

City of Miami, Florida
Management Letter in Accordance
With Chapter 10.550, *Rules of the*
Florida Auditor General

For the Year Ended September 30, 2014

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**Management Letter in Accordance with
Chapter 10.550 of the Rules of the
Florida Auditor General**

Honorable Mayor and Members of the
City Commission
City of Miami, Florida

Report on the Financial Statements

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, 2014, and have issued our report thereon dated March 25, 2015. Our report includes a reference to other auditors who audited the financial statements of the following component units and funds:

Component Units / Funds	Classification
• Southeast Overtown Park West Redevelopment Agency	nonmajor special revenue fund
• Omni Redevelopment Agency	nonmajor special revenue fund
• Midtown Community Redevelopment Agency	nonmajor special revenue fund
• Virginia Key Beach Park Trust	nonmajor special revenue fund
• Liberty City Community Revitalization District Trusts	nonmajor special revenue fund
• Firefighters' and Police Officers' Retirement Trust	aggregate remaining fund information
• General Employees' and Sanitation Employees' Retirement Trust and Other Managed Trusts	aggregate remaining fund information
• Miami Sports and Exhibition Authority	discretely presented component unit
• Downtown Development Authority	discretely presented component unit
• Bayfront Park	discretely presented component unit
• Civil Investigative Panel	discretely presented component unit
• Coconut Grove Business Improvement District	discretely presented component unit
• Wynwood Business Improvement District	discretely presented component unit

This management letter does not include the results of the other auditors' testing of compliance and other matters that are reported on separately by those auditors. Our report also includes emphasis of matter paragraphs relating to the City's adoption of Government Accounting Standards Board (GASB) Statement 65, *Items Previously Reported as Assets and Liabilities* and the City's pension plans adoption of GASB Statement 67, *Financial Reporting for Pension Plan*.

Auditor's Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Other Reports and Schedule

We have issued our Independent Auditor's Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*; 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 Florida Auditor General*; Schedule of Findings and Questioned Costs; and Independent Accountant's Report on an examination conducted in accordance with AICPA Professional Standards, Section 601, regarding compliance requirements in accordance with Chapter 10.550, *Rules of the Auditor General*. Disclosures in those reports and schedule, which are dated March 25, 2015, except for the Schedule of Expenditures of Federal Awards and State Financial Assistance for which the date is June 5, 2015, should be considered in conjunction with this management letter.

Prior Audit Findings

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. Corrective actions have been taken to address the findings and recommendations made in the preceding annual financial audit report, except as disclosed in Appendix B – *Status of Prior Year's Recommendations to Improve Financial Management*.

Official Title and Legal Authority

Section 10.554(1)(i)4., 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 information is disclosed in Note 1 to the financial statements.

Financial Condition

Section 10.554(1)(i)5.a., Rules of the Auditor General, requires that we report the results of our determination as to whether or not the City 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.

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), 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.

Annual Financial Report

Section 10.554(1)(i)5.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, 2014, 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, 2014. As of the date of this letter the 2014 annual financial report for the City was not filed.

Other Matters

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. Such recommendations are included in Appendix A – *Current Year Findings and Recommendations to Improve Financial Management*.

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address noncompliance with 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 which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

Purpose of this Letter

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, the Mayor and City Commission, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey LLP

Miami, Florida

March 25, 2015, except for the Independent Accountant's Report on the examination of the City's Compliance with *Section 218.415, Florida Statutes, Local Government Investment Policies* and the Schedule of Expenditures of Federal Awards and State Financial Assistance, for which the date of each report is June 5, 2015

City of Miami, Florida

Appendix A – Current Year Findings and Recommendations to Improve Financial Management

ML 2014-01 – Use of Restricted Resources

Criteria: When restricted resources are available for use, it is the City's policy to use restricted resources first as they are needed, followed by the use of unrestricted resources.

Condition: We noted that the City is not expending available bond proceeds in an effective and timely manner. As of September 30, 2014, the City had \$74 million of available bond proceeds restricted for capital projects related to debt issued between 2007 through 2011.

Cause: Lack of effective planning, budgeting, and funding of capital projects with available bond proceeds.

Effect: Possible non-compliance with respective bond indentures related to available bond proceeds. Additionally, the City is paying interest expense on related bonds and not utilizing the available proceeds to fund City projects.

Recommendation: We recommend that management develop a plan and budget appropriately to allow for the utilization of available bond proceeds to fund allowable City projects.

Views of Responsible Officials and Planned Corrective Actions: The City concurs with the recommendation. The City continues to aggressively spend-down remaining unspent proceeds. The City has implemented measures to minimize the risk of this recurring. The City will focus on finding an optimal balance between issuing bonds and the timing of the expenditures. The timing of the project related expenditures will be scrutinized and factored into the timing of issuing the debt. Furthermore, the City will issue official letters of intent for bond issues. The official letter of intent will enable the City to incur the expenditures and subsequently reimburse itself from bond proceeds.

City of Miami, Florida

Appendix A – Current Year Findings and Recommendations to Improve Financial Management (Continued)

ML 2014-02 – Grant Reimbursements

Criteria: The City's internal control system should be designed to track that claims for reimbursements are filed in a timely manner; for example, within 30 days after the incurrence and payment of qualified related expenditures to allow for collection of such reimbursements.

Condition: Management determined that \$3.4 million due from grantors for qualifying reimbursable grant expenditures that were outstanding in excess of 1 year were not deemed collectible and allowed for as of fiscal year end.

Cause: Individual departments administering grant programs 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.

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 amounts due.

