

McGladrey & Pullen
Certified Public Accountants

City of Miami, Florida

Management Letter
Year Ended September 30, 2007

Table of Contents

Management Letter Required By Chapter 10.550 of the Rules of the Auditor General of the State of Florida	1 – 3
Appendix A – Current Year's Recommendations to Improve Financial Management, Accounting Procedures and Internal Controls	4 – 27
Appendix B – Listing of Findings and Questioned Costs	28 – 45
Appendix C – Status of Prior Year's Recommendations to Improve Financial Management, Accounting Procedures and Internal Controls	46 – 52

McGladrey & Pullen

Certified Public Accountants

Management Letter Required By Chapter 10.550 of the Rules of the Auditor General of the State of Florida

To the Honorable Mayor and Members of the
City Commission
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 Miami, Florida (the "City") as of and for the fiscal year ended September 30, 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 22, 2008. 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 Liberty City Community Revitalization District Trusts, the Firefighters' and Police Officers' Retirement Trust and the General Employees' and Sanitation Employees' Retirement Trust and Other Managed Trusts which represent 94% and 82%, respectively, of the assets and revenues/additions of the aggregate remaining fund information. These entities also represent 4% and 3%, respectively, of the assets and revenues of the governmental activities balances. We also did not audit the financial statements of the Miami Sports and Exhibition Authority, Downtown Development Authority, Bayfront Park, and the Civil Investigative Panel, discretely presented component units of the City, which represents 23% of the total assets and 32% of the total revenues 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 opinions, 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 Liberty City Community Revitalization District Trusts, the Firefighters' and Police Officers' Retirement Trust, the General Employees' and Sanitation Employees' Retirement Trust and Other Managed Trusts, the Miami Sports and Exhibition Authority, Downtown Development Authority, Bayfront Park, and the Civil Investigative Panel, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; 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 the requirements described in the *Executive Office of the Governor's State Projects Compliance Supplement*. We have issued our Independent Auditor's Report on Internal Control Over Financing Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, and Independent Auditor's Report on Compliance with Requirements Applicable to each Major Federal Program and State Project and on Internal Control over Compliance in Accordance with OMB Circular A-133 and Chapter 10.550, *Rules of the Auditor General*. Disclosures in those reports dated July 22, 2008, 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, unless otherwise required to be reported in the report on compliance and internal controls or schedule of findings and questioned costs, this letter is required to include the following information.

Section 10.554(1)(i)1., *Rules of the Auditor General*, requires that we determine whether or not corrective actions had been taken to address significant findings and recommendations made in the preceding annual financial audit report. Corrective action has been taken to address the significant finding and recommendation made in the preceding annual financial audit report, except as noted in Appendix C – Status of Prior Year's Recommendations to Improve Financial Management, Accounting Procedures and Internal Controls.

Section 10.554(1)(i)2., *Rules of the Auditor General*, requires our audit to include 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, relating to local government investment policies.

Section 10.554(1)(i)3., *Rules of the Auditor General*, requires that we address in the management letter any recommendations to improve financial management, accounting procedures, and internal controls. Please see Appendix A – Current Year's Recommendation to Improve Financial Management, Accounting Procedures and Internal Controls.

Section 10.554(1)(i)4., *Rules of the Auditor General*, requires that we address violations of provisions of contracts and grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential. Violations of provisions of contracts and grant agreements were reported in the Appendix B – Listing of Findings and Questioned Costs.

Section 10.554(1)(i)5., *Rules of the Auditor General*, requires, based on professional judgment, the reporting of the following matters that are inconsequential to the financial statements, considering both quantitative and qualitative factors: (1) violations of laws, rules, regulations and contractual provisions or abuse that have occurred, or were likely to have occurred, and would have an immaterial effect on the financial statements; (2) improper expenditures or illegal acts that would have an immaterial effect on the financial statements; and (3) control deficiencies that are not significant deficiencies, including, but not limited to; (a) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (b) failure to properly record financial transactions; and (c) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. See Appendix A – Current Year's Recommendation to Improve Financial Management, Accounting Procedures and Internal Controls.

Section 10.554(1)(i)6., *Rules of the Auditor General*, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. This information is disclosed in Note 1 of the City's financial statement.

Section 10.554(1)(i)7.a., *Rules of the Auditor General*, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. 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.

Section 10.554(1)(i)7.b., *Rules of the Auditor General*, requires that we determine whether the annual financial report for the City for the fiscal year ended September 30, 2007, 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 for the fiscal year ended September 30, 2007. In connection with our audit, we determined that these two reports were in agreement.

Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, require that we apply financial condition assessment procedures. In connection with our audit, we applied financial condition assessment procedures. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

This report is intended solely for the information and use of the Honorable Mayor, members of the City Commission, management of the City, federal and state awarding agencies, pass-through entities and the State of Florida Office of the Auditor General, and is not intended to be and should not be used by anyone other than those specified parties.

McGladrey & Pullen, LLP

Miami-Dade County, Florida
July 22, 2008

City of Miami, Florida

Appendix A –Current Year’s Recommendations to Improve Financial Management,
Accounting Procedures and Internal Controls
Fiscal Year Ended September 30, 2007

Finding Number	Description	Significant Deficiency	Material Weakness
Control Deficiencies			
IC 2007-01	Post Closing and Financial Reporting Process		X
IC 2007-02	Significant Issues Documentation		X
IC 2007-03	Oracle Training		X
IC 2007-04	Recording Accruals and Accounts Payable	X	
IC 2007-05	Bank Reconciliations		X
IC 2007-06	Grants Management		X
IC 2007-07	Filing for Grant Reimbursements		X
IC 2007-08	Capital Asset Management		X
Compliance			
CF 2007-15	Excess of Expenditures over Appropriations		
Other Comments			
ML 2007-01	Payroll		
ML 2007-02	Investments		
ML 2007-03	Compensated Absences		
ML 2007-04	Transfers of Completed Projects from CWIP		
ML 2007-05	Employee Cross Training		
ML 2007-06	System Access Security		
ML 2007-07	System Access Security – HR/Payroll		

Appendix A – Current Year's Recommendations to Improve Financial Management,
Accounting Procedures and Internal Controls (Continued)
Fiscal Year Ended September 30, 2007

IC 2007-01 – Post Closing and Financial Reporting Process

Criteria: Internal control policies and procedures should provide reasonable assurance regarding the reliability of the financial reporting process. The post closing and financial reporting process, including the accurate recording and accounting of transactions is a critical function of the City and should be completed in a timely manner.

Condition: We noted that numerous adjustments were required to be made to the City's trial balance in order to comply with accounting principles generally accepted in the United States ("GAAP"). The adjustments related to routine transactions as well as certain unusual transactions. We also noted that the City does not have a formalized financial reporting process which would include the review and approval of changes/revisions made. Preparation and review of year end financial statements are performed solely by the Finance Director. As a consequence, the preparation of the financial statements is not subject to an independent review.

For several balance sheet accounts, detailed reconciliations were not maintained on a current basis or were not reconciled to supporting documentation.

The routine adjustments were a result of improper cut-off of accounts payable, untimely reconciliation of subledgers to supporting documentation, improper revenue recognition, lack of control over capital asset transactions and recognition of unusual accounting transactions.

We also noted several instances where management did not have a process in place to adequately evaluate, summarize, and report significant or unusual transactions. For example, the recording of refunded debt, recording loan guarantees, properly calculating year end compensated absence balance, and accounting for the impairment of capital assets.

Context: The finding is considered systemic in nature.

Effect: The lack of adequate closing policies and procedures and proper reviews can result in material misstatements to the financial statements.

Cause: There is a lack of a formal period end closing process in which all departments and functions perform a detailed review of account balances and a thorough review and sign-off by supervisory personnel.

**Appendix A – Current Year's Recommendations to Improve Financial Management,
Accounting Procedures and Internal Controls (Continued)
Fiscal Year Ended September 30, 2007**

Recommendation: We recommend that management adopt and adhere to a policy that will help ensure that all routine as well as significant and unusual transactions are recorded properly in the financial statements.

The City should develop procedures and formal processes to ensure that all account analysis and schedules have been formally reviewed and approved by supervisory finance department personnel. Preparation and review of financial statements should not be performed by same individual.

Views of Responsible Officials and Planned Corrective Action: The Finance Department has been working diligently to correct each of the issues and with the cooperation of other City departments, we expect that the issues can be corrected going forward.

Each condition found by the auditors was a result of extraordinary circumstances which existed throughout fiscal year 2007 and are discussed below:

Fiscal year 2007 was the first year the City closed its books with the new financial management system, Oracle. The City went live with the new system on October 1, 2006, the start of fiscal year 2007. Many of the adjustments were a result of the City not fully understanding how the new system worked at the time. Also, the go-live effort fully utilized all available staff in the Finance Department and significantly delayed all normal closing processes. Additionally, monthly reconciliations were not completed in a timely manner which led to an overall delay in the year end closing process. Many of the formal processes of the department were foregone due to timing.

During fiscal year 2007, the Finance Department had been experiencing an exorbitant amount of vacancies of many of its senior accounting level staff, including an Assistant Director, two Chief Accountants, five Senior Accountants and several staff members. This extraordinary amount of vacancies resulted in many of the normal operating processes to be set aside and were not conducted timely. During the preparation of year end, supplemental staff was brought in to assist and the City was able to catch up with all critical reconciliations and schedules for the external audit. Formal working papers were not prepared or maintained in all instances.

Adjustments were primarily a result of the implementation of the new system and not fully understanding the system on how all the transactions work. Coordination with other City departments also needs to be improved. Additionally, due to the go-live at the beginning of the year, the City was unable to keep current with all reconciliations and numerous vacancies within the Finance Department did not allow for thorough review and research of new/unusual accounting transactions.

Numerous vacancies in the Finance Department as well as the extreme effort mandated by the go-live of the new system, did not allow for sufficient research and evaluation of new and unusual accounting policies. Additionally, lack of coordination with various City departments resulted in the Finance department not being made aware of certain transactions.

