CITY OF MIAMI
OFFICE OF AUDITOR GENERAL

THE REVIEW OF COMPLIANCE WITH THE FINANCIAL INTEGRITY PRINCIPLES

AUDIT NO. 05-020

Prepared By:
Office of Auditor General

Victor I. Igwe, CPA, CIA
Auditor General

DENNIS JOHNSON, STAFF AUDITOR
June 28, 2005

The Honorable Mayor and Members of the
City Commission
3500 Pan American Drive
Miami, FL 33133

Re: The Review of Compliance with the Financial Integrity Principles
   Audit No. 05-020

We have examined the applicable records to determine the City's compliance with the Financial Integrity Principles, as codified and amended in Chapter 18, Article IX, Sections 18-541 and 18-542 of the City Code. Section 18-541 of the City Code, provides that, "The city's internal auditor shall be responsible for preparation of a written report to be transmitted to the mayor and the members of the city commission by July 1 of each year as to compliance with the principles and policies set forth in this division." The proper implementation of the 14 Financial Integrity Principles would enhance maximum protection of public funds.

This report provides the result of our review of compliance with the Financial Integrity Principles for the period of October 1, 2003, through September 30, 2004.

Sincerely,

Victor I. Igwe, CPA, CIA
Auditor General
Office of Independent Auditor General
C: Joe Arriola, Chief Administrator/City Manager
Members of the Audit Advisory Committee
Linda M. Haskins, CPA, Deputy City Manager/Chief Financial Officer
Larry Spring, Chief of Strategic Planning, Budgeting and Performance
Peter Korinis, Chief Information Officer
Alicia Cuervo Schreiber, Chief of Operations
Jorge L. Fernandez, City Attorney, City Attorney’s Office
Glenn Marcos, Director, Purchasing Department
John F. Timoney, Police Chief, Police Department
William W. Bryson, Fire Chief, Fire-Rescue Department
Mary Conway, Director, Capital Improvement Programs and Transportation Department
Barbara Gomez-Rodriguez, Director, Community Development Department
Ernest Burkeen, Director, Parks and Recreation Department
J. Scott Simpson, CPA, Director, Finance Department
Ricardo E. Gonzalez, Director NET Program
Laura L. Billberry, Acting Director, Economic Development Department
Daniel Newhoff, Acting Director, Conferences, Conventions, and Public Facilities Department
Pete Chircut, Treasurer, Finance Department
Donald Riedel, Director, Office of Citistat
Priscilla A. Thompson, City Clerk, City Clerk’s Office
Audit Documentation File
CITY OF MIAMI
THE REVIEW OF COMPLIANCE WITH THE
FINANCIAL INTEGRITY PRINCIPLES
FOR THE PERIOD OCTOBER 1, 2003, THROUGH SEPTEMBER 30, 2004

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INTRODUCTION

The Office of Independent Auditor General is responsible for preparing and transmitting a written report to the Mayor and the City Commissioners in connection with compliance with the following Financial Integrity Principles:

1. Structurally Balanced Budget.
3. Interfund Borrowing.
5. Reserve Policies.
6. Proprietary Funds.
8. Multi-year Capital Improvement Plan.
13. Full Cost of Service.
14. Promoting Operating Efficiencies.

The above principles would require the City to maintain a structurally balanced budget, develop/adopt short and long term financial and capital improvement plans, establish and maintain adequate internal control systems, and follow best business practices.
SCOPE AND OBJECTIVES

As part of our oversight responsibilities, the Office of the Independent Auditor General (OIAG) performs financial and operational audits to determine the extent of compliance with provisions of Contracts, Programs, Resolutions/Ordinances, City Codes and Charter. The scope of this audit focused primarily on whether the City complied with the provisions of the financial integrity principles as codified and amended in Chapter 18, Article IX, Sections 18-541 and 18-542 of the City Code. The examination covered the period October 1, 2003, through September 30, 2004. In general, the audit focused on the following three broad objectives:

- To determine whether the City complied with the 14 financial integrity principles as noted on page 1.

