

CITY OF MIAMI, FLORIDA

COMPLIANCE REPORTS

SEPTEMBER 30, 2004

CITY OF MIAMI, FLORIDA

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**Report of Independent Certified Public Accountants on Internal Control over
Financial Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with *Government Auditing Standards***

Honorable Mayor, City Commission and City Manager
City of Miami, Florida

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Miami, Florida (the City) as of and for the fiscal year ended September 30, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 8, 2005. We did not audit the financial statements of the Southeast Overtown Park West Redevelopment Agency, the Omni Redevelopment Agency, the Gusman and Olympia Special Revenue Fund, the Virginia Key Beach Park Trust, the Model City Community Revitalization District Trust, the Firefighters' and Police Officers' Retirement Trust and the General Employees' and Sanitation Employees' Retirement Trust, which represent 90% and 75%, respectively, of the assets and revenues of the aggregate remaining fund information. We also did not audit the financial statements of the Downtown Development Authority, the Department of Off-Street Parking, the Miami Sports and Exhibition Authority and the Bayfront Park Management Trust discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate remaining fund information and discretely presented component units is based on the report of the other auditors. Our report herein does not address their respective internal control. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 04-01.



Honorable Mayor, City Commission and City Manager
City of Miami, Florida
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A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition referred to above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City in the accompanying schedule of findings and questioned costs.

This report is intended solely for the information and use of the Mayor, City Commission, management and regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties.

Rachlin Cohen + Holtz LLP

Miami, Florida
February 8, 2005

Management Letter in Accordance with the Rules of the Auditor General of the State of Florida

Honorable Mayor, City Commission and City Manager
City of Miami, Florida

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Miami, Florida (the City) as of and for the fiscal year ended September 30, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 8, 2005. We did not audit the financial statements of the Southeast Overtown Park West Redevelopment Agency, the Omni Redevelopment Agency, the Gusman and Olympia Special Revenue Fund, the Virginia Key Beach Park Trust, the Model City Community Revitalization District Trust, the Firefighters' and Police Officers' Retirement Trust and the General Employees' and Sanitation Employees' Retirement Trust, which represent 90% and 75%, respectively, of the assets and revenues of the aggregate remaining fund information. We also did not audit the financial statements of the Downtown Development Authority, the Department of Off-Street Parking, the Miami Sports and Exhibition Authority and the Bayfront Park Management Trust discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate remaining fund information and discretely presented component units, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and Chapter 10.550 Rules of the Auditor General. We have issued our Report of Independent Certified Public Accountants on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements, Report of Independent Certified Public Accountants on Compliance and Internal Control Over Compliance Applicable to each Major Federal Awards Program and State Financial Assistance Project and the Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated February 8, 2005, should be considered in conjunction with this management letter.

In connection with our audit of basic financial statements of the City for the year ended September 30, 2004, we report the following in accordance with Chapter 10.550 Rules of the Auditor General, *Local Government Entity Audits*, which requires that this report specifically address but not be limited to the matters outlined in Rule 10.554(1)(h):

1. Corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit, except as reported in the accompanying summary schedule of prior audit findings.

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2. The City was in compliance with Section 218.415, Florida Statutes, regarding the investment of public funds.
3. Recommendations to improve the City's financial management and accounting procedures accompany this report in the schedule of findings and questioned costs.
4. During the course of our audit, other than matters that are clearly inconsequential, considering both quantitative and qualitative factors, nothing came to our attention that the City:
 - a. Was in violation of any laws, rules or regulations and contractual provisions or abuses that have occurred, or were likely to have occurred, or were discovered within the scope of the audit.
 - b. Made any improper or illegal expenditures that were discovered within the scope of the audit that may materially affect the financial statements.
 - c. Had deficiencies in internal control that are reportable conditions including but not limited to:
 - (1) Improper or inadequate accounting procedures, except as reported in the schedule of findings and questioned costs
 - (2) Failures to properly record financial transactions
 - (3) Other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that came to the attention of the auditor.
5. The name and official title and legal authority for the primary government (the City) and each component unit of the reporting entity as defined in publications cited in Rule 10.553 are disclosed in the notes to the financial statements.
6.
 - a. The City, during fiscal year 2004, was not in a state of financial emergency as defined by Florida Statutes 218.503(1).
 - b. The annual financial report for the year ended September 30, 2004 has been filed with the Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes and is in agreement with the audited financial statements for the fiscal year ended September 30, 2004.
 - c. During the course of our audit, we applied financial condition assessment procedures pursuant to Rule 10.556(8). It is management's responsibility to monitor the City's financial condition, and our financial condition assessment, which was performed as of the City's fiscal year end, was based on representations made by management and the review of financial information provided by the City. There were no findings that identified deteriorating financial conditions.

This report is intended solely for the information and use of the Mayor, City Commission, management and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

Rachlin Cohen & Holtz LLP

Miami, Florida
February 8, 2005

**Report of Independent Certified Public Accountants on
Compliance and Internal Control over Compliance Applicable to
Each Major Federal Awards Program and State Financial Assistance Projects**

Honorable Mayor, City Commission and City Manager
City of Miami, Florida

Compliance

We have audited the compliance of the City of Miami, Florida (the City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*, and the requirements described in the Executive Office of the Governor's State Projects Compliance Supplement, that are applicable to each of its major federal awards programs and state financial assistance projects for the fiscal year ended September 30, 2004. The City's major federal awards programs and state financial assistance projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs and state financial assistance projects is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.550, Rules of the Auditor General. Those standards, OMB Circular A-133, and Chapter 10.550, Rules of the Auditor General, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have direct and material effect on major federal program or state financial assistance project occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material aspects, with the requirements referred to above that are applicable to each of its major federal programs and state financial assistance projects for the fiscal year ended September 30, 2004. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 04-14 and 04-15.



Honorable Mayor, City Commission and City Manager
City of Miami, Florida
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Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs and state financial assistance projects. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on major federal programs and state financial assistance projects in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, and Chapter 10.550, Rules of the Auditor General.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program or state financial assistance project being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards and State Financial Assistance Projects

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Miami, Florida as of and for the year ended September 30, 2004, and have issued our report thereon dated February 8, 2005, which referred to our use of the reports of other auditors. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Miami, Florida's basic financial statements. The accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by OMB Circular A-133 and Chapter 10.550, Rules of the Auditor General and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Mayor, City Commission, management and specific legislative or regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties.

