

COUNCIL AUDITOR'S OFFICE

JACKSONVILLE ECONOMIC DEVELOPMENT COMMISSION AUDIT



Authority & Background

Pursuant to Section 5.10 of the Charter of the Consolidated Government of the City of Jacksonville and Chapter 102 of the Municipal Code, we conducted an audit of the Jacksonville Economic Development Commission (JEDC).

JEDC serves as the economic development agency for the City of Jacksonville (City), implementing policies that encourage sustainable job growth, raising personal incomes and creating a broader tax base for the community.

JEDC oversees the administration of local and state incentives, Downtown development and permitting, Film/Television initiatives, Sports/Entertainment programs, and redevelopment of Cecil Field.

Audit Conclusions

Based on our audit, it appears that JEDC has been lacking in its administration and oversight of economic incentive agreements, as well as operations at Cecil Field. The lack of basic internal controls and procedures has resulted in financial losses for the City of Jacksonville.

Audit Conclusions by Objective:

1. It appears that JEDC does not administer and monitor economic incentive agreements in a proper manner.
2. It appears that JEDC does not properly administer expenditures related to Cecil Field operations.
3. It appears that management controls established by JEDC to ensure accurate and timely collection, recording, and depositing of Cecil Field revenues are inadequate.

Audit Findings

Economic Incentives:

- Compliance with reporting, JSEB involvement, and jobs creation requirements is not adequately enforced
- Data provided in jobs and JSEB reports by incentive recipients is not verified by JEDC staff
- Out-of-state jobs were included in job creation reports by two companies which were overpaid by at least \$156,000 (based on our audit findings, \$328,620 has now been recovered from one company)
- JEDC does not adequately monitor the use of QTI funds once they are sent to the State
- Some incentive payments were calculated in an inaccurate manner (based on our audit findings, \$26,570 has now been recovered)

Supplemental:

- Multimillion dollar contracts are awarded by City Procurement after minimal advertising
- JEDC doesn't have standard operating procedures and JEDC employees are not reasonably cross-trained
- \$180,000 could be saved annually if JEDC moved into a city-owned building
- Sports Trust Fund's balance is over \$593,000 which could be used to reduce General Fund's subsidy of sporting events

Cecil Field:

- Five year Cecil Field maintenance contract for \$7.5M was not advertised well and was awarded after only one bid was submitted by existing service provider
- Adequate supporting documentation is not received for large invoices and receivables
- Maintenance contractor overcharged JEDC in multiple billings
- JEDC failed to seek reimbursement of \$54,000 for utilities from a tenant at Cecil Field (recovery is unlikely due to tenant's bankruptcy)
- There is a lack of segregation of duties between employees who process revenues
- Cecil Field Trust Fund's balance is over \$3M which could be used to offset subsidy from the City's General Fund
- Post Office occupied a building without a signed lease for approximately ten years
- Four checks totaling approximately \$50,000 were lost for an extended period of time
- The tenant leasing the housing complex for the past ten years has not provided (and JEDC has not requested) annual financial statements required by the contract

Jacksonville Economic Development Commission Audit

June 16, 2011

Report #711

Released on: December 21, 2011

AUDIT REPORT #711

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



December 21, 2011

Report #711

Honorable Members of the City Council
City of Jacksonville

BACKGROUND

Pursuant to Section 5.10 of the Charter of the Consolidated Government of the City of Jacksonville and Chapter 102 of the Municipal Code, we conducted an audit of the Jacksonville Economic Development Commission (JEDC).

JEDC serves as the economic development agency for the City of Jacksonville (City), implementing policies that encourage sustainable job growth, raising personal incomes and creating a broader tax base for the community. JEDC oversees the administration of local (mostly Recaptured Enhanced Value or REV) and state (mostly Qualified Targeted Industries or QTI) incentives, Downtown development and permitting, Film/Television initiatives, Sports/Entertainment programs, and redevelopment of Cecil Commerce Center (Cecil Field).

OVERALL CONCLUSION

Based on our audit, it appears that JEDC has been lacking in its administration and oversight of economic incentive agreements, as well as operations at Cecil Field. The lack of basic internal controls and procedures has resulted in financial losses for the City of Jacksonville. To correct this issue, we believe JEDC should develop and enforce detailed standard operating procedures, provide proper training and increase management's oversight.

STATEMENT OF OBJECTIVES

The objectives of the audit were as follows:

1. To determine whether JEDC properly administers and monitors economic incentive agreements.
2. To determine whether JEDC properly administers expenditures related to Cecil Field operations.

3. To review Cecil Field revenue sources and assess JEDC's management controls established to ensure accurate and timely collection, recording, and depositing of these revenues.

AUDIT CONCLUSIONS BY OBJECTIVE

1. It appears that JEDC does not administer and monitor economic incentive agreements in a proper manner.
2. It appears that JEDC does not properly administer expenditures related to Cecil Field operations.
3. It appears that management controls established by JEDC to ensure accurate and timely collection, recording, and depositing of Cecil Field revenues are inadequate.

STATEMENT OF SCOPE AND METHODOLOGY

The scope of our audit was October 1, 2007 through September 30, 2010 which covered three fiscal years: FY 2007/08, FY 2008/09, and FY 2009/10. To complete the audit, we conducted interviews with applicable personnel and reviewed supporting documentation relating to JEDC operations. We obtained information and data from JEDC, Central Operations, FAMIS (City's Accounting System), Manatron (Tax Collector Receipt System), and the State of Florida. We will explain our methodology in detail under each objective. The schedule below shows JEDC's budget for the three years within our audit scope (including subfund 751 and the portion of subfund 759 for which JEDC has oversight). Note that Cecil Field subfund 759 includes revenues and expenditures attributed to both JEDC and the City's Recreation and Community Services Department. We only show JEDC's revenues and expenditures in the table below which is why the budgets for FY 2008/2009 and 2009/2010 appear out of balance.