**Appendix A – Current Year’s Recommendations to Improve Financial Management,
Accounting Procedures and Internal Controls (Continued)
Fiscal Year Ended September 30, 2007**

The preparation of the financial statements are typically performed by the Assistant Finance Director and are reviewed and finalized by the Director. During all of fiscal year 2007, the City did not have an Assistant Finance Director. An Assistant Director was hired subsequent to year end. The Assistant Director did not possess sufficient knowledge of the City and how the financials are prepared, therefore the financial statements were prepared by the Director with the assistance of the Treasurer and the new Assistant Director. Currently, the Assistant Director position is again vacant; therefore preparation of the fiscal 2008 financial statements will again be prepared by the Director.

The Finance department, with the cooperation of all other City departments is in the process of addressing and correcting each of these situations. The Finance Department will implement new procedures to ensure compliance. However, until the department is fully staffed and full cooperation from all City Departments is achieved, this type of finding will continue to repeat itself.

**Appendix A – Current Year's Recommendations to Improve Financial Management,
Accounting Procedures and Internal Controls (Continued)
Fiscal Year Ended September 30, 2007**

IC 2007-02 – Significant Issues Documentation

Criteria: Internal control policies and procedures should provide reasonable assurance regarding the reliability of the financial reporting process, including the accurate recording and accounting of routine transactions as well as significant and unusual transactions. Also, such policies and procedures at a minimum, require that all such transactions be analyzed, reviewed and reduced to writing.

Condition: We noted that the financial statements required significant corrections, including corrections to the prior periods, in order to comply with GAAP. We also noted that the City does not have a formalized system and/or personnel that are responsible for analyzing significant, non-routine and unusual transactions to help ensure that they are identified, addressed and concluded on, and that they coincide with GAAP. Examples of such transactions noted include:

- Revenue recognition treatment, including deferral of grant recognition;
- Compensated Absence Calculation and the treatment of vesting;
- Impairment of capital assets (Orange Bowl Stadium);
- Union contract compensation liability;
- Parrot Jungle Loan guarantee (recognition issues);
- Component Unit treatment (i.e. assessing if a Component Unit meets the treatment for blending versus discrete presentation); and
- Land purchases (related to easements and Florida Forever Act Grant).

Context: The condition is considered systemic.

Effect: Increase the risk of material misstatement of the financial statements.

Cause: Lack of a formalized policies and procedures and/or personnel responsible assigned to perform routine analysis.

Recommendation: The City is involved in and faced with various complex transactions which require a rigorous analysis of the facts and adequate accounting research. We recommend that management develop and implement formal policies and procedures necessary to ensure that all non-routine and significant transactions are properly reported in the financial statements. A "best practice" may include that the City: (1) document the fact pattern related to the transaction; (2) summarize the terms of the transactions; (3) analyze the accounting implications; (4) conduct the adequate research or consult others as considered necessary; (5) document conclusions reached; and (6) implement a formal review of the conclusions.

**Appendix A – Current Year’s Recommendations to Improve Financial Management,
Accounting Procedures and Internal Controls (Continued)
Fiscal Year Ended September 30, 2007**

Views of Responsible Officials and Planned Corrective Action: The Finance Department does have 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 the go-live of our financial management system, Oracle, on October 1, 2006. All essential Finance Department resources were consumed by the implementation of the new system, and as a result, the necessary procedures and reviews were not conducted thoroughly. Additionally, during fiscal year 2007 (and for most of fiscal year 2008), there were over ten vacancies in the Finance department which caused many functions to be missed. Subsequently most of these vacancies have been filled and will now be tasked with performing research, review and analysis on the City's accounting transactions. Also, the Finance Department will begin to formalize processes and document procedures as they relate to preparation of financial statements and review of complex transactions.

**Appendix A – Current Year's Recommendations to Improve Financial Management,
Accounting Procedures and Internal Controls (Continued)
Fiscal Year Ended September 30, 2007**

IC 2007-03 – Oracle Training

Criteria: A comprehensive knowledge of an organization's accounting software is paramount to effectively maintaining and producing financial data consistent with management assertions.

Condition: The City implemented a new software program (Oracle) for financial reporting in during fiscal year 2007. The finance department is not fully versed in the application and operation of the Oracle accounting system and as a consequence they are not able to fully utilize the system at its optimum to properly produce the necessary information, and reports needed that would allow authorized personnel to properly initiate, authorize, record and process financial data in a viable manner.

Context: The condition was noted during the detail testing of the accounting records.

Effect: The lack of knowledge of the system could result in incorrect financial reporting and difficulty producing appropriate support for financial activity.

Cause: Lack of knowledge of the Oracle accounting system.

Recommendation: We recommend that the applicable users of the Oracle program receive ongoing training to help them fully utilize the capabilities of the software.

Views of Responsible Officials and Planned Corrective Action: The City understands that the system and its users are in a very immature stage; the system went live only at the start of the fiscal year (October 1, 2006). There are many critical modules that have yet to be implemented such as Capital (Fixed) Assets, Payroll, and Labor Distribution. Additionally, certain other modules were not running and could not be used during fiscal year 2007 such as Cash Management which is used to reconcile the City's bank accounts. Lack of resources dedicated to the project has proven to make the implementation and consistent training efforts difficult.

The City is moving forward with implementing all modules and will continue with the training of all users of the system; however, we expect several years to pass before all modules are implemented and users become fully proficient on all the capabilities of the software.

**Appendix A – Current Year’s Recommendations to Improve Financial Management,
Accounting Procedures and Internal Controls (Continued)
Fiscal Year Ended September 30, 2007**

IC 2007-04 – Recording of Accruals and Accounts Payable

Criteria: Internal control procedures should be established that enable the proper recognition of liabilities under the accrual or modified accrual basis of accounting. Furthermore, the month end close and reconciliation of subledgers, is a critical control function of the City.

Condition: We noted expenditures that should have been accrued at fiscal year end but were not recorded due to a lack of review by supervisory personnel. Additionally, we noted that accrual adjustments were not timely recorded due to other City departments not submitting the necessary information to the Finance Department.

Context: \$2.5 million of year end accruals.

Effect: The City’s liabilities could be materially understated.

Cause: The cause is due to a breakdown in the system and lack of effective oversight, review, and untimely submission of information.

Recommendation: We recommend the City establish internal control procedures to ensure the following takes place on a routine basis.

- The City establish procedures to enable outstanding invoices that have not been approved and entered into the system for payment be manually accrued for at year end.
- The accounts payable subledger is reconciled to the general ledger on a monthly basis.

Views of Responsible Officials and Planned Corrective Action: The Finance Department prepares and communicates year end closing policies and procedures to all departments to ensure that invoices are approved and received timely to be properly accrued for at year end. Better coordination with City departments is necessary to ensure all year end invoices are submitted. The Finance Department will continue its efforts to obtain relevant year end financial information on a timelier manner.

**Appendix A – Current Year's Recommendations to Improve Financial Management,
Accounting Procedures and Internal Controls (Continued)
Fiscal Year Ended September 30, 2007**

IC 2007-05 – Bank Reconciliations

Criteria: Internal control policies and procedures should exist which requires the monthly reconciliation and supervisory review of all bank accounts in a timely manner.

Condition: We noted the following deficiencies as it relates to bank reconciliations:

- Monthly bank reconciliations for the main depository, workers' compensation, and payroll account for the months of June 2007 through September 2007 were not prepared timely. Actually, there were prepared subsequent to fiscal year end.
- The September 30, 2007 bank reconciliation for the main depository account listed significant items as miscellaneous unreconciled amounts that could not be explained by management.
- The Cigna bank account reconciliation was not adjusted for checks outstanding at year end.
- The monthly bank reconciliations were not reviewed and formally approved by supervisory personnel on a consistent basis.

Context: The finding is considered systemic in nature.

Effect: The lack of adequate internal control procedures requiring the timely reconciliation and supervisory review of bank accounts can result in material misstatements to the financial statements and/or misappropriation of cash.

Cause: The cause is a lack of oversight and review by supervisory personnel.

Recommendation: We recommend that management adopt and adhere to a policy that will ensure that bank account reconciliations be prepared and reviewed by a supervisor on a monthly basis. In addition, all significant reconciling items should be properly investigated, recorded and disposed of in a more timely manner.

Views of Responsible Officials and Planned Corrective Action: The Finance Department has been working diligently to correct each of the issues. Each condition found by the auditors was a result of extraordinary circumstances which existed throughout fiscal year 2007 and are discussed below:

The Finance Department does have policies and procedures to ensure that bank reconciliations for all accounts are prepared and reviewed on a monthly basis; however, these procedures were not conducted timely as a result of the go-live of the new financial management system, Oracle, on October 1, 2006. Staff was consumed by the go-live and as a result, processes were not formally documented. The Finance Department has since formalized the monthly reconciliation process of all accounts and maintains supporting documentation to evidence such work.

**Appendix A – Current Year’s Recommendations to Improve Financial Management,
Accounting Procedures and Internal Controls (Continued)
Fiscal Year Ended September 30, 2007**

During fiscal year 2007 (also during most of fiscal year 2008) the Cash Management module of the new financial management system, Oracle, has not been operational. Issues during conversion have caused the implementation of the module to be delayed; therefore, the City has had to reconcile its bank accounts manually on Excel spreadsheets which resulted in delays and inconsistencies. The unreconciled amounts are due to not fully understanding how the Oracle system records transactions in the subledgers and how they affect the City’s cash accounts. The \$110,000 unreconciled balance was a result of timing differences between when deposits were recorded in the Projects and Grants Module of the Oracle System and the application of the cash received in the Accounts Receivable Module. Funds were being directly deposited in the bank before the receipts were identified and recorded in the system, causing reconciling differences. This process has since been corrected and the Cash Management module has been implemented and is being used to reconcile the City’s bank accounts.