Rachlin Cohen & Holtz LLP

Miami, Florida
February 8, 2005

City of Miami
Schedule of Expenditures of Federal Awards and State Financial Assistance
Year Ended September 30, 2004

Federal Grantor / State Agency pass-through grantor/program Title	CFDA/ CSFA Number	Grant/Contract Number	State	Expenditures	
				Federal	Total
U. S. Department of Agriculture					
Pass-through Florida Department of Education	10.225	04-0899	\$ -	\$ 433,628	\$ 433,628
Summer Food Service Program					
Pass-through Florida Department of Health	10.558	S-576	-	62,880	62,880
Child Care Food Program				496,508	496,508
Total Department					
Federal Emergency Management Agency (FEMA)					
FEMA/Assistance to Firefighters Grant Award	97.004	EMW-2002-FG-15718	-	278,215	278,215
FEMA	97.036	N/A	-	1,061,231	1,061,231
FEMA - Mutual Aid	N/A	N/A	-	369,508	369,508
FEMA/USAR Grant Award	97.025	EMW-2000-CA-0033	-	41,756	41,756
Total Department				1,750,710	1,750,710
US Department of Homeland Security					
South Florida US&R Program	97.025	EMW-95-K-4718	-	232,164	232,164
US&R Weapons of Mass Destruction	97.025	EMW-2003-CA-0059	-	433,546	433,546
Urban Search and Rescue '03-'05	97.025	EMW-2003-CA-0295	-	254,738	254,738
Subtotal Direct Programs				920,448	920,448
Pass-through FL Dept. of Community Affairs:					
Urban Area Security Initiative Grant Program	97.008	04-DS-1S-11-23-02-199	-	2,882,246	2,882,246
Total Department				3,802,694	3,802,694
U. S. Department of Housing and Urban Development (HUD)					
Section 8 Housing Assistance Payment	14.856	FL145MR0001/002	-	3,204,807	3,204,807
Emergency Shelter Grant (ESG)	14.231	S-03-MC120002	-	425,501	425,501
Housing Opportunities for Persons with Aids	14.241	FL-H03-F-005	-	13,140,679	13,140,679
Home Investment Partnership	14.239	M-03-MC-12-0211	-	5,692,128	5,692,128
Community Development Block Grant (CDBG)	14.218	B-03-MC-12-0013	-	10,756,454	10,756,454
Housing Loan Recovery Fund	14.218	N/A	-	88,399	88,399
Subtotal Direct Programs				33,307,968	33,307,968

City of Miami
Schedule of Expenditures of Federal Awards and State Financial Assistance
Year Ended September 30, 2004

Federal Grantor / State Agency pass-through grantor/program Title	CFDA/ CSFA Number	Grant/Contract Number	State	Expenditures	
				Federal	Total
Pass-through Miami-Dade County Homeless Trust Super NOFA Supportive Services Human Alliance	14.218 14.218	FL14B000003 N/A	\$ - -	\$ 277,807 65,050	\$ 277,807 65,050
Total Department			-	33,650,825	33,650,825
U. S. Department of Justice					
Bulletproof Vest Partnership Grant	16.607	99002927	-	31,522	31,522
Gang Resistance Education and Training (GREAT)	16.012	ATC03000178	-	28,603	28,603
Local Law Enforcement Block Grant	16.592	2003-LB-BX-2664	-	2,535,490	2,535,490
Distressed Neighborhood Grant	16.710	98-CQ-WX-0016	-	753,388	753,388
COPS MORE 98	16.710	98-CL-WX-0199	-	8,018	8,018
COPS 311	16.710	1999-CK-WX-0025	-	91,980	91,980
U. S. Law Enforcement Trust Fund	N/A	N/A	-	1,195,661	1,195,661
Subtotal Direct Programs			-	4,644,662	4,644,662
Pass-through Monroe County, Florida: South Florida Cali Cartel Enforcement Group	16.001	I2PMIP5101	-	6,593	6,593
Wynwood/HIDTA Crime and Drug Demand Reduction Program	16.002	I2PMIP590/ I3PMIP586/I4PMIP586	-	45,172	45,172
Pass-through Florida Department of Community Affairs Stop The Violence Against Woman	16.588	LJ180	-	147,703	147,703
Pass-through Miami Dade County: Weed and Seed Programs	16.595	N/A	-	142,764	142,764
Total Department			-	4,986,894	4,986,894
U.S. Department of Interior					
Virginia Key Beach Park Trust	15.904	G5035030123	-	51,473	51,473
U.S. Department of State					
FTAA Reimbursement Fund	N/A	SDSASD04GR001	-	8,499,999	8,499,999
State of Florida, Department of Children and Families					
Outreach to Homeless Detainees	60.015	KF099	76,286	-	76,286
Pass-through Miami-Dade County: 2004 State Challenge Homeless Grant	60.015	N/A	6,606	-	6,606
Total Department			82,892	-	82,892

City of Miami
Schedule of Expenditures of Federal Awards and State Financial Assistance
Year Ended September 30, 2004

Federal Grantor / State Agency pass-through grantor/program Title	CFDA/ CSFA Number	Grant/Contract Number	State	Federal	Total
<u>State of Florida, Department of Environmental Protection</u> Florida Recreation Development Assistance Program	37.017	F03416	\$ 180,954	\$ -	\$ 180,954
<u>State of Florida, Department of Community Affairs</u> FEMA	N/A	N/A	137,140	-	137,140
<u>State of Florida, Department of Agriculture and Consumer Services</u> Urban and Community Forestry Grant	42.012	02-43	19,900	-	19,900
<u>State of Florida, Department of Health</u> State of Florida Emergency Medical Services Matching Grant M3004 Pass-through Miami-Dade County: Emergency Medical Services County Grant	64.003 64.005	M3004 C2013	157,218 20,231	-	157,218 20,231
Total Department			<u>177,449</u>	<u>-</u>	<u>177,449</u>
<u>State of Florida, Department of Law Enforcement</u> Investigative Costs Recovery Violent Crime and Drug Control Council Grant School Resource Officer Project	71.004 71.005 71.005	N/A N/A HSB444	272 26,350 105,228	-	272 26,350 105,228
Total Department			<u>131,850</u>	<u>-</u>	<u>131,850</u>
<u>State of Florida, Department of Transportation</u> Dupont Plaza Project	N/A	N/A	127,336	-	127,336
<u>State of Florida, Housing Finance Agency</u> State Housing Initiative Project (SHIP)	52.901	N/A	2,145,399	-	2,145,399
TOTAL EXPENDITURES FOR FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE			<u>\$ 3,002,919</u>	<u>\$ 53,239,103</u>	<u>\$ 56,242,021</u>

CITY OF MIAMI, FLORIDA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE PROJECTS

SEPTEMBER 30, 2004

(1) General

The accompanying schedule of expenditures of federal awards and state financial assistance projects (the Schedule) presents the expenditures of all federal awards and state financial assistance projects of the City of Miami, Florida (the City) for the year ended September 30, 2004. The City's reporting entity is described in note 1 to the City's basic financial statements. Federal awards and state financial assistance projects expended from federal and state agencies, and federal awards and state financial assistance projects passed through other government agencies are included on the Schedule.

(2) Basis of Accounting

The accompanying Schedule is presented using the modified accrual basis of accounting, which is described in note 1 to the City's basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non Profit Organizations* and Chapter 10.550, *Rules of the Auditor General*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

(3) Subrecipients

Of the federal and state expenditures presented in the schedule of federal awards and state financial assistance, the City provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Federal:		
U.S. Department of Housing and Urban Development Community Development Block Grant	14.218	\$ 6,696,643
U.S. Department of Housing and Urban Development Housing Opportunities for Persons with AIDS	14.241	10,862,456
U.S. Department of Housing and Urban Development Home Investment Partnership	14.239	5,219,131
U.S. Department of Housing and Urban Development Section 8 Housing Assistance	14.856	<u>2,763,129</u>
Total Federal		<u>\$ 25,541,359</u>

CITY OF MIAMI, FLORIDA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FISCAL YEAR ENDED SEPTEMBER 30, 2004

PRIOR YEAR FINANCIAL STATEMENT FINDINGS AND STATUS

The following addresses the status of financial statement findings reported in the fiscal year ended September 30, 2003 schedule of findings and questioned costs.