BUDGET	FY 2007/08	FY 2008/09	FY 2009/2010
Full Time Employees	18*	18	17
JEDC - Subsidy From General Fund	\$ 10,820,807	\$ 10,658,720	\$ 9,692,005
JEDC - Transfer from Fund Balance	\$ -	\$ 500,000	\$ 647,807
JEDC - Investment Pool Earnings	\$ 206,322	\$ 215,351	\$ 195,403
JEDC - Other	\$ 30,000	\$ 35,389	\$ 35,389
Cecil Field - Rent	\$ 750,000	\$ 681,955	\$ 588,220
Cecil Field - Other	\$ 410,000	\$ 497,961	\$ 114,444
Total Revenues	\$ 12,217,129	\$ 12,589,376	\$ 11,273,268
JEDC	\$ 4,855,320	\$ 4,260,653	\$ 3,820,806
Cecil Field	\$ 2,858,248	\$ 2,660,651	\$ 2,226,505
Incentives	\$ 4,503,561	\$ 5,803,112	\$ 5,270,321
Total Expenditures	\$ 12,217,129	\$ 12,724,416	\$ 11,317,632

* - It should be noted that three positions were funded by the Tourist Development Council in FY 2007/08.

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 Management's 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 the operations.

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:

- Film/Television initiatives
- Sports/Entertainment programs

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

We communicated the results of our testing to JEDC staff as we performed our audit work. JEDC initially provided feedback to our findings as the audit progressed. After some time, JEDC staff stated they prefer to hold their comments until our draft audit report was produced.

On July 8, 2011, we provided our draft audit report to JEDC and the appropriate draft excerpts to other City agencies addressed in our findings. We requested written and electronic responses to our comments be provided to us by July 22, 2011. We received responses from Michael Clapsaddle, Chief of Procurement, Kent Olson, Budget Officer, Devin Reed, Director of Central Operations, Joey Duncan, Director of Public Works, and Roslyn Mixon-Phillips, Director of Recreation and Community Services. Responses from these departments have been inserted after the respective finding and recommendation.

All five of the officials who responded are no longer employed by the City in the respective positions named. We included their responses as they were received on a timely basis from officials who were in the respective positions during our audit period.

JEDC Management did not provide responses, but requested to meet with us to discuss the draft report. This meeting was held in our office on July 20, 2011. In the meeting, JEDC requested

additional support for some audit findings and requested some verbiage changes to the report. JEDC also agreed to provide additional information about some findings. We provided the additional support, made some verbiage changes, and met with JEDC staff to review additional information. This process was prolonged due to our focus on the City budget review which occurred between July 15 and September 28, 2011. Another significant event which occurred during September 2011 was the release by the City administration of several appointed officials, including the JEDC's Executive Director.

We provided an updated draft report to JEDC on October 14, 2011 and requested written and electronic responses by October 31, 2011. We did not receive a response and made several requests for responses over the coming weeks. On November 23, 2011, the Acting JEDC Director provided draft written responses. Upon review, we found that many of these responses did not address the findings and recommendations and in some cases the responses were misleading. On November 28, 2011, we met with the City's Chief Financial Officer regarding assistance in obtaining meaningful responses to our report. As of December 20, 2011, we have received nothing further.

At this time, five months after receiving responses from other City agencies, we need to issue our report so that the City can consider our recommendations during the Reorganization process. Because JEDC has not provided final responses within a reasonable period of time, we are issuing our report without JEDC responses in order to avoid additional delays. We look forward to productive future discussions with the City administration regarding this audit report.

AUDIT OBJECTIVE #1

To determine whether JEDC properly administers and monitors economic incentive agreements.

Methodology for Objective 1:

- We obtained payment data from FAMIS to compile a master list of incentive agreements made by JEDC in FY 2007/08 through FY 2009/10. For each incentive agreement in the master list, we reviewed JEDC files:
 - To ensure that each agreement was approved in accordance with the Public Investment Policy and that the payments were made in a timely manner to the Job Opportunity Bank Trust Fund.
 - To verify that companies were compliant with the jobs creation and Jacksonville Small and Emerging Businesses (JSEB) reporting requirements.
 - To determine whether JEDC was properly verifying contract compliance and enforcing default remedies, when applicable.
 - To verify that the total amount paid to a company did not exceed the maximum incentive amount allowed by the agreement.

- From the master list, we judgmentally chose five agreements to test jobs creation requirements. We visited each company and reviewed payroll system records to verify the accuracy of job reports submitted to JEDC.
- We divided the payments obtained from FAMIS into four major groups (payments to the State for QTIs, Payments to Parks at Cathedral owners, all other payments below \$5,000, and all other payments \$5,000 and above) and judgmentally picked a sample from each group. For all payments, we verified that the payment was processed in accordance with the contractual terms. For the QTI payments, we also verified that the funds request letters from the State were on file. We requested a list of all outstanding balances from the State for all projects in Duval County and reviewed each balance for reasonableness.

Internal Control Weakness 1 – 1 *Incentive Recipients Reporting – Lack of Verification*

JEDC does not verify jobs creation data provided in the annual reports by companies receiving economic incentives. JEDC accepts job reports that could contain as little information as a list of names and positions. JEDC does not request any additional information to verify the accuracy of the reports submitted. Since incentive payments could often be decreased if a company is not compliant with the jobs creation requirements, the lack of verification leads to an increased possibility of overpayment and loss of public funds.

Recommendation to Internal Control Weakness 1 – 1

JEDC should establish verification controls for the jobs reports submitted by the incentive recipients. Incentive payments should be made only after some type of verification takes place. For example, for all future incentive agreements, JEDC should include a clause that would require incentive recipients to submit additional supporting documentation on jobs reports upon JEDC's request. Therefore, payroll reports, unemployment insurance reports and other applicable data could be requested and reviewed annually to verify compliance with the jobs creation requirements. Random audits should be conducted where JEDC staff could visit companies and review payroll system records. Also, the standard reporting form should be modified so at least two signatures by a company's top management are required to certify the number of jobs and wages created. Finally, communication with the State should be established to utilize the State's audited data on jobs creation when possible.