- To recommend additional policies or actions to be considered.

- Other procedures as deemed necessary.
METHODOLOGY

We conducted our audit in accordance with generally accepted government auditing standards. To obtain an understanding of the internal controls, we interviewed appropriate personnel, reviewed applicable written policies and procedures, and made observations to determine whether prescribed controls had been placed in operation. The audit methodology included the following:

- Obtained sufficient understanding of the internal control policies and procedures and determined the nature, timing and extent of substantive tests necessary and performed the required substantive tests.

- Determined compliance with all the financial integrity principles noted on page 1.

- Performed other audit procedures as deemed appropriate.
SUMMARY OF AUDIT FINDINGS

STRATEGIC PLANNING, BUDGETING, AND PERFORMANCE DEPARTMENT

STRUCTURALLY BALANCED BUDGET - FINANCIAL INTEGRITY

PRINCIPLE NUMBER 1.

Our audit disclosed that the City Commission adopted a budget for the fiscal year 2004 as required during the audit period. The projected reoccurring revenue was sufficient to fund reoccurring expenditures. We noted that Strategic Planning, Budgeting, and Performance Department (SPBPD), projected that approximately $33 million of non-recurring revenues (operating savings rollover and fund balance) would be needed to fund non-recurring expenditures (capital request and pension). However, the year-end audited Comprehensive Annual Financial Report (CAFR), page 17, disclosed a negative Net Change in Fund Balance totaling approximately $5 million in the General Fund, as opposed to the $33 million, projected by SPBPD. The difference could be attributed to better than expected revenue collections, vacant positions, and conservative budgeting.

The difference between budget projections and actual amounts being projected would determine whether it would be necessary to increase revenues by raising certain fees/taxes and/or reducing certain services. Therefore, it is important that budget estimates be fairly close as possible to the actual amounts being projected. Closer budget projections would enhance the general public’s understanding of the City’s solvency and assist members of the governing body in making appropriate fiscal decisions.

Our prior audit report number 04-018 disclosed that the Gusman and Olympia Special Revenue Fund (Gusman) exceeded budgeted authorizations by $1.7 million and also total expenditures exceeded total revenues, thereby resulting in total deficit fund equity of $336,809 as of September 30, 2003. The fiscal year 2004 Comprehensive Annual Financial Statements (CAFR) again disclosed that the Gusman’s expenditures exceeded
its budgeted authorizations by $559,409. Please note that Gusman’s total revenues exceeded total expenditures and resulted in total positive fund equity of $71,061 as of September 30, 2004.
Our audit disclosed that an Estimating Conference Committee (Committee) met on September 15, 2004, and examined the underlying assumptions supporting the City’s proposed budget for the fiscal year 2005. The Committee commended the staff and the Chief of Strategic Planning Budgeting and Performance for “sound budget assumptions” and although the long-term financial and capital improvement plans were not specifically addressed, most of the Committee’s comments and recommendations were of a longer term consideration. In a memorandum to the Mayor, the Commission, and the City Manager, dated September 27, 2004, the Committee expressed certain concerns and/or recommendations, as noted on pages 31 through 34.
FINANCE AND STRATEGIC PLANNING, BUDGETING AND PERFORMANCE DEPARTMENTS

INTERFUND BORROWING - FINANCIAL INTEGRITY PRINCIPLE NUMBER 3.

