

McGladrey & Pullen

Certified Public Accountants

City of Miami, Florida

Management Letter

Year Ended September 30, 2008

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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 of Miami, Florida (the "City") as of and for the fiscal year ended September 30, 2008, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 26, 2009. 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 89% respectively, of the assets of the aggregate remaining fund information. These entities also represent 5% and 4%, 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 22% of the total assets and 25% 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 March 26, 2009, 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 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, 2008, 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, 2008. 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
March 26, 2009

City of Miami, Florida

Index of Current Year Findings
Fiscal Year Ended September 30, 2008

Finding Number	Description	Significant Deficiency	Material Weakness
Control Deficiencies			
IC 2008-01	Significant Issues Documentation		X
IC 2008-02	Bank Reconciliations	X	
IC 2008-03	Grants Management	X	
IC 2008-04	Filing for Grant Reimbursements	X	
IC 2008-05	Capital Asset Management		X
Compliance			
CF 2008-01	Eligibility - Housing Opportunities for Persons with AIDS		
CF 2008-02	Excess of Expenditures over Appropriations		
Other Comments			
ML 2008-01	Payroll Accrual System		
ML 2008-02	Recording of Payroll Accruals		
ML 2008-03	Pollution Remediation		
ML 2008-04	Pension Plans		

**Appendix A – Current Year’s Recommendations to Improve Financial Management,
Accounting Procedures and Internal Controls
Fiscal Year Ended September 30, 2008**

IC 2008-01 – 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 accounting adjustments in order to comply with Generally Accepted Accounting Principles (“GAAP”). We also noted that the City does not have a formalized system 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 included:

- Recording an Interlocal Development and Operating Lease agreement between the City and Miami-Dade School Board for the construction and operation of a police training facility; and
- Recording of a \$2 million contribution to the Miami Art Museum of Dade County, to support the development of a new fine arts facility.

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 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.

Views of Responsible Officials and Planned Corrective Actions: The City agrees that a formal documentation of significant and/or complex transactions can be beneficial in the development and formulation of the proper accounting treatment for such transactions. We have developed a framework that will crystallize the discussions of transactions and the conclusions reached. It will be our basis for accounting for the transactions. Since the conclusion of FY 2007, the Finance Department has assigned its Chief Accountants the responsibility of such documentation.

With respect to the Inter-local Development and Operating Lease agreement between the City and the Miami-Dade School Board for the construction of a police training facility, the initial decision on the manner to record the transaction was made mindful of the IRS’ arbitrage rules and the spending exceptions. This item was recorded as FY 2008 expenditures because the funding for the construction costs were bond proceeds. However, since the funds were transferred to a third party escrow agent, the effect, for IRS rules purposes, is as if the funds were spent as of September 30, 2008 and so the accounting treatment should have reflected this as Cash with Fiscal Agent rather than an actual expenditure.

**Appendix A – Current Year’s Recommendations to Improve Financial Management,
Accounting Procedures and Internal Controls
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The Finance Department concurs that the analysis of the Miami Art Museum transaction should have involved more departments so as to be as comprehensive as possible. We have established a policy to document the decision-making process of significant issues.

Appendix A – Current Year’s Recommendations to Improve Financial Management,
Accounting Procedures and Internal Controls
Fiscal Year Ended September 30, 2008

IC 2008-02 – Bank Reconciliations

Criteria: Internal control policies and procedures should exist which requires proper recording and disposition of reconciling items in a timely manner.

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

- The September 30, 2008 bank reconciliation for the main disbursement account grouped significant unreconciled amounts as outstanding checks; these amounts were not properly analyzed and disposed of in a reasonable and timely manner.
- The Cigna bank account reconciliation was not adjusted for checks outstanding at year end.

Context: The condition was noted in 2 of the 9 bank reconciliations selected for testing.

Effect: The lack of adequate internal control procedures requiring proper recording and disposition of reconciling items in a timely manner 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 to ensure reconciling items are properly treated.

Recommendation: We recommend that management adhere to their policy which requires that all significant reconciling items be properly investigated, recorded, and disposed of in a timely manner.

