

**CITY OF MIAMI, FLORIDA**

COMPLIANCE REPORTS

SEPTEMBER 30, 2006

**Rachlin** *Cohen*  
*& Holtz*  
Accountants ▪ Advisors

# 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 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, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 2, 2007. Our report was modified to include a reference to 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. Other auditors audited the financial statements of the Southeast Overtown Park West Redevelopment Agency, the Omni Redevelopment Agency, the Miami Midtown Community 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 and Other Managed Trusts and the aggregate discretely component units, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

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 initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 06-01 through 06-08.



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, of the reportable conditions described above, we consider items 06-01 to 06-05 material weaknesses.

#### 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and responses as item 06-09.

We noted certain additional 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  
April 2, 2007

**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 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 year ended September 30, 2006, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 2, 2007. We did not audit the financial statements of the Southeast Overtown Park West Redevelopment Agency, the Omni Redevelopment Agency, the Miami Midtown Community 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 and Other Managed Trusts, which represent 94% and 80%, respectively, of the assets and revenues of the aggregate remaining fund information. We also did not audit the financial statements of the aggregate 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 Southeast Overtown Park West Redevelopment Agency, the Omni Redevelopment Agency, the Miami Midtown Community 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 and Other Managed Trusts and the aggregate discretely presented component units, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States, and *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*. We have issued our Report of Independent Certified Public Accountants on Internal Control over Financial Reporting and on Compliance and Other Matters dated April 2, 2007 and our Report on Compliance and Internal Control over Compliance Applicable to each Major Federal Award Program and each State Financial Assistance Project dated June 22, 2007 and Schedule of Findings and Questioned Costs. Disclosures in those reports should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which govern the conduct of local governmental entity audits performed in the State of Florida and require that certain items be addressed in this letter.



The Rules of the Auditor General (Section 10.554(1)(h)1.) require that we address in the management letter, if not already addressed in the auditor's report on compliance and internal controls or schedule of findings and questioned costs, whether or not recommendations made in the preceding annual financial report have been followed. The recommendations made in the preceding annual financial audit report have been corrected, except as reported in the accompanying Summary Schedule of Prior Audit Findings.

As required by the Rules of the Auditor General (Section 10.554(1)(h)2.), the scope of our audit included a review of the provisions of Section 218.415., Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the City complied with Section 218.415, Florida Statutes.

The Rules of the Auditor General (Section 10.554(1)(h)3.) require that we address in the management letter any findings and recommendations to improve financial management, accounting procedures, and internal controls. In connection with our audit, findings and recommendations are incorporated in the accompanying Schedule of Findings and Questioned Costs.

The Rules of the Auditor General (Section 10.554(1)(h)4.) require disclosure in the management letter of the following matters if not already addressed in the auditor's reports on compliance and internal controls or schedule of findings and questioned costs and are not clearly inconsequential: (1) violations of laws, rules, regulations, and contractual provisions that have occurred, or are likely to have occurred; (2) improper or illegal expenditures; (3) improper or inadequate accounting procedures (e. g., the omission of required disclosures from the financial statements); (4) failures to properly record financial transactions; and (5) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of the auditor. Matters required to be disclosed by the Rules of the Auditor General (Section 10.554(1) (h) 4.) are reported in the accompanying Schedule of Findings and Questioned Costs.

The Rules of the Auditor General (Section 10.554(1)(h)5.) also require that the name or official title and legal authority for the primary government (City) and each component unit be disclosed in the management letter, unless disclosed in the notes to the financial statements. The City has made these disclosures in the notes to the financial statements.

As required by the Rules of the Auditor General (Section 10.554(1)(h)6.a.), a statement must be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes. In connection with our audit, we determined that the City did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Honorable Mayor, City Commission and City Manager  
City of Miami, Florida  
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As required by the Rules of the Auditor General (Section 10.554(1)(h)6.b.), we determined that the annual financial report for the City for the fiscal year ended September 30, 2006, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report audited financial statements for the fiscal year ended September 30, 2006.

As required by the Rules of the Auditor General Sections 10.554(h) 6.c. and 10.556(7), we applied financial assessment procedures. It is management's responsibility to monitor the City's financial condition, and our financial condition assessment was based in part on representations made by City management and the review of financial information provided by same. The assessment was done as of the fiscal year end. There were no findings that identified deteriorating financial conditions.

This management letter 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

April 2, 2007, except for matters related to the Federal and Florida Single Audit as to which the date is June 22, 2007

**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, 2006. 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 a direct and material effect on major federal programs or state financial assistance projects 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, 2006. 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 06-21 and 06-22.





### 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.

We noted certain matters involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program or state financial assistance project in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 06-16 through 06-20 and 06-23.

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 non-compliance 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. Our consideration of the internal control over compliance 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, of the reportable conditions described above, we consider items 06-16 through 06-18 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, 2006, and have issued our report thereon dated April 2, 2007 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 projects 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.

Honorable Mayor, City Commission and City Manager  
City of Miami, Florida  
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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  
June 22, 2007

City of Miami  
 Schedule of Expenditures of Federal Awards and State Financial Assistance Projects  
 Year Ended September 30, 2006

<u>Federal Grantor / State Agency</u> <u>Pass-Through Grantor/Program Title</u>	<u>CFDA/CSFA</u> <u>Number</u>	<u>Grant/Contract Number</u>	<u>State</u>	<u>Federal</u>	<u>Total</u>
<b>U. S. Department of Agriculture</b>					
Pass-through Florida Department of Education	10.225	04-0899	\$ -	\$ 247,823	\$ 247,823
Summer Food Service Program					
Pass-through Florida Department of Health	10.558	S-576	-	47,799	47,799
Child Care Food Program					
Pass-through Florida Department of Health	10.558	A-2384	-	20,417	20,417
Out of School Snack Program					
<b>Total Department</b>				<u>316,039</u>	<u>316,039</u>
<b>U. S. Department of Environmental Protection</b>					
Brownsfield Assessment and Cleanup Cooperative Agreement	68.818	BF-96412504-1	-	1,029	1,029
Brownsfield Assessment and Cleanup Cooperative Agreement	68.818	BF-96412404-1	-	6,646	6,646
<b>Total Department</b>				<u>7,675</u>	<u>7,675</u>
<b>U.S. Department of Homeland Security</b>					
South Florida US&R Program	97.025	EMW-2003-CA-0105	-	2,032,368	2,032,368
Urban Search and Rescue Weapons of Mass Destruction	97.025	EMW-2003-CA-0059	-	11,369	11,369
Urban Search and Rescue '03-'05	97.025	EMW-2003-CA-0295	-	5,713	5,713
FEMA/USAR Grant Award	97.025	EMW-2004-CA-0457	-	201,942	201,942
FEMA / USAR Grant Award	97.025	EMW-2005-CA-0281	-	859,518	859,518
Pass thru FL Dept of Law Enforcement					
Buffer Zone Protection Program Grant	97.078	2006-BZPP-DADE-2-N5-009	-	47,704	47,704
Pass-through FL Dept. of Community Affairs:					
FEMA Hurricane Katrina	97.036	06-KT-B&-11-23-00-524	-	285,267	285,267
FEMA Hurricane Wilma	97.036	06-WL-K&-11-23-02-562	-	21,103,659	21,103,659
FEMA Flagami Storm Sewers	83.548	02HM-M5-11-23-02-003	-	1,013,562	1,013,562
Urban Area Security Initiative Grant Program	97.008/16.011	04-DS-IS-11-23-02-199	-	3,589,114	3,589,114
Urban Area Security Initiative Grant Program II 2004	97.008	05-DS-2M-AA-23-02-386	-	13,252,852	13,252,852
Staffing for Adequate Fire and Emergency Response (Safer) Grant	97.083	EMW-2005-FF-02434	-	503,425	503,425
Pass-through Miami Dade County:					
Port Security Grant Program	97.056	2005-V0984-FL-GB	-	71,961	71,961
<b>Total Department</b>				<u>42,978,454</u>	<u>42,978,454</u>

(Continued)

City of Miami  
 Schedule of Expenditures of Federal Awards and State Financial Assistance Projects  
 Year Ended September 30, 2006

<u>Federal Grantor / State Agency</u> <u>Pass-Through Grantor/Program Title</u>	<u>CFDA/CSFA</u> <u>Number</u>	<u>Grant/Contract Number</u>	<u>State</u>	<u>Federal</u>	<u>Total</u>
<b><u>U.S. Department of Transportation</u></b>					
Florida Highway Administration - Hurricane Katrina	20.205	n/a	\$ -	731,463	\$ 731,463
Federal Highway Administration - Hurricane Wilma	20.205	n/a	-	4,600,000	4,600,000
Pass-through State of Florida Department of Transportation Riverside Riverfront Redevelopment	20.205	AN405	-	249,495	249,495
<b>Total Department</b>			-	<u>5,580,958</u>	<u>5,580,958</u>
<b><u>U. S. Department of Housing and Urban Development (HUD)</u></b>					
Section 8 Housing Assistance Payment	14.856	FL145MR0001/002	-	3,210,864	3,210,864
Emergency Shelter Grant (ESG)	14.231	S-03-MC120002	-	434,820	434,820
HUD Lead Hazard Control Grant	14.900	FLLHB026904	-	237,831	237,831
Housing Opportunities for Persons with Aids	14.241	F-LH-05-F005	-	10,599,230	10,599,230
Home Investment Partnership	14.239	M-05-MC-12-0011	-	3,715,223	3,715,223
Community Development Block Grant	14.218	B-05-MC-120013	-	13,557,993	13,557,993
<b>Subtotal Direct Programs</b>			-	<u>31,755,961</u>	<u>31,755,961</u>
Pass-through Miami-Dade County Homeless Trust	14.218	FL14B000003	-	98,615	98,615
Super NOFA Supportive Services	14.218	n/a	-	24,930	24,930
Human Alliance			-	31,879,506	31,879,506
<b>Total Department</b>			-	<u>31,879,506</u>	<u>31,879,506</u>
<b><u>U. S. Department of Justice</u></b>					
Bulletproof Vest Partnership Grant	16.607	99002927	-	8,871	8,871
Bulletproof Vest Partnership Grant	16.607	99002927	-	14,820	14,820
Gang Resistance Education and Training (GREAT)	16.012	ATC03000178	-	59,427	59,427
Local Law Enforcement Block Grant	16.592	2003-LB-BX-2664	-	23,369	23,369
Local Law Enforcement Block Grant	16.592	2004-LB-BX-0802	-	180,304	180,304
COPS MORE 98	16.710	98-CL-WX-0199	-	1,758,970	1,758,970
U. S. Law Enforcement Trust Fund	16.000	N/A	-	119,550	119,550
<b>Subtotal Direct Programs</b>			-	<u>2,165,311</u>	<u>2,165,311</u>

