

Management Letter and State Reporting Requirements

The Honorable Mayor; Members of the City Commission
and City Manager
City of Miami, Florida

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Miami, Florida (the City) as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 20, 2013. Other auditors audited the financial statements of the discretely presented component units and pension trust funds as described in our report on the City's financial statements. Our report does not include the results of the other auditors testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

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*; Section 215.97, *Florida Statutes*; and Chapter 10.550, *Rules of the Auditor General*. We have issued our Report of Independent Certified Public Accountants and 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 our Report of Independent Certified Public Accountants on Compliance and Internal Control over Compliance That Could Have a Direct and Material Effect on each Major Federal Program and State Project in Accordance with OMB Circular A-133, Section 215.97, *Florida Statutes*, and Chapter 10.550, *Rules of the Auditor General* and on the Schedule of Expenditures of Federal Awards and State Financial Assistance. Disclosures in those reports and schedules, which are dated June 19, 2013, 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. The suggestions included in this letter, which resulted from our consideration of internal control, are submitted to assist in improving procedures and controls. In addition, this letter includes other communications required by the *Rules of the Auditor General*.

We have the following suggestions for improvement in accounting procedures and controls.

A. Current Year Recommendations

2012-01 Budgetary Policies and Procedures

Observation

During our review of the fiscal year 2012 budget book, the adopted and amended budget support and the related operating transfer log, we noted that the City's budget adoption and related operating transfer process does not provide sufficient detail to indicate that individual operating transfers are approved by City Commission. In connection with our testing, we observed that transfers were made between funds that had appropriately budgeted for the revenues in the receiving fund and the expenditures in the transferring fund, but failed to appropriate the specific transfer amount to move the monies between the two funds. As a result, there is a risk that the City Commission may approve operating transfers in the aggregate, but the Commission may not have reviewed or approved the actual transfer. Therefore, as the individual transfer was not specifically appropriated for in the approved budget, there is a risk that the budget department, which creates the operating transfer log from the approved budget, has an unauthorized ability to choose where to appropriate the individual amounts within each fund after the transfer occurs.

During our review of approved budget amendments during the year, we noted that there is no requirement for the City Commission to perform a sufficient review of the supporting documentation for each of the proposed budget amendments to determine the merits of the amendment prior to approval. Therefore, a risk exists that an amendment that is not appropriately supported is approved and taxpayer money may be expended on unnecessary items, or that monies required for one function may be appropriated to another function, resulting in an unnecessary loss of programs for the initial function.

Recommendation

We recommend that the City implement a process to review and approve all individual operating transfers in connection with their approval of the original adopted budget, as well as any subsequent budget amendments, and that documentation of such approval be maintained as evidence of segregation of duties.

Additionally, we suggest that the City Commission consider the budget amendment process, and include requirements for appropriate, sufficiently detailed support for all requested budget amendments, in order to ensure that the budget amendment is warranted.

Management's Response

We concur with the observation that more detailed information for budgeted transfers reduces the risk of misappropriation. The Office of Management Budget (OMB) has included additional transfer related information in the in the FY12-13 Adopted Budget. OMB continues to work to improve transparency in the budget process.

As it pertains to the observation of the Budget Amendment, the City Code has, in section 2-497.1 (1), a requirement that the Budget Director must prepare a written analysis prior to adoption of a resolution presented for changes of the approved Budget. In FY2011-12, the Budget Amendment resolutions were accompanied by either a memorandum or background information which detailed the changes being made and why. These amendments were put through the Agenda Process and presented to the City Commission no less than 5 business days prior to the approval. The Commissioners were individually briefed on the agenda items as part of the review process. Commissioners also have the ability to defer any agenda item if they feel that they have not had time to review the information provided. In FY2011-12, the Mid-Year Amendment was deferred for two weeks in order to provide more time to a commissioner to review the information that was provided.

