

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, 2013, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 28, 2014. 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 for each Major Federal Program and State Project; Report on Internal Control Over Compliance and Report on the Schedule of Expenditures of Federal Awards and State Financial Assistance Required by OMB Circular A-133, Section 215.97, *Florida Statutes*, and Chapter 10.550, *Rules of the Auditor*. Disclosures in those reports and schedules, which are dated May 8, 2014, 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

2013-01 Budget-Related Operating Transfers

Observation

During our review of the fiscal year 2013 budget, 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 ability to choose where to appropriate the individual amounts within each fund after the transfer occurs.

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.

Management's Response

Management believes that adequate internal controls are currently in place for transferring monies between funds, yet also recognizes that an integral and key element of the budget process is for the Office of Management and Budget to work closely with the elected officials to present and discuss the budget and all subsequent amendments in detail. To further enhance transparency, the Office of Management and Budget will present transfers more clearly in the proposed budget documents and amendments.

2013-02 Accounts Receivable and Due From Other Governments Process

Observation

During our testing of the fiscal year 2013 Accounts Receivable and Due From Other Governments balances, we noted the City did not apply cash receipts collected to corresponding receivable balances in a timely manner and accordingly represented that certain accounts receivable and due from other

governments balances were not collected as of year-end. Lastly, reimbursement requests to substantiate certain amounts due from other governments could not be reconciled to invoices.

Recommendation

We recommend that the City improve the process and policies over Accounts Receivable and Due From Other Governments in order to apply cash receipts on a timely basis and correctly state balances and related deferred revenues as of year-end.

Management's Response

Management concurs with the recommendations. Management will establish new general ledger accounts for the various receivable categories. This will enable the Finance Department and other pertinent City departments to isolate and better account for specific receivables. Furthermore, the Finance Department will work closely with the various departments to ensure that all of the necessary information is provided to properly and timely apply cash receipts.

2013-03 Investment Compliance

Observation

The City is not in compliance with their current investment policy regarding investment allocation at September 30, 2013. The investment policy does not provide for a period of time to correct non-compliance situations. The City does not have an investment committee to oversee the purchase/disposal of such investments. No considerations to date have been implemented to consider the evolving market conditions and the implications on the fair value of and allocation of the City's investments.

Recommendation

We recommend that the investment policy be reviewed and updated by the City to address curing instances of non-compliance. A process should be established where appropriate personnel monitor investment compliance on a weekly basis and re-balance the portfolio when necessary. In order to address the evolving market conditions, we suggest management to review the current investment policy and update where needed to address the risks of the current market conditions.

Management's Response

Management concurs with the recommendation. The Finance Department is currently in the process of updating the Investment Policy. The Finance Department has been working closely with the City's financial advisors to update the policy. A draft of the updated policy was provided to the City's Finance Committee. Upon review and approval, the "final" draft will be forwarded to the City

Commission for consideration and approval. The Finance Department will implement a formal process to monitor, document and report investments. The City's Investment Committee currently meets monthly with the City's financial advisors to review and discuss investment performance, policy compliance, discuss the key economic indicators, and various potential investment options.

2013-04 Tax Exempt Bonds: Post Issuance Compliance

Private Business Use

If private business use of the bond proceeds exceeds 10% of the issue for a governmental entity, the tax-exempt bond issue may lose its exemption or at best the organization issuing the bond may face significant penalties. In many cases, the 10% allowance is immediately reduced by the cost of issuance paid with bond proceeds, usually about 2% of the face amount of the issue. This effectively means that for the life of the issue, only 8% of the issue proceeds may be allocated to private business use. The IRS requires issuers to quantify the private business use percentage of their tax-exempt bonds on an ongoing basis to ensure that the private business use percentage is not exceeded.

Private business use arises from the conduct of any private trade or business, using property that is financed by tax-exempt bonds. If bond-financed property is generally available for public use, then private business use will arise only if there is some special legal entitlement or comparable arrangement to use the property privately. Special legal entitlements include: (1) ownership interests, such as partnerships (2) nonqualified management contracts, (3) leases, (4) certain research agreements. The sale of bond financed property should be analyzed as well.

Arbitrage Rebate

The IRS also requires tax exempt bond issuers' compliance with certain "Arbitrage Rebate" and "Yield Restriction" rules. For example, organizations will need to consider whether bond proceeds were invested in a guaranteed investment contract (i.e., a "GIC"), whether any proceeds were invested beyond certain allowable investment periods and, if so, if the bond issue qualified for an exception to these investment limitations.

Written Procedures

The IRS is aware of significant non-compliance with recordkeeping and record retention requirements in the area of tax exempt bond post-issuance compliance and has stepped-up its focus on written policies and procedures around tax exempt bond post-issuance compliance. In this regard, the IRS recently issued a Final Report on Governmental and Charitable Financings as a result of its Tax Exempt Bonds Questionnaire Project.