(Continued)

City of Miami  
 Schedule of Expenditures of Federal Awards and State Financial Assistance Projects  
 Year Ended September 30, 2006

<u>Federal Grantor / State Agency</u> <u>Pass-Through Grantor/Program Title</u>	<u>CFDA/CSFA</u> <u>Number</u>	<u>Grant/Contract Number</u>	<u>State</u>	<u>Federal</u>	<u>Total</u>
Pass thru State of Florida, Office of the Attorney General Victims of Crime Act (V.O.C.A.)	16.575	V5246	\$ -	\$ 7,985	\$ 7,985
Pass-through Dade County Community Action Agency Anti-Terrorism Grant	16.321	N/A		4,585	4,585
Wynwood/HIDTA Crime and Drug Demand Reduction Program	16.002	12PMIP590/ 13PMIP586/14PMIP586		32,940	32,940
Paul Coverdell Forensic Science Improvement Grant	16.742	2005-DN-BX-0123		95,000	95,000
Edward Byrne Memorial Justice Assistance Grant Program	16.580	2005-DJ-BX-0650		129,150	129,150
<b>Total Department</b>				<u>2,434,971</u>	<u>2,434,971</u>
<b><u>U.S. Department of Commerce.</u></b>					
National Oceanic and Atmospheric Administration Pass thru FL Dept of Environmental Program	11.419	CZ610		31,753	31,753
Virginia Key Community Stewardship Coastal Man Program	11.419	DEP # CZ603		50,000	50,000
Virginia Key Master Plan Coastal Zone Management				81,753	81,753
<b>Total Department</b>					
<b><u>State of Florida, Department of Children and Families</u></b>					
Outreach to Homeless Detainees	60.015	KF121	85,760	-	85,760
Outreach to Homeless Detainees	60.015	KF099	77,905	-	77,905
<b>Total Department</b>			<u>163,665</u>	<u>-</u>	<u>163,665</u>
<b><u>State of Florida, Department of Environmental Protection</u></b>					
Watson Island Boat Ramp Improvements	37.017	DA-MI-98-51		83,758	83,758
<b><u>State of Florida, Department of Law Enforcement</u></b>					
School Resource Officer Project	16.580	HSB444	43,591	-	43,591

(Continued)

**City of Miami**  
**Schedule of Expenditures of Federal Awards and State Financial Assistance Projects**  
**Year Ended September 30, 2006**

<u>Federal Grantor / State Agency</u> <u>Pass-Through Grantor/Program Title</u>	<u>CFDA/CSFA</u> <u>Number</u>	<u>Grant/Contract Number</u>	<u>State</u>	<u>Federal</u>	<u>Total</u>
<b><u>State of Florida, Department of Health</u></b>					
State of Florida Emergency Medical Services Matching Grant	64.003	M-5090	\$ 40,450	-	\$ 40,450
State of Florida Emergency Medical Services Matching Grant	64.003	M-5091	44,800	-	44,800
<b>Subtotal Direct Programs</b>			<u>85,250</u>	-	<u>85,250</u>
Pass-through Miami-Dade County:					
Emergency Medical Services County Grant	64.005	various including C4013 and C5013	352,138	-	352,138
<b>Total Department</b>			<u>437,388</u>	-	<u>437,388</u>
<b><u>State of Florida, Department of Transportation</u></b>					
DuPont Plaza Project	55.022	AL-285	196,924	-	196,924
Overtown Technical Support Fund	N/A	ANM76	44,598	-	44,598
Flagler Street Market Place	55.014/55.008	AH877	2,270,000	-	2,270,000
<b>Total Department</b>			<u>2,511,522</u>	-	<u>2,511,522</u>
<b><u>State of Florida, Department of Juvenile Justice</u></b>					
Miami Civil Citation Program	80.029	CC052	2,005	-	2,005
Cops Helping Our Inner City Children Excel	80.029	DP522	16,152	-	16,152
Cops Helping Our Inner City Children Excel	80.029	DP563	4,115	-	4,115
<b>Total Department</b>			<u>22,272</u>	-	<u>22,272</u>
<b><u>State of Florida, Department of Education</u></b>					
The Department of Education Grant for Gibson Park	84.002	802-1915A-5PP01	12,074	-	12,074
<b><u>State of Florida, Housing Finance Agency</u></b>					
State Housing Initiative Project (SHIP)	52.901	N/A	2,837,547	-	2,837,547
<b>TOTAL EXPENDITURES FOR FEDERAL AND STATE FINANCIAL ASSISTANCE</b>			<u>\$ 6,111,817</u>	<u>\$ 83,279,356</u>	<u>\$ 89,391,173</u>

# CITY OF MIAMI, FLORIDA

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

FISCAL YEAR ENDED SEPTEMBER 30, 2006

### (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, 2006. 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 Homeland Security Urban Search and Rescue	97.025	\$ 1,205,926
U.S. Department of Homeland Security Urban Area Security Initiative Grant Program	97.008	5,748,358
U.S. Department of Housing and Urban Development Community Development Block Grant	14.218	10,225,160
U.S. Department of Housing and Urban Development Housing Opportunities for Persons with AIDS	14.241	9,707,706
U.S. Department of Housing and Urban Development Home Investment Partnership	14.239	4,604,884
U.S. Department of Housing and Urban Development Section 8 Housing Assistance	14.856	<u>2,791,713</u>
Total Federal		<u>\$34,283,747</u>

# CITY OF MIAMI, FLORIDA

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FISCAL YEAR ENDED SEPTEMBER 30, 2006

### I. PRIOR YEAR FINANCIAL STATEMENT FINDINGS AND STATUS

The following addresses the status of financial statement findings reported in the fiscal year ended September 30, 2005 Schedule of Findings and Questioned Costs.

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

- 05-01 – Financial Records and Closing Process (revised and included in current year comment 06-02)
- 05-02 – Grant Accounting and Reimbursements (revised and included in current year comment 06-03)
- 05-04 – Encumbrances (revised and included in current year comment 06-01)
- 05-05 – Capital Assets (revised and included in current year comment 06-04)
- 05-06 – Accounts Receivable (revised and included in current year comment 06-10)
- 05-08 – Project Management Consultants (revised and included in current year comment 06-04)
- 05-09 – Component Units and Pension Plans (revised and included in current year comment 06-15)
- 04-09 – Network Security
- 04-12 – Succession Planning
- 04-13 – GASB 45
- 03-01 – Capital Assets (revised and included in current year comment 06-04)
- 03-02 – Payroll Audit Trail Report
- 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

- 05-03 – Accounts Payable
- 05-07 – Cash Receipts
- 05-10 – Homeland Defense Security Bonds

### II. PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

The following addresses the status of federal award findings reported in the fiscal year ended September 30, 2005 Schedule of Findings and Questioned Costs.

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

- 05-11 – Overall Comment for all Program Accounting – Schedule of Expenditures of Federal and State Financial Assistance Preparation and Completeness (revised and included as current year comment 06-16)
- 05-12 – Reconciliation Process (revised and included as current year comment 06-17)
- 05-13 – CFDA # 16.011 & 97.008 – U.S. Department of Homeland Security – Urban Area Security Initiative Grant (revised and included as current year comment 06-19)



# CITY OF MIAMI, FLORIDA

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

### **II. PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

- 05-14 – CFDA # 16.011 & 97.008 – U.S. Department of Homeland Security – Urban Initiative Grant (revised and included as current year comment 06-21)
- 05-15 – CFDA # 16.011 & 97.008 – U.S. Department of Homeland Security – Urban Area Security Initiative Grant (revised and included as current year comment 06-22)

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

- 05-16 – CFSA # 14.218 – U.S. Department of Housing and Urban Development – CDBG Entitlement Program

### **III. PRIOR YEAR STATE FINANCIAL ASSISTANCE FINDINGS AND QUESTIONED COSTS**

None reported in prior year.

**CITY OF MIAMI, FLORIDA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

(Continued)

**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?	<u>  X  </u> Yes <u>    </u> No
Reportable condition(s) identified not considered to be material weakness?	<u>  X  </u> Yes <u>    </u> No
Noncompliance material to financial statements noted?	<u>    </u> 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?	<u>  X  </u> Yes <u>    </u> No
Reportable condition(s) identified not considered to be material weakness?	<u>  X  </u> Yes <u>    </u> No
Type of auditor’s report issued on compliance for major federal awards programs and state financial assistance projects:	<i>Unqualified Opinion</i>
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?	<u>  X  </u> Yes <u>    </u> No

Identification of major federal awards program and state financial assistance projects:

<u>Federal Programs</u>	<u>CFDA No.</u>
U.S. Department of Housing and Urban Development:	
Housing Opportunities for Persons with Aids	14.241
U.S. Department of Homeland Security:	
Federal Emergency Management Agency (FEMA)	97.036
Urban Area Security Initiative Grant Program	97.008 and 16.011
Urban Search and Rescue	97.025
U.S. Department of Transportation:	
Federal Highway Administration	20.205

<u>State Projects</u>	<u>CSFA No.</u>
State of Florida Housing Financing Agency:	
State Housing Initiatives Partnership	52.901
State of Florida Department of Health:	
Emergency Medical Services County Grant	64.005
State of Florida Department of Transportation:	
Flagler Street Market Place	55.014/55.008

Dollar threshold used to distinguish between Type A and Type B programs:	Federal   \$2,503,486
	State       \$ 300,000

Auditee qualified as low risk auditee for audit of federal awards program?      Yes     X   No

# CITY OF MIAMI, FLORIDA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

### SECTION II – FINANCIAL STATEMENT FINDINGS

#### Reportable Conditions – Material Weaknesses

##### *06-01 Internal Control over Financial Reporting*

###### *Criteria*

Employees, in the normal course of performing their assigned functions, within a timely period, should be able to detect errors in amounts that would be material in relation to the financial statements being audited.

