also JPA's responsibility to market these facilities and promote the growth of maritime and related industries in Jacksonville.

The focus of our audit was on JPA's Accounts Payable area, which processes payments for all functions of JPA. In fiscal year 2012/13, JPA had total accounts payable expenses (not including payroll) of \$41,360,376.

**STATEMENT OF OBJECTIVE**

To determine whether payments were accurate in amount, properly supported, authorized, and processed in a timely manner.

**STATEMENT OF SCOPE AND METHODOLOGY**

The audit scope period was from October 1, 2012 to September 30, 2013.

We obtained a list of all accounts payable (AP) payments (excluding payroll) for the scope period. We confirmed completeness of the payment listing by comparing it to the checks that cleared the bank from October 2012 to October 2013. A sample size of 179 was statistically determined to be reasonable based on the assessed risk and population of 5,475. After reviewing the type of payments that were included in our sample for testing, we added an additional ten payments to the sample to obtain a better representation of all the types of payments that comprise our population. During our testing, we discovered one item had been erroneously excluded from the original population provided to us by JPA and we added this item to our sample. This resulted in a total sample size of 190 payments to be tested.

Since we pulled our population from data provided by JPA's accounting system, we confirmed that information such as vendor name and check amount matched the check data in JPA's bank

records. We used the supporting documentation provided by JPA to confirm whether payments were accurate in amount, properly supported, authorized, and processed in a timely manner. We also reviewed the payments to vendors included in our sample to confirm the vendors were legitimate businesses.

We also performed additional testing on the population for any type of unusual activities, such as addresses of payments compared to employees and Board members, affiliations with any vendors, duplicative payments and year-end payments with any timing differences.

It should be noted that we did not look at whether items were properly procured as that would be a separate procurement audit.

## **REPORT FORMAT**

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

## **SUGGESTED ADDITIONAL AUDIT WORK**

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

- Payroll
- Procurement (Bidding and Contracts)

## **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 Jacksonville Port Authority, via Mike McClung, Controller, in a memorandum dated January 26, 2015.

## **AUDIT CONCLUSION**

Based on the testing performed, payments made to vendors appeared to be accurate in amount, properly supported, and processed in a timely manner. However, we did find a few instances of payments that were not properly authorized. We also found a few internal control weaknesses that need to be addressed.

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## **AUDIT OBJECTIVE**

To determine whether payments were accurate in amount, properly supported and authorized, and processed in a timely manner.

### **Internal Control Weakness 1 \*Audit Log\***

An internal audit log that is included in computer software captures the manipulation of all data related to its operation. For example, the audit log for an accounting system related to procurement should record logins, logouts, vendor creation and changes, purchase order creation and updates, check printing and all system administrator activities. During our audit, we noted that the internal audit log within JPA's accounting system was limited to capturing and reporting general ledger postings only. Because the log only captured limited data, JPA was unable to rely on it as an internal control mechanism to detect any data manipulation.

### **Recommendation to Internal Control Weakness 1**

We recommend that JPA consider reconfiguring the audit log within its accounting system so that it captures all transactions that take place within the system. A cost/benefit analysis would need to be completed to determine the feasibility of such a reconfiguration.

### **Auditee Response to Internal Control Weakness 1**

Agree                       Disagree                       Partially Agree

*JPA is currently reviewing and testing audit log software, which will provide audit log and real time review of all Great Plain user activity. It is anticipated that JPA will purchase one of two software packages being offered - the current version of Great Plain does not have these capabilities. Monitoring responsibilities will either reside in either IT or Internal Audit department, or both.*

**Internal Control Weakness 2 \*Access Rights\***

There appears to be excessive access rights granted to some employees in JPA’s accounting/AP system. Specifically, eight employees have the ability to add/modify vendor information. In addition, 12 employees have the ability to create the safepay file (a safepay file is a listing uploaded to the bank communicating information about checks printed, such as check number and amount, with the purpose of preventing fraudulent checks). Good business practices dictate that a limited number of employees should have the ability to create a safepay file or add or change vendor information.

