



City Wire Transfers Audit - #800

Executive Summary

Why CAO Did This Audit

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 wire transfers processed by the Treasury Division of the Finance Department. This area was chosen for the audit based on the periodic City-wide risk assessment performed by our office.

The Treasury Division has custody of the City's funds and is responsible for how those funds are disbursed and invested. In addition to overseeing day-to-day spending, the division manages the City's investment portfolio and also maintains a pension office.

The City uses electronic wire transfers to process payments in connection with debt service, real estate closings, workers compensation, to pay investment portfolio managers, and to process time-sensitive payments in some special circumstances. The City also uses wire transfers to move funds among the various City bank accounts.

What CAO Found

Overall, outgoing wire transfers were processed accurately; however, we found issues with the authorization and documentation of several wire transfers as well as some internal control weaknesses. Specifically,

- Wire transfer requests were not initiated in the Accounting System by the requesting department.
- Wire transaction procedures are inconsistent with the Municipal Code and other forms of payments.
- We noticed lack of verification by the Treasury Division of bank account information with the vendor.
- Wire transfer requests were not always authenticated with the requesting department.
- Six outgoing wire transfers totaling \$383,249 were not properly documented.
- Sign-off by the Treasurer was not required for wires.
- Several wire payments did not have the wire instructions provided by the vendor on file.
- Two separated employees were not timely removed from the authorized signature list with the bank.

What CAO Recommends

- Wire transfer requests should be initiated via the Accounting System.
- All payments should be approved by the Accounting Division first, before Treasury disburses any funds to payees.
- The Treasury Division should verify with the vendor their bank account information before wiring funds to a new account and call back the requesting department head or designated employee to verify the authenticity of the wire transfer request.
- Treasury should maintain proper supporting documentation on file for all outgoing wire transfers.
- All material wire transfers should be reviewed and approved by the Treasurer.
- Treasury should keep records of all wire instructions provided by the vendor.



Council Auditor's Office

City Wire Transfers Audit

March 7, 2017

Report #800

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EXECUTIVE SUMMARY

AUDIT REPORT #800

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March 7, 2017

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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 outgoing wire transfers processed by the Treasury Division of the Finance Department. The Treasury Division has custody of the City's funds and is responsible for how those funds are disbursed and invested. In addition to overseeing day-to-day spending, the division manages the City's investment portfolio and also maintains a pension office, which supports the City's General Employees' and Correctional Officers' Retirement Plans.

Examples of when the City utilizes wire transfers as the method of payment include payments in connection with debt service, workers compensation, real estate closings, and investments. Wire transfers are also utilized to transfer funds between various City accounts in order to maximize investment returns the City receives on funds that might otherwise sit idle. The City also uses wire transfers in special circumstances to process time-sensitive payments that require funds to be moved within a day.

Wire transfers to vendors and other external agencies are usually sent from the General Deposit Account, except for payments to investment portfolio managers. Investment portfolio managers are paid by debiting the respective investment account they manage. Wire transfers sent from the General Deposit Account are processed by Treasury via the online banking system of the City's bank where dual custody is required. In other words, one employee has to initiate the wire transfer in the online system while a second employee has to approve the wire in order to transfer the funds. Wire transfers sent from the investment portfolios are processed via a faxed request to the custodian bank. Once the bank receives a wire request signed by the City Investment Officer, the bank will call back a Treasury manager to confirm the wire request and then it proceeds to process the wire transfer.

Below is a table with wire transfers sent by account between 10/1/2014 and 09/30/2016.

Wire Sent From	Wire Sent To				Total Amount Wired
	General Deposit Account	Operating Portfolio	Pension Portfolio	Vendors/ Other Payees	
General Deposit Account	-	832,000,000	-	1,242,077,587	2,074,077,587
Operating Portfolio	852,000,000	-	-	4,643,556 *	856,643,556
Pension Portfolio	123,000,000	-	-	19,640,921 *	142,640,921
	975,000,000	832,000,000	-	1,266,362,064	3,073,362,064

*Some of these payments might not be wire transfers; instead, they could be direct debits made by the Custodian Bank, where the movement of funds occurs between different accounts within the same bank. Even though the Custodian Bank might internally process these money transfer requests in different ways, the transfer request process followed by the Treasury Division is the same; therefore, we treated all of these payments as wire transfers for the purpose of this audit.