###### *Conditions*

- Our audit of the accounts payable balances reflected as of the fiscal year end disclosed that, of the total liabilities initially recorded by the City of approximately \$35 million, almost \$9.6 million were not valid. Amounts recorded included approximately \$3.8 million of liabilities that were recorded twice. The remaining \$5.8 million was attributable to amounts being recorded which were not applicable to the fiscal year being audited (\$3.7 million) and estimates that did not approximate actual amounts subsequently paid (\$2.1 million). City Finance Department personnel were not aware of these discrepancies until notified by the auditors. As a result of these findings, procedures were expanded to incorporate amounts below our testing threshold to determine the appropriateness of amounts recorded.
- Our audit procedures included the performance of procedures on the amounts recorded as assets, liabilities, revenues, expenditures and fund balances amongst the various funds of the City. As a result of our audit procedures, an excessive amount (131) of journal entries, many of which were significant, were required to be proposed by the auditors to ensure that the financial statements of the City were not materially misstated. Some of the more significant adjustments pertained to the following; the City's policy to reverse receivable (\$783,000) and payable balances (\$5.2 million) whether or not funds were received or liabilities were satisfied; recording the allocation of interest earnings and market gains/losses to the proper funds; record loans receivable (\$975,000); recording and adjusting grant receivables and deferrals; liquidation of encumbrances that were also recorded as liabilities (\$10.2 million); and recording the accrual for the fireman's compensatory time which is considered due and payable as of the fiscal year end (\$2.1 million). Additionally, numerous entries were to correct bookkeeping errors and other adjustments that should have been made by the Finance Department prior to providing the auditors with final trial balances.

###### *Effect*

The lack of a thorough review of account balances, journal entries and supporting documentation by supervisory Finance Department personnel resulted in material misstatements in amounts recorded on the books and records of the City.

# CITY OF MIAMI, FLORIDA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

#### *Cause*

The primary cause of the conditions noted above is the lack of compliance with the City's cut-off policies combined with the lack of a thorough review by supervisory Finance Department personnel of journal entries and supporting documentation submitted by other City Departments to the Finance Department prior to recording in the general ledger. Additionally, the excessive amount of journal entries is caused by the lack of training and skill sets in Finance Department personnel who are responsible for maintaining the books and records, combined with a lack of an adequate review of the amounts recorded on the books and records.

#### *Recommendation*

We recommend that employees responsible for the books and records and approval of journal entries be provided with more thorough training to improve and/or acquire different skills concerning the complexities of accounting, year-end closing procedures, and the preparation of supporting schedules for balances recorded in the general ledger at year-end. This training will lead to employees who are more efficient, effective, and communicative with regard to accounting and financial matters. Also, future financial statements will be more accurate and timely.

All adjusting journal entries should be approved by a designated supervisory Finance Department employee who possesses the appropriate skill set. For manual accounts payable adjustments prepared by the various City Departments at year end, all supporting documentation should be reviewed by supervisory Finance Department personnel to ensure that the proposed amounts are valid liabilities as of the fiscal year end, and that they were not previously recorded through the accounts payable system. Further, since the City does not close its books until December of each year, any estimates that are recorded should be compared to payments made subsequent to the fiscal year end to ensure that the amounts recorded are reasonable. Procedures should also be implemented to ensure that once an item is accrued or paid, the encumbrance is properly liquidated.

Finance Department supervisory personnel should also perform an analytical review of account balances with the prior year balances prior to closing the books and records to facilitate determining if significant variances exist, the reasons that support the variance, and if any adjustments are required.

#### *View of Responsible Officials and Planned Corrective Action*

The year end closing processes are led by individuals in the Finance Department, which, for the most part, are Certified Public Accountants, and possess the appropriate level of skills necessary to perform the tasks. Additionally, the City does have the proper procedures in place to ensure the adequate review of amounts recorded on the books and records. However, these procedures were not conducted timely as a result of our Enterprise Resource Planning System (ERP) implementation on October 1, 2006. All essential Finance Department resources were consumed by the implementation of the City's new financial system and as a result, the necessary procedures and reviews were not conducted thoroughly. Management expected errors to occur and informed auditors of staff limitations due to the implementation of the new system.

# CITY OF MIAMI, FLORIDA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

#### *06-02 Financial Records and Closing Process*

##### *Criteria*

Prudent policies include a formal closing process with supervisory Finance Department personnel being responsible for the review of transactions and balances recorded. Accounting tasks such as monthly reconciliations, cross-checks, and reviews play a key role in proving the accuracy of accounting data and financial information that comprise interim and year-end financial statements.

##### *Conditions*

- We noted that, for several balance sheet accounts, a detailed analysis of the components of the accounts was not maintained on a current basis. Additionally, we noted that for several accounts, a reconciliation of the amounts reflected on the final trial balance was not reconciled to supporting documentation and/or subsidiary schedules.
- We noted that the CDBG loans receivable reflected on the City's books and records were not in agreement with the subsidiary schedule provided by the Community Development Department. Initially, the schedule provided was not mathematically correct. A corrected schedule was subsequently provided, however differences still existed. Differences pertained primarily to loan drawdowns not being recorded on a timely basis on the City's books and records. We noted one instance where a drawdown on a loan in May 2006 was not recorded on the books and records until December 2006. Further, we noted an instance where a loan for approximately \$790,000 was not recorded on the books and records.
- We noted that the transfers in and transfers out between the City's various funds as reported on Report 9, Detailed Revenues and Expenditures, were not in agreement. Further, we noted that the transfer balances reported on Report 9, were not in agreement with the amounts reflected on Report 16, Trial Balances by Fund.
- The City, in the prior fiscal year, signed a \$4 million loan agreement for the Wagner Square Mixed Use Redevelopment Project. The loan is guaranteed under the Department of Housing and Urban Development Section 108 Loan Guarantee program. During June 2005, a drawdown of \$1,000 was made and deposited into a separate bank account. We noted that the drawdown and the related cash account were not recorded on the books and records until the 2006 fiscal year. Additionally, the appropriate disclosures were not made in the financial statements until the 2006 fiscal year.

##### *Effect*

The lack of a formal closing process, which includes the thorough review of account balances and reconciliations by supervisory Finance Department personnel, can result in errors in the financial statements.

# CITY OF MIAMI, FLORIDA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

#### *Cause*

The cause of the condition is the lack of a formal closing process that incorporates a thorough review by supervisory Finance Department personnel who have the appropriate skill sets.

#### *Recommendations*

The process for the year-end closing of the books for any organization can be a difficult and trying procedure. However, a logical and organized methodology is of significant benefit and the process should become easier over time. Monthly reconciliations and reviews play a key role in proving the accuracy of accounting data and financial information. We strongly suggest that the City establish effective review and reconciliation policies and procedures as a customary part of the accounting process.

The City should develop 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. The procedures should also include tasks to ensure that all new debt issues have been recorded, and that all transfers are in balance. The procedures should also assign a supervisory Finance Department individual, with the appropriate skill sets, to review the schedules and verify accuracy.

#### *View of Responsible Officials and Planned Corrective Action*

The Finance Department does prepare reconciliations of all significant accounts on a monthly basis which are reviewed by appropriate supervisory personnel (certified public accountants). During the September 30, 2006 audit, formal closing procedures and adequate reviews were not conducted timely due to the fact that all essential Finance Department resources were consumed by the implementation of the City's new financial system. Management expected errors to occur and informed auditors of staff limitations due to the implementation of the new system.

#### *06-03 Grant Accounting and Reimbursements*

#### *Criteria*

Grant accounting provides that since expenditures are the prime factor for determining eligibility, revenue should be recognized when the expenditure is incurred. If revenues are received in excess of grant expenditures, those revenues should be deferred. The various City departments responsible for filing for grant reimbursements should submit claim forms to the Finance Department on a timely basis to ensure that the receivables are properly recorded on the books and records. Additionally, grant requirements provide that the accuracy and completeness of reports filed with the grantor should be in agreement with the underlying accounting records.

# CITY OF MIAMI, FLORIDA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

#### *Conditions*

- Receivables for FEMA, the Urbanized Area Security Initiatives (UASI), and Urban Search and Rescue (USAR) grants were not properly calculated and recorded on the books and records as of the fiscal year end. We also noted that for grants where the funding received exceeded expenditures incurred, deferred revenues were not recorded. City Finance Department personnel did not validate the correct amounts to be recorded until March 2007.
- Payments received by the City for the UASI grants, as well as payments made to Miami-Dade County, a subrecipient of the grant, were not properly reflected on the books and records for a portion of the fiscal year. We noted that these transactions were recorded in a balance sheet account, rather than being reflected as a revenue and an expenditure.
- We noted that, for the UASI grant, a reconciliation between the expenditures reflected in the books and records to the reports filed with the grantor for reimbursement was not performed. We noted that a claim filed for reimbursement included duplicate items as well expenditures that were claimed in the previous year. As a result, a journal entry was proposed by the auditor to record the deferred revenue for these excess reimbursements.

#### *Effect*

The failure to properly record grant revenue can result in inaccurate financial statements. Further, the failure to perform reconciliations between claims for reimbursement and the underlying accounting records can result in inaccurate reporting to grantors.

#### *Cause*

Proper procedures are not in place to ensure that grant revenues are properly recorded, and that reconciliations are performed between accounting records and amounts reported to grantors.

#### *Recommendations*

Reconciliations between accounting records and amounts reported to grantors should be performed to ensure accuracy. As soon as a request for reimbursement is made, the information should be remitted to the Finance Department to ensure proper recording on the books and records. All grant funds should be reviewed to ensure that the proper receivables/deferrals are recorded in accordance with promulgated practices. Supervisory Finance Department staff should perform a review of the City's books and records to ensure that all transactions have been properly recorded.