Matters that are repeated in the accompanying schedule of findings and questioned costs

- 03-01 – Capital Assets
- 03-02 – Payroll Audit Trail Report
- 02-02 – Managing Critical Network Characteristics
- 01-02 – Budgeting
- 01-03 – Time Recording – Overtime
- 00-05 – Grant Accounting
- 00-07 – Logical Security – User Termination
- 99-03 – Financial Reporting
- 97-06 – User Access Codes

Matters that are not repeated in the accompanying schedule of findings and questioned costs

- 03-03 – Fraud Policies and Procedures
- 02-01 – Risk Management – Workers’ Compensation Claims
- 01-04 – Vendor Master Files
- 00-02 – Statement on Auditing Standards (SAS) 70 Report

PRIOR YEAR FEDERAL AWARD FINDINGS

The following addresses the status of federal award findings reported in the fiscal year ended September 30, 2003 Schedule of Findings and Questioned Costs.

Matters that are not repeated in the accompanying schedule of findings and questioned costs

- 03-01 – Program – U.S. Department of Housing and Urban Development – Community Development Block Grant (CDBG) – (CFDA No. 14.218)
- 03-02 – Program - U.S. Department of Housing and Urban Development – Community Development Block Grant (CBG) – (CFDA No. 14.218)
- 03-03 – Program - Federal Emergency Management Agency (FEMA) – Urban Search and Rescue – (CFDA No. 83.526)

CITY OF MIAMI, FLORIDA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FISCAL YEAR ENDED SEPTEMBER 30, 2004

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:	<i>Unqualified Opinion</i>
Internal control over financial reporting:	
Material weakness(es) identified?	___ yes <u> X </u> No
Reportable condition(s) identified not considered to be material weakness?	<u> X </u> yes ___ none reported
Noncompliance material to financial statements noted?	___ yes <u> X </u> No

Federal Awards Programs and State Financial Assistance Projects

Internal control over major federal awards programs and State Financial Assistance Projects:	
Material weakness(es) identified?	___ yes <u> X </u> No
Reportable condition(s) identified not considered to be material weakness?	___ yes <u> X </u> none reported

Type of auditor’s report issued on compliance for major federal awards programs and State Financial Assistance Projects:	<i>Unqualified Opinion</i>
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Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a) or Chapter 10.550, Rules of the Auditor General?	___ yes <u> X </u> No
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Identification of major federal awards program and state financial assistance projects:

<u>Federal Programs</u>	<u>Federal CFDA No.</u>
U.S. Department of Housing and Urban Development:	
Community Development Block Grant	14.218
HOME Investment Partnership	14.239
Section 8 Housing Assistance Payment	14.856
U.S. Department of Justice – Local Law Enforcement Block	16.592
U.S. Department of Homeland Security:	
Federal Emergency Management Agency (FEMA)	97.036
Urban Area Security Initiative Grant Program	97.008
U.S. Department of State – FTAA Reimbursement Fund	N/A

<u>State Projects</u>	<u>State CSFA No.</u>
State Housing Initiatives Partnership	52.901

Dollar threshold used to distinguish between Type A and Type B programs:		
Federal	\$1,597,173	
State	\$ 300,000	

Auditee qualified as low risk auditee for audit of federal awards program?	<u> X </u> Yes ___ No
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CITY OF MIAMI, FLORIDA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FISCAL YEAR ENDED SEPTEMBER 30, 2004

SECTION II – FINANCIAL STATEMENT FINDINGS

Reportable Conditions

04-01 Cash

At the commencement of our engagement, we were provided with a payroll bank reconciliation which was not in agreement with the amount reflected on the City's books and records. We noted that the payroll cash balance reflected on the books and records was overstated by approximately \$246,000. We also noted that the cash balances reflected on the books and records of the City included non-cash items which overstated cash by approximately \$218,000. These items were comprised of the account balances of certain payroll liability accounts, which should have reflected zero balances. The City's Finance Department was advised of these matters, and after their review of these items, it was determined that an adjustment to reduce the amount reflected as cash on the City's books and records of approximately \$464,000 was required.

Recommendation

The prime function of a properly executed bank reconciliation is to ascertain that the books and records of the City and the records maintained by the depository are in agreement. The proper preparation of a bank reconciliation is an effective control over the accuracy of the City's records. We recommend that bank reconciliations be performed on a timely basis, and all differences be investigated and promptly resolved. This procedure is critical to ensuring the accuracy of the City's records, and maintaining an effective internal control system.

We also suggest that the Payroll Department be required to prepare a formal analysis of all payroll related liability accounts on a monthly basis and that the analysis be submitted to the Finance Director for review.

Management Response

City staff concurs with the comment. The City has adjusted the amount and revised our policy and procedures as it relates to the bank reconciliation and payroll processing.

Other Matters

04-02 Financial Records

Our audit procedures included the performance of extensive procedures on the amounts recorded as assets, liabilities, revenues, expenditures and fund balances amongst the various funds of the City. Our findings are enumerated below.

- We noted that the allowance for doubtful accounts recorded for the MOORE system accounts receivables was based on an aging report that did not reconcile with the accounts receivable report as of the fiscal year end. We were advised, and noted, that the aging report excludes penalties and interest, amounts with collection agencies and certain other categories of receivables. The report was developed several years ago and has been used as the basis for recording the allowance for doubtful accounts for many years. Based on our audit procedures, it was determined that the allowance

CITY OF MIAMI, FLORIDA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

account was understated by approximately \$1.2 million. Our review of the GEMS receivables and the related allowance disclosed that the subsidiary records did not reconcile to the general ledger, and that the allowance was overstated, thereby requiring adjustments.

- We noted that the amounts recorded in the accrued payroll, accounts payable, retainages payable and due to other governments liability accounts as of the fiscal year end included amounts that could not be substantiated. We also noted that the accounts payable balance reflected on the books and records for the Public Facilities Capital Projects Fund was not in agreement with supporting documentation.
- Our audit of the balances reflected as deposits refundable in the General Fund disclosed that there are deposits that have remained inactive in excess of several years. There are also amounts that cannot be substantiated with supporting documentation primarily due to the age of the deposits.

Recommendation

During the audit, we recommended a substantial number of adjusting journal entries. Substantially all of the entries were to correct bookkeeping errors or to make accruals and other adjustments that should have been made by the Finance Department. In some instances, some of the adjustments were the result of data not being prepared by City staff, and reviewed by supervisory staff, on a timely basis. Others resulted from the fact that departments had not submitted invoices to the Finance Department on a timely basis. We believe that a review and evaluation of transactions recorded at year end should be performed to ensure the validity of amounts recorded and that departments be required to submit invoices to the Finance Department within 10 business days of receipt. Furthermore, we recommend that a detailed general ledger account analysis be performed on a monthly basis and reviewed by supervisory Finance Department staff to ensure accurate recording of transactions.

The City should consider developing formal year end closing procedures. These procedures should include timetables outlining appropriate due dates and instructions for schedules that should be prepared. The closing procedures should be documented in a formal checklist that indicates the individual responsible for the task, when it is due to be completed and when it is accomplished.

Management Response

We concur with the findings and recommendations. The City has addressed these findings and we are working closely with the other City departments to ensure that these adjustments are made and reviewed on a timely basis.