Views of Responsible Officials and Planned Corrective Actions: The City concurs with the auditor’s recommendation. The unreconciled amounts referred to in the finding are voided checks. In performing testing, M&P compared the outstanding checks list per Wachovia to the outstanding checks list per the City. In September 2008, there was \$219,119 of legacy system-issued checks that were voided. The Finance Staff notified the bank and adjusted the checks listing in the banks records to reflect the void. However, a journal entry was not made in the new financial system to adjust the cash balance to reflect the voids – hence the variance. The adjusting entry to correct this was done in FY 2009 for both accounts.

**Appendix A – Current Year’s Recommendations to Improve Financial Management,
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IC 2008-03 – Grants Management

Criteria: Circular A-133 and rules of the Auditor General states that the City should identify in its accounts all federal and state awards received and expended. Federal and state program and award identification includes, as applicable, the Catalog of Federal Domestic Assistance (“CFDA”) or Catalog of State Financial Assistance (“CSFA”) title and award number.

Condition: We noted instances where departments responsible for administering individual grants provided the Finance Department with inaccurate CFDA / CSFA numbers. Certain federal pass-through grant awards were misclassified as state assistance expenditures and incorrectly listed under a CSFA number. This is significant in determining whether a program was a Major (Type A) Program for federal or state testing purposes. Although the schedule of federal awards and state financial assistance (SEFA) was properly reviewed, communication breakdowns between the individual grant administrators and the Finance Department resulted in the reporting errors in the SEFA not being detected.

Context: The finding is considered systemic in nature.

Effect: Lack of effective and regular coordination between the City’s departments involved in grant programs may result in inaccurate reporting of grant expenditures.

Cause: The cause is lack knowledge and/or training of departments directly administering the grants in understanding and properly communicating the financial and programmatic aspects of grant programs.

Recommendation: We recommend that the design of the internal control structure should require that the Finance Department obtain and review grant agreements for each award obtained by the City. 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/CSFA numbers, and grant/contract numbers are correct.

Views of Responsible Officials and Planned Corrective Actions: The City agrees with the recommendation of the auditors. The Finance Department requires an award setup form which would indicate whether the grant is federal, state or neither, and a copy of the grant agreement – among other things, from all departments prior to setting up a grant award in the City’s financial system. Going forward, the Finance Department has implemented control procedures which require that the Finance Department staff obtain and review grant agreements for each award obtained by the City during the award setup process. This will ensure that each award is assigned an accurate CFDA or CSFA number.

**Appendix A – Current Year’s Recommendations to Improve Financial Management,
Accounting Procedures and Internal Controls
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IC 2008-04 – Filing for Grant Reimbursements

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

Condition: As of September 30, 2008 the City had not received reimbursements for approximately \$40 million of qualifying reimbursable grant expenditures. \$16.3 million of the \$40 million have been outstanding greater than one year. The \$40 million balance is comprised of the following amounts:

Unbilled Balances Greater than One Year

FEMA - In fiscal year 2006, the City recorded a receivable of \$16.5 million for reimbursable hurricane-related expenditures. As of March 2009, \$8.7 million had not been collected/reimbursed from the grantor (over 36 months since the expenditures were incurred).

Other Grants - Excluding the FEMA \$8.7 million discussed above, the City had approximately \$7.6 million of other grant expenditures that had not been billed or submitted to the grantor for reimbursement as of March 2009 (over 24 months since the expenditures were incurred).

Unbilled Balances Less than One Year

In addition to the above amounts, the City had approximately \$23.7 million of grant expenditures that had not been billed or submitted to the grantor for reimbursement that were 60 days old as of September 30, 2008.

Reasons for the delay in the receipt of grant funding appear to result from the following deficiencies in administering the grant programs of the City:

- Delay in the compiling and filing of proper documentation necessary to receive reimbursements.
- Incomplete/improper reimbursement packages submitted to grantors, which were subsequently rejected.
- In certain instances management has decided not to submit for reimbursement until certain capital projects are 100% complete, even though the grantor did not impose such restrictions on the City.
- Departments not drawing down authorized funding from the grantor in a timely manner.
- The City’s management of grants operates in a decentralized format which results in ineffective oversight over individual grant administrators.

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 flows of the City’s operations or affect the collectability 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, all required forms are compiled and prepared in the format prescribed by the grantor, and reimbursement packages are reviewed and approved by supervisory personnel.