STATEMENT OF OBJECTIVE

To determine whether outgoing wire transfers were accurate, properly authorized and adequately documented.

STATEMENT OF SCOPE AND METHODOLOGY

The scope of the audit was October 1, 2014 through September 30, 2016. We obtained the population of outgoing wire transfers processed during our audit scope period from the City's General Deposit Account and from the City's Investment Portfolio Accounts with the respective banks. We reconciled all wires out per the bank statement for the General Deposit Account to the City's Accounting System and vice versa to test for completeness and to identify any discrepancies.

We selected a sample of outgoing wire transfers sent from each bank account that included at least one payment for each payee in our population. This resulted in a sample size of 74 wires for the General Deposit Account and 45 wires for the Investment Portfolio Account. For the sample selected, we verified that each payment was accurate and for a legitimate business purpose based on the supporting documentation on file. We also confirmed that the payments were properly authorized by the Treasurer, the Accounting Division, and the department head (or designated employee) requesting the wires. Lastly, we verified that each payment was properly supported by reviewing the corresponding invoices, wire request memo, contracts, purchase orders, and/or a separate piece of legislation.

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 management 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 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 Finance Department / Treasury Division via Patrick Greive, Treasurer in a memorandum dated August 2, 2017.

AUDIT CONCLUSIONS

Overall, outgoing wire transfers were processed accurately; however, we found issues with the authorization and documentation of several wire transfers as well as some internal control weaknesses.

AUDIT OBJECTIVE

To determine whether outgoing wire transfers were accurate, properly authorized and adequately documented.

Internal Control Weakness 1 * Wire Requests Not Initiated in Accounting System*

Based on our review of the wire request processes, City departments send wire transfer requests to the Treasury Division via email or via interoffice mail, then Treasury reviews the supporting documentation received and processes the wire transfer. Treasury Division may contact the

requesting department only if any relevant information or documentation is missing in the wire request package. Once the wire transfer is processed, a Treasury employee initiates the corresponding journal entry in the Accounting System, and a second Treasury employee (a supervisor) has to electronically approve the transaction.

The Finance Department could require all departments to request a wired payment via the Accounting System. This will ensure that the wire request came from a legitimate source since the requestor has to have access to the City's Accounting System. This will mitigate the risk of any potential fraudulent request coming from outside individuals sent either via email or by mail which is a common risk that organizations face when processing electronic transfer requests.

Recommendation to Internal Control Weakness 1

We recommend that the Finance Department review the current wire transfer request process. Departments requesting a wire transfer should make the request via the Accounting System (i.e. the corresponding transaction could be initiated by the requesting department instead of being initiated by the Treasury Division in the Accounting System). Treasury should only process wire transfers that have been properly requested/initiated through the Accounting System after it has been approved by the Accounting Division, in conjunction with having all other required documentation.

If for some reason there is a time-sensitive payment that could not be requested through the Accounting System, then the Treasury Division should contact the requestor to verify that the request actually came from a legitimate City department.

Auditee Response to Internal Control Weakness 1

Agree Disagree Partially Agree

We will fully evaluate the recommended process, but initial review with Accounting Systems indicates that there is not an available payment type slot to process wire transfer payments at this time. As a mitigating control Treasury will route a hard copy of the payment request for signoff by the Accounting Division prior to approving the payment in the banking system until such time as the ERP RFP is complete and a new accounting system in place, assuming such system will accommodate this payment type.