Internal Control Weakness 1 – 2 *Job Opportunity Bank – Lack of Communication*

The City's Central Operations Department receives checks to be deposited into the Job Opportunity Bank Trust Fund from economic incentive recipients via JEDC as is required by Municipal Code Section 180.105. There are no controls in place to ensure that all of the checks are delivered to Central Operations by JEDC. Per Central Operations, they are not aware of when and what is coming in from JEDC. A lack of communication between JEDC and Central Operations increases the possibility that deposits could be delayed or funds could be diverted.

Recommendation to Internal Control Weakness 1 – 2

JEDC and the Central Operations Department should start communicating about the incentive agreements that are in progress. Central Operations should be notified about every newly signed economic incentive agreement.

Central Operations Department's Response to Internal Control Weakness 1 – 2

Agree Disagree Partially Agree

The Central Operations Department, Office of Director has received payments regarding the Job Opportunity Bank in the past without a copy of the incentive agreement. The Central Operations, Office of the Director forwarded the payments to the Administrative Services Division (ASD) for depositing and tracking. However, to ensure all payments are delivered timely, and the correct amount is received, the Central Operations Department, Office of the Director, shall receive from JEDC a copy of any active and anticipated incentive agreements regarding the Duval County Job Opportunity Bank. JEDC will communicate with the Director's Office by forwarding a copy of any newly created incentive agreements. The Central Operations Department, Office of the Director will review the payments for accuracy and forward payments to the ASD Account Management Section for depositing and tracking.

Internal Control Weakness 1 – 3 *Not Documenting JSEB Compliance Review*

JEDC does not document its compliance verification process related to the contractual requirements for incentive recipients to employ Jacksonville Small and Emerging Businesses (JSEB). During our review of the incentive agreements, we did not observe any evidence that JSEB compliance verification actually was performed by JEDC. No printouts from the City's JSEB webpage and no copies of JSEB certifications were on file for any contract.

Recommendation to Internal Control Weakness 1 – 3

When a company reports its compliance with JSEB requirements, JEDC, as an incentive contracts administrator, should document its compliance verification process by printing out and filing the City's JSEB webpage with companies' JSEB certification information.

Finding 1 – 1 *Reporting Out-of-State Jobs As Jobs Created Locally*

Two of the five companies selected in our sample submitted job creation reports containing inaccurate data. Full time employees that live and work outside of Florida were included in the reports that should include only local jobs created at the local project sites. One of the two companies also included a large number of open positions in the job creation total, and JEDC did not verify that those open positions were filled later. Since JEDC failed to verify the jobs created and enforce non-compliance remedies provided by the contracts, the City overpaid one company \$40,000 and another company \$116,000.

Recommendation to Finding 1 – 1

JEDC should seek reimbursement of at least \$156,000 from these companies due to non-compliance with the minimum jobs creation requirements. Because our audit testing only looked at two years of reports, JEDC should verify the employment data for all years that reports were submitted and request reimbursement if additional instances of non-compliance are found. In addition, JEDC should establish procedures to verify that job creation data provided by incentive recipients is accurate. (Refer to Recommendation to Internal Control Weakness 1 – 1).

Finding 1 – 2 *Various Issues With Compliance Enforcement For Incentive Contracts*

It appears that JEDC does not properly enforce compliance with incentive agreements. JEDC, as the primary contract administrator for the incentive agreements, is responsible for verifying and enforcing compliance with incentive agreements' requirements. Absence of such enforcement could lead to a loss of public funds, fewer jobs and smaller capital investment than promised. We tested various incentive agreements and noted the following issues:

- a. 9 out of 39 (or 23%) of the incentive agreements tested for appropriate approval path were not approved in accordance with the incentive policy (all 9 agreements were approved under a currently discontinued Enterprise Zone/REV grant program). The nine agreements were not certified by JEDC's Executive Director as meeting the grant guidelines, in accordance with the incentive policy in effect at the time.
- b. 2 out of 3 (or 67%) of the payments to the Job Opportunity Bank Trust Fund were not submitted to the City within 30 days after the contract's execution as required by Municipal Code Section 180.105.
- c. In 14 of 21 (or 67%) of incentive agreements tested for reporting compliance, mandatory reports were not on file with JEDC for some or all years.
- d. In 3 out of 22 (or 14%) incentive agreements tested for jobs creation requirements, JEDC did not reduce the City's incentive payment even though the company's report indicated non-compliance.
- e. In 3 out of 7 (or 43%) incentive agreements tested for compliance with JSEB requirements, JEDC did not verify or did not enforce compliance with those requirements.

Recommendation to Finding 1 – 2

JEDC should establish and enforce carefully designed standard operating procedures and implement effective internal controls to ensure that:

- a. Incentive agreements are approved in a manner required by the incentive policy.
- b. Payments to the Job Opportunity Bank Trust Fund are submitted to Central Operations within 30 days of contract execution.
- c. Mandatory reports are submitted by the companies and reviewed by JEDC before any incentive payments are made.

- d. Incentives are paid to companies upon verification of the jobs creation requirements (Refer to Recommendation to Internal Control Weakness 1 – 1).
- e. Incentives are paid to companies upon verification of the JSEB utilization requirements (Refer to Recommendation to Internal Control Weakness 1 – 3).

Finding 1 – 3 *Local Funds Held by State’s QTI Program For Years*

It appears that JEDC does not adequately monitor the use of QTI funds once they are sent to the State of Florida. As a result, \$138,835 of City funds were sitting idle with the State until our office inquired about them in April 2011. Some of these funds, which do not earn interest, have been with the State Office of Tourism, Trade, and Economic Development since 1998.

JEDC makes payments equal to 20% of total QTI grants to the State before any QTI tax refund payments are issued to the grant recipients by the State. When compliance with the job requirements is verified by the State, a full or partial payment is made depending on the number of jobs created. We contacted the State and requested the outstanding balances for local funds provided as the City’s 20% QTI match. We found that as of April 15, 2011, the State held \$964,732 of City money, with \$825,897 attributed to active projects and \$138,835 attributed to inactive projects. The inactive project balances should have been refunded to the City or used to reduce City contributions to active QTI projects.