# CITY OF MIAMI, FLORIDA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

#### *Views of Responsible Officials and Planned Corrective Action*

The Fire-Rescue Department will make a diligent effort to submit grant reimbursements to the Finance Department on a timely basis to ensure that receivables are properly recorded on the books and records. With the implementation of the new Oracle financial system, Fire staff has been working closely with Finance staff to ensure that they are informed in advance of expected projects and grants reimbursements, and that the costs are identified (billed) to match the reimbursement amounts. Once the reimbursements (wires) are received, the proper project, award funding and customer numbers are identified for posting. However, there are some cases where the funding is advanced for certain projects and grants, which are handled accordingly by Finance. The City's prior financial system didn't allow this level of reconciliation. The City does not believe this comment will repeat in the subsequent fiscal year.

#### *06-04 Capital Assets*

##### *Criteria*

The establishment and maintenance of accurate accounting records for capital assets are necessary to help assure that the City's property, plant and equipment are not stolen, misused or subject to undue wear and tear. These records are a necessary element in an on-going repair and preventative maintenance program and enhance efforts to obtain optimum insurance coverage.

##### *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 postings to these accounts is generated. Our review of the detailed reports indicated that amounts charged to these expenditure accounts included items under the City's capitalization threshold of \$1,000, as well as amounts that did not meet the definition of a capital asset. Further, through our audit procedures, we noted that capital asset acquisition costs are not, in all instances charged to the accounts established for this purpose.
- Schedules initially provided to the auditors detailing the City's capital assets, by category, were not accurate. We noted that for buildings, infrastructure and improvements, the accumulated depreciation reflected on these schedules indicated that a substantial prior period adjustment of almost \$19 million was required. Further investigation indicated that City personnel, when transferring information to the new Oracle ERP system, erroneously changed the estimated lives originally established on those assets in fiscal year 2002, thereby creating a large discrepancy in the opening accumulated depreciation. We noted that most infrastructure, which was determined to have an estimated life of 45 years, was erroneously changed to an estimated life of 10 years. Based upon the auditors' notification of this issue, all schedules were redone by City personnel to reflect the correct estimated lives of the capital assets.
- The City does not have a system in place to properly account for and track the financial reporting of construction-in-progress. We noted that the schedules initially provided were incorrect and had to be revised on numerous occasions by City personnel.



# CITY OF MIAMI, FLORIDA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

- We noted that billings from the project management consultants did not identify a specific project that they were billing for. Consequently, these costs are not included as part of the City's cost of construction since they are expensed rather than capitalized.
- During the 2006 fiscal year, the City retained an outside appraisal company to perform an inventory of machinery and equipment owned by the City as of September 30, 2005. The machinery and equipment schedules initially provided to the auditors by the City were adjusted to agree the opening balances to the appraisal report. We noted that there was a substantial difference in the costs and the accumulated depreciation on the appraisal report as compared to the amounts reported in the prior year, which were based on the City's records. Our inquiries regarding these differences indicated that the Finance Department personnel did not perform the appropriate due diligence to identify discrepancies between the appraisal report and the City's records, but rather, wrote all of these differences off the books and records. It was subsequently determined by Finance Department personnel that the appraisal report was incomplete and the appropriate due diligence was not performed to validate the discrepancies. As a result, it was determined that the City's records were more accurate and would be the basis for reporting the machinery and equipment amounts in the financial statements rather than the appraisal report.

#### *Effect*

Capital asset records which are not reliable could result in inaccurate financial reporting.

#### *Cause*

The cause is a lack of oversight and procedures to ensure that capital assets are properly maintained and reported.

#### *Recommendations*

The City should consider establishing expenditure codes to specifically account for those capital asset acquisitions that will be capitalized. Further, procedures should be established to ensure that all capital acquisitions are charged to the correct codes, whether or not budgetary availability exists.

Procedures should be implemented to ensure that capital asset records have been properly maintained for all City assets. Supervisory staff of the Finance Department should be taking a proactive role in the oversight of the record maintenance and reporting in this area since the City's capital assets are in excess of \$1.6 billion.

We suggest that the Finance Department coordinate their efforts with the Capital Improvement Department to ensure reports generate accurate information. The Capital Improvement Department should request that billings from consultants be revised to specifically identify projects so that costs incurred can be properly included as part of construction costs.

# CITY OF MIAMI, FLORIDA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

Finally, we suggest that, the City determine the appropriate solution to remedy the discrepancies between the appraisal report and the City's records for those assets with an individual cost of \$50,000 or less. The City may consider having the appraisal company work along with City personnel to investigate the differences. We also recommend, that in the future, due diligence on such projects be performed on a more timely basis.

#### *Views of Responsible Officials and Planned Corrective Action*

The City acknowledges certain limitations as a result of the current financial system utilized to track capital assets. On October 1, 2006, the Finance Department implemented a new financial ERP system which has the necessary system controls in place to ensure the recording of assets regardless of account codes used when the asset is paid for.

The City disagrees with the auditor's recommendation to allocate consultant time to projects since it would impose an administrative burden on the staff of the CIP department.

Due to the fact that all essential Finance Department resources were consumed by the implementation of the City's new financial system, the proper due diligence on the fixed asset schedules was not performed in a timely manner. Management expected errors to occur and informed auditors of staff limitations due to the implementation of the new system.

#### *06-05 – Accounts Payable*

##### *Criteria*

Effective controls over accounts payable are extremely critical to the City. Essentially, a strong control system over accounts payable includes an accurate accounting system that maintains agreement between the payables subsidiary ledger and the general ledger, an effective review and follow-up on individual payables on a monthly basis to ensure payments are timely and an adequate segregation of duties exists.

##### *Conditions*

- During the course of the audit, it came to our attention that duplicate payments, some material in amounts, were made to several vendors. City personnel, in the two instances noted, were aware of these instances and had ensured that the appropriate refunds were subsequently made.
- We noted instances where invoices pertaining to the Community Development Department did not appear to have all required authorizations prior to payment being made. Auditor noted that these invoices pertained to the Community Development Department and were primarily for loan payments.

# CITY OF MIAMI, FLORIDA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

- We noted that a package was sent to the Finance Department from the Police Department which detailed accruals for “invoices pending delivery” as of the fiscal year end. We noted that invoices were obtained from a substantial amount of vendors for goods and services that were not received, but rather were used to support accruals. We were advised that City personnel called vendors and requested invoices even though the goods and services were not shipped or performed. These invoices were sent to the Finance Department and stamped “for accrual purposes only”. We noted that, in some instances, the invoices were stamped and signed off by the Police Department as “received” and “process for payment”. Review of documentation when some of these invoices were paid disclosed that the same invoices submitted for accrual purposes were submitted to the City’s accounts payable department for payment. We noted that the invoices had the stamps and sign offs in different places on the invoices being processed for payment, with different dates, and had the “for accrual purposes crossed out. We believe that this process presented a potential for bills to be paid by the City for merchandise not received, as well as for duplicate payments to occur.

#### *Effect*

The failure to have effective controls over the accounts payable process could have a major impact on the City and could be detrimental to its operations. The failure to perform reconciliations on a timely basis allows for differences to occur and accumulate over a period of time.

#### *Cause*

The cause is due to breakdowns in the control system and lack of effective oversight and review.

#### *Recommendation*

We recommend that management closely evaluate the City’s current cash disbursement procedures and take appropriate action to prevent duplicate payments in the future and to ensure that all invoices have the required approvals prior to payment. We recommend that management address cash disbursement procedures, accounts payable procedures, and internal controls to ensure a good system of fiscal management.

#### *View of Responsible Officials and Planned Corrective Action*

The City has both manual and system controls in place to effectively ensure the absence of duplicate payments. The duplicate payment referenced within this comment was due solely to a mix up during our ERP system conversion and confusion with City departments as a result of new year-end closing timelines associated with the conversion. The Finance Department expected some data input errors during the conversion and decided to address them during the audit fieldwork. Finance staff has been conducting and will continue to performing a thorough review of all data conversions to ensure duplicate payments or other errors have not occurred.

# CITY OF MIAMI, FLORIDA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

#### Reportable Conditions

##### *06-06 Loans Receivable*

##### *Criteria*

The City has a substantial amount of loans receivable outstanding for various programs that are funded with federal and state funds. As of September 30, 2006, the loans outstanding total approximately \$74 million, an increase of almost \$11 million over the prior year. The City has recorded an allowance for uncollectible amounts for the entire amount of the loans. It is imperative that repayments to the City are monitored and that proper procedures are followed on delinquent loans.

##### *Condition*

We noted that the maturity dates reflected on the borrower/lender statements were not accurate. Department personnel indicated that these dates are for “internal use” only. Further, we noted that numerous loan statements had maturity dates that had expired, yet the loans were still outstanding. We were advised that many of the loan repayment terms had been extended to future periods.

##### *Effect*

Loan statements that reflect incorrect repayment terms and maturity dates can affect the monitoring process of loan repayments, and the determination if a loan has defaulted. Delinquent loans could create an issue if monies were not used for their intended purpose.

##### *Cause*

The Department does not update borrower/lender statements to properly reflect maturity dates of loans.

##### *Recommendation*

All loan documents should reflect the correct maturity dates to facilitate the monitoring of timely repayments and loans that may be delinquent or in default. The establishment of an allowance for these loans should not preclude the City from utilizing all collection measures to ensure repayment. Loans should be monitored for delinquency and proper steps should be taken to cure any defaults.

##### *View of Responsible Officials and Planned Corrective Actions*

The City funds construction, rehabilitation and economic development projects from the following source of funds: CDBG, HOPWA, HOME, SHIP and Affordable Housing Trust. Whether the projects are repayable or convertible to grants, the City collateralizes the projects with mortgages or restrictive covenants to ensure compliance with the terms of the agreement. Each project is documented by a complete project file which supports each payment made to the sub recipient on each project.

# CITY OF MIAMI, FLORIDA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

### SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

There are numerous projects that are to be converted into grants once the conditions of either the mortgage or the restrictive covenants are satisfied. All of the exceptions noted in the audit report, Barcelona, East Little Havana, Palmetto Homes, Model City Cooperative, Inc. and Overtown condominium fall under this category. The Contract Analysts in the housing unit meet with the developers on a continuous basis. The purpose of these meetings is to ascertain that the projects get completed, not to declare a “default” and demand payment. The City’s mission is to complete the housing unit and to move a low and moderate income person in those housing projects. The maturity dates in these projects reflect dates in which the City has to follow up with the developer. If there is any so called “default”, the Contract Analyst, if the project is still feasible, recommends to the Housing and Commercial Loan Committee, to extend the benchmark date in order to accomplish the objective to have the project completed. Three of those projects mentioned above have been successfully completed and the remainder projects are still active and their completion is probable. There is no repayment issue in either one of those projects.