Internal Control Weakness 2 *Lack of Verification by Treasury of Bank Account Information with Vendors*

When the Treasury Division receives a new wire transfer request containing a bank account that the City has never sent money to, the Division does not verify the account information with the vendor before sending the wire transfer. In other words, there are no procedures in place that requires Treasury employees to do an independent verification of new bank accounts to ensure that funds are being wired to the correct recipient. Treasury relies on the wire transfer instructions forwarded from the City department requesting the wire.

Recommendation to Internal Control Weakness 2

We recommend that the Treasury Division wire money only to bank accounts that have been previously verified by Treasury with the vendor. The City should also maintain a listing of all vendors' bank accounts that have already been verified. When processing a wire, Treasury Division staff should verify that the vendor's account is already included in the bank account confirmation list. If it is not listed, then a City employee should contact the vendor by using a reliable contact number and verify the legitimacy of the bank account information. These steps should be included in the written operating procedures.

Auditee Response to Internal Control Weakness 2

Agree Disagree Partially Agree

Vendor bank account numbers are verified via the information printed on the vendor's invoice or through an e-mail from the vendor. This information is attached as part of the back-up for review and approval of the payment request. The use of wire templates for confirmed vendor wire instructions provide the confirmation of valid banking information for each pay request initiated on a bank wire template. As an additional internal control Treasury will update the Wire Transfer policy to include a call back via an independent contact information for verification of initial bank wire instructions or changes in wire instructions.

Internal Control Weakness 3 *Wire Requests Not Always Authenticated with the Requesting Department*

Treasury Division does not have a consistent and reliable verification process to ensure that all wire requests are coming from a legitimate source and that they were in fact properly authorized by the requesting department head (or designated employee). This is mainly due to the fact that wires are not processed through the City's Accounting System like other payment types. Not having a strong verification process for the authenticity of the request increases the risk of a wire transfer being sent to a fraudulent account requested by an unauthorized individual.

Recommendation to Internal Control Weakness 3

We recommend that Treasury call back the requesting department head (or designated employee) to verify the authenticity of the wire transfer request. This call back process should be included in the written operating procedures. If our recommendation to Internal Control Weakness 1 is followed, this call back procedure would only need to be followed for wires that are an emergency due to time constraints.

Auditee Response to Internal Control Weakness 3

Agree Disagree Partially Agree

Treasury will update the wire transfer policy to include an independent confirmation of request for wire transfer payment from an authorized individual in the requesting department.

Internal Control Weakness 4 *Sign Off by the Treasurer Was Not Required for Wires*

We found 36 out of 106 wired payments tested did not require approval by the City’s Treasurer or another higher level of authority. These wire transfers were mostly to pay for professional service fees, principal and interest, and other charges in connection with bonds issued by the City, to pay for investment manager fees, or to transfer funds between City bank accounts. The dollar amounts of these payments were as follows:

- a. Less than \$25,000 – 8 wire transfers
- b. From \$25,000 through \$999,999 – 21 wires transfers
- c. From \$1,000,000 through \$9,999,999 – 5 wire transfers
- d. From \$10,000,000 through \$69,000,000 – 2 wire transfers

These wire transfers were generally initiated and only reviewed by Treasury personnel. Also, as noted several of the transfers were for significant amounts of money. Due to this, there are significant risks with payments/transfers of this type and amount.

Recommendation to Internal Control Weakness 4

If recommendation to Internal Control Weakness 1 is followed, wires would follow the same general approval requirement applicable to other forms of payments which would address most of our concern. Additionally, we would also recommend that the following items be added to policies and procedures for the Treasury Division:

- The use of wires as the form of payment should require preapproval by the Treasury Division.
- Wires over a certain threshold (e.g. \$5 million) should be approved by the Treasurer by logging on to the online banking system to approve the wire or via a call back to the Treasurer from the bank.
- The Treasurer should approve all wires that are initiated and reviewed solely in Treasury.