All bank reconciliations for fiscal year 2007 had been reviewed by the appropriate supervisory personnel; however, formal documentation of such review was not kept as evidence to support it. Going forward, a formal process has been implemented and proper supporting documentation of supervisory review is being maintained for all accounts.

**Appendix A – Current Year's Recommendations to Improve Financial Management,
Accounting Procedures and Internal Controls (Continued)
Fiscal Year Ended September 30, 2007**

IC 2007-06 – Grants Management

Criteria: The design of a control structure and related policies and procedures should provide for coordination between the City's Finance Department and specific departments directly administering the grant programs regarding the progress of projects, expenditures incurred, and compliance with grant requirements.

Condition: The City's Grant program operates in a decentralized format. We noted instances where there are no formalized communications between the Finance Department and the department responsible for administering the grant, as to the progress of the projects, expenditures incurred during the year, and compliance with grant requirements.

We noted that the initial schedule of expenditures of federal awards and state financial assistance ("SEFA") required numerous adjustments and revisions, including the addition of grant programs that were erroneously excluded.

Some of the adjustments and revisions were as follows:

- Certain expenditures were listed under incorrect Catalog of Federal Domestic Assistance ("CFDA")/Catalog of State Financial Assistance ("CFSA") CFDA(s)/CFSA(s) numbers and certain federal pass-through grant awards were misclassified as state assistance. This was significant in determining whether a program was a Major (Type A) Program for federal or state testing purposes.
- The Section 8 Housing Choice Vouchers Program (CFDA # 14.871) initially had expenditures of \$1,885,071 on the schedule of federal awards provided to auditors and this program met the criteria for Major (Type A) Program and was tested as a Major Program. On the final schedule of federal awards, the expenditure amount was \$1,700,665 and this program did not meet the requirement for testing as Major (Type A) Program.
- The COPS More 98 (CFDA # 16.710) expenditures increased from \$1,973,478 on the initial schedule to \$4,742,535 on the final schedule due to adjustments.
- The City entered into a grant agreement with the Department of Community Affairs (DCA) to purchase a property in connection with the expansion of Fern Isle Park. The City did not record the portion (\$5,998,620) of the contribution/grant from DCA nor initially include the grant (CSFA # 52.002) on the schedule of federal and state awards/projects.
- There were several adjustments to the SEFA for accruals that amounted to \$2,689,293 in additional expenditures which the Finance Department had not accrued prior to providing the schedule to the auditors. The final SEFA had expenditures of \$57,582,641 and \$12,682,075, respectively, an increase in federal expenditures of \$5,674,030 and state expenditures of \$6,419,562 when compared to the initial SEFA provided to auditors.

Effect: Lack of effective and regular coordination between the City's departments involved in grant programs may result in noncompliance with grant requirements, disallowance of program expenditures, and potential untimely recognition in the accounting records of financial transactions related to the program.

Context: The finding is considered systemic in nature.

Cause: The cause is lack of communication between the departments directly administering the grants and the Finance Department in communicating the financial and programmatic aspects of grant programs.

**Appendix A – Current Year's Recommendations to Improve Financial Management,
Accounting Procedures and Internal Controls (Continued)
Fiscal Year Ended September 30, 2007**

Recommendation: We recommend that the design of the control structure and existing policies and procedures be reviewed as they relate to the coordination between, the City's Finance Department and specific departments directly administering grant programs to ensure that grants and fiscal requirements are complied with.

The design of the internal control structure should require reconciliation and review of the schedule of federal and state awards/projects and the accounting general ledger. As soon as a request for reimbursement is made, the information should be remitted to the finance department to enable proper recording in the accounting records. A comprehensive review should be performed of the schedule of federal and state awards/projects to provide a reasonable assurance that all expenditure amounts, CFDA/CFSA numbers and grant/contract numbers are correct.

Views of Responsible Officials and Planned Corrective Action: The Finance Department is charged with reporting grant transactions of the City, however, the grant programs and grant managers are decentralized throughout the City departments. Coordination between the many different departments and programs has proven difficult as there is no direct reporting to the Finance Department.

The Finance Department does have policies and procedures whereby grant information is requested monthly from the individual departments, however, complete cooperation and coordination has not been achieved. The Finance Department is in the process of filling vacancies and obtaining additional positions to assign departmental grant liaisons to ensure timely submission of financial information.

**Appendix A – Current Year’s Recommendations to Improve Financial Management,
Accounting Procedures and Internal Controls (Continued)
Fiscal Year Ended September 30, 2007**

IC 2007-07 – Filing for Grant Reimbursements

Criteria: The City's internal control system should be designed to ensure that claims for reimbursements be filed in a timely manner, soon after the incurrence and payment of qualified related expenditures.

Condition: In fiscal year 2006, the City recorded a receivable of \$16.5 million for reimbursable hurricane-related expenditures. As of April 2008, \$9.5 million had not been collected/reimbursed from the grantor and \$7.3 million of the \$9.5 million of expenditures had not been properly submitted to the grantor for reimbursement (over 24 months since the expenditures were incurred). The initial submission was rejected due to filing with the wrong grantor agency and the correction has yet to be submitted to the grantor.

Excluding the FEMA \$7.3 million discussed above, the City had approximately \$19 million of other grant receivables that had not been collected within 60 days of September 30, 2007. Reasons for the delay in the receipt of this grant funding appears to result from: (1) individual departments not filing/submitted requests in a timely manner to the grantor agencies and/or (2) the departments not drawing down authorized funding from the grantor in a timely manner.

Context: Condition was noted during the testing of grants receivable.

Effect: The delay in requesting for reimbursements can have an adverse effect on the cash flow of the City's operations or affect the collectibility of the amount due.

Cause: Individual departments administering grants did not compile and file the proper documentation needed to receive such reimbursements or the City did not draw down authorized funding from grantor in a timely manner after the incurrence and payment of a qualified related expenditure.

Recommendation: We recommend that the City establish a control system to ensure that amounts expended are timely submitted for reimbursement, and all required forms are compiled and prepared in the format prescribed by the grantor.

Views of Responsible Officials and Planned Corrective Action: The Finance Department is charged with reporting grant transactions of the City, however, the grant programs and grant managers are decentralized throughout the City departments and it is their responsibility to submit reimbursement requests. The Finance Department does not have the personnel or the authority over the individual departments to ensure compliance. The Finance Department monitors the individual grants, however coordination between the many different departments and programs has proven difficult as there is no direct reporting to the Finance Department.

The Finance Department does have policies and procedures in place whereby grant information is requested monthly from the individual departments, however, complete cooperation and coordination has not been achieved. The Finance Department is in the process of filling vacancies and obtaining additional positions to assign departmental grant liaisons to help ensure timely submission of financial information.

**Appendix A – Current Year’s Recommendations to Improve Financial Management,
Accounting Procedures and Internal Controls (Continued)
Fiscal Year Ended September 30, 2007**

The Fire-Rescue Department will continue to make a diligent effort to submit reimbursements in a timely manner. However, FEMA Disaster Relief Funding Agreement reimbursement requests may not be filed for long-term projects until the project is 100% completed and the final inspection is performed by the State. Part of the delay is also due to the agreed estimated cost share submission of allowable State road debris clearance expenditures under the Federal Highway Administration (FHWA)/ FDOT, if applicable, prior to submitting to FEMA for final reimbursement. The various City departments responsible for filing the project reimbursements should submit Invoice Requests to the Finance Department's Projects and Grants (PnG) Division on a timely basis to ensure that the receivables are properly recorded, and that monthly reconciliations are performed between accounting records and amounts reported to grantors. Currently, key Fire personnel meet at least twice a month with PnG staff.

The \$7.3 million in question was submitted to FEMA under accepted Public Assistance regulations. Because the road work in question was within the jurisdictional boundaries of FHWA and because FHWA has instituted a relatively new procedure to process FHWA claims directly through their agency rather than through FEMA as has been the practice in years past, the projects totaling \$7.3 million were returned by FEMA for submission through the FHWA process. This added time to the processing of the claims. The documentation for both Hurricane Katrina and Hurricane Wilma have recently been submitted. It is expected that FHWA will close out the claim by September 30, 2008 and that payment to the City should occur within 45 to 60 days.

**Appendix A – Current Year’s Recommendations to Improve Financial Management,
Accounting Procedures and Internal Controls (Continued)
Fiscal Year Ended September 30, 2007**

IC 2007-08 – Capital Asset Management

Criteria: Organizations are required to adopt adequate internal controls to properly record, summarize, and report accounting transactions to provide reasonable assurance that the financial statements are not materially misstated.

Condition: We noted the City's capital asset detail schedule did not reconcile to the general ledger control account. As a consequence, numerous material adjustments were required to properly state the year-end balance. We also noted the following deficiencies relating to capital assets:

- Management could not provide a detailed schedule listing of capital assets.
- Capital assets are tracked by an Excel spreadsheet, rather than a formalized software program.
- Assets are not being assigned asset identification numbers (IDs) or detailed description for proper record keeping.
- Assets grouped in categories (Construction in Progress (“CIP”), buildings, etc.) which are not consistent with the nature of the assets (i.e. trucks are improperly recorded as CIP).
- There are no controls in place to ensure that items being deleted are removed from detail assets schedules.
- Completed construction projects are not transferred to proper asset categories in a timely manner. We noted in excess of \$29 million in projects still listed in CIP that had been completed but not transferred.
- Depreciation expense is not being calculated properly on an annual basis.
- Reconciliation of the capital outlay to the capital assets is only done at year end. Controls do not exist to ensure that the capital asset addition listing agrees to the General Ledger (capital outlay accounts).
- When the City sells assets at auctions, the sales list are not being forwarded in a timely basis to Finance for them to make the necessary adjustments to asset schedules for disposals, resulting in audit adjustments to properly state year end balances.
- Capital asset inventory was performed two (2) years ago. The City's policy is to perform annual inventory counts, however this not being performed as required.
- Capital asset acquisition reports are not reviewed by someone independent of the purchasing function.
- Equipment purchased with grant funds are not being tagged.