Although the loans have been reserved, the City continues with its collection efforts. The City has made substantial collections of its loan receivables; some of those loans date back to the 1980’s and 90’s. However, we agree with the auditor’s recommendation that all projects should be monitored, and to that effect, the City is in the process of increasing staff in the Servicing Unit by adding a Servicing Supervisor and a full time Collector.

#### *06-07 Segregation of Duties*

##### *Criteria*

An effective system of internal control provides for the distribution of duties among available personnel, so that no one employee controls all phases of a transaction without some independent verification by another employee.

##### *Condition*

Our review of cash receipts procedures at the Dinner Key Marina indicated that there is currently inadequate segregation of duties in that the individuals responsible for opening mail and collecting cash also complete the cash receipt forms and input the data in the Marina’s management system.

##### *Effect*

The lack of an adequate segregation of duties can result in the misappropriation of City assets.

##### *Cause*

The cause is that the City has not adequately segregated duties among available personnel.

##### *Recommendation*

To the extent possible, duties should be segregated to serve as a check and balance and to maintain the best control system as possible.

# CITY OF MIAMI, FLORIDA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

#### *View of Responsible Officials and Planned Corrective Actions*

Due to staff limitations at the Dinner Key Marina, it is not possible for front desk personnel to avoid opening customer mail and processing monthly dockage payments, however, the City feels there are significant established cash handling procedures to mitigate the potential for misappropriation of assets. The Marina uses pre-numbered sequential cash/check receipts, deposit envelopes, and internally coded transaction numbers in the MMS system. Additionally, it is the responsibility of the front office personnel to accept cash, checks and credit card payments for dockage and ice sales and write up receipts. Segregation occurs when the Marina's Assistant or his designee (who does not process customer payments) processes daily collections for bank deposits and forwards daily collection reports to the Finance Department. During this process, receipt numbers and sequence are audited; deposit envelope sequences are verified, and daily receipts are checked against MMS report totals.

#### *06-08 Audit Committee*

##### *Criteria*

Pursuant to the Miami Code, the Audit Advisory Committee (Committee) was established to assist the Mayor, City Commission and the City Manager in fulfilling their fiduciary responsibilities related to accounting, auditing and financial reporting. The Committee, among other tasks, shall review the annual audit performed by the independent auditor, review the annual management letter developed by the independent auditor and review the internal controls utilized by the City. The duties of the Committee also include maintaining liaison with the independent auditors including, but not limited to, monitoring of the independent auditor's work progress and reviewing preliminary and final reports issued by the independent auditor. Three members constitute a quorum to convene a meeting of the Committee.

##### *Condition*

During the course of our audit engagement, we attempted to set up a meeting with the Committee to discuss audit issues. However, a quorum could not be obtained, although several attempts were made.

##### *Effect*

An effective audit committee is charged with the responsibility of being an effective liaison between the independent auditors and the governing board. The failure to convene a quorum so that regularly scheduled meetings are held or a meeting at the auditors request is held compromises the Committee's ability to be effective in monitoring the finances and internal controls of the City.

##### *Cause*

Failure of the Committee to be able to obtain a quorum of its members.

##### *Recommendation*

We recommend that the Committee review the City Code, and also consider reviewing best practices followed by audit committees.

# CITY OF MIAMI, FLORIDA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

#### *Views of Responsible Officials and Planned Corrective Action*

The members of the City of Miami Audit Advisory Committee serve as volunteers. The current membership of the Committee is composed of busy accounting professionals who own private accounting practices. All members of the Committee are well aware of the provisions of the City Code that established the Committee and take their appointments to the Committee seriously. The inability of the Audit Committee to muster quorum for the meeting requested by the external auditor in March 2007 and other meetings, were due to the busy tax season, a vacancy on the Committee, and other unavoidable circumstances.

#### **Non-Compliance**

##### *06-09 Excess of Expenditures over Appropriations*

#### *Criteria*

Section 241(2) of Chapter 166 of the Florida Statutes provides that the governing body of each municipality shall adopt a budget each fiscal year. The Statutes further state that “the budget must regulate expenditures of the municipality, and it is unlawful for any officer of a municipal government to expend or contract for expenditures in any fiscal year except in pursuance of budgeted appropriations”.

#### *Condition*

The City’s 2006 financial statements indicate that the Fire Rescue Services Special Revenue Fund exceeded its budgetary authorization by \$34.8 million. The over expenditures are attributable to costs incurred as a result of Hurricane Wilma.

#### *Effect*

The effect is that the City is not in compliance with Section 241(2) of Chapter 166 of the Florida Statutes.

#### *Cause*

Failure of the City to amend to budget for costs which were substantially funded by FEMA and a General Fund subsidy.

#### *Recommendation*

Section 241 (3) of Chapter 166 of the Florida Statutes provides the authority for the City to amend the budget. Since the costs were funded by FEMA and a General Fund subsidy, the City should have amended the budgets to avoid exceeding budgetary authorizations. We suggest that, in the future, all budgets be monitored by the Budget Department to ensure compliance with Florida Statutes.

# CITY OF MIAMI, FLORIDA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

#### *Views of Responsible Officials and Planned Corrective Action*

The expenditures referred to in this comment relate to hurricane expenditures which can not be budgeted for timely because the amount of expenditures is unknown until possibly many months afterwards. Management therefore could not possibly go through the normal appropriation process for hurricane expenditures. Management does typically amend the budget after reconciling all reimbursable FEMA costs; however, this is a very lengthy process and was not done prior to the close of the fiscal year.

#### **Other Matters**

##### *06-10 Accounts Receivable*

#### *Criteria*

Receivables should be reviewed and investigated on an ongoing basis to determine validity and collectibility. The establishment of an allowance should not preclude the City from utilizing all available collection measures.

#### *Conditions*

- The City's current policy is to establish an allowance for all receivables outstanding more than 60 days. We noted that the MOORE receivables total approximately \$14.3 million. Of this amount, an allowance for uncollectible amounts has been established for approximately \$10.3 million.
- There are receivables and amounts due from other governments in the General Fund (other than the MOORE receivables), as well as other City funds, which have been outstanding for periods in excess of one year. Some of these amounts have been deemed uncollectible and allowances have been established for these items. There are other substantial amounts which remain outstanding in excess of one year, including \$2.1 million in FHWA funding for Hurricane Katrina, which the City has deemed collectible and has determined that an allowance is not required.
- We noted that, during the current fiscal year, almost \$500,000 of receivables were deemed uncollectible were written off the books and records.

#### *Effect*

A large amount of uncollectible receivables will have a financial impact on the City. The establishment of an allowance may preclude the City from utilizing all available collection measures available. Without a policy for write offs, the Finance Department has the ability to write off large amounts of receivables with authorization from either the City Attorney or the City Commission.

#### *Cause*

The conditions are systemic in nature, and are a result of policies followed by the City.



# CITY OF MIAMI, FLORIDA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

#### *Recommendation*

Receivables outstanding for more than 60 days should be closely monitored. For receivables that are determined to be uncollectible, the City should consider setting a dollar limit that requires written authorization by the City Attorney's office, with approval by the City Commission, to write the amounts off the books and records.

#### *Views of Responsible Officials and Planned Corrective Action*

The City of Miami's policy with respect to receivable is to not write-off any amounts, but rather reserve all amounts considered uncollectible and monitor the accounts regularly.

The Finance Department monitors receivables in house for a sixty day period. In fact, during that period, the Finance Department sends three dunning letters after the initial bill in an attempt to collect amounts owed to the City. If after ninety days the bill is not yet collected, the City sends the item to a collection agency under contract with the City. Additionally, the Finance Department sends aged uncollectible accounts to the Office of the City Attorney for further action after all previous collection steps were unsuccessful.

#### *06-11 Budgets*

##### *Criteria*

Section 241(2) of Chapter 166 of the Florida Statutes provides that the governing body of each municipality shall adopt a budget each fiscal year. The amount available from taxation and other sources, including amounts carried over from prior fiscal years, must equal the total appropriations for expenditures and reserves. The City's Detailed Revenue and Expenditure Report (report 9) includes a total budget column which should be in agreement with the original adopted budget and any subsequent amendments. The amounts reflected in the City's budget document for fund balance carryovers, should be reflective of available fund balance that is being used to balance the budget.

##### *Conditions*

- To ensure that the budgets are properly reflected in the City's financial statements, the auditors reconciled the amounts reflected in the original adopted budget for estimated revenues, prior year fund balance carryovers and appropriations, and any subsequent amendments, by fund, to the amounts reflected in the budgetary column in Report 9. We noted that for most funds differences existed, and in some funds, the budgets reflected in Report 9 were not in balance. The City's Budget Department provided several versions of schedules attempting to reconcile these amounts, as well as to provide the correct total budget for each fund. The City's Finance Department, in preparing the financial statements, used the budget schedules provided by the Budget Department, rather than the amounts reflected in Report 9.

# CITY OF MIAMI, FLORIDA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

- The City's 2006 financial statements, in the governmental funds where a budget is adopted, reflect a component in unreserved fund balance entitled "designated for subsequent year's expenditures". This amount is generally equal to the amount of carryover fund balance to be used in the 2007 fiscal year budget. The City's 2007 budget document includes detailed schedules reflecting revenue sources and fund balance carryover amounts for all funds. We noted that the amounts reflected as carryover fund balance in the 2007 budget document for the special revenue funds were not accurate, and in many cases, were way in excess of available fund balance in some of the funds. Further inquiry of the Budget Department indicated that the amounts reflected in the budget document as carryover amounts were incorrect and could not be used to determine the amounts to be reflected in the financial statements. Schedules detailing the correct amounts were ultimately prepared by the Budget Department.