Recommendation to Finding 1 – 3

JEDC should establish standard operating procedures that include detailed descriptions of the processes used to keep track of the local funds sent to the State. For example, a simple schedule listing payments to the State, payments to an incentive recipient by the State, and remaining balances for each year should be included in the file for each incentive agreement that contains a QTI component. At least once annually, JEDC should contact the State to obtain balance information for all City QTI projects, compare the State information to internally generated payment schedules, and request refunds or allocation of unused funds to active projects, as appropriate.

Finding 1 – 4 *Inaccurately Calculated Local Incentives*

JEDC has not always calculated local incentive payments in an accurate manner. We tested 56 incentive payments that totaled \$13,843,060 and found that 19 payments (or 34%) were calculated inaccurately. JEDC uses standard templates to calculate local incentive payments. It appears that some formulas used in those templates contained errors that led to underpayments. Also, it also appears an overpayment was caused by an input error. We found that one company was overpaid a total of \$23,285 (or 0.17%) while eighteen companies were underpaid a total of \$84,447 (or 0.61%).

Recommendation to Finding 1 – 4

JEDC should review its templates to ensure that formulas used to calculate payments are in compliance with the incentive agreements' requirements. Also, JEDC should contact the Office of General Counsel to determine what action to take with regard to the over and under payments.

Opportunity for Improvement 1 – 1 *Public Investment Reports No Longer Published*

Comprehensive and detailed annual public investment reports are no longer published by JEDC. The last comprehensive annual report on public investment was published in 2005. It included detailed information on every one of the JEDC projects involving public investment from 1994 to 2005.

Recommendation to Opportunity for Improvement 1 – 1

JEDC should consider publishing comprehensive annual public investment reports as it did through 2005, to increase transparency and make data on public investments easily available to the public.

AUDIT OBJECTIVE #2

To determine whether JEDC properly administers expenditures related to Cecil Field operations.

Methodology for Objective 2:

- We obtained data on actual expenditures from FAMIS in FY 2007/08 through FY 2009/10 and worked with JEDC to compile a list of current contracts related to Cecil Field operations. Based on the communications with JEDC, we separated the payments into two categories (contractual payments and non-contractual payments), judgmentally selected a sample of each, and performed the following procedures:
 - Contractual payments
 - We reviewed invoices and supporting documentation to verify that they were mathematically accurate, paid in a timely manner and approved by personnel that were responsible for monitoring the contract.
 - We observed items purchased to verify that they were allowed by the contract and confirmed that the total amount paid to the company did not exceed the maximum contractual indebtedness amount.
 - For the Cecil Field maintenance contract, we reviewed JSEB-related payments to subcontractors to verify that the reported JSEBs were indeed registered with the City.

- For the Cecil Field maintenance contract, we verified that subcontractors were not on the State of Florida Suspended Vendor List.
- We also performed additional miscellaneous testing in relation to utilities charges, fuel expenses, usage of vehicles, labor charges, etc.
- Non-contractual payments
 - We reviewed supporting documentation and verified that payments were appropriate, properly approved, and related to Cecil Field operations.

Internal Control Weakness 2 – 1 *Expenditures – Lack of Supporting Documentation*

JEDC does not receive and does not request adequate supporting documentation along with monthly invoices from the maintenance contractor for Cecil Field. On average, this contractor was paid over \$123,000 per month in FY 2007/08 through FY 2009/10. The invoices received by JEDC are summarized at a high level; no details and no invoices from subcontractors are provided. Also, quarterly invoices of approximately \$12,000 received by JEDC from the Florida Forestry Division that manages the forest at Cecil Field consist of a single schedule listing a few activities and the total amount charged. No detailed supporting information is provided. This lack of supporting documentation could lead to a loss of public funds due to undiscovered errors or irregularities.

Recommendation to Internal Control Weakness 2 – 1

As the contract administrator, JEDC should make it a standard operating procedure to request and review detailed supporting documentation for invoices submitted for payment.

Internal Control Weakness 2 – 2 *Processing of Invoices – Lack of Date Stamps*

During our testing, we noted that some of the invoices received by JEDC were not stamped with the date they were received. It is a good internal control to stamp each invoice received with the date when the invoice was received. It helps to ensure that accounts payable are processed in a timely manner as required by the Florida Prompt Payment Act, good relationships with vendors are supported, and compliance with contractual terms is met.

Recommendation to Internal Control Weakness 2 – 2

JEDC should develop and implement standard operating procedures that include detailed personnel duties. In particular, employees responsible for opening daily mail should ensure that a date stamp is placed on all incoming correspondence.

Finding 2 – 1 *Maintenance Contractor at Cecil Field – Various Issues*

Cecil Field's maintenance is outsourced to a facilities maintenance company. We reviewed the maintenance contract, tested invoices billed to the City for six months in FY 2007/08 through FY 2009/10, and noted various issues listed below:

- a. \$3,425 out of \$784,364 (or 0.44%) of the maintenance contractor's expenses tested were for products/services not allowed under the contract (see table below).