**Appendix A – Current Year’s Recommendations to Improve Financial Management,
Accounting Procedures and Internal Controls
Fiscal Year Ended September 30, 2008**

Views of Responsible Officials and Planned Corrective Actions: The City’s grants and awards processes are decentralized throughout the various user departments. Each department has program managers who are responsible for filing reimbursements with the grantors and informing the Finance Department for reporting purposes. The Finance Department has assigned departmental grant liaisons to help ensure timely submission of financial information.

**Appendix A – Current Year’s Recommendations to Improve Financial Management,
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Fiscal Year Ended September 30, 2008**

IC 2008-05 – Capital Asset Management

Criteria: Organizations are required to adopt adequate internal controls to properly record, summarize, and report accounting transactions, including those associated with the acquisition and disposition of capital assets, to provide reasonable assurance that the financial statements are not materially misstated.

Condition: We noted the City’s capital asset detail schedule required numerous material adjustments to properly report the year-end balance. The adjustments related to routine transactions as well as certain unusual transactions. Examples of such adjustments included the following:

- \$1.9 million of land assets already included in the beginning balance was improperly listed as a construction in progress (CIP) transfer in the current year. This would have resulted in the overstatement of the year end capital asset.
- \$927,000 of maintenance costs was improperly capitalized.
- \$1.9 million of capital asset contributions to the City was improperly omitted from the current year capital asset additions.
- \$19.7 million of cash placed in an escrow account pursuant to the Interlocal Development Agreement between the City and Miami-Dade School Board for the construction of the police training center was improperly listed as CIP assets. The balance was reclassified to the “Restricted Cash and Investments” line item on the financial statements.
- \$2 million of cash contributions made to the Miami Art Museum of Dade County, to support the development of new fine arts facility was incorrectly listed as a capital asset addition in the current year.
- \$2.5 million of payments to subrecipients was incorrectly classified as depreciation expense at the fund level.

We also noted the following control deficiencies relating to capital assets:

- Completed construction projects are not transferred to proper asset categories in a timely manner.
- A formal reconciliation of CIP balances transferred from the “TRACS System” (old system) to Oracle Capital Asset Module (new system) was not performed; significant differences were identified during the audit process.
- Capital asset inventory was performed three (3) years ago. The City’s policy is to perform annual inventory counts, however this is not being performed as required.
- There are no formalized processes or controls in place to ensure that assets deleted by individual user departments are properly reported to the finance department.

While the City had policies and procedures in place to account for capital assets, the internal controls requiring timely recording and review of capital asset related transactions did not function effectively to prevent the material errors that occurred.

Context: The finding is considered systemic in nature.

Effect: Capital assets represent 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
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Recommendation: We recommend the City adhere to its internal control policies and procedures to provide reasonable assurance that the following occurs on a routine basis:

- Implementation of procedures to receive notification of completed CIP projects to ensure the close-out of the project is proper and timely.
- Prepare a formal reconciliation of CIP balances between the “TRACS” and “Oracle” systems to ensure that all amounts are properly captured and transferred over to the Oracle Capital Asset Module.
- Capital asset inventory is performed periodically.
- Establish formal control procedures for user departments to follow when disposing of capital assets. Established control procedures should require monthly reporting of disposals to the finance department to ensure that capital asset records are updated in a timely manner.

Views of Responsible Officials and Planned Corrective Actions: The City agrees with the recommendation of the auditors. During fiscal year 2008, the City had been working through many issues encountered with the implementation of the fixed assets module of the Oracle system. The City was able to address many of the concerns from the prior year. Through the process of continuous improvement, the City believes it can continue to address the issues noted and mitigate the findings in future periods.

**Appendix A – Current Year’s Recommendations to Improve Financial Management,
Accounting Procedures and Internal Controls
Fiscal Year Ended September 30, 2008**

CF 2008-02 – 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 2008 financial statements indicate that the Midtown CRA Special Revenue Fund exceeded its budgetary authorization by \$1,112,084.

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 amounts due to the Midtown Miami Community Redevelopment Agency in the amount of \$1,114,409. The expenditure was approved by the Board, the City and the County, but the budget was not formally amended for 2008.