The Moore Accounts Receivable System reports do not include certain categories (e.g. penalties and interest) and are therefore not included in the allowance for doubtful accounts. The City is replacing the current accounts receivable reporting system (Moore) with the Oracle eBusiness Suite 11i Accounts Receivable application. This application will enhance the City's ability to effectively record, bill, and monitor all outstanding accounts receivable of the City. The Oracle system that will be implemented in October 2005 will address these concerns and City staff will be able to record these accounts properly.

04-03 Capital Assets

The establishment and maintenance of accounting records for capital assets are necessary to help assure that City property and equipment are not stolen, misused or subjected to undue wear and tear. These

CITY OF MIAMI, FLORIDA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

records are a necessary element in an on-going governmental capital asset repair and preventative maintenance program and enhance efforts to obtain optimal insurance coverage. Our audit disclosed the following conditions:

- The City has established expenditure accounts to record capital assets. The director of each department is responsible for determining the expenditure code to be used for each purchase. There is no input validation to detect and correct classification errors. Each month, a detailed report of all charges to these accounts is generated. This report is reviewed by the capital asset clerk who determines which items should be capitalized. Our audit procedures to validate capital asset additions disclosed several instances where capital assets purchased and appearing on this detailed report were not capitalized. We also noted instances where items capitalized did not meet the definition of a capital asset and instances where the amounts capitalized were not in agreement with the invoiced cost.
- At the end of the fiscal year, a report is generated from GEMS (Sort Report) detailing all capital assets. This information is then exported to an excel spreadsheet where it is sorted by category and tallied. Based on the resulting data, entries are booked to the general ledger. The current Sort Report from GEMS was a redevelopment of the older SCI sort report, however, it was noted that these reports are not in agreement. Furthermore, the new Sort Report lists more capital assets than the prior report. This resulted in an adjustment required to reconcile capital assets reported to underlying documentation.
- Based on our review of the City Commission's minutes, we noted that the City had entered into a five year lease agreement for the purchase of computer equipment. The total cost of the equipment is approximately \$3.2 million. We noted that this equipment, and the related liability, had not been reflected on the books and records of account, but rather, the lease was recorded as an operating lease. The impact was not material to the financial statements of the City.
- The schedule of construction-in-progress initially prepared by City staff only reflected additions to construction-in-progress. A review of the prior year financial statement indicated that only additions to construction-in-progress were reported as well. Discussions with the Finance Department resulted in the City staff performing an in-depth analysis of construction-in-progress to determine those projects that were in fact completed, and should have been transferred to the appropriate asset category and depreciated. In addition, a new schedule of construction-in-progress as of the fiscal year end, detailed by contractor, was prepared.

Recommendation

We recommend that work performed by the capital asset clerk be reviewed on a monthly basis to ensure that all assets above the capitalization threshold are captured and properly recorded. Procedures should also be implemented to ensure that the Finance Department is apprised of assets acquired by methods other than a direct purchase, to ensure the proper recording on the books and records of account.

The City, in prior years, had retained an outside appraisal service to inventory the City's capital assets. This inventory encompassed all assets, except machinery and equipment and building improvements, which were inventoried by City staff. We suggest that the City during the ensuing year, perform an inventory of all machinery and equipment owned by the City to ensure the existence of all capital assets.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

The City has a significant number of projects that are in progress as of the end of the fiscal year. We recommend the department responsible for construction-in-progress implement procedures to ensure that completed projects are transferred to the appropriate asset category on a timely basis.

Management Response

The City is currently in the process of implementing an ERP system that will replace the current financial application. The implementation includes a fixed asset module which will provide the necessary controls to ensure that the City's assets are properly recorded. In addition, the City will be conducting a complete physical inventory of all machinery and equipment to validate existing records and the conversion to the new system.

04-04 Grant Accounting

Grant accounting provides that since expenditures are the prime factor for determining eligibility, revenue should be recognized when the expenditure is incurred. Our audit disclosed that the City, in numerous instances, had not recorded its revenues in accordance with this prescribed principle. It was noted that for grants where the funding received exceeded expenditures incurred, deferred revenues were not recorded. Additionally, it was noted that receivables were not always recorded when expenditures exceeded funding received to date.

Recommendation

Procedures should be implemented to monitor grant expenditures and grant receipts to ensure that the books and records are maintained in accordance with prescribed principles.

Management Response

The City is currently in the process of implementing an ERP system that will replace the current financial system. The implementation includes a projects and grants module that will assist the City in accounting for its projects and grants. The City is also centralizing its grant billing process within the Finance Department to ensure revenues are recorded timely and accurately.

04-05 Claims for Reimbursement

The City entered into an interlocal agreement with the Florida Department of Transportation for the Dupont Plaza Project. We noted that costs were incurred by the City for this project during the 2004 fiscal year; however, as of the completion of audit, claims for reimbursement had not yet been prepared for submission.

Recommendation

We suggest that the City implement procedures to monitor grant expenditures to facilitate the timely filing of claims to enhance cash flow.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Management Response

The City is currently in the process of implementing an ERP system that will replace the current financial system. The implementation includes a grants module that will assist the City in accounting for its grants. The City is also centralizing its grant billing process to ensure revenues are recorded timely and accurately.

04-06 Health Insurance

The City maintains a bank account which is used solely to pay health claims. Monies are wired into this account from the City's main depository account, on an as needed basis, upon notification from the City's third party plan administrator. The account should always have a zero balance in the City's general ledger. We noted that this account was not reflected on the books and records of the City, nor was a bank reconciliation prepared. Upon notification, the City's Finance Department prepared a bank reconciliation and the adjustments required to reflect this account on the books and records of the City.

Recommendation

We suggest this bank account, and the related transactions, be reflected on the books and records of the City and reconciled monthly.

Management Response

We concur with the findings and recommendations. City staff has addressed these findings and is working closely with all impacted City departments to ensure that these adjustments are made and reviewed on a timely basis.

The City is replacing the current accounts receivable reporting system (Moore) and general ledger system (Gems) with Oracle eBusiness Suite 11i Financial applications. These applications will enhance the City's ability effectively record, bill, and monitor all outstanding accounts receivable and cash balances of the City as well as properly record all general ledger transactions. The Oracle system that will be implemented in October 2005 will address these concerns and the City staff will be able to record these accounts properly.

04-07 Backups and Disaster Recovery Planning

Mainframe Operations

Mainframe backups consist of daily, weekly, monthly, quarterly, and yearly backups. Backup software provides a clear inventory of all backup tape sets and all backup schedules have appropriate configurations, rotations, retention periods, and expiration dates. Backup sets are rotated offsite. Yearly tapes containing financial information are retained for ten years. Test restoration is performed regularly and backup sets as old as four years have been tested. Expired backup tapes are physically destroyed by the Solid Waste department. The mainframe disaster recovery plan (DRP) consists of a leased cold site with similar mainframe hardware located in a geographically diverse datacenter. In the event of a catastrophic failure of the mainframe systems in the Miami datacenter, remote mainframe operations could be restored to full functionality within two days. The DRP is tested yearly.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Windows Server Operations

Policies, procedures and an external backup configuration list does not exist for ensuring the proper backup of information on the Windows systems infrastructure. A consistent offsite rotation scheme does not exist for all servers; some tape sets are exchanged between datacenters, but this process is not supervised or documented in a log. Monthly and quarterly backups do not exist for any servers. Additionally, a permanent yearly backup does not exist for the GEMS accounting server.