Month	Description	Amount
FEB 08	Blood pressure monitor from Walgreens	\$ 59.99
FEB 08	13 weeks Florida Times-Union subscription	\$ 47.57
FEB 08	Direct TV service	\$ 45.25
SEPT 08	Direct TV service	\$ 87.12
SEPT 08	Freezer bags, Coffee-Mate, sugar, bowls from Publix	\$ 85.54
NOV 08	1 year Daily Record subscription	\$ 89.00
NOV 08	Decorative brass egg and sphere stands	\$ 137.89
NOV 08	Juice, coffee, foam plates, Splenda, paper towels from Sam's Club	\$ 175.58
NOV 08	Direct TV service	\$ 87.12
MAY 09	One year renewal for Jacksonville Business Journal	\$ 77.95
MAY 09	Membership Dues - National Contract Management Association	\$ 110.00
MAY 09	Construction license renewal - State of Florida	\$ 59.00
MAY 09	Direct TV service \$90.53 and coffee maker \$362.36	\$ 452.89
JAN 10	Direct TV Service	\$ 90.53
JAN 10	Juice and apples from Walmart	\$ 6.25
JAN 10	Coffee, cocoa, plates from Walmart	\$ 55.45
JAN 10	Juice and apples from Walmart	\$ 14.02
JAN 10	Coffee, cocoa, plates from Walmart	\$ 79.76
MAY 10	One year renewal for Jacksonville Business Journal	\$ 87.95
MAY 10	26 Weeks Florida Times-Union subscription	\$ 130.15
MAY 10	Chamber of Commerce - Federal Contracting Opportunities Forum	\$ 160.00
MAY 10	Accounting certificate, 42 lessons	\$ 898.00
MAY 10	Membership Dues - National Contract Management Association	\$ 110.00
MAY 10	Towels, tissue, foam cups, Coffee-Mate, Splenda from Sam's Club	\$ 130.16
MAY 10	Direct TV service	\$ 95.05
MAY 10	Coffee, sugar, crackers, frappuccino, Coffee-Mate from Walmart	\$ 53.24
	TOTAL	\$ 3,425.46

- b. It appears that some of the maintenance contractor's vehicle expenses (which are marked up and charged to the City pursuant to the contract) may be unnecessary. Four "field" employees (one of which is part-time) and two "office" employees have eight company vehicles at Cecil Field. The City pays for depreciation, insurance and maintenance of those vehicles, although we noted that all of the vehicles are now fully depreciated. It also appears that the maintenance contractor's fuel usage is unreasonably high. Based on the consumption data provided, we calculated that each of four "field" employees drove on average 55 miles each business day while the length of the route from the southern border to the northern border at Cecil Field is approximately 7 miles. Moreover, gas stations used by the company's employees were on average 11.5 miles away from Cecil Field while there are at least two gas stations that are located less than 5 miles away.
- c. The City was overcharged \$7,331 out of \$247,850 (or 2.96%) of labor charges tested. In some instances, the City was billed for labor hours spent on Jacksonville Aviation

Authority projects. In other instances, contractor payroll reports did not support the charges on the invoice.

- d. The maintenance contractor inaccurately applied the burden rate to labor charges included in monthly invoices prior to October 2008. The burden rate was applied to the sum of actual hours worked and leave/sick hours. After October 2008, it was only applied to the actual hours worked. The effect of applying the burden rate to leave/sick hours is to overcharge the City because the burden rate is meant to compensate the contractor for various overhead costs which include leave/sick hours. In the February and September 2008 invoices included in our testing, the City was overcharged \$2,346 and \$2,685, respectively. Based on this data, we estimate that the City was overcharged approximately \$30,000 in FY 2007/08. We also found that the burden rate charged varied from the contractually established level of 41% in 3 out of 6 months tested (37.80%, 39.14% and 42.42%).
- e. Markups allowed by the contract were applied by the maintenance contractor in a manner unfavorable to the City. The contract states that "rates may be marked up by 3.5% for General and Administrative Costs (G&A) and 5% for Management fee mark up by caretaker." Two markups, 3.5% and 5%, were applied separately. Therefore, the total markup charged to the City was 8.675% instead of 8.5%. We estimate that the average annual loss to the City was approximately \$2,500 due to this pyramiding of markup fees.

Recommendation to Finding 2 – 1

JEDC should:

- a. Seek reimbursement for the expenses (plus markup), not allowed by the contract, but billed to the City. JEDC should also establish procedures for requesting and reviewing detailed supporting documentation (in particular, credit card statements).
- b. To ensure that only reasonable vehicle-related expenses are charged to the City in the future, request that the maintenance contractor seek approval for any changes in the vehicle fleet at Cecil Field and include this required approval in future contracts. JEDC should also request that vehicles charged to the Cecil Field contract not be taken home by contractor employees. This prohibition should be included in future contracts. JEDC should request and review detailed supporting documentation for contractor fuel expenses.
- c. Seek reimbursement for incorrect labor charges plus markup and establish procedures for requesting and reviewing detailed supporting documentation for contractor payroll expenses.
- d. Seek reimbursement for the incorrectly applied burden rate plus markup and establish procedures that would prevent the City from being overcharged in the future by requesting and reviewing detailed supporting documentation for the burden rate calculations.
- e. Seek reimbursement for incorrect application of the markup fees, request that the maintenance contractor apply a total mark up fee of 8.5% in the future, and ensure that a clause prohibiting pyramiding of profit margins is included in all future contracts.

Finding 2 – 2 *JEDC & RCS Reimbursement Process Issues*

The Recreation and Community Services (RCS) Department partially reimburses JEDC for payments to the Florida Division of Forestry. We reviewed the reimbursement process and noted the following issues:

- a. Although RCS reimburses JEDC for 49% of Division of Forestry expenses, the reimbursement allocation agreement is not documented.
- b. There is a significant lag (201 days on average) between the date when a payment is sent to the Florida Division of Forestry by JEDC and the date the corresponding reimbursement is received by JEDC from RCS.

Recommendation to Finding 2 – 2

JEDC and RCS should document the verbal agreement (percentages paid by each party and reimbursement process) for Florida Division of Forestry expenses and establish proper internal controls to ensure that agreed upon terms are followed.

Recreation and Community Services Department’s Response to Finding 2 – 2

Agree Disagree Partially Agree

Although the percentages are documented via email records, a document will be drafted as recommended.

Regarding the past payment: JEDC received the invoices directly from the State, paid them and then requested reimbursement from Recreation and Community Services Department (RC). Although the most recent invoice from JEDC is dated October 25, 2010, in reviewing our records, we show that we did not receive the invoice request for reimbursement from JEDC until February 11, 2011. We processed a request for JE on February 15, 2011.

To eliminate delays in the future, we propose that JEDC forward invoices upon receipt and RC will submit a check request to accounting for RC’s portion of the expense at the same time that JEDC submits the check request for the JEDC portion. This would eliminate tying up expense dollars of JEDC as well as reducing the expense of Accounting processing the Journal Entry.