The total transfers from/to other funds as reported on the “Statement of Revenues, Expenditures and Changes in Fund Balances”, was approximately $225 million for the fiscal year ended September 30, 2004. Our review of approximately $70 million (or 31%) of the $225 million disclosed that the operating transfers were for transactions such as transfers from Public Service Tax accounted for as Special Revenue Funds to other governmental funds for the repayment of debts and salaries/benefits; and transfers from the Transportation and Transit, and Local Option Gas Tax sub-funds accounted for as Special Revenue Funds to the General and other Governmental funds, for capital project/capital improvement program funding. These operating fund transfers as noted above are typical and consistent with the activities of governmental fund types and operations of the City.
PARKS/RECREATION, MIAMI HOMELESS ASSISTANCE PROGRAM, AND FIRE RESCUE DEPARTMENTS

REQUEST FOR REIMBURSEMENTS WERE NOT FILED ON A TIMELY BASIS - FINANCIAL INTEGRITY PRINCIPLE NUMBER 3.

Our review to determine whether reimbursements were filed on a timely manner disclosed the following:

**OFFICE OF THE HOMELESS PROGRAMS.**

- Our test of 14 monthly reimbursement packages relative to 2 different grants, disclosed that one (or 7%) reimbursement package was filed late. The total amount due from the one reimbursement package that was filed late was $20,434.57. The number of days that the reimbursement package was filed late was 6 days.

- A contract for the Super NOFA for the period June 2004 through May 2005, was not fully executed (signed) by HUD and Miami-Dade County in a timely manner. Consequently, the Agreement between Miami-Dade County and the City of Miami was not signed until December 3, 2004. Payments for June through September of 2004 in the amount of $98,123.22 were delayed until February 2005. This delay impacted cash flow.

**PARKS AND RECREATION DEPARTMENT.**

- Our test of 8 monthly/quarterly reimbursement packages relative to 2 different projects disclosed that 3 (or 37%) reimbursement packages were filed late. The total amount due from the reimbursement packages that were filed late was $170,117. The number of days that reimbursement packages were filed late ranged from 9 to 40 days.
• Our audit disclosed that the expenditures for the Summer Food Program and the Child Day Care Food Program were commingled and reported as a single project in the General Ledger. We noted that the single project had a beginning fund balance deficit of $61,639.27 and an excess of Expenditures over Revenues totaling $161,741.94 on September 30, 2004. The total excess of Expenditures over Revenues was caused by (1) $176,868 of expenditures for the Child Day Care Food Program that was charged to this project while the corresponding revenues were accounted for in the General Fund; (2) $41,991 was not accrued at the end of the fiscal year; and (3) $4,522 of expenditures were not fully reimbursed (reimbursements were made at lower of a “per meal/snack” or the actual operating and administrative costs).

• We noted that the Parks department did not submit any of the monthly reports of non-reimbursable expenditures to the Finance department for inclusion in the monthly report to the City Commission, as required. Also, the Finance department was not provided with reimbursable expenditures totaling $41,991 for accrual as receivables for the Summer Food Program.

**FIRE RESCUE DEPARTMENT**

Title 31 Code of Federal Regulation (CFR) Part 205 and Title 44 CFR Part 13, provides that a Grantee must maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of funds and their expenditure. The timing and amount of cash advances should be as close as administratively possible to the actual cash disbursement by the grantee. However, our audit disclosed the following deficiencies:

• Our test of 24 monthly draw downs of reimbursable costs relative to 2 different grants for the period October 1, 2003, through September 30, 2004, disclosed that 11 (46%) monthly reimbursements were not drawn-down in a timely manner. The
number of days late ranged from 8 to 80 days and the value of the draw-downs totaled $539,130 and ranged from $1,537 to $236,207.

- Our audit disclosed that a total of $1,537 of grant related expenditures was incurred in connection with the Weapon of Mass Destruction (WMD) program during the period September 2004 through November 2004. However, we noted that $126,710 was drawn down. Also, we noted that a total of $189,482 was drawn down to cover $6,036 relative to Urban Search and Rescue (USR) expenditures. The total amount drawn down was not fully utilized until two and a half months later.