Minimal disaster recovery planning exists for Windows-based servers and applications including GEMS and other mission critical components.

Recommendation

Policies and procedures must be established that clearly list backup, rotation, and retention schedules for all Windows servers. Proper grandfather-father-son rotation schemes, with daily, weekly, monthly, quarterly, and yearly rotations, must be implemented for GEMS. These backup sets must be rotated offsite daily.

A DRP for critical Windows-applications and servers should be developed immediately. This DRP should be regularly updated as network-wide changes are made in preparation for the ERP deployment. DRP implementation should not wait for finalization of the ERP installation.

In light of the differences between the mainframe and Windows-server backups and disaster recovery planning, we are concerned with the City's plan to migrate critical application functionality from the mainframe to a Windows environment.

Management Response

Previous to June 2003, the City did not have a formalized Disaster Recovery Plan. In June 2003, the City entered into a 5 year agreement with Sungard for Disaster Recovery Services and Disaster Recovery Planning. Given that in excess of 85% of the City's enterprise data was housed (and still remains as of March 2005) in the City's legacy mainframe environment, the City focused its disaster recovery efforts on that legacy environment. In December 2003 and again in September 2004, the City successfully tested the recovery of the legacy environment at its remote Sungard Recovery site. Beginning in October 2004, the City began to fully develop its recovery plan for the Windows-applications and servers. At this time, the City has disaster recovery images for all Windows servers. These images are updated on a quarterly basis. Additionally, recovery scripts for the City's critical Windows servers have been developed and are fully documented. The City is currently developing a detailed recovery testing environment and schedule for the Windows environment. The City expects to perform recovery testing on all critical Windows based servers prior to December 2005. The City currently has a policy which requires the development of server/application recovery processes and scripts prior to any application/processing environment going into Production.

With regards to the issues of backups, rotation and retention schedules for all Windows servers, during the 2003 Disaster Recovery Plan development, a full matrix of open systems backups and retention periods for all essential City data was generated. These backups are monitored manually on a daily basis by senior IT technicians and rotated between the MRC and MPD sites to ensure that the data backups are not stored in the same location as the live data. This practice is not consistent with our standard of having the data

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

relocated to our offsite storage facility located in Broward; however, this issue was recognized previously by management and the appropriate steps were set in motion to correct this issue. On 2/1/2005, a purchase order was generated to procure the Veritas Vaulting software package to assist in the automatic rotation of data backups for the Windows servers, and beginning on 4/4/2005, all data backups listed in the Windows servers retention schedules were included in our offsite storage rotation process. Additionally, the City is seeking to strengthen our data recovery abilities by seeking bids to expand data backup pickups from the current business day cycle to 365 days a year (this will cover both mainframe and open systems data), and the duplication of database logs/audit files to a secondary City location. As new applications are added to the City's data processing environment, the appropriate backup procedures will be placed into production. The City currently has a policy of testing the recovery of its open systems data backups on a quarterly basis.

To specifically address the issue of the GEMS System backups, the data contained in the GEMS system is backed up daily with a retention period of 15 days, weekly with a retention period of 30 days and annually with a retention period of 7 years. To date, no business need has been established for monthly or quarterly backups of this system; however, IT is open to changing this process if requested by the Finance Department.

04-08 Payroll

Moore/GEMS Payroll Interface

The Moore system is responsible for processing all payroll data. During payroll processing, the Moore system generates an interface file which is automatically imported into a suspense account within GEMS, as well as creating an exception report of any importation failures. The Payroll Department reviews the exception report; makes any required corrections (usually creating accounts in GEMS); and posts the journal entries to the general ledger. The Moore/GEMS payroll interface has not been tested on a consistent basis by the Payroll Department.

Payroll Check Printing

Paychecks are printed in the main datacenter during payroll processing and transported to the payroll office in the MRC for signing. Signing is performed using a check signing machine and signature plates. The check stock and signing machine are stored in locked rooms and signature plates are stored in a safe. Checks contain preprinted sequence numbers. Policies and procedures do not exist for verifying check sequence numbers or reporting and investigating anomalies, however, a report is reviewed which lists all voided and missing checks. Check sequence anomalies are investigated informally.

Recommendation

Comparison of processing totals should be performed regularly to verify that the interface process executed properly. Policies and procedures should be established to require that check sequences are reviewed and formally documented each pay period. Any anomalies should be documented in a log and promptly investigated.

Management Response

Pre-numbered checks are stored and locked in the Data Operations Center in the Police Department. Each payroll, the Payroll Department obtains the next available check number from the Moore system.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

The number is confirmed with the operator in the Data Operations Center. When the Payroll Department receives the printed checks, they verify that the check sequence and the procedures are documented in our payroll processing procedures.

The City has revised the procedure of reconciling Payroll from the Moore system to the GEMS system. The Finance Department is reconciling each payroll cycle between the two systems.

04-09 Network Security

Although the new security group in the Information Technology Department (ITD) is responsible for most security tasks, user termination is still performed by the help desk. No written policies and procedures exist for disabling network access upon employee termination and the help desk is not consistently notified of these terminations.

Users with administrative privileges (administrators) have unrestricted access to all Windows servers and workstations connected to the network. Administrators may move or delete any file or database; modify any application stored on Windows-based servers (including GEMS); and delete audit logs which may record such movements. Many of ITD's employees, including temporary employees, have administrative access. The administrator password is not changed when privileged users leave or are terminated.

Recommendation

Access to network resources must be disabled immediately when an employee is terminated. Policies and procedures requiring informing the ITD in a timely manner about employee termination must be enforced. The security group should be responsible for disabling user access.

Job functions should be modified such that maximum privilege is not necessary. A system of hierarchical privileges should be implemented which provides ITD staff only with privileges necessary for their job function.

Policies should be established to require all privileged Windows passwords be changed every 90 days or immediately after a privileged user leaves or is terminated. Procedures should be created to manually change all passwords throughout the network, or, a software package should be implemented to make these changes in an automated fashion.

Management Response

The implementation of the ERP System should substantially assist the City in addressing the issues with network security in that roles and responsibilities will be able to be more finitely assigned and separated. In the future, roles will be defined so that individuals will have access limited their to responsibilities within the organization. Additionally, once self-service functionality is released to department managers, Oracle will process terminations on a real-time basis as opposed to the batch processing which currently occurs on a biweekly basis. It is the City's intent to include in the system design a workflow which will notify key parties within the organization that a termination is anticipated or has just been executed, thus providing the System Administrator in ITD authorization to remove said employees' access from all systems. In the interim, communications and training to management at the department level on the steps that should be followed to protect the City's systems and resources will be increased, and be held on a recurring basis to cover attrition and staff changes.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

04-10 Disposal of Workstations and Hard Disk Drives

One quarter of the City's workstations are replaced annually. Currently, older workstations are reused for the "Digital Divide" program which provides public access to computers with internet connectivity. Hard drives located in computers that are no longer utilized by City employees are only formatted and not cleared fully of information.

Recommendation

Formatting a hard drive does not fully purge information. The City should establish policies and procedures for fully overwriting all data from server and workstation hard drives before disposal.

