

City of Miami, Florida

Management Letter in Accordance with
the Rules of the Auditor General of the State of Florida
Fiscal Year Ended September 30, 2010

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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, 2010, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 31, 2011. 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 93% and 63% respectively, of the assets and revenues of the aggregate remaining fund information. These entities also represent 4% and 5%, 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 14% of the total assets and 17% 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; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. We have issued our Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, and Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on 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, which are dated March 31, 2011 and June 28, 2011, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which governs the conduct of local government entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's reports or schedule:

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

Rules of the Auditor General (Section 10.554(1)(i)2.) requires our audit 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.

Rules of the Auditor General (Section 10.554(1)(i)3.) requires that we address in the management letter any recommendations to improve the City's financial management. See Appendix A – Current Year's Recommendations to Improve Financial Management, Accounting Procedures and Internal Controls.

Rules of the Auditor General (Section 10.554(1)(i)4.) requires that we address violations of provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but more than inconsequential. See Appendix A – Current Year's Recommendations to Improve Financial Management, Accounting Procedures and Internal Controls.

Rules of the Auditor General (Section 10.554(1)(i)5.) provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not have any such findings.

Rules of the Auditor General (Section 10.554(1)(i)6.) 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. The information is disclosed in Note 1 to the financial statements.

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

Rules of the Auditor General (Section 10.554(1)(i)7.b.) requires that we determine whether the annual financial report for the City for the fiscal year ended September 30, 2010, 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, 2010. In connection with our audit, we determined that the annual financial report is in agreement with the annual financial audit report.

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

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that 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, Florida
March 31, 2011

City of Miami, Florida

Index of Current Year Findings
Fiscal Year Ended September 30, 2010

Finding Number	Description	Significant Deficiency	Material Weakness
Control Deficiencies			
IC 2010-01	Bank Reconciliations		X
IC 2010-02	Recording of Accruals and Accounts Payable		X
IC 2010-03	Payroll Processing	X	
IC 2010-04	Filing For Grant Reimbursements	X	
IC 2010-05	Capital Asset Management	X	
Compliance			
CF 2010-01	Excess of Expenditures over Appropriations		
Other Comments			
ML 2010-01	Pension Plans		
ML 2010-02	Actuary Reports		
ML 2010-03	Fund Balance Reserve Requirements		

**Appendix A – Current Year’s Recommendations to Improve Financial Management,
Accounting Procedures and Internal Controls
Fiscal Year Ended September 30, 2010**

IC 2010-01 – Bank Reconciliations

Criteria: Internal control policies and procedures require timely monthly reconciliation, proper recording and disposition of reconciling items, and supervisory review and oversight of the monthly bank reconciliation process.

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

- Reconciling items are not being evaluated and disposed off within a timely manner. Significant adjustments were needed to properly state the year-end balance.
- A detail outstanding check listing was not available for the Main Operating Account for March 2010.

Context: The finding is considered systemic in nature.

Effect: Failure to adhere to internal control policies and procedures requiring the timely reconciliation and supervisory review and oversight of the monthly bank reconciliation process could result in material misstatements to the financial statements and/or misappropriation of resources.

Cause: Lack of proper supervisory oversight over the bank reconciliation process.

Recommendation: We recommend that management adhere to their policy which requires that bank account reconciliations be prepared and reviewed by a supervisor on a monthly basis. The Supervisor should ensure that all significant reconciling items are supported, investigated, recorded, and disposed of in a timely manner.

Views of Responsible Officials and Planned Corrective Action: It is the City's business process to reconcile the bank accounts after the close of the month and post adjusting entries to the subsequent month. Any reconcilable items are adjusted as soon as they are identified during the reconciliation process. The items identified by the auditors were related to year end. The books for FY10 were closed and the adjustments were recorded in October of the subsequent year. Once the auditor indicated that the amount should be reclassified to FY10, we concurred and reclassified the amount to year end. Going forward, the City will record all reconciling items in the proper month.

In the month of March, the City experienced a system error when preparing the bank reconciliations and we were unable to produce the outstanding checks list. The issue was resolved and the April report included the March items. This is an isolated incident which has been corrected satisfactorily.

All bank reconciliations are reviewed and approved by the supervisor of the General Ledger section of Finance and then by the Chief Accountant over the division. The City is confident that adequate policies and internal controls are in place over the preparation and review of the bank reconciliation process to address the issues noted.

**Appendix A – Current Year’s Recommendations to Improve Financial Management,
Accounting Procedures and Internal Controls (Continued)
Fiscal Year Ended September 30, 2010**

IC 2010-02 – Recording of Accruals and Accounts Payable

Criteria: Internal control procedures should be established and complied with that enable the proper and timely recording of liabilities under the accrual or modified accrual basis of accounting, as defined.