- We noted that the Finance department was not provided with reimbursable expenditures totaling $47,822 for accrual as receivables for the USR program and $1,537 for accrual as receivable for the WMD program.
FINANCE, PARKS & RECREATION, ECONOMIC DEVELOPMENT, AND COMMUNITY DEVELOPMENT DEPARTMENTS

NON-REPORTING OF UNREIMBURSABLE EXPENSES – FINANCIAL INTEGRITY PRINCIPLE NUMBER 3.

In response to an audit finding relative to the prior audit report, the Finance Department (FD) began sending memorandums in April 2004 to the responsible departments requesting non-reimbursable grant expenditures incurred by said departments for inclusion in the monthly financial reports. The Police, Homeless, and Fire-Rescue departments responded and provided the information requested. However, the Community Development (CD), Parks and Recreation, and Conferences, Conventions and Public Facilities (CCPF) did not respond to any of the requests. Upon audit inquiry, the CD department indicated that the 23rd deadline requested by the Finance department did not allow the department enough time to complete its reconciliation; and CCPF indicated that it did not have any non-reimbursable grant expenditures to report during the audit period. The Finance department agreed to enhance its internal control procedures to require a positive or negative response from all applicable departments. Also, we noted that the Finance department did not request non-reimbursable expenditures from the Economic Development and Public Works departments.
FINANCE, PARKS & RECREATION, FIRE-RESCUE, COMMUNITY DEVELOPMENT, OFFICE OF THE HOMELESS PROGRAMS, POLICE, AND ECONOMIC DEVELOPMENT DEPARTMENTS

DEFICIT FUND BALANCES IN SOME SPECIAL REVENUE AND CAPITAL FUNDS FOR GRANTS

Our audit of Fiscal Year 2004 disclosed end-of-year fund balance deficits in Special Revenue and Capital Funds for the following departments:

<table>
<thead>
<tr>
<th>Department</th>
<th>Fund Balance Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parks</td>
<td>$243,665</td>
</tr>
<tr>
<td>Fire-Rescue</td>
<td>451,588</td>
</tr>
<tr>
<td>Community Development</td>
<td>271,029</td>
</tr>
<tr>
<td>Office of the Homeless</td>
<td>21,025</td>
</tr>
<tr>
<td>Police</td>
<td>2,077</td>
</tr>
<tr>
<td>Economic Development</td>
<td>34,925</td>
</tr>
<tr>
<td>Total</td>
<td>$1,024,309</td>
</tr>
</tbody>
</table>

A grant that is properly administered would typically generate adequate revenues to offset expenditures and minimize use of City resources. The proper administration of federal and/or state grants requires that management establish and maintain internal control policies and procedures that would ensure that grant accounts are properly reconciled, reimbursement requests be filed in a timely manner and minimum performance requirements be achieved. Upon audit inquiry, all the departments indicated that they are working with the Finance department to clear up the deficits.
CITYWIDE SURPLUS OR DEFICIT - FINANCIAL INTEGRITY PRINCIPLE NUMBER 4.

The unreserved general fund balance for fiscal year 2003 totaled $136,905,142 as compared to $133,413,642 for the fiscal year 2004. Unreserved general fund balance decreased by $3,491,500, therefore, no amounts shall be available for rollover.

We noted the following:

- Our test of $430,042 (64.8% of the $671,941 surplus roll over balance) expenditure transactions disclosed that roll over monies were appropriately used for the implementation of the City’s information technology strategic plan, as required.

- Our test of $502,757 (100% of all surplus roll over balance) expenditure transactions disclosed that roll over monies were appropriately used for the capital improvements related to Coconut Grove Convention Center, Marine Stadium Marina, and Dinner Key Marina.

- Our test of $24,585 (62.3% of the $39,653 of surplus roll over balance) expenditure transactions disclosed that roll over monies were appropriately used for the purchase of equipment and the operations of recreational programs in the City’s parks.
RESERVE POLICIES - FINANCIAL INTEGRITY PRINCIPLE NUMBER 5.