Auditee Response to Internal Control Weakness 4

Agree Disagree Partially Agree

Treasury will include an approval threshold that requires Treasurer signature of any wires greater than \$10 million as indicated by signature on the wire payment documentation. Wire approval in the banking system provides an additional review by Treasury accounting personnel. As previously mentioned, implementing the Auditor's recommendation to use the current accounting system to initiate wire payment requests is not possible without additional program modifications and coding. Since the City is in the process of procuring an updated accounting system, the recommendation of processing wire payment requests in the accounting system will be reviewed in light of new system capabilities at that time. The Treasurer is currently notified of all wire transactions via e-mail and he reviews all debt wire transactions in summary form each month. Internal wires to transfer funds from one custodial account to another are also reviewed by the Treasurer via e-mail from the Investment Officer of cash flow requirements in

advance of the transaction. Treasury's SOP will be updated to reflect this Treasurer review and approval process.

Finding 1 *Several Wire Transfers were Not Properly Documented*

Based on our review of wire transfers sent from the investment portfolio accounts, we found 19 out of 43 wire transfers tested did not have proper supporting documentation at the Treasury Division’s office. However, we were able to obtain supporting documentation from the custodian bank for 13 of the payments. We were unable to properly test the remaining six outgoing wire transfers totaling \$383,249 out of \$77,861,365 because there was inadequate or no support on file. Treasury Division and the custodian bank were unable to provide documentation for these payments. Therefore, we were unable to confirm whether or not these payments were accurate, properly authorized and paid in a timely manner. However, we performed additional testing and confirmed that these payments were consistent in comparison to other payments to the vendors and it was reasonable for a payment to be made at the time based on the history of payments.

Good accounting practices dictate that proper supporting documentation should be kept on file. This documentation should clearly describe how the funds were utilized and authorized. Processing wire transfers without retaining adequate support brings into questions whether the City could be paying for products or services that were not delivered or performed.

Recommendation to Finding 1

The Treasury Division should maintain proper supporting documentation on file for all outgoing wire transfers including documentation for wires sent from the investment portfolio accounts. If our recommendation to Internal Control Weakness 1 is followed, this would no longer be an issue since the accounting division would retain and maintain supporting documentation as they do with other forms of payment.

Auditee Response to Finding 1

Agree Disagree Partially Agree

Documentation is kept on file in Treasury for a period not to exceed 7 years. Any missing support was an exception due to minimal staffing in the Treasury Division during the audit period which is not expected to recur as we are now fully staffed. Since the City is in the process of procuring an updated accounting system, the recommendation of processing wire payment requests in the accounting system will be reviewed in light of new system capabilities at that time.

Finding 2 *Wire Transaction Procedures Inconsistent with Municipal Code*

We found that wire transfer requests are sent directly by the requesting department to the Treasury Division, instead of sending the invoices first to the Accounting Division for approval as required by the Municipal Code. Section 110.107 of the Municipal Code states that “moneys

shall be paid by the Treasury Division only on vouchers which have been approved by the Accounting Division.”

Based on the current process in place, Treasury Division staff sends the wire transfers to the payee first and then initiates the respective journal entry in the accounting system, which subsequently has to be reviewed, approved, and finally posted by the Accounting Division. This means that the Accounting Division is performing a review of the wire transaction and respective supporting documentation after the wire has been already sent.

Recommendation to Finding 2

We recommend that payments be approved by the Accounting Division consistent with our recommendation to Internal Control Weakness 1, before Treasury disburses any funds to payees as required by Section 110.107 of the Municipal Code.

Auditee Response to Finding 2

Agree Disagree Partially Agree

Ordinance Code Section 110.107 dates back to 1983. This needs an update to encompass current payment vehicles which have become more prevalent in today’s economy and the standard form of payment in many cases such as principal and interest payments for debt and investment transactions. In the short term, Treasury will include Accounting Division sign-off prior to approving the wire payment instruction in the banking system. As previously mentioned, implementing the Auditor's recommendation to use the current accounting system to initiate wire payment requests is not possible without additional program modifications and coding. Since the City is in the process of procuring an updated accounting system, the recommendation of processing wire payment requests in the accounting system will be reviewed in light of new system capabilities at that time.