Management Response

Management recognizes the deficiency of the City's current practice and as a result will take the following actions: 1) Generate a purchase order for Active KillDisk Professional and 2) upon receipt of the product, implement a policy requiring that this product be utilized to clear the contents of any operational hard drive taken out of production, and specify that a seven pass cleaning process be implemented consistent with US DoD 5220.22-M. While this new policy will dramatically increase the technician time required to process retired equipment, it will address the security concern outlined in the above recommendation.

04-11 ITD Organization

The ITD is divided into smaller operational groups; these groups are Applications Development ("Development"), Systems Software ("Systems"), Network Administration ("Networking"), Mainframe Operations ("Operations"), and Security. Other groups include Telecommunications and Web Development.

Segregation of Duties

Systems and application maintenance is performed by the same group. There should be segregation of duties between the groups that perform these tasks.

Overlap of Responsibilities between Systems and Networking

The main thrust of the Systems' group responsibilities is user support while the Networking group is primarily responsible for network-related issues and Windows servers. However, significant overlap exists between the Systems and Networking groups in the areas of network status monitoring, help desk and user support, installation of new PCs, and server installation and maintenance.

- The network is monitored by the Systems group, while network repair is the responsibility of the Networking group. User complaints are fielded by the help desk which is part of the Networking group, however, field technicians which are dispatched by the help desk, are part of the Systems group.
- New workstations are received, tagged and inventoried by the Networking group, but deployed by the Systems group. Workstation system images are created by the Networking group but deployed to workstations by the Systems group.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

- Server hardware and software installation and maintenance are handled by the Networking group, but server storage and backup infrastructure is maintained by the Systems group.

Recommendation

A clear delineation between network administration, user support, and server maintenance should be established. A clear chain of command must be established for all repair issues. The Systems group, which may be better named the "End User Support" group, should be responsible for all user-related support issues including receiving, tagging, inventorying, and installing equipment for users; creating and deploying workstation images; help desk (which should include field technicians) and software installation.

All network and server operations should be performed by the Networking group including network monitoring and repair; server storage and backup maintenance and vendor dispatch. In the event a server or networking problem is discovered by the Systems group, the problem must be handed off to the Networking group for diagnostics and repair. Any redundancy between staff responsibilities should be handled within each group. This will provide staff with increased focus on and specialization in particular areas.

Management Response

Management believes that the current segregation of duties within the Technical Services Division ensures efficiencies in operations and provides an appropriate level of internal control in our processes.

Using one of the examples cited: the receipt of workstations and their subsequent deployment. From ITD's perspective, the separation of these duties under two separate managers provides a very effective separation of duties when dealing with these critical IT assets. The field technicians in the Systems Group are required to produce a valid work order to the inventory control individuals who are assigned to the Networking Group. In this example, ITD administration believes that the separation of these duties provides more accountability in the process than having the same group (and manager) receive and deploy these assets.

Using a second example cited: the network is monitored by the Systems group, while network repair is the responsibility of the Networking Group: in actuality, a majority of the network troubleshooting and repair is done by the "Systems group" due to the fact that the Systems group has responsibility for the City's 60+ remote sites. ITD administration has found that there are significant operational efficiencies to be obtained by having individuals already in the field assume the task of network troubleshooting and repair. There is some overlap in that the two senior managers of these two groups are the most knowledgeable networking resources available to the City, and therefore, back each other up in this area.

In the third example cited: server hardware, installation and maintenance handled by the Networking group, but server storage and backup maintained by the Systems group: ITD's administration previously recognized this as an area for improvement and is currently working on a transitional plan to reposition these responsibilities.

Over the next year, as the City's IT infrastructure migrates from a predominately mainframe environment to a Windows server environment, the IT Department will be required to redefine the roles and responsibilities of its members including group and position titles. As this migration proceeds, ITD's

CITY OF MIAMI, FLORIDA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Administration will periodically adjust the department's organizational structure to reflect the changing environment and to improve/enhance service levels for our clients.

04-12 Succession Planning

The heads of every operational group are eligible for retirement or will be in the near future. Although the mainframe will be superseded by Windows-based servers, the mainframe and applications must be maintained for the length of the City's financial document retention policy. Both of the knowledgeable mainframe operators are eligible for retirement. Management has not addressed succession planning.

Recommendation

Due to the City's lengthy hiring process, the retirement of one or more operational heads could have a negative impact on the operations of the Information Technology Department. It is extremely important that successors within each group be designated and fully trained. If adequate personnel are unavailable, they must be hired.

Management Response

During the next 24 months, the environment and staffing will be in flux as legacy systems move from operational status into retirement and new systems move from development to production and operational support. The ITD organizational structure, development, staffing and training, as well as creation of a succession plan will be at high priority to ensure an orderly transformation of the IT operation of the City.

Other Information

04-13 Governmental Accounting Standards Board Statement No. 45 – Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions

As part of the total compensation offered to attract and retain the services of qualified employees, many state and local governmental employers, in addition to pensions, provide other post-employment benefits (OPEB). OPEB includes post-employment healthcare, as well as other forms of post-employment benefits when provided separately from a pension plan. The Governmental Accounting Standards Board has issued Statement No. 45 which establishes standards for the measurement, recognition, and display of OPEB expenses/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

Post-employment benefits (OPEB) are part of an exchange of salaries and benefits for employee services rendered, and are taken after the employee's services have ended. From an accrual accounting perspective, the cost of OPEB should be associated with the periods in which the exchange occurs, rather than with the periods, often many years later, when benefits are paid or provided. However, in current practice, most OPEB plans are financed on a pay-as-you-go basis, and financial statements generally do not report financial effects of OPEB until the promised benefits are paid. As a result, current financial reporting generally fails to recognize the cost of the benefits in periods when the related services are received by the employer, provide information about the actuarial accrued liabilities for promised benefits associated with past services and whether and to what extent those benefits have been funded and provide information useful in assessing potential demands on the employer's future cash flows. The Statement improves the relevance and usefulness of financial reporting by (a) requiring systematic, accrual basis

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

measurement and recognition of OPEB expense over a period that approximates employees' years of service and (b) providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan.

OPEB expenditures for governmental funds should be recognized on the modified accrual basis. The amount recognized should be equal to the amount contributed to the plan or expected to be liquidated with expendable available resources. Essentially, there is no change from current practice for governmental funds. However, for proprietary and government-wide financial statements, the accrual basis must be used. The accrual method will require the calculations to be made using actuarial computations and will result in the recognition of a present value liability which measures the value of OPEB benefits earned by employees during their tenure with the government and likely to be paid upon retirement. This calculation will result in substantial amounts, due to the current cost of such benefits and their escalating costs. It should also be emphasized that there is no requirement to fund these benefits with current resources. The Statement merely requires the reporting of the value of the benefit primarily in the government-wide financial statements. The computations are extremely complex and the use of an actuary will invariably be required.

The Statement would permit prospective implementation, that is, employers would be permitted to set the beginning net OPEB obligation at zero as of the beginning of the initial year. Implementation would occur in three phases based on the government's total annual revenues in the first fiscal year ending after June 15, 1999. The definitions and cutoff points for that purpose otherwise would be the same as in GASB's Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. For the City of Miami, this Statement is effective for periods beginning after June 15, 2006.

Recommendation

The contents of this statement are highly complex and will require significant lead time to implement on the respective implementation date. We would suggest that the City obtain a thorough understanding of the requirements and initiate planning for implementation in a prudent manner.