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 Actions: The Midtown Community Redevelopment Agency exceeded their budget authorization due to the fact that a payment to the Midtown Community Development District was not contemplated at the time of the budgetary process because amendments to the inter-local agreement had not taken place.

Going forward, the Midtown CRA will be sure to obtain budgetary authorizations in a timelier manner

**Appendix A – Current Year’s Recommendations to Improve Financial Management,
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ML 2008-01 – Payroll Accrual System

Criteria: An effective system of internal controls 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: We noted that the client relies on an outdated, internally designed program, outside of the City’s main resource management system (Oracle) to calculate the year end payroll accrual. This system is not updated annually to reflect the additions and/or deletions of individual city departments consequently; the year end payroll accrual was incorrectly calculated.

Effect: Increase risk of misstatement of the financial statement.

Cause: Outdated system used for posting of payroll transactions to the general ledger.

Recommendation: We recommend that management implement the Oracle Human Resources Management System (HRMS) that interfaces with the City’s general ledger accounting software. This will ensure that the year end payroll accrual is calculated using the most current payroll data available.

Views of Responsible Officials and Planned Corrective Actions: The City is in the process of implementing Oracle Human Resource Management System (HRMS) which fully integrates with Oracle Financials. Management expects to go live with the HRMS module by June 2009.

**Appendix A – Current Year’s Recommendations to Improve Financial Management,
Accounting Procedures and Internal Controls
Fiscal Year Ended September 30, 2008**

ML 2008-02 – Recording of Payroll Accruals

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 that assets and liabilities were misstated by approximately thirteen million at fiscal year end. The misstatement occurred as a consequence of cash and payroll liabilities incorrectly reduced in fiscal year 2008. This resulted from an error in posting year end closing journal entries for payments that occurred in fiscal year 2009. Additionally, supervisory personnel approving the year end journal entries did not detect this error in a timely manner.

Context: Thirteen million of year end payroll accruals. The finding is considered isolated in nature.

Effect: The City’s assets and liabilities were materially understated.

Cause: The cause is due to a breakdown in the system and lack of effective oversight and review by supervisory personnel.

Recommendation: We recommend that management adhere to its policy to ensure that all account analysis, schedules, and journal entries are formally reviewed and scrutinized, agreed to the trial balance, and approved by supervisory finance department personnel.

Views of Responsible Officials and Planned Corrective Actions: The City believes this is an isolated incident as a result of a posting error. The payroll entry is generated automatically by the system at year end. That entry records the expenditure and the offset to Cash, however at year end, the offset should have been to a liability account to record the accrual. The City understands that the payroll liability was understated as well as the cash balance at year-end as a result of posting the automated entry. Going forward, Management will take the necessary steps to review the automated payroll entries to ensure this oversight is not repeated. The City is in the process of implementing the payroll module of the Oracle integrated financial system. This incident should not repeat in the new environment.

**Appendix A – Current Year’s Recommendations to Improve Financial Management,
Accounting Procedures and Internal Controls
Fiscal Year Ended September 30, 2008**

ML 2008-03 – Pollution Remediation

Criteria / Condition: Government Accounting Standards Board Statement No. 49, “*Accounting and Financial Reporting for Pollution Remediation Obligations*,” was issued November 2006. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The provisions of this Statement will be effective for the City beginning with its year ending September 30, 2009

Recommendation: We recommend that the City perform an assessment to ascertain the extent of potential exposure they have relative to pollution type activities. The City should then take the necessary steps required to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability.

Views of Responsible Officials and Planned Corrective Actions: The City will evaluate and assess applicability of this pronouncement to the organization.

**Appendix A – Current Year’s Recommendations to Improve Financial Management,
Accounting Procedures and Internal Controls
Fiscal Year Ended September 30, 2008**

ML 2008-04 – Pension Plans

Criteria: The City is required to accumulate assets and/or provide funding based on actuarial computation, that will be sufficient to pay future benefits.

Condition: The City is the sole sponsor for three defined benefit pension plans for its police officers, firefighters, and general employees. For the year ended September 30, 2008 the defined benefit pension plans collectively lost approximately \$300 million in value relative to its plan assets. It is also estimated that the plans incurred additional losses in value subsequent to September 30, 2008.

Effect: As a consequence, the City as a sole sponsor has the fiduciary responsibility to fund the plans in order to make them financially capable to pay participant benefits in the current and future periods.