#### *Effect*

Improper budget information in the Detailed Revenue and Expenditure Report impacts the monthly reports prepared by Finance Department personnel. Preparation of the year end financial statements is also more prone to error. Further, the budget document could be misleading if the carryover fund balances are not properly reflected.

#### *Cause*

The conditions are systemic in nature, and are a result of the manner in which information is recorded by the City.

#### *Recommendation*

We recommend that budget information reflected in the Detailed Report of Revenues and Expenditures be reconciled monthly in all funds to ensure that it is in agreement with the original budget and any subsequent amendments. We also recommend that, in future budget documents, the fund balance carryovers be reflective only of actual fund balance that is planned to be used to balance the budget.

#### *View of Responsible Officials and Planned Corrective Actions*

During the current year under audit, the Budget Department used a percentage of actual fund balances as reflected in the Detailed Report of Revenues and Expenditures (Report 9) as of August 15, 2006 to budget fund balances in the Special Revenue Fund. Eighty percent of the remaining fund balances in these funds were budgeted to the subsequent fiscal year. This percentage was used based on the amount of actual activity, which should have been recorded in this report as of this date. As a result, the eighty percent allocation of remaining fund balances as of this date provided excessive fund balance budgets once the end of the year actual activity was completed.

During the new fiscal year, the Budget Department will work more closely with the Finance Department to make sure the year end activity is complete and use a more appropriate percentage when appropriating fund balances in the subsequent budget year.

# CITY OF MIAMI, FLORIDA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

#### *06-12 Deficits*

##### *Criteria*

Deficits place a financial burden on a municipal entity. The City should not commit funds unless resources are available.

##### *Condition*

The financial statements of the City reflect unreserved and undesignated fund balance deficits in the Parks and Recreation Capital Projects Fund of \$20.506 million and in the Disaster Recovery Capital Projects Fund of approximately \$2.381 million. Additionally, the Fire Rescue Services Fund reflects an unreserved and undesignated deficit of \$4.225 million. These funds will need future funding/financing to eliminate these deficits.

##### *Effect*

The effects of a deficit are varied but their greatest impact will generally be felt on cash flows.

##### *Cause*

The cause of the deficits in the respective capital projects funds is that expenditures and encumbrances exceed financing to date. The cause of the undesignated deficit in the special revenue fund is that there are receivables that are reserved due to their long-term nature that exceed total fund balance.

##### *Recommendation*

We recommend that the City establish a plan to eliminate these deficits in the ensuing fiscal year.

##### *View of Responsible Officials and Planned Corrective Actions*

The previous financial system should have prevented City departments and programs from exceeding the appropriations provided in the fiscal year. The City has now moved to a new integrated ERP financial system which has appropriate safeguards to prevent undesignated deficits.

#### *06-13 Compensated Absences*

##### *Criteria*

The various bargaining unit agreements of the City state that “upon normal retirement from City service, or separating under honorable conditions, any individual who has served for a period of twenty-five years or more, shall be granted, at the time of his/her normal retirement or honorable separation, one hundred seventy-three and three tenths (173.3) hours of pay”.

# CITY OF MIAMI, FLORIDA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

#### *Condition*

Our review of payments made to employees upon retirement from City service disclosed that the date used to determine whether or not the individual has twenty-five years of service with the City and is eligible for 173.3 hours of pay is not based on a consistent methodology when payments are calculated for retiring employees.

#### *Effect*

An inconsistent methodology will result in incorrect payments made to employees upon retirement.

#### *Cause*

The cause is the failure to apply policies consistently.

#### *Recommendation*

We recommend that the current policies be reviewed and a determination made as to the proper date that should be used to determine years of service. This methodology, once determined, should be applied consistently to all retirees.

#### *View of Responsible Officials and Planned Corrective Actions*

The payments made to employees upon retirement should be consistent as all of the collective bargaining unit agreements have the same language, with the exception of Fire and Police who include additional payouts. Due to the fact that neither agreement mentions whether the pay is based on consecutive years of service or total years of service, the City has been utilizing the methodology of past practices.

The Department of Employee Relations, Labor Relations Division has modified its practices to ensure all payouts of this nature are based on an employees total years of service with the City, not based on consecutive years of service.

#### **06-14 Grant Reimbursements – Filing for Reimbursements**

#### *Criteria*

In order to maximize cash flow, and enhance investment income, claim forms for reimbursement should be filed on a timely basis.

#### *Condition*

Claim forms for reimbursements under the UASI grant were not, in all instances, filed timely. We noted that reimbursement claims for the period June through September 2006 were dated in November 2006, but were not actually submitted for reimbursement until January and February of 2007.

# CITY OF MIAMI, FLORIDA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

#### *Effect*

By not filing claims for reimbursement on a timely basis, cash flow and investment income is not being maximized.

#### *Cause*

Additionally, the various City departments fail to prepare claim forms for reimbursement on a timely basis.

#### *Recommendation*

It is recommended that procedures be implemented to ensure that all claims for reimbursement are filed on a timely basis. All expenditures incurred for reimbursable grants should be monitored to ensure that claims are filed timely.

#### *View of Responsible Officials and Planned Corrective Action*

City staff concurs with this comment. Part of the delay was due to the changeover of the City's financial system from GEMS to Oracle, but this will not occur again. The City will be adding staff so that future claims for reimbursements will be closely reviewed for expenditures incurred and filed on a timely basis.

#### *06-15 Component Units*

##### *Criteria*

Receivables and payables from/to the City from component units, as well as any funding provided to those entities by the City, should be in agreement with the amounts reflected on the City's books and records.

##### *Condition*

The City's financial reporting entity includes five discretely presented component units and four blended component units. Separate financial statements are issued for each of these entities. We noted that the amounts reflected in the component unit financial statements as receivables and payables from the City, as well as funding/transfers provided by the City, are not reconciled to the amounts reflected on the City's books and records.

##### *Effect*

The lack of reconciliation can result in inaccurate financial reporting.

##### *Cause*

The Finance Department does not perform a reconciliation of these amounts.

# CITY OF MIAMI, FLORIDA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

#### *Recommendation*

We recommend that procedures be implemented which require the reconciliation of transactions with the component units. Any differences should be investigated and resolved.

#### *Views of Responsible Officials and Planned Corrective Action*

The Finance Department does not administer the accounting or the audit of the component units. The component unit financial statements are not always submitted in a timeframe that permits a reconciliation process without delaying the issuance of the City's Comprehensive Annual Financial Report (CAFR). The City formally requests component units to plan the timing of their audits to coincide with the issuance of our CAFR; however, we can not control the work of their respective auditors. Additionally, differences between the City's financials and those of the component units are typically the result of timing of receiving and posting payments or receivables as well as posting their respective adjusting journal entries.

### PRIOR YEAR FINANCIAL STATEMENT FINDINGS AND STATUS

#### **Other Matters**

##### *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

# CITY OF MIAMI, FLORIDA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

change all passwords throughout the network, or, a software package should be implemented to make these changes in an automated fashion.

#### *Status*

The City has established written policies and procedures for disabling network access upon employee termination. The Department of Information Technology (IT) disables all network access for terminated employees immediately upon notification from the Department of Employee Relations. During normal work hours, this function is currently located in the customer service group to ensure the timeliness of the response to the request. If a request to terminate access is received after normal business hours, the n the Security Group of the IT department is notified and access is terminated immediately.

The current policy, which is enforced through Windows security, requires that all user and administrative passwords be changed every 90 days. IT utilizes an automated tool to assist in the timely modification of administrative passwords. This tool has been implemented at the server level and workstation level implementation is scheduled for later this year.

#### *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.

#### *Status*

The Department of Information Technology (IT) is working with the Department of Employee Relations in order to improve Succession Planning within the IT Department.

#### **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

# CITY OF MIAMI, FLORIDA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

### SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

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 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 the fiscal year ended September 30, 2008.

#### ***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.



# CITY OF MIAMI, FLORIDA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

#### *Status*

City staff concurs with this comment. The staff of the Finance Department and the Department of Risk Management, Group Benefits Division, have been participating in several training sessions related to GASB No. 45 in order to fully understand the intricacies of the implementation process. Additionally, the City has retained the necessary actuarial firm who will conduct the analysis of the post-employment benefits offered by the City and subject to the accounting and reporting requirements under GASB No. 45.

#### *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.

#### *Status*

The City is in the process of replacing the Moore HR/Payroll systems with the Oracle eBusiness Suite 11i HRMS applications. The new applications will produce the necessary edit change reports in order to identify all payroll changes made, thereby providing a mechanism of review for any unauthorized payroll changes. The current system does not provide such reports and the effort would need to be manual which is not feasible due to staff constraints. The timeline for the implementation of the new HRMS system is January 2009.

#### *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.

# CITY OF MIAMI, FLORIDA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

#### *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.

#### *Status*

City staff concurs with the auditor's recommendation. The City has already procured a budget module as part of the Enterprise Resource Planning System implementation and is slated to implement the specific budget module in the second or third phase of the implementation. The integrated budget module will interface directly with the financial system (general ledger) providing 'up-to-date' financial information needed for forecasting. The City expects the budget solution to be implemented after the implementation of the HRMS system.

#### *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.

# CITY OF MIAMI, FLORIDA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

#### *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 in the process of replacing the Moore HR/Payroll systems with the Oracle eBusiness Suite 11i HRMS 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, 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 it 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 current system does not provide such validation and the effort would need to be manual which is not feasible due to staff constraints. The timeline for the implementation of the new HRMS system is January 2009.

#### *00-05 Grant Accounting*

Each of the City's federal, state and local grants is 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*

As of October 1, 2006, the City has replaced its current financial reporting system (GEMS) with the Oracle eBusiness Suite 11i Financials applications Enterprise Resource Planning System. This application has significantly improved the City's ability to track project level expenditures and monitor reimbursable grants. The City does not believe this comment will repeat in the subsequent fiscal year.

# CITY OF MIAMI, FLORIDA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

#### *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*

On October 1, 2006, the City replaced the legacy financial systems with the Oracle eBusiness Suite 11i Financials applications Enterprise Resource Planning System. The new application has eliminated several legacy systems which required 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 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 new HRMS system is January 2009.