Management Response

City staff concurs with this comment. The Finance Department will inquire of Rachlin Cohen & Holtz LLP as to their assistance in implementing GASB No. 45. In addition, the Finance and Group Benefits staff will be participating in several training sessions within the next few months related to GASB No. 45 in order to obtain a better understanding of the intricacies of the implementation process.

PRIOR YEAR FINANCIAL STATEMENT FINDINGS AND STATUS

03-01 Capital Assets

The City should record capital assets at historical cost and depreciate them over their estimated useful lives unless they are inexhaustible. In order to properly record capital assets and related depreciation expense, the City must retain adequate records of all capital assets and update and record activity throughout the year. Additionally, assets purchased with federal or state grant funds should be specifically identified as being acquired with grant funds to help ensure compliance with the equipment and real property management requirements of the respective grant programs.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

The City does not have an adequate accounting system for the capital assets subsidiary ledger and accounting information systems to help ensure that capital asset balances are accurately recorded, properly labeled and monitored. The conditions noted are as follows:

- Balances recorded in the current capital assets subsidiary ledger did not include all balances that were inventoried and reported by the City's third-party consultant in fiscal year 2002.
- The City's accounting information system for capital assets is not designed to report depreciation expense by functional activities, departments or categories.
- The City's accounting information system does not allow for significant motivations to enable updates, changes and adjustments to previously recorded capital asset balances.

Failure to properly record, update and depreciate capital asset balances could result in misappropriations of assets or improper recording of capital asset balances and related depreciation expense for financial statement reporting and also violates federal and state grant requirements.

Recommendation

We recommend that the City improve the capital assets subsidiary ledger and accounting information systems to help ensure more accurate and complete recording of capital asset balances for financial reporting purposes. The City should also consider upgrading its capital assets module to include depreciation calculation capabilities. Additionally, capital assets purchased with federal and state funds should be appropriately labeled to help ensure accurate identification of the assets.

Status

The City is replacing the current financial reporting system (GEMS) with the Oracle eBusiness Suite 11i Financial application. This application will enhance the City's ability to effectively record, update and depreciate capital assets as well comply with mandated reporting requirements of various federal and state agencies. The timeline for the implementation of this System is October 1, 2005.

03-02 Payroll Audit Trail Report

The City has formal policies and guidelines related to the safeguarding and processing of human resources information including the processing of changes to employee records. The complete payroll audit trail reports are not reviewed each pay period to help ensure that no unauthorized changes were made to employee records. Failure to monitor and review the payroll audit trail reports could result in unauthorized changes made to employee's records without the knowledge of human resource management, resulting in inaccurate reporting of payroll expenses and the City's obligations to its employees.

Recommendation

We recommend that the City enhance its current policies and procedures to help ensure that all modifications to human resource records are reviewed and approved each pay period to help ensure that all changes to employee records are properly authorized.

CITY OF MIAMI, FLORIDA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Status

The City is replacing the Moore HR/Payroll Systems with the Oracle eBusiness Suite 11i HRMS applications. The new applications will produce edit change reports in order to identify all payroll changes made, thereby providing a mechanism of review for any unauthorized payroll changes. The timeline for the implementation of the HR/Payroll application is January 1, 2006.

02-02 Managing Critical Network Characteristics

The City currently has a City-wide network in place that links many locations throughout the City. A network of this magnitude should have a mechanism to centrally manage critical network characteristics such as availability, responsiveness, resilience and security. The City currently does not have a mechanism to centrally manage critical network characteristics such as availability, responsiveness, resilience and security. As the City network grows in size and complexity, IT will be unable to detect, diagnose or troubleshoot network traffic problems that can affect the availability and integrity of City resources.

Recommendation

We recommend the City purchase a network management tool to configure, administer and troubleshoot routed wide-area and local segment networks.

Status

The City currently has a network management tool, CiscoWorks, deployed on the network nodes currently monitored by technical personnel in the Police Department. The City is currently working to expand the use of this product for all City network nodes. The expected completion timeframe for this project is September 2005.

01-02 Budgeting

The City currently utilizes two separate budget databases: the SCI financial management system for finalized budget and procurement purposes and the Access database within the Budget Department to create, track, monitor, forecast and finalize the budget. Numerous amounts of line items are entered into the Access database and reviewed during the budget process. The Budget Department has utilized the finalized budget of the prior year to start creating the basis for the development of the budget of the upcoming fiscal year. After the budget has been finalized and approved, the information is interfaced with the SCI system. On a monthly basis, data is downloaded from the SCI system into the Access database by the IT Department for forecasting purposes. Maintaining two separate budget databases may result in extensive manual review procedures that are required to verify and ensure the data being utilized by the City.

Recommendation

Management should consider implementing a budget module that would include the entire budgeting process from initiation through adoption, to reduce the amount of time required for the extensive manual reviews currently being performed. In addition, this would provide for up-to-date information when needed for forecasting purposes rather than waiting until the monthly download process occurs.

CITY OF MIAMI, FLORIDA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Status

We agree with the observation and recommendation made by the external auditor. The City has already procured a budget module as part of the ERP implementation which is currently underway. Additionally, the City is considering purchasing a separate third party module for the purpose of budget preparation and forecasting. This module would interface directly with the financial system providing the "up-to-date" financial information need for forecasting. We expect either solution to be implemented sometime during the 2006 fiscal year.

01-03 Time Recording – Overtime

The City's GSA and Solid Waste Departments utilize the KRONOS system for tracking, recording and monitoring employee time and attendance. The other departments within the City rely on manually recorded, authorized and submitted time and attendance reports. These reports are entered manually into the Moore Personnel/Payroll system. The system edit checks with the Moore Personnel/Payroll system related to overtime do not limit time entry of excessive overtime.

Current policy requires approval for time and attendance prior to submission by the responsible departments. An exception report is utilized which indicates overtime hours that have been entered for employees not eligible for overtime. However, this report does not encompass overtime hours in excess of reasonable hours worked per day for all employees. In some instances it is necessary to enter hours worked for an employee retroactively. For this purpose, daily time parameters that could aid in identify excessive overtime hours have not been set within the system. In addition there are two different screens in the Moore Personnel/Payroll system where time can be entered. One is for mass entry of time, the other for individual time entry. Predominantly, the screen for mass time entry is utilized; however, the individual time entry screen does not subject data entry to edit or validation checks, including overtime or invalid codes.

Entry of time and attendance with limited or no online parameters for detecting the submission of excessive overtime and part-time hours may contribute in overpaying an employee. Although the system does generate a report that is manually reviewed by the payroll department, this report lists all overtime hours entered for those employees not eligible for overtime but does not indicate those entries that appear excessive or out of the ordinary.

Recommendation

Management should consider implementing time and entry edit validation checks for total hours worked including full-time, part-time and overtime hours for both entry screens. A single exception report should be generated by the system based on submissions that are outside the set parameters. The parameters should factor into account employees who work permanent positions in addition to part-time positions, as well as part-time employees who work multiple positions. This should enable a more accurate and efficient review, and allow payroll personnel to perform other payroll related functions.