Cause: Loss of the value of investments in the market.

Recommendation: The City should perform a comprehensive assessment of its pension plans in order to determine their future viability and what the City’s exposure would be with respect to its increased required contribution.

Views of Responsible Officials and Planned Corrective Actions: The City concurs with the observation of the auditors. City Management has made several efforts over the last six years to address this growing problem. The City has engaged the services of an actuary and of outside counsel to assist with analyzing our options to amend the City’s current plans. The collective bargaining process has also been used as a vehicle with the unions to make compromises with limited positive results. Additionally, the City’s ability to make great changes to the plan are controlled by a long standing court order known as the Gates Settlement which is the result of a lawsuit filed by employees against the City back in the late 1970’s. The issue continues to be an item of great concern to both management and the unions. The City will continue to bargain towards a structurally sound solution.

**Appendix B – Listing of Findings and Questioned Costs
Fiscal Year Ended September 30, 2008**

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

A. Internal Control over Compliance

IC 2008-03 – Grants Management

See Part II – Financial Statement Findings reported as item IC 2008-03.

IC 2008-04 – Filing for Grant Reimbursements

See Part II – Financial Statement Findings reported as item IC 2008-04.

Appendix B – Listing of Findings and Questioned Costs
Fiscal Year Ended September 30, 2008

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

B. Compliance Findings

CF 2008-01 – Eligibility

U.S. Department of Housing and Urban Development:
Housing Opportunities for Persons with AIDS (HOPWA)
CFDA #14.241
Grant Number F-LH-06-F005

Criteria: 24 CFR section 574.310 requires that except for persons in short-term supportive housing, each person receiving rental assistance under the HOPWA Program must pay as rent the higher of: (1) 30 percent of the family's monthly adjusted gross income; (2) 10 percent of the family's monthly gross income; or (3) the portion of the payments that is designated if the family is receiving payments for welfare assistance, adjusted for the family's actual housing costs. This is specifically designated by the agency to meet the family's housing costs.

In addition, the amount of grant funds used to pay monthly assistance for an eligible person may not exceed the difference between 1) the lower of the rent standard or reasonable rent for the unit and the resident's rent payment calculated in accordance with 24 CFR section 574.310 and 24 CFR section 574.320.

Condition: We noted that in 5 of 16 items tested, the tenant was either not afforded the full utility credit allowed or received partial credit. In addition, we noted an instance where the tenant was paying more than 30 percent of the family's monthly adjusted gross income, which exceeds the limit established by the grant program.

Questioned Costs: Undetermined

Context: The finding is considered systemic in nature.

Effect: Failure to accurately calculate amounts pertaining to eligibility could result in grantor requesting reimbursement to the program for amounts not spent in accordance with the compliance requirements.

Recommendation: To City should immediately implement procedures whereby each tenant's monthly payment, including utility credit is accurately calculated.

Views of Responsible Officials and Planned Corrective Actions: The City agrees with the Auditor's finding regarding the utility calculation. This issue was brought to the attention of the City in a HUD audit last year. The City took immediate corrective action and completed the recertification of all clients who needed their utility allowance records to be updated. As of November 2008, all clients were receiving their full utility allowance as required by 24 CFR 574.310 (d) and 24 CFR 574.320.

It is the City's position that the statute establishing the HOPWA program allows clients to pay more than 30% of their income on rent.

Appendix B – Listing of Findings and Questioned Costs
Fiscal Year Ended September 30, 2008

The U.S. Code, Title 42, Chapter 131 – Housing Opportunities for Persons with AIDS, under 12908 (a)(1) states, “Grants under this section may be used only for assistance to provide rental assistance for low-income eligible persons. Such assistance may be project based or tenant based and shall be provided to the extent practicable in the manner provided for under section 1437f of this title.” 1437f (2)(C)(3) – 40 Percent Limit, states, “At the time a family initially receives tenant-based assistance under this section with respect to any dwelling unit, the total amount that a family may be required to pay for rent may not exceed 40 percent of the monthly adjusted income of the family.” This is language approved by congress and this is an excerpt of the statute under which HUD regulations are based and created. A regulation does not override statutes. As such, the City is in compliance with the intent of 24 CFR 574.310 (d)(1). The City presented this argument to HUD and is awaiting HUD’s decision on it.