Condition: We noted expenditures that should have been accrued at fiscal year-end were not recorded in the accounting year end closing process. This condition was exacerbated as a consequence of the decentralized nature of some aspects of the City’s accounting function.

Context: \$2.9 million of year end accruals.

Effect: The City’s year end liability was materially understated and was corrected with applicable adjusting entries.

Cause: The cause is due to a breakdown in the system of controls, lack of effective supervisory oversight, and untimely submission of information by various City departments.

Recommendation: We recommend that the City comply with its establish process, whereby outstanding invoices that have not yet been approved and entered into the system for payment are analyzed, reviewed, and manually recorded for financial reporting purposes. In addition, a time schedule should be established that require all applicable departments to submit the necessary information to the finance department to accommodate for timely recording.

Views of Responsible Officials and Planned Corrective Action: The \$2.9 million additional accounts payable accruals consisted of 14 invoices. The City received the invoices from the departments after the general ledger was closed. The invoices were dated between October 2010 through February 2011.

The City does have yearend closing procedures which are communicated several times to departments prior to year end. The various departments are instructed to follow the closing schedule and provide year end accrual information to the Finance Department. However, many times invoices are received well after financial records are closed. The Finance department will continue to communicate with the individual departments as well as directly with the vendors to ensure adherence to the closing schedule.

**Appendix A – Current Year’s Recommendations to Improve Financial Management,
Accounting Procedures and Internal Controls (Continued)
Fiscal Year Ended September 30, 2010**

IC 2010-03 – Payroll Processing

Criteria: Organizations should have adequate internal controls to properly record, summarize, and report accounting transactions, including those associated with the payroll process, to provide reasonable assurance that the financial statements are not materially misstated.

Condition: Employee time and attendance records are not being approved by department directors or their designees on a consistent basis within the Oracle Human Resource Management System (HRMS). This resulted in employees being compensated without approved time and attendance records. We noted one instance where an employee was terminated and continued to receive compensation for a period of approximately one year.

Context: The finding is considered systemic in nature.

Effect: Increase risk of misstatement of the financial statements and/or misappropriation of resources.

Cause: HRMS is programmed to automatically approve each employee’s hours worked in the event that the employee’s supervisor does not approve the hours entered into the HRMS for the pay period.

Recommendation: We recommend the City establish control procedures which require the review of HRMS “exception reports” for each pay period in order to identify time and attendance records that were not approved at the department level. An after the fact review of the identified attendance records should be performed to ensure that employees were only compensated for time earned/worked.

Views of Responsible Officials and Planned Corrective Actions: The City concurs with the finding and recommendation of the auditors. The Oracle Payroll system is programmed to automatically approve each employee’s time entry if the designated approver had not approved by the set deadline. This functionality is in place to ensure active employees are paid in a timely manner in accordance with Fair Labor Standards. The City will work towards setting policies and procedures to monitor those transactions that are not approved via the aforementioned “Exception Report” and ensure after the fact review is conducted.

Appendix A – Current Year’s Recommendations to Improve Financial Management,
Accounting Procedures and Internal Controls (Continued)
Fiscal Year Ended September 30, 2010

IC 2010-04 – 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, 2010 the City had not received reimbursements for approximately \$22 million of qualifying reimbursable grant expenditures. \$11 million of the \$35 million have been outstanding greater than one year.

Reasons for the delay in the receipt of grant funding resulted 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.
- The City’s grant management process operates in a decentralized format which has resulted in ineffective oversight over grant administrators.

Context: Condition was noted during the testing of grant receivable balances.

Effect: The delay in requesting for reimbursements has an adverse effect on cash flows and may affect the collectability of the amount due.

Cause: Individual departments administering grant programs did not compile and file the proper documentation needed to receive such reimbursements 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.

Views of Responsible Officials and Planned Corrective Actions: The City agrees with the findings and recommendations of the auditor. The City’s grants and awards processes are decentralized. Each department assigns program managers to their grants who are responsible for the monitoring and filing the reimbursement requests. The Finance Department has worked diligently with the individual departments to ensure reimbursement requests are filed in a timely manner. It should be noted that the amount of qualifying reimbursable grant expenditures that were not submitted has improved from \$35 million in 2009 to \$22 million in 2010. This demonstrates the ongoing efforts in place to receive reimbursement.

Appendix A – Current Year’s Recommendations to Improve Financial Management,
Accounting Procedures and Internal Controls (Continued)
Fiscal Year Ended September 30, 2010

IC 2010-05 – 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 schedules required significant adjustments to remove amounts improperly capitalized and to reclass individual assets from construction in progress to proper depreciable asset categories (buildings, equipment, improvements, etc.). 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.

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 misstatement of the financial statements.