While the City had policies and procedures in place to account for capital assets, internal controls did not function effectively to prevent the material errors that occurred. This issue was compounded through the use of manual spreadsheets as opposed to the utilization of the City's Automated Accounting Software System.

Context: The finding is considered systemic in nature.

Effect: Capital assets represents a significant account balance for the City and improper accounting could result in a material financial statement misstatement.

Cause: The cause is the lack of oversight and procedures between departments/functions to provide reasonable assurance that capital assets are properly reported.

**Appendix A – Current Year’s Recommendations to Improve Financial Management,
Accounting Procedures and Internal Controls (Continued)
Fiscal Year Ended September 30, 2007**

Recommendation: We recommend the City implement internal controls to their current system to provide reasonable assurance that the following occurs on a routine basis:

- Assign asset identification numbers and detailed description for all capital assets acquired.
- Reconcile the detailed listing of capital assets to the general ledger.
- Reconcile capital outlay (governmental funds) to capital asset additions.
- Review and sign-off of the reconciliations by a supervisor which should include verifying the City's records agree to the general ledger.
- Reclassification of transactions not meeting the capitalization threshold.
- Review transfers between fund types to ensure the accounting is proper.
- Review disposals and separately track assets sold and assets written off.
- Implementation of procedures to receive notification of completed CIP projects to enable the close-out of the project is proper and timely.
- Capital asset inventory is performed periodically.
- Assets are classified in proper categories i.e. land, buildings, equipment, etc.
- Depreciation expense and accumulated depreciation balances are properly calculated and recorded.
- Properly tag and track all assets acquired with grant funds.

In addition to the items noted above, we recommend the City take necessary steps to accurately transfer/ convert the manual capital asset spreadsheets into the database software in order to manage the recordkeeping of capital assets.

Views of Responsible Officials and Planned Corrective Action: The conditions found were due to extraordinary circumstances in the Finance Department during the year and are discussed below.

During fiscal year 2007 (also during fiscal year 2008) the Fixed (Capital) Asset module of the new financial management system, Oracle, has not been operational. Issues during conversion have caused the implementation of the module to be delayed, therefore, the City has had to track its fixed assets manually on Excel spreadsheets which results in manual errors and inconsistencies.

During fiscal year 2007 (and also for most of 2008) four of the five positions charged with monitoring City fixed assets were vacant. This resulted in normal processes, such as timely tagging of assets, recording deletions, reconciling additions, transfers from grouped categories, cycle inventory counts, and calculation of depreciation expense and maintenance of accumulated depreciation to be incomplete.

The City acknowledges certain limitations as a result of the current financial system utilized to track capital assets and due to the various vacancies. The Finance Department is moving forward with implementing the fixed asset module of Oracle which is expected to go-live on October 1, 2008 (the start of fiscal year 2009). The module has the necessary system controls in place to ensure the proper recording of assets, transfers, deletions, etc. Additionally, the Finance Department is in the process of filling the existing vacancies to ensure sufficient personnel to perform the daily functions of maintaining the City's assets.

**Appendix A – Current Year’s Recommendations to Improve Financial Management,
Accounting Procedures and Internal Controls (Continued)
Fiscal Year Ended September 30, 2007**

CF 2007-15 – 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 2007 financial statements indicate that the Police department exceeded its budgetary authorization by \$1,354,376. The Homeless Program and Gusman and Olympia funds exceeded their budgetary authorizations by \$22,874 and \$755,765, respectively.

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. 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.

Views of Responsible Officials and Planned Corrective Action: The Police Department exceeded its fiscal year 2007 Final Budget as a result of additional overtime expenses not previously anticipated. A budget adjustment was made to the Police budget, but the amount was not sufficient at the close of the fiscal year. A review of the Police overtime expenses is on-going and additional appropriations were provided in the subsequent year.

A review of the Homeless Program indicates disallowed costs from previous periods, which were not properly adjusted. The Homeless Program was previously reported under the Community Development Fund, and is now reported as a separate fund as of September 30, 2007. A review of this program is on-going and the appropriate budget adjustment will be provided to support the previous disallowed costs.

The Gusman and Olympia funds exceed their budget authorizations due to the fact that amounts awarded as grants toward the end of the fiscal year were not contemplated when the original budget and subsequent amendments were granted. Going forward, the Gusman and Olympia will ensure to obtain budgetary authorizations in a more timely manner.

**Appendix A – Current Year's Recommendations to Improve Financial Management,
Accounting Procedures and Internal Controls (Continued)
Fiscal Year Ended September 30, 2007**

ML 2007-01 – Payroll

Criteria: An effective system of internal control requires that the City has adequate systems in place to properly record, summarize, and report all accounting transactions to ensure the financial statements are not materially misstated.

Condition: The City's payroll system requires three software systems to initiate and compute payroll activity. Payroll transactions are not timely initiated, recorded or reviewed, in fact, on average, it takes two to three months to post the payroll activity to the general ledger after the date of the transaction. We also noted that budget variances are not addressed timely. As a result of the delay in posting the payroll entries, the budget department uses a spreadsheet to manually generate an expectation of payroll expenses to date, along with a projection of payroll expenses in order to determine the necessary funding that will be needed to cover current and future payroll expenses. The accuracy of this information is dependent on manually generated worksheets.

Effect: Increase of risk of misposting of payroll entries to the general ledger system and potential for inaccurate financial information.

Cause: Lack of integrated system to effectuate automatic posting of payroll transactions to the general ledger.

Recommendation: We recommend that management adheres to a policy that requires the recording of payroll transactions to the general ledger on a monthly basis. We also recommend that the City expedite the implementation and activation of the Oracle payroll module. By doing this we believe it will assist in alleviating the time delays, as a direct interface with the general ledger will occur at the time payroll transactions are executed. We also believe that it will reduce the risk of errors due from manual interventions.

Views of Responsible Officials and Planned Corrective Action: The City is in the process of implementing Oracle HRMS which is fully integrated with Oracle Financials. We expect to be live with Oracle HR/Payroll by March 15, 2009. At that time, all payroll transactions will be systematically transferred to Oracle General Ledger.

**Appendix A – Current Year's Recommendations to Improve Financial Management,
Accounting Procedures and Internal Controls (Continued)
Fiscal Year Ended September 30, 2007**

ML 2007-02 – Investments

Criteria: A critical internal control procedure over the safeguarding of investments is to perform a reconciliation of accounting records to the third party investment statements on a periodic basis.

Condition: We noted that accounting records are not reconciled to the City's monthly custodian investment statements on a periodic basis. There were two separate adjustments that were required to correct the City's accounting records (general ledger) to the investment statements. Additionally, the allocation of investment income and unrealized gains/loss for the period July 2007 through September 2007 was recorded to the general ledger subsequent to fiscal year end. It was also noted that there was no formal evidence of a review of investments schedules by supervisory personnel on a consistent basis.

Effect: The lack of adequate control procedures requiring the reconciliation of investment statements to the accounting records and the lack of supervisory review can result in misstatements to the investment accounts and general ledger balances.

Cause: The City failed to timely reconcile investment activity.

Recommendation: We recommend that management adopt and adhere to a policy that will ensure that investment account reconciliations are prepared and formally reviewed by supervisory personnel on monthly basis. Additionally, we recommend that all journal entries that are required to properly reflect investment transactions be posted to the general ledger on monthly basis as part of the monthly reconciliation process.

Views of Responsible Officials and Planned Corrective Action: A reconciliation of the accounting records related to the City's investment portfolio is performed on a monthly basis to the third-party custodial report. This reconciliation is done and verified by the City's Treasurer before it is published in the City's financial report. In the month of September 2007, the City's third-party custodial account was changed from Wachovia to US Bank and during the conversion, US Bank listed an investment at less than cost, the City found the error listed on the statement and called the bank to have them correct the error, but such error could not be corrected because of the transition between banks. The City received the full amount of principal and interest at maturity in January 2009. This information was provided to the Auditor. Interest allocation delay was caused because of the conversion of the new system but all entries were posted before closing of the books.

Management agrees that signatures or initials indicating the review of the financial records are important. Management will adopt formal written procedures requiring management to sign-off on all reviews that are performed to provide evidence and establish an audit trail.

**Appendix A – Current Year's Recommendations to Improve Financial Management,
Accounting Procedures and Internal Controls (Continued)
Fiscal Year Ended September 30, 2007**

ML 2007-03 – Compensated Absences

Criteria: Government auditing standards Board ("GASB") No. 16 requires organizations to record a liability for compensated absences that are attributable to services already rendered and accrue as employees earn the rights to such benefits. An effective internal control structure includes procedures to ensure adequate analysis, documentation and reconciliation of the liability calculation.

Condition: The City's compensated absences liability calculation required adjustments in order to properly state the year end balance. The City utilizes an excel spreadsheet to calculate the compensated absence liability. The City has not been able to track and process payroll changes (i.e. pay rate increases) with this spreadsheet methodology. The compensated absence calculation is not subject to an independent supervisory reviews.

Effect: Compensated absences represents a significant account balance to the City and improper accounting could result in material misstatements to financial statements.

Cause: Lack of formal system that records and calculates compensated absences.

Recommendation: An authorized person should be updating the spreadsheet when changes are made. The liability calculation should be reviewed by someone other than the preparer.

Views of Responsible Officials and Planned Corrective Action: The calculation of compensated absences is performed manually at year end. During the September 2007 year end preparation, the Finance Department was extraordinarily busy with the implementation of the new Financial Management System, Oracle, as well as experiencing an exorbitant amount of vacancies of many of its senior level accounting staff. In addition, available staff was consumed by the go-live of the financial management system, Oracle. As such, certain review procedures were not conducted in a timely manner. The Finance Department is in the process of filling the existing vacancies and obtaining new positions to ensure sufficient personnel to perform daily functions of maintaining the City's assets.