Notwithstanding the above, the City went ahead and on November 2008, the City completed a full re-evaluation of instances where clients were paying over 30 percent of their AGI and has adjusted their housing assistance payment accordingly. The City certifies that no client is paying more than 30 percent of AGI.

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, 2008**

Finding #	Finding Title	Status	Other Explanation
Findings related to financial statements:			
IC 2007-01	Post Closing and Financial Reporting Process	Certain Corrective Action Taken	See current year findings IC 2008-01.
IC 2007-02	Significant Issues Documentation	Not Corrected	See current year finding IC 2008-01.
IC 2007-04	Oracle Training	Corrected	Proper training was provided to staff in fiscal year 2008. Staff will continue to receive training on a on-going basis.
IC 2007-04	Recording Accruals and Accounts Payable	Certain Corrective Action Taken	See current year finding ML 2008-02.
IC 2007-05	Bank Reconciliations	Certain Corrective Action Taken	See current year finding IC 2008-02.
IC 2007-06	Grant Management	Certain Corrective Action Taken	See current year finding IC 2008-03.
IC 2007-07	Filing for Grant Reimbursements	Not Corrected	See current year finding IC 2008-04.
IC 2007-08	Capital Asset Management	Certain Corrective Action Taken	See current year finding IC 2008-05.
CF 2007-15	Excess of Expenditures over Appropriations	Not Corrected	Repeated in the current year. See finding CF 2008-2.
ML 2007-01	Payroll	Not Corrected	Repeated in the current year. See ML 2007-01.
ML 2007-02	Investments	Corrected	In the current year proper control procedures were implemented.
ML 2007-03	Compensated Absences	Corrected	In the current year proper control procedures were implemented.
ML 2007-04	Transfers of Completed Projects from CWIP	Not Corrected	Repeated in the current year. See ML 2007-04.
ML 2007-05	Employee Cross Training	Certain Corrective Action Taken	Repeated in the current year. See ML 2007-04.

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, 2008

Finding #	Finding Title	Status	Other Explanation
Findings related to financial statements:			
ML 2007-06	System Access Security	Not Corrected	Repeated in the current year. See ML 2007-06.
ML 2007-07	System Access Security – HR/Payroll	Not Corrected	Repeated in the current year. See ML 2007-07.
04-12	Succession Planning	Not Corrected	Repeated in current year. See ML 2004-12.
03-02	Payroll Audit Trail Report	Not Corrected	Repeated in current year. See ML 2003-02.
01-03	Time Recording-Overtime	Not Corrected	Repeated in current year. See ML 2001-03.
00-07	Logical Security	Not Corrected	Repeated in current year. See ML 2000-07.
Findings and questioned costs in administering federal awards:			
CF 2007-01	CFDA #14.239 - U.S. Department of Housing and Urban Development: HOME Investment Partnership Program	Corrected	
CF-2007-02	CFDA #14.239 - U.S. Department of Housing and Urban Development: HOME Investment Partnership Program	Corrected	
CF-2007-03	CFDA #14.239 - U.S. Department of Housing and Urban Development: HOME Investment Partnership Program	Corrected	
CF-2007-04	Payroll Certifications as it Pertains to:		
	CFDA #14.241 - U.S. Department of Housing and Urban Development: Housing Opportunities for Persons with AIDS (HOPWA)	Corrected	
	CFDA #14.239 - U.S. Department of Housing and Urban Development: HOME Investment Partnership Program (HOME)	Corrected	
	CFDA #97.025 - U.S. Department of Homeland Security Urban Search and Rescue (USAR)	Corrected	
	CFDA #97.076 - U.S. Department of Homeland Security Urban Area Security Initiative Grant Program II 2004 (UASI)	Corrected	