**Recommendation to Internal Control Weakness 2**

Within JPA’s accounting system, users’ abilities are dictated by their Role ID – a pre-determined level of access for different user functions within the system. JPA’s use of predetermined Role IDs may give users abilities that they do not need. We recommend that JPA reduce the number of employees that have the ability to add/modify vendor information and create safepay files, possibly by amending applicable Role IDs in the accounting system.

**Auditee Response to Internal Control Weakness 2**

Agree                       Disagree                       Partially Agree

*JPA agrees that user abilities within Great Plains needs to be reduced/limited to the job function. The IT department is in process of reviewing all systems access to restrict access to the fewest number needed in conjunction with job function and internal control requirements.*

**Internal Control Weakness 3 \*Signature Cards\***

During our audit, we noted that the authorized signers registered with a bank used by JPA did not reflect current JPA staff. As of June 2014, the former CEO was still listed as CEO on the bank signature cards although a new CEO had assumed the position in July of 2013.

**Recommendation to Internal Control Weakness 3**

We recommend that JPA review and update, if needed, all documentation held on file by their financial institutions to properly reflect current personnel authorizations and signing authority. Additionally, JPA should create a policy in order to properly handle personnel changes.

**Auditee Response to Internal Control Weakness 3**

Agree                       Disagree                       Partially Agree

*JPA agrees and has added to the JPA employee termination checklist the requirement to remove the employee from any and all signing authorities, including financial institutions.*

**Finding 1 \*The Signing Authority Matrix\***

The Signing Authority Matrix is a document used by JPA to identify listed employees' purchasing powers based on the type and amount of the purchase. The document distinguishes the difference between specific types of purchases such as inventory, personnel, operating, capital and contractual (or multiple purchases). The listed employee is given a specific dollar threshold for each category and that employee's approval authority is limited by the threshold. Any purchase over \$250,000 requires approval by the Board of Directors.

During our testing, we found that seven of the 190 (or 3.68%) payments tested were not properly authorized:

- Two of the purchases appear to have been authorized by an employee who had no authority to do so. This employee was not listed on the Signing Authority Matrix.
- Four purchases appear to have been authorized by employees that did not have adequate authority to do so. These purchases were above the listed authorizer's purchasing power.
- One purchase appears to have been separated into sequential smaller purchases, effectively exceeding the authorization requirements.

**Recommendation to Finding 1**

We recommend that all applicable staff receive training on the application of the Signing Authority Matrix policy. Additionally, we recommend that the Accounts Payable area be diligent in ensuring that the signing authority matrix is followed if invoices are processed consecutively for the same vendor.

**Auditee Response to Finding 1**

Agree                       Disagree                       Partially Agree

*JPA agrees, and has recently (Oct 2014) provided mandatory training for all users of accounts payable and JPA procurement systems, emphasizing the need for strong internal controls, compliance with established procedures including specifically compliance with the signing authority matrix.*

**Opportunity for Improvement 1 \*Trade Discounts\***

We found that five of the 190 (or 2.63%) payments tested qualified for a trade discount, but were never netted against the full invoice amount to reduce the amount owed. In total, JPA was eligible to withhold from these payments \$384.65. At the time of our audit, JPA did not have policies and procedures in place to address how employees should handle trade discounts.

**Recommendation to Opportunity for Improvement 1**

For those payments that would qualify, we recommend JPA take advantage of any trade discounts when they are available. Additionally, JPA should revise their Procedures and Guidelines related to accounts payable to reflect the usage of the discounts.

**Auditee Response to Opportunity for Improvement 1**

Agree                       Disagree                       Partially Agree

*JPA agrees, and has modified its processes to take advantage of discounts terms where offered.*

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We appreciate the assistance and cooperation we received from the Jacksonville Port Authority throughout the course of this audit.

Respectfully submitted,

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Council Auditor

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