#### *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.

# CITY OF MIAMI, FLORIDA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

#### *Status*

As of October 1, 2006, the City has replaced its current financial reporting system (GEMS) with the Oracle eBusiness Suite 11i Financials applications Enterprise Resource Planning System. This application, unfortunately, has not significantly reduced the manual input required to produce management reports as well as improve the timeliness. The City continues to work towards improving reporting and researching other tools that could be used to supplement and improve the Oracle standard reports.

#### *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 replaced its legacy police 911 system with modern integrated public safety dispatching and reporting systems. The new public safety systems encrypt passwords. The Police Dispatching and Reporting system is currently in use and the projected implementation for the Fire Dispatch and Reporting system is May 2008.

As of October 1, 2006, the City began using the Oracle eBusiness Suite 11i financial application. The new system encrypts passwords and does not allow the system, security or database administrators to view them in clear text. The City does not believe this comment will repeat in the subsequent fiscal year.

### SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

#### **Reportable Conditions – Material Weaknesses**

#### *06-16 Overall Comment for all Program Accounting – Schedule of Expenditures of Federal Awards and State Financial Assistance Projects Preparation and Completeness*

#### *Criteria*

The City must have internal control policies in place to ensure compliance with Federal and State regulations.

# CITY OF MIAMI, FLORIDA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

#### *Condition*

The Schedule of Expenditures of Federal Awards and State Financial Assistance Projects originally provided by the City at the commencement of single audit fieldwork incorrectly reported certain information, including incorrect or missing CFDA or CSFA numbers, contract numbers, incorrect classifications of Federal and State expenditures, and incorrect expenditure amounts. Our audit procedures also identified grants that were originally included in the schedule that are not subject to single audit reporting requirements.

#### *Effect*

This type of deficiency in internal control over compliance may result in an incomplete and materially misstated Schedule of Expenditures of Federal Awards and State Financial Assistance Projects. No known or likely questioned costs resulted from this deficiency.

#### *Cause*

Deficiencies in the design or operation of internal control over financial reporting.

#### *Recommendation*

We recommend the City establish effective internal control procedures to ensure accuracy and completeness of the Schedule.

#### *View of Responsible Officials and Planned Corrective Action*

Preparation of the Schedule of Expenditures of Federal Awards and State Financial Assistance Projects is initially provided to the auditors prior to the completion of audit fieldwork, therefore all auditor adjusting entries are not reflected on the schedule and the schedule must be revised through the audit process. Many of the expenditure amounts that changed were due to these adjusting journal entries. In the current fiscal year, the process to compile the Schedule of Expenditures of Federal Awards and State Financial Assistance was a manual effort in which CFDA/CSFA numbers and contracts for each grant were reviewed and incorporated in the schedule by various departments. As of October 1, 2006, the City has replaced its current financial reporting system (GEMS) with the Oracle eBusiness Suite 11i Financials applications Enterprise Resource Planning System. With this new system, the CFDA/CSFA numbers and contract numbers are entered into fields that are readily available within the System. This greatly reduces the manual effort by various individuals across departments within the City. The new financial system also requires identifying who the granting source is. Therefore, the classifications of Federal and State grants are established as the grants are created. The City does not believe this comment will repeat in the subsequent fiscal year.

# CITY OF MIAMI, FLORIDA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

#### *06-17 Reconciliation Process Pertaining to:*

- *CFDA #16.011 U.S. Department of Homeland Security – Urban Area Security Initiative Grant (UASI)*
- *CFDA #97.036 U.S. Department of Homeland Security – FEMA Disaster Relief Funding Agreement – Hurricane Katrina*
- *CFDA #97.025 U.S. Department of Homeland Security – Urban Search and Rescue Grant Award (USAR)*
- *CFDA # 20.205 U.S. Department of Transportation – Federal Highway Administration (FHWA)*

#### *Criteria*

OMB Circular A-133 financial reporting requirements include “verifying the accuracy and completeness of the reports and that they agree with the accounting records”.

#### *Condition*

Reconciliations between general ledger reports and reports filed with the grantor are not prepared to ensure accuracy and completeness of reporting. We noted that:

- UASI reimbursement requests reported to the grantor overstated cumulative expenditures by \$782,467.
- The lack of a reconciliation between FEMA and FHWA reimbursement requests and project worksheets to the expenditures reflected in the general ledger resulted in an invalid reimbursement request of approximately \$895,500.
- USAR deployment expenditure amounts reported in the Schedule of Federal Awards and State Financial Assistance Projects included known unallowed expenditures of \$42,600. However, the program administrator properly did not request these items for reimbursement.

#### *Effect*

The failure to perform these reconciling procedures may result in inaccurate and/or incomplete reporting to grantors or inaccurate and incomplete accounting records. The following known questioned costs resulted from this finding:

- UASI - \$782,467 – amount of over-reported expenditures
- FEMA - \$895,500 – amount of known over-reported expenditures
- USAR - None

#### *Cause*

The lack of routine reconciliations between accounting records and amounts reported to grantors.

# CITY OF MIAMI, FLORIDA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

#### *Recommendation*

We recommend routine reconciliations between accounting records and amounts reported to grantors be performed to ensure compliance with accurate and complete reporting requirements.

#### *View of Responsible Officials and Planned Corrective Action*

Regarding UASI - This issue was precipitated by multiple causes. The first grant (2003) had a one time advance associated with it. The advance was not properly accounted for in future reimbursement requests. Other reimbursement and expenditure entries were made in error due to the fact that staff was using the Purchase Order report instead of the more accurate monthly expenditure report. Since the advance was a one time occurrence, City staff does not believe this will be a repeated comment in the future. Additionally, the City is in the process of making final adjustments to the 25% advance reconciliation. The changes along with adherence to the monthly reports as well as the new processes under the new Oracle financial system will address the issues described in the findings.

Regarding FEMA/FHWA - City staff concurs with this finding. The user department completed the Project Worksheets and did not reduce the FEMA request by the agreed 25% estimated cost share that FHWA was to cover for State road debris clearance.

The recovery process is a complex process with multiple funding sources and overlapping guidance and practices. In addition this disaster event was associated with a massive and complex claim for the "Debris" category. It should be noted that although the City billed for the FHWA component to both funding sources, we did not receive any funds from FHWA. The complete and exact reconciliation of these project worksheets can not occur until final inspection which is based on estimates which are continually adjusted. The final accurate reconciliation may not occur for multiple years.

The City will be adding two additional fiscal assistants which will enhance our ability to review and monitor the quality of project worksheet submissions from user departments. Additionally, training and experience of user department staff will also enhance the quality of recovery submissions and reduce the incidence of this finding.

Regarding USAR - USAR deployment expenditure amounts reported in the Schedule of Federal Awards and State Financial Assistance Projects included known unallowed expenditure of \$42,600. However the program administrator did not request these items for reimbursement. The \$42,600 was a discrepancy between the worksheets prepared and the general ledger. These are expenditures that were incurred on the USAR credit card and possibly from Hurricane Wilma that were not reimbursed. These expenditures should have been split funded into proper accounts. The City does not believe this comment will repeat in the subsequent fiscal year.



# CITY OF MIAMI, FLORIDA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

#### *06-18 CFDA #16.011 & 97.008 – U.S. Department of Homeland Security – Urban Area Security Initiative Grant (UASI)*

##### *Criteria*

Internal controls should be in place that provide for compliance with applicable Federal and State compliance requirements.

##### *Condition*

The City paid three separate sub recipient invoices twice. The City also submitted the costs for reimbursement twice, and as a result, was reimbursed twice.

##### *Effect*

Non-compliance with OMB regulations. Duplicate payment of sub recipient invoices resulted in known questioned costs in the amount of \$341,419 being requested and reimbursed.

##### *Cause*

Internal controls are not in place to provide for the prevention of duplicate payments.

##### *Recommendation*

We recommend that the City rectify the above noted condition by reimbursing the State for these questioned costs and notifying the sub recipients of this event in order to collect amounts paid by the City in error. The City should also establish internal controls that provide for accurate recording, payment, monitoring and reimbursement of sub recipient expenditures. These controls should include procedures to prevent duplicate payments from occurring.

##### *View of Responsible Officials and Planned Corrective Action*

City staff concurs with the auditors finding. On October 1, 2006, the City has replaced its current financial reporting system (GEMS) with the Oracle eBusiness Suite 11i Financials applications Enterprise Resource Planning System. During the cutover and conversion, one invoice was processed for payment on both systems accidentally. System controls to mitigate double payment of invoices do not cross systems. The City does not believe this issue will repeat in the subsequent fiscal year.

The other instances were affected by short staffing and financial quality control that needed enhancement. The City will be supplementing staff to the section, and future reimbursement requests will be logged by the requesting entity and by UASI line item. Adding this step prior to approving reimbursement will reduce and eliminate such occurrences in the future. The City has also modified the workflow so that the staff member reviewing the reimbursement packet is also responsible for entering the reimbursement requisition. This responsibility was previously divided between two staff members. This will enhance the familiarity and accuracy of the staff member processing the reimbursements. The additional staff will also allow the City to add additional internal control measures to enhance our function and prevent future findings.

# CITY OF MIAMI, FLORIDA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

#### Reportable Conditions

##### *06-19 Equipment Tagging as it pertains to:*

- *CFDA # 16.011 & 97.008 - U.S. Department of Homeland Security – Urban Area Security Initiative Grant (UASI)*
- *CFDA #14.241 – U.S. Department of Housing and Urban Development – Housing Opportunities for Persons with Aids (HOPWA)*

#### *Criteria*

Local governments shall follow the A-102 Common Rule for equipment acquired under Federal awards received directly from a Federal awarding agency. Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained and disposed of.

#### *Condition*

The City's control system in place to safeguard equipment is to tag with City barcodes any assets acquired with an individual purchase cost of \$1,000 or more. Items purchased with Federal or State monies include a separate barcode that specifies the grant/ program funds used to purchase the item. However, during our physical inspection we noted inconsistencies in the execution of this policy. We noted the following:

- UASI:
  - In a group of 12 rebreathers purchased, each individually above the \$1,000 threshold, 3 items were bar-coded while 9 were not.
  - In a group of 13 mobile radios purchased, each individually above the \$1,000 threshold, some were bar-coded while others were not.
  - Throughout testing we noted only some of the items purchased with UASI funds included a UASI tag along with the City's barcode while others did not.
- HOPWA:
  - 3 out of 6 items selected for physical inspection were not properly tagged per City policy and OMB requirements.