**Appendix A – Current Year's Recommendations to Improve Financial Management,
Accounting Procedures and Internal Controls (Continued)
Fiscal Year Ended September 30, 2007**

ML 2007-04 – Transfers of Completed Projects from CWIP to Infrastructure

Criteria: General accepted accounting principles require that all capital assets that have been completed and placed in active services, be reclassified into the appropriate capital asset category and depreciation commenced. The City is required to record and depreciate its infrastructure and general capital assets (i.e. roads and bridges).

Condition: The City maintains a Construction Work in Process ("CWIP") account for all capital projects that are in process and not substantially completed to be placed in service. When a project is certified as complete, the City's policy is to then transfer the project out of CWIP and into the respective depreciable asset categories. There were several infrastructure assets that were completed in 2007 but had not been transferred from CWIP to a depreciable asset category.

Effect: Capital assets, including infrastructure, buildings and improvements assets could be understated along with the corresponding depreciation expense/accumulated depreciation.

Cause: Completed CWIP projects were not marked as complete due to project managers failing to notify the finance department that a particular project was complete and there are no formal control mechanisms in place to document the completion of a project.

Recommendation: We recommend that the Finance Department meet quarterly with Construction in Progress Department ("CIP") to identify projects that should be transferred from CWIP into depreciable asset categories. A representative from the Finance Department should be responsible for following up with CIP regarding completion of required forms. We recommend that formal control procedures be established to ensure completed projects are transferred to depreciable asset categories. These processes are important for the timing of recording infrastructure (along with other CWIP projects), and the proper recording of depreciation expense.

Views of Responsible Officials and Planned Corrective Action: The conditions found were extraordinary circumstances in the Finance Department during the year and are discussed below.

During fiscal year 2007 (also during fiscal year 2008) the Fixed (Capital) Asset module of the new financial management system, Oracle, has not been operational. Issues during conversion have caused the implementation of the module to be delayed, therefore, the City has had to track its fixed assets manually on Excel spreadsheets which results in manual errors and inconsistencies.

During fiscal year 2007 (and also for most of 2008) four of the five positions charged with monitoring City fixed assets were vacant. This resulted in normal processes, such as timely transfers from group categories to be incomplete.

The City acknowledges certain limitations as a result of the current financial system utilized to track capital assets and due to the various vacancies. The Finance Department is moving forward with implementing the fixed asset module of Oracle which is expected to go-live on October 1, 2008 (the start of the fiscal year 2009). The module has the necessary system controls in place to ensure the proper recording of assets, transfers, deletions, etc. Additionally, the Finance Department is in the process of filling the existing vacancies and obtaining new positions to ensure sufficient personnel to perform the daily functions of maintaining the City's assets.

**Appendix A – Current Year's Recommendations to Improve Financial Management,
Accounting Procedures and Internal Controls (Continued)
Fiscal Year Ended September 30, 2007**

ML 2007-05– Employee Cross Training

Criteria: An effective organization structure encourages growth and change, and contributes to the ability of an organization to attain its mission even when employees terminate or are on vacation.

Condition: When certain employees of the City were absent, no other employees in the department could provide the information nor were cross trained to handle that person's job responsibilities during his or her absence. For example, only one person is trained/knowledgeable on how to convert and summarize payroll transactions for posting into the general ledger. Only one person in finance is knowledgeable regarding the Grants Management Module. In the Housing Department only one person has knowledge on all the various systems used. For debt transactions, only one person analyzes and posts transactions to the general ledger. Certain other areas such as preparation of the year end schedule and adjustment for capital assets or compensated absences are prepared by one individual without reviewed.

Effect: The City might not have operational continuity or effectiveness when employees are terminated or on vacation.

Cause: Lack of cross training of personnel within departments.

Recommendation: We recommend that employees be cross trained within the departments so that if someone is absent or terminated, the organizational mission or job responsibilities of that department can continue.

Views of Responsible Officials and Planned Corrective Action: The City of Miami recognizes the need to cross train employees within all departments. There are many departments within the City of Miami where cross training has already taken place. The City of Miami will implement an action plan to facilitate cross training in those departments where staffing levels make cross training a very difficult task.

**Appendix A – Current Year's Recommendations to Improve Financial Management,
Accounting Procedures and Internal Controls (Continued)
Fiscal Year Ended September 30, 2007**

ML 2007-06 – System Access Security

Criteria: All employee accounts should be disabled when an employee terminates.

Condition: Reviews of active user accounts with privileged access to critical financial system functions disclosed terminated employees had active accounts. However, the terminated employees' network accounts were disabled.

Effect: Access to critical financial system functions may be granted to unauthorized persons by using a terminated employee's account.

Cause: The City failed to timely disable access privileges for terminated employees.

Recommendation: The City's Information Technology Department should consider partnering with Human Resources to ensure timely notifications are received by the IT department. Management should also consider incorporating the financial system access reviews as part of the account revalidation process.

Views of Responsible Officials and Planned Corrective Action: There are two processes involved here. First, terminated employees have their network access terminated which prevents access to any and all City systems as soon as the Employee Relations Department or the employee's department notifies the Information Technology Department. Second, terminated employees maintain an "active" status in Oracle because this is requirement for the anticipated implementation of Phase II. This employee's data files must be active in order to properly convert data for the year to date values. Once the Oracle HRMS applications are fully operable (2009) terminations will occur on real time basis. This is a temporary requirement which will be eliminated after Phase II is fully operable.

As an added measure, in the interim prior to Phase II application becoming fully operational, a report extract will be generated (at least 3 times per week) from the assignment conversion and forwarded to the System Administrator. This spreadsheet will provide the necessary data to remove the access from the separated employee(s).

Once Phase II is fully operational, an electronic "alert" will be created to notify the System Administrator upon entry of the separation/termination date. This "alert" will facilitate the process to remove access immediately to terminated employees.

Appendix A – Current Year’s Recommendations to Improve Financial Management,
Accounting Procedures and Internal Controls (Continued)
Fiscal Year Ended September 30, 2007

ML 2007-07 – System Access Security – HR/Payroll

Criteria: Employees’ access and privileges should be reviewed and modified when transferring to other departments.

Condition: A review of key HR functions disclosed that access is not always limited to HR employees.

Effect: Employees that transfer to other departments may retain system access and privileges that are not compatible with their current job functions.

Cause: Lack of coordination between departments when employees transfer positions.

Recommendation: Management should consider establishing a process that includes access reviews for both outgoing and incoming departments when employees transfer between departments.

Views of Responsible Officials and Planned Corrective Action: The Payroll Department has initiated a policy to address security access for employees that transfer between departments. The current policy is to terminate access to the system after 30 days unless a request is received from the incoming Director requesting access to the system as well as an explanation as to why the access is needed. The implementation of Oracle Manager Self Service will facilitate the monitoring of this policy so that security access will be terminated within a 48 hour period.

Appendix B – Listing of Findings and Questioned Costs
Fiscal Year Ended September 30, 2007

III –Federal Awards and State Financial Assistance Findings and Questioned Costs

A. Internal Control over Compliance

IC 2007-06 – Grants Management

See Part II – Financial Statement Findings reported as item IC 2007-06.

IC 2007-07 – Filing for Grant Reimbursements

See Part II – Financial Statement Findings reported as item IC 2007-07.

IC 2007-08 – Capital Asset Management

See Part II – Financial Statement Findings reported as item IC 2007-08.

IC 2007-09 – Payroll Certification

U.S. Department of Housing and Urban Development:
HOME Investment Partnership Program (CFDA #14.239)
Grant Number M-02-MC-120211

U.S. Department of Homeland Security
Urban Search and Rescue (CFDA #97.025)
Grant Number EMW-2003-CA-0105

U.S. Department of Homeland Security
Urban Area Security Initiative Grant Program II 2004 (CFDA #97.067)
Grant Number 05-05-2M-AA-23-02-386

Criteria: OMB Circular A–87 requires that where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications should be prepared at least semi-annually and should be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

Condition: Certifications were not prepared for employees who worked solely on a program.

Questioned Costs: Undetermined.

Context: The finding is considered systemic in nature.

Effect: Unallowable costs may have been charged to the program.

City of Miami, Florida

**Appendix B – Listing of Findings and Questioned Costs
Fiscal Year Ended September 30, 2007**

Cause: The City does not have a formalized internal control process to ensure compliance with OMB Circular A-87, which requires proper certification by employees who work solely on a program.

Recommendation: The City should implement procedures whereby semi-annual payroll certifications are signed by employees who work solely on one federal program.

Views of Responsible Officials and Planned Corrective Action:

CFDA # 14.239

There were no employees who were charged solely to the HOME Program for fiscal year 2007. However, the City does prepare bi-weekly payroll certifications for all employees which are reviewed and approved by department director. Going forward, the City will prepare semi-annual "Employee Effort Certifications" forms for all grant program employees.

CFDA # 97.025/ 97.067

Effective October 1, 2008, the Fire-Rescue Department will implement semi-annual "Employee Effort Certification Forms" for all Federal Grant Programs employees, as required by OMB Circular A-87.

Appendix B – Listing of Findings and Questioned Costs
 Fiscal Year Ended September 30, 2007

III – Federal Awards and State Financial Assistance Findings and Questioned Costs

B. Compliance Findings

Finding Number	Description	CFDA/CFSA No.
<u>Federal</u>		
CF-2007-01	Activities Allowed or Unallowed and Allowable Cost/Cost Principles	14.239
CF-2007-02	Davis Bacon Act	14.239
CF-2007-03	Program Income	14.239
CF-2007-04	Activities Allowed or Unallowed and Allowable Cost/Cost Principles	14.241/14.239/97.025/97.067
CF-2007-05	Activities Allowed or Unallowed and Allowable Cost/Cost Principles	14.241
CF-2007-06	Level of Effort	14.241
CF-2007-07	Eligibility	14.871
CF-2007-08	Eligibility	14.871
CF-2007-09	Period of Availability	97.036
CF-2007-10	Equipment and Real Property Management	97.025/97.067
CF-2007-11	Period of Availability	97.025
<u>State</u>		
CF-2007-12	Reporting	37.039
CF-2007-13	Activities Allowed or Unallowed and Allowable Cost/Cost Principles	52.901
CF-2007-14	Reporting	37.039

Appendix B – Listing of Findings and Questioned Costs
Fiscal Year Ended September 30, 2007

B. Compliance Findings

CF 2007-01 – Activities Allowed or Unallowed and Allowable Cost/Cost Principles

**U.S. Department of Housing and Urban Development:
HOME Investment Partnership Program (CFDA #14.239)
Grant Number M-02-MC-120211**

Criteria: OMB A-87 defines direct costs as those costs that can be identified specifically with a particular activity, or any other institutional activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy. Those costs should be recorded in a timely manner and charged to the correct program and may not be assigned to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the federal award as an indirect cost.