According to that report, the IRS determined that with respect to tax-exempt borrowers, only 15% had formal written procedures or guidelines to ensure that their tax-exempt bonds remained in compliance with federal tax requirements applicable to the proper and timely use of bond proceeds and bond-financed property. The IRS ultimately concluded that although there appeared to be a high recognition of the importance of post-issuance compliance and recordkeeping, the “overall effectiveness of the implementation of such programs was questionable.” The IRS has emphasized that it is important for governments and Section 501(c)(3) organizations to have clearly defined procedures and to implement and review those procedures over time to ensure the current person(s) responsible for post-issuance compliance will be able to fulfill their duties. In addition to this report, the IRS also has issued additional guidance to issuers on best practices to comply with these rules and likewise has increased examination activity through additional bond audits.

Recommendation

Given the increased IRS scrutiny, we recommend that management dedicate sufficient resources to implement a monitoring process to track and document the current and historical use of bond proceeds and the use of bond-financed facilities over the life of its bond issues to ensure it is in compliance with post-issuance compliance requirements. This includes developing written procedures, including a document retention policy for the life of a bond issue, which is defined to include the life of any related refunding bond issues. These written procedures should ensure compliance with both private use and arbitrage rebate requirements. A formal tracking process would also facilitate the organizations ability to make quick decisions on change of use issues.

Management’s Response

The City of Miami has a process in place to ensure post issuance compliance. The City concurs that it should have written procedures. The Finance Department, the City Attorney’s Office, bond counsel and the respective applicable departments will work together to develop written procedures for the purpose of ensuring compliance with post issuance compliance, including private use and arbitrage rebate requirements.

2013-05 Information Systems General Controls

Change Management Segregation of Duties

One user has access to develop and approve changes. This could result in unauthorized or unapproved changes applied to the production environment. Also, changes applied to the production environment may not function properly or inadvertently break existing functionality.

Recommendation

Access to develop and approve changes should be segregated. A mitigating control should be established for the Community Technology Advisory Board committee “CATB” to review Oracle post migration changes.

Management’s Response

The Application Developer responsibility has been removed from the user with the conflicting duties. A CAB committee has been established to review and approve production changes. The CAB committee started meeting every Friday since December 2013.

Periodic User Access Reviews and Role Validation

A process is not currently 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

A report has been created to review responsibility assignments by department. This report will be scheduled to automatically run every quarter. The report will be sent to each department director to validate access is granted to authorized personnel based on job responsibilities. The Oracle System Administrator will end-date user responsibilities as requested by Department Directors every quarter.

Privilege User Access

We noted the Oracle DBA's currently has the password knowledge to the SYSADMIN account to perform the following:

- Run Diagnostics
- Managing global cache
- Administer concurrent managers
- Administer workflow notification mailers
- Administer concurrent requests
- Assist in migrations
- Monitor system dashboard

Users may have inappropriate access over time and current access levels may provide the ability to perform incompatible duties within the application, leading to a segregation of duty issue.

Recommendation

We recommend that management consider creating proper segregation of duties by removing access provisioning responsibilities from functions users of the applications and creating a custom responsibility to cater to the DBA's job functions.

If implementing adequate segregation of duties is not feasible based on organization structure and lack of resources, we recommend management implement a monitoring control to periodically review access rights and key activity/transactions performed by the privileged users within the financially significant application.

Management's Response

We will review the permissions on the SYSADMIN user account and limit the DBA's access by creating a custom account to cater to the DBA job functions. A process to review access right and monitor key activities of privileged users will be implemented as recommended by the Auditors.

Entity Level Controls – 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.

- 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

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 agrees with the recommendation and will take appropriate actions to address it.

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
2012-01	Budgetary Policies and Procedures	Budget-Related Operating Transfers portion of finding repeated.
2012-02	Grant Reimbursements	The City has implemented procedures that assisted departments in the management of grants. Reimbursement packages are being submitted in a more timely manner to increase collection times.
2012-03	Information Systems General Controls	1) During 2013, the City stopped using journal entries outside the range of the current fiscal year. 2) Process for authorization of configuration and parameter changes is in place 3) Periodic user access reviews and role validation report is complete 4) Data Center access reviews listing has been updated 5) Information technology strategic plan has been completed 6) No change in the Information technology risk assessment.

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 Management Department is currently working towards providing an updated lease synopsis for approximately 8 leases acquired from October 2012 thru February 2013. • 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. • Finance is being included on the distribution for all new leases.
2011-02	Payroll Processing	Corrected.
2011-03	Grant Reimbursements	<p>The City has implemented procedures that assisted departments in the management of grants. Reimbursement packages are being submitted in a more timely manner to increase collection times.</p>
2011-04	Information Systems General Controls	<ul style="list-style-type: none"> • Policies & Procedures – corrected. • Authorization of Configuration & Parameter Changes – comment repeated in 2012. • Monitoring of Changes – corrected. • Password Policy – corrected. • Periodic User Access Reviews – comment repeated above. • Logical Access Monitoring – corrected. • Termination Timeliness – corrected. • Data Center Access Reviews – comment repeated above. • Timeliness of Incident Resolution – corrected.

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 did not identify 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)5., *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, 2013.

Section 10.554(1)(i)6.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)6.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 position 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)6.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, 2013. 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.

Ernst & Young LLP

March 28, 2014