The following three reserve policy categories were established for the general operating fund of the City:

CURRENT FISCAL YEAR CONTINGENCY – Our review of the City’s fiscal year 2004 budget for non-departmental accounts disclosed that $5.75 million was budgeted for contingency reserve ($5 million is required). Pursuant to Ordinance number 12543, which was passed and adopted by the Commission on June 10, 2004, $4,545,620 of the $5.75 million was appropriated for pension and municipal operations. Ordinance number 12600, which was passed and adopted by the Commission on October 28, 2004, appropriated an additional $927,341 for additional pension and municipal operations costs. Ordinance number 12662 replenished the contingency reserve with $1,967,567 (reflecting an increase of Inter-governamental revenues and Non-revenues). This resulted in an ending reserve level of $2,244,606.

GENERAL FUND UNDESIGNATED RESERVE – The undesignated reserve balance of $39,342,636 for fiscal year 2004 exceeded the ten percent of the prior three years (fiscal years 2001 through 2003) average of general revenues in the general fund, which totaled $32,178,047.

DESIGNATED RESERVE – The ten percent of the prior three years (fiscal years 2001 through 2003) average of general revenues in the general fund totaled $32,178,047 and the total designated fund balance in the general fund for fiscal year 2004 was $94,071,006.
Chapter 18, Article IX, Section 18-542(6) of the City Code provides that: “The city shall establish proprietary funds only if the costs to provide the service are fully funded from the charges for the service.” In accordance with the National Council of Governmental Accounting Statement (NCGAS) No. 1, which established the various types of Funds, an enterprise (proprietary) fund should be used to account for any services provided to the public that was primarily funded from the fees derived from said services. The only service provided to residents that could be accounted for using a proprietary fund is solid waste services; however, since the fees charged for the services is significantly lower than the cost of providing such services, a proprietary fund was not established.
The City Commission passed Ordinance number 12596, which adopted an annual budget (Financial Plan) for the fiscal year ending September 30, 2005, during its meeting of September 28, 2004. The City Commission had previously passed Ordinance number 12518 during its meeting of March 25, 2004 which noted in the first paragraph (above), that the multi-year financial plan is not required to be finalized and adopted until 30 days after the completion of labor negotiation. As of the date of this report, we were informed that the current multi-year financial plan is in progress and would be finalized and adopted no later than 30 days after the conclusion of the union and management labor agreement.
STRATEGIC PLANNING, BUDGETING AND PERFORMANCE AND CAPITAL IMPROVEMENT PROGRAM DEPARTMENTS

MULTI-YEAR CAPITAL IMPROVEMENT PLAN - FINANCIAL INTEGRITY PRINCIPLE NUMBER 8.

Our audit disclosed that a capital improvement plan (CIP) for the fiscal year 2004/2005 along with a multi-year plan (fiscal years 2005/2006 through 2009/2010) was approved/adopted (Resolution 04-0741) by the City Commission on November 18, 2004. The major sections of the CIP are as follows:

- Section 1 of the CIP Report described the CIP process including, but not limited to, an overview of the plan, the purpose of the plan, the legal authority, the organization of the plan, capital improvement priorities, and sections of the plan. It also included both summary and detail project reports covering Funding by program areas.

- Section 2(c) of the CIP Report disclosed all the strategic program areas and the corresponding City departments responsible for said program areas.

- Section 3 of the CIP Report described all aspects of the $255 Homeland Defense/Neighborhood Improvement Bonds program.

- Section 4 of the CIP Report provided funding sources, which include federal, state, Miami-Dade County and other grants, City bond monies, CIP fees/revenues, and others.

- Section 5 of the CIP Report provided capital improvement projects information grouped by the five districts of the City.
FINANCE DEPARTMENT

DEBT MANAGEMENT – FINANCIAL INTEGRITY PRINCIPLE NUMBER 9.