Condition: We noted instances of costs representing over payments, amounts paid prior to the completion of projects and payments for activities that were not allowed under the grant agreement.

Questioned Costs: \$24,751

Context: Of the 23 expenditure transactions selected for testing, we obtained the corresponding disbursement/payment packages and noted two disbursement/payment packages to have exceptions.

Effect: Expenditures/payments may result in an unallowable activity or cost and may cause the City to reimburse the grantor.

Cause: The City's review process failed to detect and prevent over payments and expenditures of unallowable activity.

Recommendation: We recommend that the City reinforces its supervisor review of all expenditures for allowability prior to submitting costs for reimbursement and ensure the costs are allocated to the proper grant program.

Views of Responsible Officials and Planned Corrective Action: Current procedures require the Contract Manager or the Assistant Director in the Contract or Housing Section, as appropriate, approve the budget before entering into a contract. Each payment request is reviewed against the "contract budget" by a Fiscal Analyst, reviewed and signed by a Contract Manager or an Assistant Director in the appropriate area. Documentation is provided to the Finance department to approve or reject the payment request, with updates in the financial management system (Oracle) to be approved by the Department Director or his delegate. Check payment is finally issued by the Finance Department.

No payments can be made unless electronic approval is provided by the Assistant Director or Department Director or his designee.

Appendix B – Listing of Findings and Questioned Costs
Fiscal Year Ended September 30, 2007

CF 2007-02 – Davis Bacon Act

U.S. Department of Housing and Urban Development:
HOME Investment Partnership Program (CFDA #14.239)
Grant Number M-02-MC-120211

Criteria: 24 CFR Part 92, Subpart H, requires that contracts for the construction (new construction or rehabilitation) of housing that includes 12 or more units assisted with HOME funds must contain a provision requiring payment of not less than the prevailing wage in the locality to all laborers and mechanics employed in the development of any part of the housing. Further, the wage provisions must be contained in the contract so as to cover all laborers and mechanics employed in the development of the entire project including portions other than the units funded with HOME funds.

29 CFR Part 3, states that Contractors and Subcontractors on Public Building or Public Work Financed, in Whole or in Part, by loans or grants from the United States Department of Housing and Urban Development, requires that contractors and subcontractors submit a weekly statement with respect to payment of wages. Those submissions are required to be examined by management.

Management should indicate its review and approval of all payrolls by way of signature and maintain the records for three years after the completion of the construction project.

Conditions:

While examining certified payrolls, we noted:

- a. The wage rate determination for a project was not provided;
- b. No documented evidence of review by management to verify compliance of subcontractors for the prevailing wage rates and fringe benefits was documented;
- c. Missing payrolls for the December 2006 and the August 2007 periods where cost reimbursements were made and payrolls were not signed nor included the work classification; and
- d. One contractor submitted certified payrolls for the period January 2006 to May 2007 on September 20, 2007. These certified payrolls should be submitted weekly.

Questioned Costs: Undetermined.

Context: Out of seven (7) subcontractors selected for testing, all had exceptions.

**Appendix B – Listing of Findings and Questioned Costs
Fiscal Year Ended September 30, 2007**

Effect: Unavailability of the wage rate determination and untimely submission of certified payrolls may result in instances of noncompliance with the award.

Recommendation: To ensure that the full amount of wages and bona fide fringe benefits due are paid at rates not less than those contained in the wage determination by the U.S. Secretary of Labor, the City should implement procedures whereby the prevailing wage clause is incorporated into all grant related construction contracts. In addition, personnel responsible for review of certified payrolls should document such review in all instances. The review should be evidenced by signature on the payroll indicating compliance with the wage rate determination for the contract.

Views of Responsible Officials and Planned Corrective Action: During construction, contractors submit payrolls for review by the Assistant Director's designee and if non-compliance is determined, contractor restitution is ordered by the City. Evidence of Management review of weekly payrolls is documented on each payment reimbursement or construction draw payment is approved. The Assistant Director's designated staff member is required to sign each payment requested by a contractor indicating that all Davis Bacon requirements have been reviewed and compliance has been met.

The Auditor has indicated that four (4) payrolls of approximately 350 instances or 1% were not available for review. The City can and will obtain any delinquent payrolls or request a resubmission from the appropriate contractor to conduct missing certifications identified.

Labor Regulations, 29 CFR Part 3.4 requires contractors and subcontractors to preserve payroll records for a period of three years from the completion of the contract. The City requested Contractors to resubmit payrolls identified by the Auditors. In the instance cited, the batch of payrolls received was reviewed at the time that the payment reimbursement was requested.

Appendix B – Listing of Findings and Questioned Costs
Fiscal Year Ended September 30, 2007

CF 2007-03 – Program Income

U.S. Department of Housing and Urban Development:
HOME Investment Partnership Program (CFDA #14.239)
Grant Number M-02-MC-120211

Criteria: 24 CFR Part 92, Subpart K, Program Administration, requires that program income from the grant be used in accordance with the requirements of the HOME program. The United States Department of Housing and Urban Development ("HUD") requires that program income be expended prior to requesting additional HOME funds.

Condition: We noted that program income earned was not recorded in the IDIS system and therefore not reported to HUD or reprogrammed to fund allowable activities.

Questioned Costs: Not applicable.

Context: The finding is considered systemic in nature.

Effect: Not reporting program income could result in amounts earned and not being expended on eligible activities.

Recommendation: To prevent continuing instances of noncompliance, the City should report the amount of program income earned during fiscal year 2007 to HUD.

Views of Responsible Officials and Planned Corrective Action: The City has subsequently reported all program income to HUD via the IDIS system. Going forward, the City will ensure adherence to this regulation by reviewing on a monthly basis program income from all funding sources and recognizing such revenue in IDIS.

Appendix B – Listing of Findings and Questioned Costs
Fiscal Year Ended September 30, 2007

CF 2007-04 – Activities Allowed or Unallowed and Allowable Cost/Cost Principles

U.S. Department of Housing and Urban Development:
Housing Opportunities for Persons with AIDS (CFDA #14.241)
Grant Number FL-H0-6-F0-05

U.S. Department of Housing and Urban Development:
HOME Investment Partnership Program (CFDA #14.239)
Grant Number M-02-MC-120211

U.S. Department of Homeland Security
Urban Search and Rescue (CFDA #97.025)
Grant Number EMW-2003-CA-0105

U.S. Department of Homeland Security
Urban Area Security Initiative Grant Program II 2004 (CFDA #97.067)
Grant Number 05-DS-2M-AA-23-02-386

Criteria: OMB Circular A–87 requires that where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications should be prepared at least semi-annually and should be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

Condition: We noted that certifications were not prepared and properly executed by employees who worked solely on the program.

Questioned Costs: \$52,731 (CFDA #14.241); undeterminable (CFDA #14.239, 97.025, 97.067).

Context: This finding is considered systemic in nature.

Effect: Unallowable costs may have been charged to the program.

Cause: The City does not have a formalized process to ensure compliance with OMB Circular A-87 which requires proper certification by employees who work solely on a program.

Recommendation: The City should implement procedures whereby semi-annual payroll certifications are signed by employees who work solely on a specific federal program.

Views of Responsible Officials and Planned Corrective Action: In addition to the biweekly certification prepared for all employees which is signed by the Departmental Director, the City will begin to prepare a semi-annual report for those employees working solely on one Federal program.

Effective October 1, 2008, the Fire-Rescue Department will implement semi-annual "Employee Effort Certification Forms" for all Federal Grant Programs employees, as required by OMB Circular A-87.

Appendix B – Listing of Findings and Questioned Costs
Fiscal Year Ended September 30, 2007

CF 2007-05 – Activities Allowed or Unallowed and Allowable Cost/Cost Principles

U.S. Department of Housing and Urban Development:
Housing Opportunities for Persons with AIDS (HOPWA) (CFDA #14.241)
Grant Number FL-H0-6-F0-05

Criteria: OMB Circular A-87 requires that direct costs are those costs that can be identified specifically with a particular activity, or any other institutional activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy. These costs should be recorded in a timely manner and allocated to the correct program in order to capture all direct costs associated with a particular program.

Condition: We noted instances where unallowable costs were charged to the program. In one instance, we noted the acquisition of equipment and real property, specifically the construction and refurbishing of office facilities. In another instance, we noted the acquisition of uniforms for personnel who did not work solely on the program.

Questioned Costs: \$7,680.

Context: Two of the 23 items selected for testing had exceptions.

Effect: The City requested reimbursement for unallowable costs.

Cause: The City misinterpreted the allowability of administrative costs.

Recommendation: The City should establish procedures whereby monthly expenditures charged to the program are reviewed by a supervisor to determine if amounts are allowable per the grant agreement.

Views of Responsible Officials and Planned Corrective Action: The department believed that the expansion of the Community Development Conference room facility to accommodate the monthly HOPWA and other related staff meetings and the purchase of uniforms for Housing Quality Monitoring personnel of the Department were legitimate expenses properly chargeable to Community Development and directly allocable to each of the Applicable grants. However, in the future, the Department will ensure prior approval from HUD when such expenses, which are not categorically stated in the regulations, are anticipated.