2012-02 Grant Reimbursements

Observation

We noted that the City does not request reimbursements for grant expenditures in a timely manner, soon after the incurrence and payment of qualified related expenditures. The delay may have an adverse effect on cash flows and may affect the collectability of the amounts due from the grantor agencies.

Additionally, we noted that reimbursement requests submitted by the Police Department to the grantor agency were not consistently reviewed by appropriate personnel to ensure compliance with requirements prior to submission.

Recommendation

We recommend that the City establish a process to ensure that amounts expended related to grants under reimbursement-type agreements 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.

We also recommend that the Police Department implement procedures to ensure that reimbursement requests are appropriately reviewed and approved prior to submission, and that sufficient documentation of the review and approval is maintained.

Management's Response

The City agrees with the findings and recommendation 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.

2012-03 Information Systems General Controls

Document Numbers and Journal Entry Protocols

In connection with our review of journal entries, we identified that consecutive document numbers that are not used to record a journal entry during one fiscal year are available for re-use after the close of each fiscal year in the next fiscal year. As this would allow journal entries to be made using document numbers which are outside the range of document numbers used for each fiscal year, there is a risk that inappropriate or fraudulent entries could be made.

Recommendation

At the close of each fiscal year, the available document numbers which are outside of the range of the next fiscal year should be closed, so that edits cannot be made to these documents, except as they relate to the fiscal year in which they were generated originally.

Management's Response

The City believes that there are adequate controls in place to mitigate the risk that inappropriate or fraudulent entries could be made. However, the City will heed the recommendation to close available document numbers which are outside the range of the next fiscal year. This will prevent edits to be made to the documents except as they relate to the fiscal year in which they were generated originally.

Authorization of Configuration and Parameter Changes

Configuration and parameter changes for Oracle were noted as not being consistently approved using the City's change management process. This could result in unauthorized or unapproved changes applied to the production environment and changes applied to the production environment may not function properly or inadvertently break existing functionality.

Recommendation

Configuration and parameter changes should accordingly adhere to the policy ensuring changes are authorized, tested and documented prior to being applied in the production environment.

Management's Response

The Super User responsibilities associated with Finance have been removed and will only be temporarily assigned on request by the employees in a Process Owner role upon approval by the Finance Director or designee. The System Administrator will only assign the Super User responsibility via a Work Order. The work order will contain the documentation associated with the configuration change being made by the process owner. This process enhancement was already implemented during the fourth quarter of 2012.

Periodic User Access Reviews and Role Validation

There is not currently a process in place to periodically review user access to Active Directory and the Oracle application and validate application roles. The lack of a periodic review that responds to changes in employment status can result in excess/unauthorized access or a breakdown in segregation of duties.

Recommendation

A formal periodic access and user role review process should be established to ensure access to Oracle is given to only those users who require it based on their job responsibilities, as well as, verify the continued employment status of employees. Users with access that is inappropriate, unnecessary, or identified as belonging to terminated employees should be communicated to the security administrators. Periodic role validation should be established to ensure that the application roles do not grant conflicting permissions, effectively support the segregation of duties and are in line with the relevant job functions.

Management's Response

In October, 2012, the Information Technology Department (ITD) established a policy and procedure for verification of user accounts. ITD has developed an automated report for distribution to department directors for their review and response within a given timeframe. The report reflects all Oracle users within the department including all the responsibilities assigned. The directors must confirm employee access and return to ITD system administrator within 30 days. The audit report is distributed quarterly.

Data Center Access Reviews

Access to the data center is not regularly reviewed for appropriateness. Individuals with access to the data center, who do not require that access, increases the risk of damage to equipment and potentially unauthorized system access.

Recommendation

Given the large number of individuals that have access to the 4th floor of the building where Data Center is located; management should determine an appropriate frequency to periodically review data center access. Data center access should be limited to key IT personnel responsible for operations and support; generic user access avoided whenever possible.