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, 2008**

Finding #	Finding Title	Status	Other Explanation
Findings and questioned costs in administering federal awards:			
<u>Federal</u>			
CF-2007-05	CFDA #14.241 - U.S. Department of Housing and Urban Development: Housing Opportunities for Persons with AIDS (HOPWA)	Corrected	
CF-2007-06	CFDA #14.241 - U.S. Department of Housing and Urban Development: Housing Opportunities for Persons with AIDS (HOPWA)	Corrected	
CF-2007-07	CFDA #14.871 - U.S. Department of Housing and Urban Development: Section 8 Housing Choice Vouchers	Corrected	
CF-2007-08	CFDA #14.871 - U.S. Department of Housing and Urban Development: Section 8 Housing Choice Vouchers	Corrected	
CF-2007-09	CFDA #97.036 - U.S. Department of Homeland Security: Pass-through-State of Florida Department of Community Affairs Public Assistance Grants	Corrected	
CF-2007-10	Equipment and Real Property Management as it pertains to:		
	CFDA #97.025 - U.S. Department of Homeland Security Urban Search and Rescue (USAR)	Not Corrected	The inventory control system is still in its development stage and should be fully operational by the last quarter of 2009.
	CFDA #97.076 - U.S. Department of Homeland Security Urban Area Security Initiative Grant Program II 2004 (UASI)	Not Corrected	The inventory control system is still in its development stage and should be fully operational by the last quarter of 2009.
CF-2007-11	CFDA #97.025 - U.S. Department of Homeland Security Urban Search and Rescue (USAR)	Corrected	
<u>State</u>			
CF 2007-12	CSFA #37.039 - State of Florida Department of Environmental Protection	Corrected	
CF 2007-13	CSFA #52.901 - State Housing Initiatives Program (SHIP)	Corrected	
CF 2007-14	CSFA #37.039 - State of Florida Department of Environmental Protection	Corrected	
06-19	CFDA #16.011 & 97.008 - U.S Department of Homeland Security- Urban Areas Security Initiative Grant (UASI).	Not Corrected	The inventory control system is still in its development stage and should be fully operational by the last quarter of 2009.

**Appendix C – Status of Prior Year’s Recommendations to Improve
Financial Management, Accounting Procedures and Internal Controls
Fiscal Year Ended September 30, 2008**

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 Actions: The City is in the process of implementing Oracle Human Resource Management System (HRMS) which fully integrates with Oracle Financials. We expect to be live with Oracle HR/Payroll by June 2009. At that time, all payroll transactions will seamlessly transfer to Oracle general ledger.

**Appendix C – Status of Prior Year’s Recommendations to Improve
Financial Management, Accounting Procedures and Internal Controls
Fiscal Year Ended September 30, 2008**

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 Actions: During FY 2008, the City successfully implemented the Oracle Fixed Assets module which helps ensure the proper recording of assets, transfers, deletions, etc. The Finance Department has also filled the various positions related to capital assets that were vacant in the prior year.

With respect to the transfer of projects from the CIP status to a depreciable assets class, the City has had the long-time policy of only transferring projects deemed complete by the Capital Improvements Department. There were a number of projects that could be considered substantially complete that were not transferred in accordance with the policy. Going forward, the City will review and revise the policy accordingly to capture substantially complete projects as well in accordance with GAAP.

**Appendix C – Status of Prior Year’s Recommendations to Improve
Financial Management, Accounting Procedures and Internal Controls
Fiscal Year Ended September 30, 2008**

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 Actions: 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 C – Status of Prior 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 Actions: 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 C – Status of Prior Year’s Recommendations to Improve
Financial Management, Accounting Procedures and Internal Controls
Fiscal Year Ended September 30, 2008**

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 Actions: 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 C – Status of Prior Year’s Recommendations to Improve
Financial Management, Accounting Procedures and Internal Controls
Fiscal Year Ended September 30, 2008**

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 Actions: The reconciliation of component unit balances of the City is a manual process that is performed at year end. The Finance Department will work to timely perform these reconciliations of component unit records to the City’s records going forward.

**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.

Views of Responsible Officials and Planned Corrective Actions: 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.

Views of Responsible Officials and Planned Corrective Actions: 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.

Views of Responsible Officials and Planned Corrective Actions: 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 June 2009.

**Appendix C – Status of Prior Year’s Recommendations to Improve
Financial Management, Accounting Procedures and Internal Controls
Fiscal Year Ended September 30, 2008**

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.

Views of Responsible Officials and Planned Corrective Actions: 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 June 2009. This will provide an integrated process to more positively and quickly terminate user access when an employee leaves the City or changes positions.