Finding 3 *Missing Wire Instructions from Vendor*

We found 20 out of 73 wires from the General Deposit bank account that we tested did not have the corresponding wire instructions provided by the vendor or payee attached to the supporting documentation kept on file. Additionally, the Treasury Division does not keep a separate file with all the wire instructions containing the banking information of vendors that receive recurring payments via wire. We were told that the support is the template that is maintained online with the bank. However, without maintaining a file with the support for each account that monies were wired to, it leaves open the possibility that the account was set-up incorrectly.

The City should be able to confidently know that payments are being sent to the correct bank account. If wire instructions provided by vendors are not maintained, a new Treasury employee will not be able to ensure the payment is being sent to the correct bank account.

Recommendation to Finding 3

We recommend Treasury Division keep records of all wire instructions provided by vendors either in a separate file or attached to every wire transaction as part of its documentation.

Auditee Response to Finding 3

Agree Disagree Partially Agree

The Treasury Division will include in the Wire Transfer SOP a list of required documents for back up to include wire instructions provided by the vendor. Templated wire instructions will be filed separately going forward.

Finding 4 *Timeliness Issues When Processing Payments*

We found 15 out of 67 invoices tested were not paid in a timely manner. We found that it took from 46 to 222 days to pay these invoices. Two payments were delayed (178 and 222 days) because the requesting departments did not send the wire request documentation to the Treasury Division on time. The other 13 wire transfers were not processed in a timely manner by the Treasury Division.

Per the Florida Prompt Payment Act (Section 218.74 of the Florida Statutes), the payment due date for a local government entity for the purchase of goods or services is 45 days. Furthermore, per the Accounting Division’s Standard Operating Procedures, it is the policy of the City of Jacksonville to pay its vendors within 30 days from the date of the vendor’s invoice. Not paying vendors on time could cause the City to be in violation of State Law and the City could incur unnecessary interest expenses.

Recommendation to Finding 4

We recommend that the City establish a system for the timely payment of vendors in accordance with City payment policies.

Auditee Response to Finding 4

Agree Disagree Partially Agree

Delays in payment were an exception due to minimal staffing during the audit period which is not expected to recur as we are now fully staffed.

Finding 5 *Separated Employees’ Signature Authorization Not Always Removed Timely*

We found two separated employees were not removed from the authorized signature lists (or signature cards) with the Investment Portfolio Custodian in a timely manner. One employee was removed from the authorized signature list 35 days and the other 111 days after they left City employment. Treasury indicated that it notified the bank via phone more quickly; however, there

was nothing on record with the bank to support this assertion. Per the signature cards on file with the custodian bank, these employees had authorization to give direction in matters pertaining to the transfer of cash, movement of assets, trade, wire instructions, account opening and corporate actions.

Best business practices suggest that authorization for check signing and electronic transfers should be removed immediately once employment ends or upon resignation. Not removing terminated employees from the authorized signature list in a timely manner increases the risks of inappropriate payments being authorized.

Recommendation to Finding 5

The Treasury Division should update any authorized signature form with the bank as quickly as possible once a transfer, termination, retirement, or resignation date is known for an authorized signor.

Auditee Response to Finding 5

Agree Disagree Partially Agree

While the above is true as far as the paper signature cards go, on-line access is turned off and the banks are notified by phone to discontinue accepting any instructions from terminated employees as soon as Treasury is notified of the termination. Written documentation is issued as soon as practicable at a later time. Signature cards are routed through boards and/or different departments to collect new signatures creating some delay anytime someone leaves for the change to reflect on the physical signature cards. Despite this delay in the physical signature card, once the banks are notified verbally or by e-mail, instructions from those individuals are no longer valid. In the future, in addition to immediate verbal instructions, we will submit prompt written instruction to deny banking access to terminated employees requesting written confirmation of the denial of access from the respective financial institution(s).

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

Respectfully submitted,

Kyle S. Billy

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