Finding 2 – 3 *Invoices From Florida Division of Forestry – Various Processing Issues*

JEDC does not process invoices from the Florida Division of Forestry in a proper and timely manner. The Florida Division of Forestry manages the forest at Cecil Field for timber production and bills JEDC for its services on a quarterly basis. We reviewed three invoices and found the following issues:

- a. One of the invoices was not mathematically accurate (clerical error of \$61 favorable to the City).
- b. One of the invoices was paid approximately 75 days after it was signed and sent out by the vendor while the contract requires the invoice to be paid within 60 days (no date stamp was present on the invoice).
- c. One of the invoices lacked a payment approval signature by a JEDC manager.

- d. One of the invoices included double billing of \$130 out of \$42,423 (or 0.3%) tested which was not discovered by JEDC since no supporting documentation is submitted along with invoices.

Recommendation to Finding 2 – 3

JEDC should establish a set of standard operating procedures that include detailed descriptions of all major processes including processing payments to ensure that all incoming invoices are accompanied by the supporting documentation, approved, reviewed for mathematical accuracy and paid on time.

Opportunity for Improvement 2 – 1 *Lack of Advertisement For Cecil Field Contract*

JEDC should use the City Procurement Division's resources to a greater extent when advertising large contracts in order to obtain multiple bids and, ultimately, save taxpayers' dollars. In the midst of economic recession, JEDC awarded a contract worth up to \$7.5 million to the one and only respondent to the request for proposal (RFP) after performing the minimum advertising required by the City Procurement Code. The RFP was only advertised on the City Procurement website and in the Financial News & Daily Record, a newspaper publication with a daily distribution of 6,300 copies, which satisfied Procurement's minimum advertising requirements.

JEDC chose not to use additional advertising options discussed in Section IX (5) of the Procurement Administrative Code which encourages using agencies to provide Procurement with a list of potential vendors to be solicited. JEDC has also confirmed that no informal soliciting such as communication in person, by phone or email was done by JEDC's staff. As a result, only seven interested parties were present at the pre-bid meeting and only one, the current vendor that provided this service for the last ten years, submitted a bid. For comparison, when the same contract was originally bid out in 1999, 40 RFPs were mailed out, and six companies submitted bids.

Recommendation to Opportunity for Improvement 2 – 1

For future RFPs, JEDC should work to obtain as many competitive bids as possible. JEDC should also investigate to determine potential bidders and provide City Procurement with a listing of companies to contact regarding the RFP as well as recommendations for methods of advertisement to reach the target audience.

Opportunity for Improvement 2 – 2 *Contracts – Audit Clause to Be Included*

A "right to audit" clause was not included in the contractual agreement between JEDC and the Florida Division of Forestry. A "right to audit" clause is an important control which encourages contract compliance.

Recommendation to Opportunity for Improvement 2 – 2

JEDC should include a “right to audit” clause in all of its future contracts.

AUDIT OBJECTIVE #3

To review Cecil Field revenue sources and assess JEDC’s management controls established to ensure accurate and timely collection, recording, and depositing of these revenues.

Methodology for Objective 3:

- We interviewed JEDC’s staff to obtain an understanding of the revenue handling process by JEDC’s employees and assessed internal controls established by management to ensure that revenues are collected and deposited in a proper and timely manner.
- From JEDC, we obtained a list of major revenue sources of which we confirmed the completeness via queries in FAMIS and Manatron. We limited our testing to the two main revenue streams; rental revenues and timber revenues. Below, we list each category and the procedures performed:
 - Rental revenues
 - We obtained a list of all facilities at Cecil Field and verified the completeness via Jacksonville’s Geographical Information System (GIS), Google maps and Property Appraiser records.
 - We reviewed the terms of all current leases at Cecil Field to ensure that rental fees were calculated consistently for all tenants.
 - We performed a physical inspection of all vacant properties to verify that they were indeed vacant.
 - We judgmentally chose to test all rental revenues received for two separate months in each fiscal year of the audit scope (six months tested in total).
 - We verified that payments were accurate and were listed on the check log, traced revenues to the daily deposit, and confirmed that the deposit was made and was properly posted in FAMIS.
 - Timber revenues
 - We reviewed the processes used to arrange timber sales, set pricing, monitor sales, and deposit payments.
 - We obtained a list of timber sales during the audit scope period from the City’s Procurement Division.
 - We reviewed settlement summaries for each sale, agreed them to the amount received, and ensured that all payments were accurate and listed on the check log.
 - We also traced the revenues to the daily deposits to ensure that deposits were accurate, made in a timely manner and properly posted to Manatron.

Internal Control Weakness 3 – 1 *Revenues Processing – Lack of Supporting Documents*

JEDC does not receive supporting documentation for large variable payments collected for timber sales and the lease of the housing complex. Over \$500,000 was received for these activities in FY 2007/08 through FY 2009/10. Without supporting documentation, JEDC has no way of verifying that the City is receiving the correct amount of revenue.

Recommendation to Internal Control Weakness 3 – 1

As the contract administrator, JEDC should make it a standard operating procedure to request and review detailed supporting documentation for all variable payments.

Internal Control Weakness 3 – 2 *Revenues Processing – Lack of Segregation of Duties*

There is a lack of segregation of duties in relation to revenue processing procedures. When an employee has access to the assets and is also in charge of recordkeeping, the risk of fraud increases. The JEDC compliance coordinator receives checks sent to JEDC by mail. She opens the mail, logs checks into the check log, and forwards them to the administrative support assistant for deposit. This compliance coordinator is also in charge of recordkeeping and accounting-related issues.

Recommendation to Internal Control Weakness 3 – 2

JEDC should implement a set of standard operating procedures that include carefully designed personnel duties. A segregation of duties concept should be implemented to the maximum reasonable extent. In particular, the compliance coordinator, or any other employee in charge of recordkeeping should not have custody of assets/checks at any time.