Appendix B – Listing of Findings and Questioned Costs
Fiscal Year Ended September 30, 2007

CF 2007-06 – Level of Effort

U.S. Department of Housing and Urban Development:
Housing Opportunities for Persons with AIDS (CFDA #14.241)
Grant Number FL-H0-6-F0-05

Criteria: 24 CFR section 574.300(b)(10)(i)-(ii) states that each grantee may not charge more than 3% of the grant amount as administrative costs.

Condition: We noted that the City charged amounts in excess of the 3% limit for administrative costs to the grant program during the 2007 fiscal year.

Questioned Costs: \$161,969.

Context: Amount represents the total amount charged in excess of the 3% limitation.

Effect: Failure to appropriately calculate earmarking amounts may result in reimbursement in excess of allowable amounts.

Cause: The City failed to comply with administrative costs limits.

Recommendation: To prevent instances of noncompliance with earmarking thresholds, we recommend that the City comply with the required administrative cost limit pursuant to federal guidelines.

Views of Responsible Officials and Planned Corrective Action: The City believes that HOPWA regulations, as well as the AIDS Housing Opportunity Act (42 U.S.C. 12902), allows funds to be used for program delivery based on the services it provides. However, based on the auditor's interpretation of the regulations, the City will stop charging direct costs to program delivery and will request a formal opinion from U.S. Department of HUD regarding the City's ability to charge up to 7% of program delivery costs based on the services that the City provides.

Appendix B – Listing of Findings and Questioned Costs
Fiscal Year Ended September 30, 2007

CF 2007-07 – Eligibility

U.S. Department of Housing and Urban Development:
Section 8 Housing Choice Vouchers (CFDA #14.871)

Criteria: 24 CFR 982.202 states that the City must have written policies in its Housing Choice Vouchers Program for selecting applicants from a waiting list and the City's documentation must indicate that it followed these policies when selecting applicants for admission.

Condition: We noted that prior to May 2007, a waiting list was not used by the City when admitting applicants to the program.

Questioned Costs: Undetermined.

Context: The finding is considered systemic in nature.

Effect: Failure to adhere to the waiting list provision could result in a violation of grant agreement.

Cause: The City failed to adopt a policy of maintaining a waiting list of applicants.

Recommendation: The City should implement procedures whereby all participants admitted to the program are selected from an established waiting list.

Views of Responsible Officials and Planned Corrective Action: The City agrees with the auditor. The procedures recommended by the auditor have been implemented starting May of 2007.

Appendix B – Listing of Findings and Questioned Costs
Fiscal Year Ended September 30, 2007

CF 2007-08 – Eligibility

U.S. Department of Housing and Urban Development:
Section 8 Housing Choice Vouchers (CFDA #14.871)

Criteria: 24 CFR Section 982.516 states that family income and composition should be reexamined at least once every 12 months to adjust the tenant's rent and housing assistance payment as necessary using documentation from third party verification. Lease agreements should be renewed annually. The City has an internal policy that the lease agreement renews annually if a new lease is not executed.

Condition: We noted that the City made annual rental payments related to a lease agreement that was not fully executed by the landlord and tenant. There was no evidence that the City timely performed its annual reexamination of the tenants income and composition and verification to third party documentation (Public Housing Agency Eligibility).

Questioned Costs: \$14,832

Context: Of the six participants selected for testing, there was one item that had an exception.

Effect: Participants may no longer be eligible under the program and the City may have requested reimbursement for unallowable costs.

Cause: Clerical oversight.

Recommendation: The City should implement procedures whereby lease agreements are properly executed and signed by all parties prior to filing a request for reimbursement from the grantor agency and family income and composition is verified at least annually.

Views of Responsible Officials and Planned Corrective Action: The City did perform the annual reexamination of the tenant in question, however, it was not conducted within the 12 month period; it was completed three weeks late. Going forward, the City will be sure to perform the reexamination within the required period.

Appendix B – Listing of Findings and Questioned Costs
Fiscal Year Ended September 30, 2007

CF 2007-09 – Period of Availability

U.S. Department of Homeland Security:
Pass-through-State of Florida Department of Community Affairs
Public Assistance Grants CFDA #97.036

Criteria: A-102 common rule states that, non-federal entity may charge to the award only costs resulting from obligations incurred during the funding period and any preaward costs authorized by the federal awarding agency. Non-federal entities shall liquidate all obligations incurred under the award not later than 90 days after the end of the funding period.

Condition: We noted that costs submitted to the grantor agency for reimbursement were incurred outside the initial period of availability allowed under the grant agreement and prior to the request of a period of availability time extension.

Questioned Costs: Not applicable.

Context: Of the 23 items selected for testing, there were three items that had exceptions.

Effect: Noncompliance with the allowed costs requirements set forth by the grantor may subject the City to grantor-imposed sanctions or loss of future funding or repayment of funds received.

Cause: The program administrator charged costs incurred outside of the period of availability to the grant program.

Recommendation: Policies and procedures should be implemented to review all expenditure documentation for compliance prior to charging costs to a grant program and submitting amounts for reimbursement to help ensure that allowable costs are incurred within the period of availability. In addition, monitoring controls should be adopted to allow for the filing of necessary time extensions with the grantor in a more expedient manner.

Views of Responsible Officials and Planned Corrective Action: The City concurs with recommendation of the auditors and will work towards implementing those procedures.

Appendix B – Listing of Findings and Questioned Costs
Fiscal Year Ended September 30, 2007

CF 2007-10 – Equipment and Real Property Management

U.S. Department of Homeland Security
Urban Search and Rescue (CFDA #97.025)
Grant Number EMW-2003-CA-0105

U.S. Department of Homeland Security
Urban Area Initiative Grant Program II 2004 (CF #97.067)

Criteria: In accordance with the Readiness Cooperative Agreement, 44 CFR Part 13 and A-102 Common Rule, an appropriate system must be in place to manage and safeguard equipment acquired with federal funds. Equipment records shall be maintained and a physical inventory of equipment shall be taken at least once every two years and reconciled to the records. In addition, property records must include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, cost of the property, percentage of federal participation in the cost of the property, the location, use and condition of the property, and ultimate disposition data including the date of disposal and sale price of the property.

Condition: We noted that the City does not have an inventory listing representing all equipment acquired with federal funds. In addition, management has not performed a physical inventory within the past two years.

Questioned Costs: Undetermined.

Context: The finding is considered systemic in nature.

Effect: Failure to properly identify all equipment acquired with federal funds may result in management not being able to accurately track them. This could result in improper disposition and misappropriation of an item acquired with federal funds.

Cause: Management has not maintained an inventory listing of capital assets acquired with federal funds nor performed a physical inventory within the past two years.

Recommendation: We recommend that the City review its procedures to account for all equipment acquired with federal funds and ensure that all items are properly listed in a manner consistent with the requirements of the Cooperative Agreement, 44 CFR Part 13 and A-102 Common Rule. In addition, policies should ensure that a physical inventory is taken and reconciled to the control listing.

Views of Responsible Officials and Planned Corrective Action: The Fire-Rescue Department is reviewing its current procedures on equipment tracking, to ensure that the OMB federal guidelines are met in addition to the sponsoring agency. The UASI Grant Program has contracted the services of an accounting firm to assist with implementing inventory processes and procedures, and identify best practices in equipment management. The State of Florida Division of Emergency Management has also provided a system to all the Florida UASI's in an effort to maintain an accurate list for the entire State.

Appendix B – Listing of Findings and Questioned Costs
Fiscal Year Ended September 30, 2007

CF 2007-11 – Period of Availability

U.S. Department of Homeland Security
Urban Search and Rescue (CFDA #97.025)
Grant Number EMW-2003-CA-0105

Criteria: OMB Circular A-102 and OMB A-110 specify that the City may charge to the award only costs resulting from obligations incurred during the funding period.

Condition: We noted an expenditure related to vehicles was incurred in January 2007 and subsequently paid in August 2007, which was outside of the October 31, 2006 period of availability for the receiving award. The City obtained an extension of the period of availability from the grantor after the condition was identified during the audit.

Questioned Costs: \$74,470.

Context: We selected 23 items for testing and noted one exception.

Effect: The City requested and received reimbursement for an unallowable cost as a result of not complying with the period of availability criteria.

Cause: The City inadvertently charged costs incurred outside the period of availability to the grant program.

Recommendation: The City should ensure that there is a review of all expenditure documentation for compliance with the period of availability criteria prior to charging costs to a grant program and submitting amounts for reimbursement. Unless the federal agency granted an exemption, the City should immediately return the amounts reimbursed by the granting agency that were determined to be outside the period of availability.

Views of Responsible Officials and Planned Corrective Action: The Fire-Rescue Department provided documentation to auditors from the sponsoring agency which stated the purchase was eligible, and extended the period of performance to August 31, 2007.

Appendix B – Listing of Findings and Questioned Costs
Fiscal Year Ended September 30, 2007

CF 2007-12 – Reporting

State of Florida Department of Environmental Protection: (CFSA #37.039)
Grant Number: LP6755 & LP6703

Criteria: Pursuant to paragraph 5 of the state grant agreement, progress reports shall be submitted to the State of Florida Department of Environmental Protection describing the work performed, problems encountered, problem resolution, schedule updates, and a comparison of the project budget to actual costs to date.

Condition: We noted that the actual project costs reported to the grantor agency was less than actual costs incurred by the City. We also noted that the September 30, 2007 fiscal year budgeted amounts reported on the progress report did not agree to the budgeted amounts approved by the City for the project.

Questioned Costs: Not applicable.

Context: The finding is considered systemic in nature.

Effect: Failure to submit accurate progress reports could result in noncompliance with established grant requirements.

Cause: An internal reporting tool was utilized in preparing the progress reports; however, a discrepancy resulted and was not identified and addressed prior to submitting the report to the grantor.

Recommendation: We recommend the City submit revised progress reports which provide accurate budget to actual information for the project.