Status

The City is replacing the Moore HR/Payroll Systems with Oracle eBusiness Suite 11i applications. The new applications will facilitate the ability to manage hours based on the employee type and their eligibility rules. The employee type and eligibility rule factor into account the employee job type,

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position, and business pay rules associated with each employee. Therefore, the applications will systematically validate the "hours type" and/or "earnings type" prior to assigning to an employee. In addition, the hours and earnings assigned to an employee can be validated via standard reports at multiple stages of the payroll process prior to producing a payroll check. The timeline for the implementation of the HR/Payroll application is January 1, 2006.

00-05 Grant Accounting

Each of the City's federal, state and local grants are currently accounted for in the City's general ledger by project. However, each general ledger grant project does not identify only reimbursable expenditures, related to the respective grants. As a result, we were unable to agree several grant program expenditures from the schedule of expenditures of federal awards, which were obtained from the general ledger grant project, to the reimbursement packages.

Recommendation

We recommend the City separately identify, in the general ledger grant projects, those expenditures that are reimbursable by the grantor and those expenditures that are not. This will ensure the accuracy of the schedule of expenditures of federal awards.

Status

The City is replacing the current financial reporting system (GEMS) with Oracle eBusiness Suite 11i Financial application. This application will significantly improve the City's ability to track project level expenditures and monitor reimbursable grants. The timeline for the implementation of this Financial System is October 1, 2005.

00-07 Logical Security

The Human Resources Department provides the Information Technology Department (ITD) with a list of monthly users that are no longer employed with the City. ITD relies on this list to ensure that terminated user system access is disabled. In addition, departments should immediately notify ITD of users that are no longer employed by the City. However, this policy is not well enforced. As a result, the possibility exists that users may remain active in the system for an extended period of time should departments not notify ITD.

Recommendation

Management should disable system users in a more timely manner. Sound practices indicate that users should be disabled on the last day of employment. The current policy should be recommunicated and enforced.

Status

The City is replacing the current financial systems with the Oracle eBusiness Suite 11i Financial application. The new application will eliminate several legacy systems which require a unique user profile for each application to be deactivated upon the employee's separation from the City. The City will continue to review the existing process which uses a "Security Access Termination Form" which is

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prepared by the user departments and the "Monthly Separation Report" produced by the City's automated payroll system in an attempt to correct noted deficiencies. The timeline for the implementation of the HR/Payroll application is January 1, 2006.

99-03 Financial Reporting

The Finance Department has purchased computerized financial reporting software and developed certain procedures in an effort to assist in the compilation of the annual financial statements. However, we noted that the accounting software is not fully used for its intended purpose and, in fact, the financial statements are prepared manually on spreadsheets, which is very time consuming and prone to human error.

Recommendation

Although the City has purchased computerized financial reporting software in the prior year, we noted that the implementation process of such software has encountered some difficulties. We recommend that the City continue to aggressively implement the computerized financial reporting software. The use of a formal financial reporting system will improve the timeliness and accuracy of financial data and thereby assist management in meeting their reporting deadlines and provide them with reliable tools for monitoring the City's progress and making informed decisions.

Status

The City is replacing the current financial reporting system (GEMS) with the Oracle eBusiness Suite 11i Financial application. This application will significantly reduce the manual input required to produce management reports as well improve the timeliness of the reports. The timeline for the implementation of this Financial System is October 1, 2005.

97-06 User Access Codes

User access codes and User ID's (Personnel Identification Numbers) are in clear text, unencrypted and unmasked to users with security administrator level access with the SCI financial software systems and the police systems (including the Police accounting system). Security administrators of the SCI financial software and police systems have the capability to view and print out all access codes and User ID's for this system. Hence, these individuals have the capability to perform any type of transaction within the financial systems and remain undetected.

Recommendation

The City should evaluate whether or not it is feasible and cost beneficial to enable password encryption for the SCI financial systems and the police system.

Status

The City is in the process of replacing its legacy public safety system with modern integrated public safety dispatching and reporting systems. The new public safety systems encrypt passwords. The projected implementation date for Fire Reporting is May 2005 and estimated completion date for Fire and Police Dispatching and Police Reporting is October 2005.

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The City is also replacing the current financial system with the Oracle eBusiness Suite 11i Financial application. The new system will encrypt passwords and will not allow the system, security or database administrators to view them in clear text. The timeline for the implementation of this system is October 1, 2005 for phase I (Finance & Purchasing) and January 1, 2006 for Phase II (HR/Payroll).

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Non-Compliance Findings

04-14 CFDA # 97.008 – U.S. Department of Homeland Security – Urban Area Security Initiatives Grant Program

Section 16, Funding/Consideration, subsection b of the Federally Funded Sub-grant Agreement between the State of Florida, Department of Community Affairs, and the City, provides that “the amount that may be advanced may not exceed the expected cash needs of the recipient within the first three months of the contract”. Section 17, Standard Conditions, subsection f of the agreement provides that “if the recipient is allowed to temporarily invest any advance of funds under this agreement, any interest income shall either be returned to the Department or be applied against the Department’s obligation to pay the contract amount”.

We noted that the City received an advance of \$3,295,318 in October 2003. We noted that the City was not in compliance with the Sub-grant agreement since this amount was not fully expended within the first three months of the contract. As of September 30, 2004, we noted that \$272,267 was still unexpended and therefore is a questioned cost. We also noted that although the advance was invested, interest income was not allocated to this grant. The effect of noncompliance with these agreements can affect future funding of monies received from the State.

Recommendation

We recommend that City personnel responsible for this grant review the Sub-grant agreement requirements and establish procedures to ensure compliance.

Management Response

The City is currently in the process of implementing an ERP system. The implementation includes a projects and grant module that will assist the City in accounting for all of its projects and grants. In addition, the City has established new procedures to ensure that interest income is allocated to all grants.

04-15 CFDA # 14.218 and #14.239 – U.S. Department of Housing and Urban Development – Community Development Block Grant (CDBG) and HOME Investment Partnership

During the period of affordability (the period for which the non-federal entity must maintain subsidized housing) for HOME assisted rental housing, the participating jurisdiction must perform on-site inspections to determine compliance with property standards and verify the information submitted by the owners no less than: (a) every three years for projects containing 1 to 4 units; (b) every two years for projects containing 5 to 25 units; and (c) every year for projects containing 26 or more units. The participating jurisdiction must perform on-site inspections of rental housing occupied by tenants receiving

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(Continued)

HOME assisted tenant based rental assistance to determine compliance with housing quality standards (24 CFR 92.551, 92.252 and 92.504(b)). Our testing disclosed a project in which the inspection was conducted every two years, however, the number of units required an annual inspection.

The City's agreements with the subrecipients of loans for multi-family housing projects funded by CDBG and the HOME Investment Partnership require that the recipient of the loan submit an annual audited financial statement to the City. None of the files tested obtained evidence of compliance with this requirement.

The lack of monitoring of subrecipient requirements can affect future funding under the CDBG and HOME Investment Partnership programs.

Recommendation

We recommend that the City review subrecipient agreements and implement procedures to ensure compliance.

Management Response

The multi-family unit has implemented a detailed process for ensuring compliance of Housing Quality Standards inspections during the affordability period. The process will also encompass a review of the tenant rents in the City assisted units for the duration of the affordability period. The process will also include monetary penalties for those projects found to be in non-compliance.

SECTION IV – STATE FINANCIAL ASSISTANCE PROJECTS FINDINGS AND QUESTIONED COSTS

None.