#### *Effect*

Deficiencies in internal controls over the adequate safeguarding of assets acquired with federal funds may result in an improper disposition or misappropriation of the assets. No known or likely questioned costs resulted from this finding.

# CITY OF MIAMI, FLORIDA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

#### *Cause*

Lack of consistency in the application of City policies as they relate to the internal controls over the safeguarding of assets acquired with Federal funds.

#### *Recommendation*

We recommend the City take more care in consistently applying the control system used to ensure the safeguarding and disposition of assets acquired with Federal funds.

#### *Views of Responsible Officials and Planned Corrective Actions*

Regarding the UASI program, the City concurs with the auditor's finding. This finding is a result of shortage of inventory staff support. Although the City self instituted a UASI bar coding procedure, it is not a requirement of the grantor. The only requirement is that we have an accurate accounting of our inventory. As such, due to short staffing in the area of inventory, all available resources are used for mandatory grant requirements. Added staffing and inventory system enhancements will address these issues. Prior to our Federal monitoring visit in March 2007, the City instituted a new inventory tracking spreadsheet. The Federal monitoring team was very pleased with our inventory tracking spreadsheet. In addition, the State of Florida will be providing all UASI cities with a new statewide software system for inventory tracking and typing. All these enhancements plus the increase in staff will have a direct impact on the aforementioned findings. As a note, the City was also audited by the State of Florida in June 2007; although the City has not received the final written report as of yet, we did receive a perfect report regarding our inventory tracking process and upon their visit found 100% compliance in the sampling of bar coded items.

Regarding the HOPWA program, City staff does not concur with this finding. The auditors did not discuss the exceptions found with City staff. All Community Development items are properly tagged.

#### **06-20 CFDA #14.241 – U.S. Department of Housing and Urban Development – Housing Opportunities for Persons with Aids (HOPWA)**

#### *Criteria*

An internal control system should be in place to provide for proper safeguarding and maintenance of highly confidential applicant files. Files should be kept in a complete, organized, and proper form.

#### *Condition*

During the review of HOPWA files, we noted that, in some instances, several files were not complete. Among the items noted missing were applicant signatures, information, and forms. We also noted the content in the files were not in chronological order, thereby making it difficult to follow the sequence of events and communications. Additionally, there were instances in which the applicant file selected contained information, forms and documents that belonged to a different applicant.

# CITY OF MIAMI, FLORIDA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

#### *Effect*

Ineffective internal controls over the safekeeping of applicant files may result in the misappropriation or inadvertent disposition of important documents. Additionally, the lack of all required signatories in the files, and all required forms, does not fully support and document the transaction in the proper manner.

#### *Cause*

This condition was caused by a lack of effective internal controls.

#### *Recommendation*

The City should establish procedures that provide for a proper sign in/out of files. Persons responsible for the signing in and out of the files should further take care in reviewing the condition of the files prior and subsequent to access grants. Additionally, procedures should be established to ensure that all required signatories are obtained, and that all required documents are included in each file.

#### *Views of Responsible Officials and Planned Corrective Actions*

City Staff does not concur with this comment. Internal controls over the HOPWA files are in place. Access to the files is restricted to personnel that need to work with those files. Files in the HOPWA projects are secured under lock and key in a separate file room with restricted access to HOPWA personnel all of which have received training in HIV and HIPPA confidentiality rules and procedures.

The files are physically located in the individual offices of each person working with HOPWA program. Access to files after working hours is not permitted.

The methodology for filing documents in the client's files is effective and efficient for the Department's needs. Every request for information from the auditors was responded within one day.

#### **Non-Compliance Findings**

***06-21 CFDA # 16.011 & 97.008 – U.S. Department of Homeland Security – Urban Area Security Initiative Grant (UASI)***

#### *Criteria*

OMB Circular A-133 requires the amount of Federal funds disbursed to sub recipients be included in the total expenditures of Federal awards of the pass-thru entity and in the determination of the pass-thru entity's major programs. "To the extent practical" information regarding amounts provided to sub-recipients from each Federal program should also be disclosed.

# CITY OF MIAMI, FLORIDA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

#### *Condition*

The City was not properly recording the amounts passed thru to a sub recipient (Miami-Dade County) as expenditures.

#### *Effect*

Improper recording of sub recipient expenditures can result in inaccurate accounting records, a potentially materially misstated Schedule of Expenditures of Federal Awards and State Financial Assistance Projects and noncompliance with OMB A-133 requirements. There are no likely or known questioned costs related to this finding.

#### *Cause*

City personnel were not aware of this requirement. However, once brought to their attention in March 2006, the City began and continued to properly record the expenditures to sub recipients for the remaining months of the 2006 fiscal year.

#### *Recommendation*

We recommend that the City continue to ensure compliance with the program requirements.

#### *View of Responsible Officials and Planned Corrective Action*

City Staff concurs with this comment. The issue was identified and has since been corrected. The City now reimburses the requesting sub grantee from city funds upon receipt and review of their reimbursement packet. The reimbursement packet is then sent to the State who subsequently reimburses the City. These transactions are now booked per the recommendations of the auditors and finance department. The transition to the Oracle financial system also allows better specificity and control of sub-grantee cost centers and documentation. The City does not believe this comment will repeat in the subsequent fiscal year.

#### ***06-22 CFDA # 16.011 & 97.008 – U.S. Department of Homeland Security – Urban Area Security Initiative Grant (UASI)***

#### *Criteria*

OMB Circular A-133 Cash Management compliance in a cost-reimbursement type grant requires the pass thru entities to pay for expenditures prior to requesting reimbursement.

#### *Condition*

The City was requesting reimbursement from the State for sub recipient expenditures not yet reimbursed to the sub recipient by the City. The City was holding back payments to the sub recipient for eligible expenditures until the receipt of reimbursement funds from the State.

# CITY OF MIAMI, FLORIDA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

#### *Effect*

Noncompliance with OMB regulations can affect current and future funding from the grantor. No known or likely questioned costs resulted from this finding.

#### *Cause*

The City was not aware of this requirement. However, once brought to their attention in March of 2006, the City began and continued to properly pay sub recipients before requesting reimbursement from the State for the remaining months of the 2006 fiscal year.

#### *Recommendation*

We recommend that the City continue to ensure compliance with the program requirements.

#### *View of Responsible Officials and Planned Corrective Action*

City Staff concurs with this comment. The City was initially unaware that the practice of waiting for State reimbursement prior to reimbursing the sub grantee was not an acceptable method. It was initially done this way out of concern for tying up City funds, particularly for large sub grantee expenditures. Based on the recommendation by the auditor, the City has modified its process reimbursements. The City does not believe this comment will repeat in the subsequent fiscal year.

### SECTION IV – STATE FINANCIAL ASSISTANCE PROJECTS FINDINGS AND QUESTIONED COSTS

#### **Reportable Condition**

#### *06-23 CSDA #52.901 – State Housing Initiatives Partnership (SHIP)*

#### *Criteria*

An internal control system should be in place to provide for proper safeguarding and maintenance of highly confidential applicant files. Files should be kept in a complete, organized, and proper form.

#### *Condition*

During the review of SHIP files, we noted that, in some instances, several files were not complete. Among the items noted missing were signatures, various information, and forms. We also noted that, in several instances, required signatures of the fiscal administrator and the director were not evident.

# CITY OF MIAMI, FLORIDA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

### SECTION IV – STATE FINANCIAL ASSISTANCE PROJECTS FINDINGS AND QUESTIONED COSTS (Continued)

#### *Effect*

Ineffective internal controls over the safekeeping of applicant files may result in the misappropriation or inadvertent disposition of important documents. Additionally, the lack of all required signatories in the files, and all required forms, does not fully support and document the transaction in the proper manner.

#### *Cause*

This condition was caused by a lack of effective internal controls.

#### *Recommendation*

The City should establish procedures that provide for a proper sign in/out of files. Persons responsible for the signing in and out of the files should further take care in reviewing the condition of the files prior and subsequent to access grants. Additionally, procedures should be established to ensure that all required signatories are obtained, and that all required documents are included in each file.

#### *Views of Responsible Officials and Planned Corrective Actions*

City staff does not agree with this finding. The SHIP files specifically reviewed with the respective comments are as follows:

- Project 041037RH – This item relates to a Child Enforcement Lien on file. The applicant was cleared prior to SHIP program approval; therefore there is no lack of compliance with the program. Procedures require clearance of applicant prior to approval which was received timely. City staff believes this comment could have been cleared had the auditors spoken with the appropriate personnel in the Department of Community Development (Director or Assistant Director or Designee).
- Project 051102RH – The only signature needed to approve a request for payment is that of the Director or their Designee. Underlying signatures are necessary so that the Director does not have to do a detail analysis of each account payable. In the case of SHIP, for most of the fiscal year, it was not necessary for the Contract Manager to sign. In the absence of the Fiscal Administrator or Contract Manager, it is the responsibility of the Director to verify the payment in its entirety. City Staff believes this comment could have been cleared had the auditors spoken with the appropriate personnel in the Department of Community Development (Director or Assistant Director or Designee).
- Project 051151RH – The only signature needed to approve a request for payment is that of the Director or their Designee. Underlying signatures are necessary so that the Director does not have to do a detail analysis of each account payable. In the case of SHIP, for most of the fiscal year, it was not necessary for the Contract Manager to sign. In the absence of the Fiscal Administrator or Contract Manager, it is the responsibility of the Director to verify the payment in its entirety. City Staff believes this comment could have been cleared had the auditors spoken with the appropriate personnel in the Department of Community Development (Director or Assistant Director or Designee).

# CITY OF MIAMI, FLORIDA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

### SECTION IV – STATE FINANCIAL ASSISTANCE PROJECTS FINDINGS AND QUESTIONED COSTS (Continued)

- Projects 041058CR and 051140CR – Progress payments were properly documented. The auditor did not request a recent statement from the appropriate City staff. City staff believes this comment could have been cleared had the auditors spoken with the appropriate personnel in the Department of Community Development (Director or Assistant Director or Designee).