Finding 3 – 1 *Lease Administration – Various Issues*

We reviewed twelve leases administered by JEDC at Cecil Field, and noted the following issues:

- a. One of the tenants failed to establish an account with JEA as required by the lease agreement. The City paid over \$54,000 for the utilities over the term of the lease, and JEDC failed to seek reimbursement. Due to the tenant's bankruptcy, collection by the City is doubtful.
- b. One of the tenants has been leasing the housing complex of over 90 units since September 2000 but failed to submit annual statements reviewed by an independent certified public accountant as required by the lease agreement. Rental payments received by JEDC are variable in nature and partially based on the actual rental revenues from subleasing of the housing complex. JEDC failed to request those annual statements.
- c. There was no signed lease with the US Post Office that occupied one of the buildings for approximately ten years. Although JEDC allowed the Post Office to utilize the space rent free, the agreement should have been documented.

Recommendation to Finding 3 – 1

To correct issues related to the lease administration process, JEDC should:

- a. Review all leases and verify that all tenants pay for utilities if it was required by the lease agreement. When a new lease is signed, JEDC should make it a standard operating procedure to ensure that a new tenant sets up an account with JEA. JEDC should also consider an annual review to ensure contract compliance in relation to utilities.
- b. Ensure that annual reports in relation to the lease of the housing complex are submitted as required by the lease agreement. JEDC should review reports to ensure that monthly payments for the preceding lease year were accurate.
- c. Ensure that no building is occupied without a lease being signed to minimize the City's risk exposure from tenants' actions.

Finding 3 – 2 *Timber Sales Administration Process – Various Issues*

JEDC administers all timber sales including timber sold from the Recreation and Community Services (RCS) Department's part of Cecil Field. The Florida Division of Forestry processes sales and submits payments to JEDC. If timber was sold from RCS' property, JEDC notifies RCS via email about payment received and forwards payments to the Administrative Services Division (ASD) for the deposit. We noted the following issues in the timber sales administration process:

- a. JEDC received a check on November 18, 2008 for \$45,461 from the Florida Division of Forestry for a timber sale. This check was not forwarded to ASD. Eight months later, on July 22, 2009, during budget review, the Council Auditor's Office (CAO) inquired about this check since there was no corresponding deposit in the City's accounting system. JEDC requested for the check to be reissued by the contractor on July 27, 2009. The replacement check was received on August 21, 2009.
- b. 4 out of 15 checks (or 27%) received by JEDC for timber sales were not processed timely. JEDC received four checks totaling \$52,956 on January 6, 2011. These checks were forwarded to ASD for deposit on March 3, 2011.
- c. JEDC did not notify RCS about 1 out of 15 (or 7%) checks received.
- d. JEDC does not record checks received for RCS' timber in its check log.

Recommendation to Finding 3 – 2

To correct issues related to the timber sales administration process, JEDC should establish and enforce a set of standard operating procedures that would include strong internal controls over the timber sales administration process.

Finding 3 – 3 *Rental Revenues Collection Process – Various Issues*

We noted instances where JEDC did not collect rental payments in a proper and timely manner:

- a. Three payments (two for \$1,666 and one for \$858) sent by two different tenants were not received and/or deposited by JEDC for a few months after the due date. These issues

were discovered after tenants' inquires about the status of the checks since they never cleared the tenants' banks.

- b. 14 out of 45 (or 31%) rental payments tested were received by JEDC on average 14 days after the due date. Pursuant to the rental contracts, JEDC could have collected up to \$5,792 in late fees, but did not.

Recommendation to Finding 3 – 3

To correct issues related to rental revenues collection, JEDC should establish and enforce a set of standard operating procedures that include strong internal controls over rental revenue collection. For example, a schedule of monthly payments for each lease should be maintained by JEDC staff and periodically reviewed by the supervisor.

SUPPLEMENTAL INTERNAL CONTROL WEAKNESSES

Internal Control Weakness 4 – 1 *Lack of Standard Operating Procedures*

JEDC does not maintain standard operating procedures (SOPs). SOPs establish guidelines for the employees and are considered a good business practice. A lack of SOPs can result in inefficiencies and inconsistencies. It also makes it difficult to train and hold employees accountable since they might not be aware of their responsibilities.

Recommendation to Internal Control Weakness 4– 1

JEDC should develop, implement and continuously update detailed standard operating procedures for all of JEDC's operations.

Internal Control Weakness 4 – 2 *No Controls to Prevent Misappropriation of Checks*

There are no controls in place to ensure that checks received by JEDC's employees are deposited into the City's account. Currently, there are at least three employees at JEDC that receive checks by mail. The mail is not opened by the receptionist, and other employees have little to no knowledge about incoming checks. Therefore, it is possible for a check to be diverted without it being discovered.

Recommendation to Internal Control Weakness 4 – 2

JEDC should establish a new process of handling mail and checks which should be outlined in detail in the standard operating procedures to be created by JEDC. All incoming mail should be opened by a designated employee (without recordkeeping responsibilities) who should restrictively endorse checks and prepare a list of all checks received. Checks should be forwarded to a person responsible for deposits. This employee should sign off on the list

acknowledging the count and transfer of checks and should notify personnel responsible for overseeing the areas of operations for which checks are received.

Internal Control Weakness 4 – 3 *Lack of Segregation of Duties in JaxPro*

There was a lack of segregation of duties for JEDC employees in the JaxPro Procurement System. JEDC’s Administrative Assistant had access rights that allowed her to create a requisition and approve it. Such lack of separation of duties increases the possibility of fraud. While this issue was promptly addressed by JEDC when we brought it to their attention, we noted that the City Procurement Division does not have current policies that address access rights. The separation of duties is encouraged, but department heads are ultimately responsible for the assignment of access rights.

Recommendation to Internal Control Weakness 4 – 3

The Procurement Division should review and update its procedures on access rights setup and monitoring to ensure that a proper segregation of duties is not only encouraged, but enforced for all JaxPro users.

Procurement Division’s Response to Internal Control Weakness 4 – 3

Agree Disagree Partially Agree

Procurement has updated the form for JaxPRO access to include a statement that outlines that the individual that enters must be separate from the approval of the same. This revised form will be updated in our document (portal library) for agencies to utilize when requesting access.