Management's Response

Access to the Data Center is controlled by the Police Department. Policies to administer Data Center access have been updated by the Police Department. The procedures were sent to E&Y auditors in February 2012.

Information Technology Strategic Plan

Although IT initiatives are tied to the City's goals and decisions made by the City Commission, the plans are not formalized through an IT Strategic Plan. Without proper planning and end user involvement, business objectives and IT objectives may not be aligned to efficiently and effectively utilize IT resources and infrastructure. The following additional benefits can be achieved from long-range IT strategic planning:

- Provides a common focus for the organization and a means of reaching IT goals.
- Assists with the allocation and management of resources.
- Communicates the organization's systems-related plans to employees.

- Minimizes the opportunity for redundant systems and data.
- Identifies system issues.
- May identify new systems needed by the organization.
- May identify opportunities to streamline the organization's operations.

Recommendation

Although the City currently has a process to evaluate IT plans, the process can be improved through the development of an IT strategic plan. The IT plan will aid in ensuring that IT resources are appropriately planned, measured, and controlled in support of the organization's business goals and strategic plans. The plan should address both short-term (one year) and long-term (2-3 years) objectives.

Management's Response

The City agrees that the process in place is managed and maintained at the department level and that there should be a more formal process in place to determine and authorize projects. To be clear, no strategic projects are acted upon without approval from the City Manager's office. In addition, the City Manager's office is highly engaged in developing and monitoring of strategic projects. A formalized procedure would memorialize the event to ensure that there is an accurate historical record of the process, review, and approval of strategic projects.

Information Technology Risk Assessment

Currently the City of Miami does not perform a formal Risk Assessment process that takes into account IT risks. However, per our discussions it was noted that the City evaluates organization risks and impacts continuously as part of the City's business continuity and disaster recovery planning process. A formal risk assessment process is the City's identification and analysis of relevant risks to the achievement of its objectives, and forms a basis for management to determine how the risks should be managed.

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- Assists with the allocation and management of resources.
- Communicates the organization's systems-related plans to employees.
- Minimizes the opportunity for redundant systems and data.

- Identifies system issues.
- May identify new systems needed by the organization.
- May identify opportunities to streamline the organization's operations.

Recommendation

The City should consider formalizing current processes to address IT risk. A risk assessment should be performed at least annually, and include representation from key business areas.

When assessing risk, the City of Miami should focus on probable events in the following areas:

- People
 - Failure of staff to comply with the procedures whether with the intention to commit fraud, oversight or negligence.
 - Non-familiarity of staff with the set guidelines and procedures.
 - Segregation on access to the computer system not observed or compromising on the staff password.
- Process
 - Process failure.
 - Inadequate controls in the operational processes.
- System
 - Failure of application system to meet user requirements.
 - Absence of in-built control measures in the application system.
- External Party/Event
 - Imposition/changes of policies by government regulatory bodies
 - Unsatisfactory/Non-performance by out-sourced service providers.

- Fraud by syndicates or customers.
- Legal action taken by customers or fraud committed by internal.
- Physical and environmental concerns such as disasters.

When evaluating the risks, probability, the potential for incurring a loss and frequency of occurrence should be considered. Management should document action plans as a result of such internal assessments.

Management's Response

The Information Technology Department relies on the City of Miami Auditor General's Department to conduct risk assessments for the different systems that currently support the City business processes. Recommendations are implemented accordingly.

B. Status of Prior Year Recommendations

The *Rules of the Auditor General* (Section 10.554(1)(i)1) require that we address in the management letter, if not already addressed in the auditor's reports on compliance and internal controls or schedule of findings and questioned costs, whether or not recommendations made in the preceding annual financial audit report have been followed.