Cause: The cause is due to a breakdown in the system of controls resulting from lack of effective supervisory oversight and review of capital asset balances.

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:

- prepare periodic reconciliations of CIP balances to the Oracle Capital Asset Module to ensure that all amounts are properly captured and reported in the financial statements,
- capital asset inventory is performed at least annually,
- review detail schedules on an ongoing basis to ensure that balances recorded are capital in nature and individual assets are properly classified on the capital asset detail schedules.

Views of Responsible Officials and Planned Corrective Actions: The City agrees with the finding and recommendations of the auditor. In fiscal year 2010, the City continued to reconcile the capital assets records in the system and is in the process of upgrading the financial system that is used to track projects and construction in progress. The Capital Improvements and Finance departments will work closely together to formulate a process to ensure the periodic reconciliations of the construction in progress balances going forward.

Appendix A – Current Year’s Recommendations to Improve Financial Management,
Accounting Procedures and Internal Controls (Continued)
Fiscal Year Ended September 30, 2010

CF 2010-01 – 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 following special revenue funds exceeded their budgetary authorization as of September 30, 2010:

<u>Fund Names</u>	<u>Exceeded Budget Authorization</u>
General Special Revenue	\$ 244,147
Virginia Key Beach Trust	243,739
Liberty City Revitalization Trust	138,579

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

Cause: The City did not amend the individual fund budgets to avoid exceeding budgetary authorizations.

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 City agrees with the findings and recommendations of the auditors. The budgeted amount of transfers out for General Special Revenue fund was included in the expenditures line item of the fund. The Budget Department will be notified to separate the transfers out amount in the future.

Virginia Key Beach Trust and Liberty City Revitalization Trust are blended component units of the City. The results of their operations exceeded their budgetary appropriations; however each agency had sufficient cash/revenues to cover those excess expenditures. Due to timing and coordination, excess expenditures were not included in the year end appropriation. Going forward, the City will be sure to inform the component units that such action should be taken at year end.

**Appendix A – Current Year’s Recommendations to Improve Financial Management,
Accounting Procedures and Internal Controls (Continued)
Fiscal Year Ended September 30, 2010**

ML 2010-01 – Pension Plans

Criteria: The City is required to accumulate assets and/or provide funding based on actuarial computations 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, general employees, and elected officials. The Pension Plans’ unfunded liability at year end was approximately \$561 million.

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 on 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 significant efforts during the adoption of the FY2011 budget in reducing these obligations. The FY2011 budget included \$26.7 million in tiered salary reductions as well as changes to pension benefits which resulted in \$43.3 million savings. It should be noted that the City’s ability to make meaningful changes to the Plans are controlled by a long-standing court order known as the Gates Settlement which resulted from a lawsuit filed by employees against the City in the late 1970’s. This issue continues to be an item of great concern to both management and the unions. The City continues to bargain towards a structurally sound solution.

**Appendix A – Current Year’s Recommendations to Improve Financial Management,
Accounting Procedures and Internal Controls (Continued)
Fiscal Year Ended September 30, 2010**

ML 2010-02 – Actuary Reports

Criteria: Actuarial reports which provide estimates of loss and loss adjustment expense reserves for the City’s self-insurance coverages (workers’ compensation, automobile liability, police professional liability, and other liability) should include documentation on the assumptions, methodologies, procedures and other relevant data that were relied upon in the actuarial analysis. The documentation should be presented in a manner that can be followed by another practicing actuary.

Condition: The actuarial report obtained by the City did not refer to and include the assumptions, methodologies, procedures, and other relevant data and analyses that were relied upon to determine the estimates of loss and loss adjustment expense reserves for the City’s self-insurance coverages (workers’ compensation, automobile liability, police professional liability, and other liability). In order to evaluate the reasonableness and consistency of the actuarial estimates, we had to obtain supplemental information from the actuary and perform independent analyses.

Effect: The actuarial report obtained and relied upon by the City was not presented in a format that could be followed by another practicing actuary without obtaining further supplemental information from the preparing actuary.

Cause: The actuarial report obtained by the City did not refer to and include all relevant data and analyses that were relied upon by the preparing actuary.

Recommendation: The City should ensure that actuarial reports obtained and relied upon are prepared in a format that is consistent with actuarial standards of practice.

Views of Responsible Officials and Planned Corrective Actions: The City will forward the auditors’ recommendation to the actuaries for consideration in the preparation of future reports.

Appendix A – Current Year’s Recommendations to Improve Financial Management,
Accounting Procedures and Internal Controls (Continued)
Fiscal Year Ended September 30, 2010

ML 2010-03 – Fund Balance Reserve Requirements

Criteria: Chapter 18, Article IX, Section 18-542(5)(c) of the City Code requires that the City retain reserves equal to ten percent of the prior three years average of general revenue. Such reserves shall be used for funding long-term liabilities and commitments of the City.