SUPPLEMENTAL FINDINGS

Finding 4 – 1 *Minimal Advertising For the Procurement of Multimillion Contracts*

The City’s Procurement Code allows contracts worth millions of dollars to be awarded after minimal advertising. City Procurement posts requests for proposals (RFPs) on the City’s website and advertises them once in the Financial News & Daily Record, a newspaper publication with a daily distribution of 6,300 copies, unless a using agency requests additional optional advertising. While the Procurement Code encourages a listing agency to provide City Procurement with a list of professional service providers to whom it desires notification of the RFP, it is not a requirement.

Recommendation to Finding 4 – 1

The Procurement Code should be modified to increase the effectiveness of the advertising process for large contracts in order to obtain more responses. Obviously, more responses could result in the City receiving a better product or service and/or a lower price.

Procurement Division's Response to Finding 4 – 1

Agree Disagree Partially Agree

There is no modification to the Procurement Code required to address this issue. Procurement, in most cases, receives a solicitation list from the requesting agency for soliciting above and beyond the paper and web advertisements. Procurement will make an extra effort to reiterate to requesting agencies to provide a solicitation list.

Finding 4 – 2 *Procurement – Lost File For Timber Sale*

The Procurement Division has misplaced its file for one of the timber sales contracts which was awarded in September 2008. Per State of Florida General Records Schedule GS1-SL, bidding documentation shall be retained for five years after the award of the contract.

Recommendation to Finding 4 – 2

Procurement should review GS1-SL requirements and its filing system to ensure that documentation is filed and retained in a proper manner.

Procurement Division's Response to Finding 4 – 2

Agree Disagree Partially Agree

Procurement is aware of the records retention requirements referenced and complies with the same. The referenced missing file is an isolated incident. When Procurement relocated to the Ed Ball Building in 2009, an extra effort was made to build-out a secure, locked location for our files due to frequent review of the files from internal/external sources such as; auditors, media, etc.

SUPPLEMENTAL OPPORTUNITIES FOR IMPROVEMENT

Opportunity for Improvement 4 – 1 *Potential Savings of \$180,000 per Year*

The City could save money by moving JEDC into a building owned by the City (e.g. the former Procurement Office at City Hall is currently vacant). Currently, JEDC is leasing office space at the building owned by the Police & Fire Pension Fund which is a City independent agency. The rent is approximately \$180,000 per year. While JEDC would still be internally charged rent in a City-owned building, this funding would remain within the General Fund, and the Police & Fire Pension Fund could rent the vacated space to an external entity.

Recommendation to Opportunity for Improvement 4 – 1

JEDC should coordinate with the Public Works Department to arrange for JEDC to move into a City-owned building. This will save the General Fund approximately \$180,000 per year.

Public Works Department's Response to Opportunity for Improvement 4 – 1

Agree Disagree Partially Agree

Public Works agrees with the determination that relocating JEDC to a city-owned facility would ultimately result in cost savings. Based on JEDC's current office requirements, Public Works has identified sufficient, readily-available space within the area formerly occupied by Procurement on the third floor of City Hall.

The lease on JEDC's current space is scheduled to expire January 31, 2014, with a monthly rent of \$19,320.25. The build-out balance due on that space is \$4,489.91 as of October 1, 2011.

Opportunity for Improvement 4 – 2 *Excessive Equity in Cecil Field Trust Fund*

The Cecil Field Trust Fund (subfund 759) ended each of the three years within our audit scope with approximately \$3 million in cash on hand that could have been used to offset contributions from the General Fund. During these three years, the General Fund contributed a total of \$2,374,627 to the trust fund.

Recommendation to Opportunity for Improvement 4 – 2

JEDC should coordinate with the Budget Office to use the Trust Fund's accumulated balance to reduce or eliminate subsidies from the General Fund.

Budget Office's Response to Opportunity for Improvement 4 – 2

Agree Disagree Partially Agree

We disagree with the recommendation. With the future development that will occur at Cecil Field, we are not supportive of reducing the accumulated cash on hand in subfund 759 precipitously. In addition, drawing down the funds quickly will provide temporary relief to the General Fund in one year, but create a funding issue in future years. We would prefer to meet with the Council Auditors and the JEDC to discuss an appropriate minimum level of cash reserves for the Trust Fund and what future capital improvements should be funded with the Trust Fund.

Opportunity for Improvement 4 – 3 *Excessive Equity in Sports and Film Trust Funds*

Sports (subfund 752) and Film (subfund 753) Trust Funds have accumulated cash balances that could be used to offset the subsidy from the General Fund for the next fiscal year. As of the end

of FY 2009/10, the Sports Trust Fund had over \$593,000 in cash while the Film Trust Fund had over \$17,000.

Recommendation to Opportunity for Improvement 4 – 3

JEDC should coordinate with the Budget Office to reduce the General Fund subsidy to JEDC by using accumulated cash in the Sports and Film Trust Funds during the next budget cycle.

Budget Office's Response to Opportunity for Improvement 4 – 3

Agree Disagree Partially Agree

We partially agree with the recommendation. We should come to an agreement with the Council Auditors and the JEDC on the appropriate uses and expenditure of these trust funds.

Opportunity for Improvement 4 – 4 *Lack of Cross-Training*

There is a lack of cross-training within JEDC. Some of the JEDC's activities are performed by certain employees only. Cross-training is a good business practice that improves an entity's flexibility and efficiency and also diminishes negative operational consequences in the event an employee is not available. Per our conversations with the Sports and Entertainment Coordinator and the Compliance Coordinator, no one else at JEDC is trained to perform duties related to sporting events and economic incentives in the event these two employees leave, get sick or take an extended vacation.

Recommendation to Opportunity for Improvement Weakness 4 – 4

JEDC should reasonably cross-train its employees to prevent a loss of institutional knowledge and operational difficulties.

Respectfully submitted,



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Council Auditor

Audit performed by:

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