Views of Responsible Officials and Planned Corrective Action: The City's financial system, Oracle, is now being utilized to report actual costs. The discrepancies noted are being rectified in the most recent progress report being prepared for submittal for the quarter ending June 2008. The report submitted for the quarter ending March 2008 also contained corrections to prior figures. Budgeted amounts for projects are subject to increase as additional funding sources are identified and allocated to specific projects. Grant funding has not been withheld by the DEP.

Appendix B – Listing of Findings and Questioned Costs
Fiscal Year Ended September 30, 2007

State Financial Assistance

CF 2007-13 – Activities Allowed or Unallowed and Allowable Cost/Cost Principles

State Housing Initiatives Program ("SHIP"): CFSA # 52.901
Grant Number: LP6755 & LP6703

Criteria: Pursuant to the Florida Single Audit Act relating to allowable costs, direct costs are those costs that can be identified specifically with a particular activity, or any other institutional activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy. These costs should be recorded in a timely manner and allocated to the correct program in order to capture all direct costs associated with a particular program.

Condition: Expenditures were improperly charged to SHIP for costs related to another grant program. The costs incurred were by a developer who had no contract with the City for the specific SHIP project.

Questioned Costs: \$7,467.

Context: Of the 23 items selected for testing, one item had an exception.

Effect: The City may have requested and received reimbursement for unallowable costs.

Cause: The lack of review by supervisory personnel.

Recommendation: The City should amend contracts with developers or other third parties that properly describe the funding source and relevant compliance requirements.

Views of Responsible Officials and Planned Corrective Action: The City will expedite preparation of amendments with developers or other third parties to avoid instances of inconsistencies in contractual records.

Appendix B – Listing of Findings and Questioned Costs
Fiscal Year Ended September 30, 2007

CF 2007-14 – Reporting

State of Florida Department of Environmental Protection: (CFSA #37.039)
Grant Number: LP6755 & LP6703

Criteria: Pursuant to the Florida Single Audit Act relating to reporting and the grant agreement, progress reports shall be submitted to the State of Florida Department of Environmental no later than twenty (20) days following the completion of the quarterly reporting period. Progress reports are due 20 days following each quarter ending March 31, June 30, September 30, and December 31.

Condition: The progress report for the quarter ending June 30, 2007 was submitted on July 27, 2007, to the grantor after the due date of July 20, 2007.

Questioned Costs: N/A.

Context: The finding is considered isolated in nature.

Effect: Failure to submit progress reports in a timely manner could result in noncompliance with grant requirements.

Cause: The City does not have a formalized process to ensure that all required reporting is complied with.

Recommendation: We recommend the City submit its required progress reports by the required due dates.

Views of Responsible Officials and Planned Corrective Action: A system of controls will be implemented within the Capital Improvements Program Department to identify all grants and their reporting requirements in order to ensure that future reports are, submitted on time. Further, timely grant reporting is measured and reported as a specific goal under the departments Balanced Scorecard.

City of Miami, Florida

**Appendix C – Status of Prior Year’s Recommendations to Improve
Financial Management, Accounting Procedures and Internal Controls
Fiscal Year Ended September 30, 2007**

Finding #	Finding Title	Status	Other Explanation
Findings related to financial statements:			
06-01	Internal Control over Financial Reporting	Not Corrected	See current year finding IC 2007-01.
06-02	Financial Records and Closing Process	Not Corrected	See current year finding IC 2007-01.
06-03	Grant Accounting and Reimbursements	Not Corrected	See current year finding IC 2007-06 and 2007-07.
06-04	Capital Assets	Not Corrected	See current year findings IC 2007-08.
06-05	Accounts Payable	Certain Corrective Action Taken	See current year finding IC 2007-04.
06-06	Loans Receivable	Corrected	
06-07	Segregation of Duties	Not Corrected	Client determined that cost to address this finding outweighs the benefits, further action will not be taken to address this issue.
06-08	Audit Committee	Corrected	
06-09	Excess of Expenditures over Appropriations	Not Corrected	Repeated in current year. See IC 2007-15.
06-10	Accounts Receivable	Not Corrected	See current year finding IC 2007-07.
06-11	Budgets	Corrected	
06-12	Deficits	Partially Corrected	The Fire Rescue Services Fund shows a deficit as a consequence of the deferred recognition of revenues.
06-13	Compensated Absences	Corrected	
06-14	Grant Reimbursements - Filing for Reimbursements	Not Corrected	See current year finding IC 2007-07.
06-15	Component Units	Not Corrected	Repeated in current year. See ML 2006-15.
04-09	Network Security	Not Corrected	See current year finding ML 2007-15 and ML 2007-16.
04-12	Succession Planning	Not Corrected	Repeated in current year. See ML 2004-12.
04-13	Governmental Accounting Standards Board Statement No. 45 - Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions.	Corrected	
03-02	Payroll Audit Trail Report	Not Corrected	Repeated in current year. See ML 2003-02.

City of Miami, Florida

**Appendix C – Status of Prior Year's Recommendations to Improve
Financial Management, Accounting Procedures and Internal Controls
Fiscal Year Ended September 30, 2007**

Finding #	Finding Title	Status	Other Explanation
01-02	Budgeting	No Longer Applicable	In the current year the City converted to a new resource management system.
01-03	Time Recording-Overtime	Certain Corrective Action Taken	Repeated in current year. See ML 2001-03.
00-05	Grant Accounting	No Longer Applicable	City converted to new resource management system.
00-07	Logical Security	Not Corrected	Repeated in current year. See ML 2000-07.
99-03	Financial Reporting	No Longer Applicable	In the current year, the City converted to a new resource management system.
97-06	User Access Codes	No Longer Applicable	In the current year, the City converted to a new resource management system.
Findings and questioned costs in administering federal awards:			
06-16	Overall Comment for all Program Accounting - Schedule of Expenditures of Federal Awards and State Financial Assistance Projects Preparation and Completeness	Not Corrected	See current year finding IC 2007-06.
06-17	Reconciliation Process Pertaining to: CFDA #16.011 U.S. Department of Homeland Security - Urban Area Security Initiative Grant (UASI)	Corrected	
	CFDA #97.036 U.S. Department of Homeland Security - FEMA Disaster Relief Funding Agreement - Hurricane Katrina	Corrected	
	CFDA #97.025 U.S. Department of Homeland Security - Urban Search and Rescue Grant Award (USAR)	Corrected	
	CFDA #20.205 U.S. Department of Transportation - Federal Highway Administration (FHWA)	No Longer Applicable	The City received no funding from this grant in fiscal year 2007.
06-18	CFDA #16.011 & 97.008 - U.S. Department of Homeland Security - Urban Area Security Initiative Grant (UASI)	Corrected	
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)	Not Corrected	See Appendix B CF 2007-10.
	CFDA #14.241 - U.S. Department of Housing and Urban Development - Housing Opportunities for Persons with Aids (HOPWA)	Corrected	
06-20	CFDA #14.241 - U.S. Department of Housing and Urban Development - Housing Opportunities for Persons with Aids (HOPWA)	Corrected	
06-21	CFDA #16.011 & 97.008 - U.S. Department of Homeland Security - Urban Area Security Initiative Grant (UASI).	Corrected	
06-22	CFDA #16.011 & 97.008 - U.S. Department of Homeland Security - Urban Area Security Initiative Grant (UASI).	Corrected	
06-23	CSDA #52.901 - State Housing Initiatives Partnership (SHIP)	Corrected	

**Appendix C – Status of Prior Year’s Recommendations to Improve
Financial Management, Accounting Procedures and Internal Controls
Fiscal Year Ended September 30, 2007**

ML 2006-15 – 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 did not perform a reconciliation of component unit receivables/payable accounts against the City’s records.

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 reconciliation of component unit balances of the City is a manual process that is performed manually at year end. During the September 2007 year end preparation, the Finance Department was extraordinarily busy with the implementation of the new Financial Management System, Oracle, as well as experiencing an exorbitant amount of vacancies of many of its senior level accounting staff. In addition, available staff was consumed by the go-live of the new financial management system, Oracle. As such, certain review procedures and reconciliations were not conducted in a timely manner. The Finance Department is in the process of filling the existing vacancies and obtaining new positions to ensure sufficient personnel to perform the daily functions and reconciliations.

**Appendix C – Status of Prior Year’s Recommendations to Improve
Financial Management, Accounting Procedures and Internal Controls (Continued)
Fiscal Year Ended September 30, 2007**

ML 2004-12 – Succession Planning

The heads of every operational group are eligible for retirement or will be retiring in the near future. Although the mainframe was replaced with Windows-based servers, the mainframe and applications must be maintained based 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 to improve Succession Planning. ITD is proactive to ensure staff is cross-trained and back-up personnel are available for every system. ITD understands succession planning is the best business practice to minimize risks within the department.

**Appendix C – Status of Prior Year’s Recommendations to Improve
Financial Management, Accounting Procedures and Internal Controls (Continued)
Fiscal Year Ended September 30, 2007**

ML 2003-02 – 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 employees records without the knowledge of human resource management, resulting in inaccurate reporting of payroll expenses and the City's obligations to its employees.

Recommendation: It is recommended 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 FIRMS 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 FIRMS system is March 2009.

**Appendix C – Status of Prior Year’s Recommendations to Improve
Financial Management, Accounting Procedures and Internal Controls (Continued)
Fiscal Year Ended September 30, 2007**

ML 2001-03 – 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 and does 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 identifying 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 validate checks, including overtime or invalid codes.

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

Recommendation: Management should consider implementing time and entry level 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 March 2009.

**Appendix C – Status of Prior Year’s Recommendations to Improve
Financial Management, Accounting Procedures and Internal Controls
Fiscal Year Ended September 30, 2007**

ML 2000-07 – 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.

Current Year Status: On October 1, 2006, the City replaced the legacy financial systems with the Oracle eBusiness Suite 11i Financial Application 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 new Oracle HRMS system is scheduled for implementation in early 2009. This will provide an integrated process to more positively and quickly terminate user access when an employee leaves the City or changes positions.