Finding #	Finding Title	Status
2011-01	Leases	<ul style="list-style-type: none"> - A lease synopsis has been provided by the Asset Management Department for all leases. - Individual leases files have correspondence of classification/account codes corresponding to the lease, as sent by Asset Management. - The position of Lease Manager in the Asset Management Department was vacant from October 2012 thru February 2013. The Asset

Finding #	Finding Title	Status
		<p>Management Department is currently working towards providing an updated lease synopsis for approximately 8 leases acquired from October 2012 thru February 2013.</p> <ul style="list-style-type: none"> - Folders with lease compendium, classification and receipt records are being maintained in the Treasury Division of the Finance Department in cases where the City is the lessor. - Folders with lease compendium, classification and payment records are being maintained in the Accounting Division of the Finance Department in cases where the City is the lessee. <p>Finance is being included on the distribution for all new leases.</p>
2011-02	Payroll Processing	Corrected.
2011-03	Grant Reimbursements	Not corrected – comment repeated above.
2011-04	Information Systems General Controls	<p><i>Policies & Procedures</i> – corrected.</p> <p><i>Authorization of Configuration & Parameter Changes</i> – comment repeated above.</p> <p><i>Monitoring of Changes</i> – corrected.</p> <p><i>Password Policy</i> – corrected.</p>

Finding #	Finding Title	Status
		<i>Periodic User Access Reviews</i> – comment repeated above. <i>Logical Access Monitoring</i> – corrected. <i>Termination Timeliness</i> – corrected. <i>Data Center Access Reviews</i> – comment repeated above. <i>Timeliness of Incident Resolution</i> – corrected.
2010-01	Bank reconciliations	Corrected.
2010-02	Recording of accruals and accounts payable	Not corrected – see current year material weakness disclosed as finding 2012-01 in the Schedule of Findings and Questioned Costs.
2010-03	Payroll processing	Corrected.
2010-04	Filing for grant reimbursements	Not corrected – comment repeated above.
2010-05	Capital Asset Management	Not corrected – see current year material weakness disclosed as Finding 2012-02 in the in Schedule of Findings and Questioned Costs

C. Other Required Communications

Section 10.554(1)(i)1., *Rules of the Auditor General*, 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. Please refer to Status of prior year recommendations section above.

Section 10.554(1)(i)2., *Rules of the Auditor General*, requires that our audit include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. During the course of our audit, nothing came to our attention that would cause us to believe that the City had not complied with Section 218.415, *Florida Statutes*, regarding the investment of public funds.

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. In connection with our audit, we were not made aware of instances of noncompliance with the provisions of contracts or grant agreements or abuse meeting such criteria other than as disclosed in this letter.

Section 10.554(1)(i)5., *Rules of the Auditor General*, provides that the auditor may, based on professional judgment, report the following matters that are inconsequential to the determination of financial statement amounts, considering both quantitative and qualitative factors: (1) violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, and (2) 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 annual financial statements); (b) failures to properly record financial transactions; and (c) inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. In connection with our audit, we were not made aware of such instances of noncompliance, other than as disclosed in this letter.

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. The official title and legal authority for the primary government and each component unit is disclosed in Note 1 of the financial statements for the year ending September 30, 2012.

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. During

the course of our audit, nothing came to our attention that would cause us to believe that the City was in a state of financial emergency as a consequence of conditions described in Section 218.503(1), *Florida Statutes*.

In connection with our audit, we applied financial condition assessment procedures pursuant to Sections 10.554(1)(i)7.c. and 10.556(7), *Rules of the Auditor General*. 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. We noted several indicators of deteriorating financial condition such as low general fund and total governmental fund assigned and unassigned fund balances, expenditures in excess of appropriations which were appropriately disclosed in the City's Comprehensive Annual Financial Report, deficit fund balances in certain governmental funds, a deficit unrestricted net asset balance for governmental activities of over \$331.9 million. The City is also not in compliance with its own financial integrity ordinance which requires the City to maintain specified levels of reserves.

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, 2012, 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, 2012. In connection with our audit, we determined that these two reports were in material agreement.

This report is intended solely for the information and use of the City of Miami, state and federal agencies, the Florida Auditor General, management, and others within the City and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

June 20, 2013