Recommendation: We recommend that the City establish a control system to track 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 will take corrective action by centralizing the grant reimbursement function in the Finance Department. The process of centralization has commenced with the establishment of two Grant Financial Analyst positions, whose primary function will be to coordinate the reimbursement process with respective departments to help ensure the timely reimbursement of funds to the City. This will require systematic coordination with the departments, because the respective department will remain responsible for grant management and ensuring that the funds are expended appropriately.

City of Miami, Florida

**Appendix A – Current Year Findings and Recommendations to Improve
Financial Management (Continued)**

ML 2014-03 – Password Configurations

Criteria: General Information Technology (IT) controls require that passwords settings be sufficient to prevent the unauthorized access to systems and data.

Condition: We noted that password configuration settings for complexity and length do not meet the minimum requirements as stated in the City's Acceptable Technology Use Policy.

Cause: Password configurations have not been setup to meet minimum requirements as stated in the City's Acceptable Technology Use Policy.

Effect: Risks include unauthorized use of systems and disclosure, modification, damage, and/or loss of proprietary information.

Recommendation: We recommend that management adjust password length and complexity configuration settings to meet the minimum requirements as stated in the City's Acceptable Technology Use policy.

Views of Responsible Officials and Planned Corrective Actions: We agree with the recommendation. We are in the process of requesting an Administrative Policy Manual (APM) entry to authorize the changes needed to address password length and complexity issues outlined in this finding. APM modifications require City Manager approval which we anticipate obtaining.

City of Miami, Florida

**Appendix A – Current Year Findings and Recommendations to Improve
Financial Management (Continued)**

ML 2014-04 – User Access Reviews

Criteria: User access rights to an organization's relevant financial reporting applications or data should be reviewed periodically by management.

Condition: We noted periodic user access reviews are not being performed for the network and Oracle to validate that employee system access rights are appropriate based on the employee's roles and responsibilities.

Cause: The City does not have established policies and procedures in place requiring the review of user access rights on a periodic basis.

Effect: Risks include unauthorized use, disclosure of proprietary information, modification, damage, or loss of data.

Recommendation: We recommend that management establish formal policies and procedures to allow for the proper administration of user access rights on an ongoing basis. Such policies and procedures should address the proper provisioning, modifying, removing, and periodic review of access rights assigned to employees. Management should determine as part of the user access review that configured access rights are appropriate based on the employee's roles and responsibilities. This review should indicate who performed the review, when the review was performed, and if any access changes are required.

Views of Responsible Officials and Planned Corrective Actions: We agree with the recommendation. We are in the process of implementing a report to be reviewed by the Department Directors periodically. The report will show the Oracle access each person has in the department. The Department Director will have the ability to request additional access or the removal of it if required. This report and the mechanism to deploy it will be in place by the end of September 2015.

City of Miami, Florida

**Appendix A – Current Year Findings and Recommendations to Improve
Financial Management (Continued)**

ML 2014-05 – Data Restoration

Criteria: General information technology (IT) controls require that procedures be in place to allow for the backup and recovery of financial data on an ongoing basis.

Condition: We noted that stored data (backup) is not being tested on a periodic basis for Oracle and the network to validate the effectiveness and content of the data backups being performed.

Cause: There is no formal policy in place requiring the periodic backup and restoration of data.

Effect: Risks include modification, damage, and/or loss of data. The lack of a strategy for cyclical testing of the stored (backup) data exposes the City to operational disruption.

Recommendation: We recommend that management establish formal policies and procedures requiring the periodic storage (backup) and restoration of data. Such policy should include the requirement that stored data be tested at least on an annual basis, to validate the effectiveness and content of the data storage (backup) being performed.

Views of Responsible Officials and Planned Corrective Actions: An Oracle Disaster Recovery Test is done every year prior to hurricane season. The test includes stakeholders mostly from the Purchasing Department, Human Resources and from the Finance Department Payroll section. Last year the Disaster Recovery Site was moved from the City of Coral Springs Data Center to the Fire College in Miami. The move took place during the second quarter of 2014. This year we will conduct an Oracle Disaster Recovery Test before June as it was done prior to last year.

City of Miami, Florida

**Appendix A – Current Year Findings and Recommendations to Improve
Financial Management (Continued)**

ML 2014-06 – Change Management

Criteria: General Information Technology (IT) controls should provide reasonable assurance that program changes, application configuration changes, system changes and maintenance (including changes to system software and data structures), production processing changes (including new jobs, schedule changes), and emergency changes are standardized, documented, approved, and subject to formal change management procedures.

Condition: We noted that network changes are not being formally documented on a consistent basis as required by the City's established policies and procedures.

Cause: Change management documentation requirements are not consistently being performed by City personnel when changes are being made to the City's IT systems.

Effect: Unauthorized changes may be moved to the production environment without management's knowledge.

Recommendation: We recommend that management adhere to its change management program and policies which requires proper documentation for all changes to the City's IT systems.

Views of Responsible Officials and Planned Corrective Actions: Management agrees with the recommendation. Network changes and patches will go through the current Change Advisory Board (CAB) process and will be documented accordingly. Target date: Immediate.

City of Miami, Florida

Appendix B – Status of Prior Year’s Recommendations to Improve Financial Management

Finding #	Finding Title	Status	Other Explanation
2013-01	Budget-Related Transfers	Corrected	
2013-02	Accounts Receivable and Due From Other Governments Process	Repeated	See current year recommendation ML 2014-02.
2013-03	Investment Compliance	Corrected	
2013-04	Tax Exempt Bonds; Post Issuance Compliance	Repeated	Certain corrective action taken.
2013-05	Information Systems General Control	Repeated	Certain corrective action taken.