Condition: We noted the following instances of non-compliance with the City Code as it relates to fund balance reserve requirements:

- Fiscal year 2010 *designated* reserve fund balance totaling \$3,998,971 is less than ten percent of the summation of the prior three years average general revenues total.
- Fiscal year 2010 *undesignated* reserve fund balance is \$0, this does not meet the required threshold of ten percent of the summation of the prior three years average general revenue total.

Effect: Management is not in compliance with the City Code.

Cause: Lack of effective oversight and planning by management.

Recommendation: We recommend that management review and improve budgetary practices which will help to increase fund balance reserves in future periods and allow compliance with the City Code.

Views of Responsible Officials and Planned Corrective Action: The City concurs with the findings of the auditor. The administration is aggressively exploring ways to improve revenue and reduce expenditures and is working towards a recovery plan to replenish the general fund reserves to required levels.

City of Miami, Florida

**Appendix B – Status of Prior Year’s Recommendations to Improve
Financial Management, Accounting Procedures and Internal Controls
Fiscal Year Ended September 30, 2010**

Finding #	Finding Title	Status	Other Explanation
Findings related to financial statements:			
IC 2009-01	Bank Reconciliations	Certain Corrective Action Taken	See current year finding IC 2010-01.
IC 2009-02	Recording of Accruals and Accounts Payable	Not Corrected	See current year finding IC 2010-02.
IC 2009-03	Payroll Processing	Certain Corrective Action Taken	See current year finding IC 2010-03.
IC 2009-04	Oracle Human Resources Management System Implementation	No longer relevant	City implemented Oracle Human Resource Management System in 2009.
IC 2009-05	Filing For Grant Reimbursements	Not Corrected	See current year finding IC 2010-04.
IC 2009-06	Capital Asset Management	Certain Corrective Action Taken	See current year finding IC 2010-05.
CF 2009-01	Excess of Expenditures over Appropriations	Not Corrected	See current year finding CF 2010-01.
ML 2009-01	Grant Receivables	Corrected	
ML 2009-02	Interfund Transfers	Corrected	
ML 2009-03	Pension Plans	Not Corrected	See current year finding ML 2010-01.
ML 2009-04	Password Settings	Not Corrected	Finding repeated in the current year.
ML 2009-05	IT Policies and Procedures	Certain Corrective Action Taken	Finding repeated in the current year.
ML 2009-06	IT System Trail	Corrected	
ML 2009-07	Timeliness of Financial Reporting	Not Corrected	See current year finding ML 2010-03.
ML 2009-08	Fund Balance Reserve Requirements	Not Corrected	See current year finding ML 2010-04.
ML 2009-09	Procurement Code Violation	No longer relevant	The finding was isolated to one identified contract in prior year.
ML 2007-05	Employee Cross Training	No longer relevant	

**Appendix B – Status of Prior Year’s Recommendations to Improve
Financial Management, Accounting Procedures and Internal Controls (Continued)
Fiscal Year Ended September 30, 2010**

ML 2009-04 – Password Settings

Criteria: IT system password setting should include complexity to ensure passwords are not easily guessed by others.

Condition: Per inspection of password setting within the Oracle Active Directory, the setting “Password must meet complexity requirements” is disabled within Active Directory.

Effect: Lack of complexity within password parameters may allow inappropriate or unauthorized access to critical IT systems.

Cause: Management determined that enabling the password complexity setting on a global basis would have resulted in a high level of disruption to City employees (“forgetting” their password) and a general loss of productivity. For those reasons, complex passwords were not set.

Recommendation: We recommend that the City enable the setting “Password must meet complexity” within Active Directory. Password complexity should include combinations between upper case, lower case, and numbers.

Views of Responsible Officials and Planned Corrective Actions: City is aware of the issue and has plans of implementing logical access control requirements with upgrade to the ERP system. This will be done in the 2011 year.

**Appendix B – Status of Prior Year’s Recommendations to Improve
Financial Management, Accounting Procedures and Internal Controls (Continued)
Fiscal Year Ended September 30, 2010**

ML 2009-05 – IT Policies and Procedures

Criteria: IT policies and procedures regarding logical access and data backups should be reviewed and updated, at least, annually.

Condition: We noted that the IT policies and procedures were last updated in 2007.

Effect: Outdated policies and procedures can lead to a process not addressing current security concerns and/or related inefficiencies due to the policies not keeping up with changing technologies and computing environments.

Cause: Lack of timely review and update.

Recommendation: We recommend that management review / update all IT policy and procedures on an annual basis.

Views of Responsible Officials and Planned Corrective Actions: IT Policy & Procedures have been updated, but due to budget cuts and loss of key personnel it has not been approved by all necessary departments.