DEBT MANAGEMENT - Chapter 18, Article IX, Section 18-542(9) of the City Code provides that, the City shall manage its debt in a manner consistent with the following principles:

• (a) Capital projects financed through the issuance of bonded debt shall be financed for a period not to exceed the estimated useful life of the project.

  o The City did not issue any new bonded debt that financed new capital projects during the audit period. The only bonds issued during fiscal year 2004 were advance refunding bonds. On December 2, 2003, the City issued General Obligation Refunding Bonds, Series 2003 (interest rates 2.5-3.5%) to advance refund General Obligation Bonds Series 1992 (interest rate of 5.5%). This provided a net present value economic gain of $519,676.

• (b) The net direct general obligation debt shall not exceed five percent and the net direct and overlapping general obligation debt shall not exceed ten percent of the taxable assessed valuation of property in the City.

  o Based on the information/data provided in the Comprehensive Annual Financial Report for fiscal year 2004, the net taxable property is assessed at $18,871,123,318 and the general obligation debt was $224,978,830. Therefore, the general obligation debt is 1.19% ($224,978,830/$18,871,123,318 x 100) of the taxable assessed valuation of property in the City, which is less than 5%. The total net direct and
overlapping GOB is $487,528,917 ($224,978,830+$262,550,087).  The net direct and overlapping GOB is 2.58% ($487,528,917/$18,871,123,318 x 100) of the taxable assessed valuation of property in the City, which is less than 10%. Therefore, the City is in compliance with both ratios.

- (c) The weighted average general obligation bond maturity shall be maintained at 15 years or less.
  
  o The weighted average GOB maturity is 10.64 years ($2,404,825,509/$225,944,956), which is less than 15 years. The City is in compliance.

- (d) The special obligation debt service shall not exceed 20 percent of non-ad valorem general fund revenue.
  
  o The special obligation debt service is 8.3% ($21,691,771/$260,251,789 x 100), which is less than 20% of non-ad valorem general fund revenue. The City is in compliance.

- (e) Revenue based debt shall only be issued if the revenue so pledged will fully fund the debt service after operational costs plus a margin based on the volatility of the revenues pledged.
  
  o Revenue based debt was not issued during the audit period.
The following reports shall be prepared:

- (a) The annual external audit of the City shall be prepared and presented to the Mayor and City Commission within 120 days of the close of each fiscal year. The City Commission shall convene a workshop meeting with the external auditors to review the findings and recommendations of the audit.

  - The Comprehensive Annual Financial Report for the fiscal year ended September 30, 2004 was published on April 29, 2005 and subsequently the related Management Letter, the audit observations and recommendations pertinent to the Single Audit, pursuant to the requirements of Office of Management and Budget (OMB) Circular A-133, were published. These audit findings and recommendations relative to the single audit together with the Comprehensive Annual Financial Report and Management Letter were presented to the City Commission in the City Commission meeting of June 9, 2005.

- (b) The City shall prepare an annual report to provide information to bondholders and the secondary marketplace.

  - The City also published on April 29, 2005 a Supplemental Report to Bond Holders. This report includes a description of the covenant to budget and appropriate bonds; a description of various special obligation and revenue bonds/loans with specific pledge of revenues; the escrow agreement with the Wachovia Bank, N.A. for all of the City’s debt; a description of the general obligation debt; a summary of the GOB bonds; a summary of
special obligation and revenue bonds with specific pledge of revenues; and a summary of the covenant to budget and appropriate bonds.

- The Comprehensive Annual Financial Report (CAFR) typically includes two major Sections, namely, Financial and Statistical Sections. The Financial Section includes Basic Financial Statements, Notes to the Financial Statements, Required Supplementary Information (unaudited), and Combining and Individual Fund Statements and Schedules. The Statistical Section (unaudited) of the CAFR included various statistical analysis and ratios, such as: Property Tax Levies and Collections, Net Assessed Value and Estimated Actual Value of Taxable Property, Legal Debt Margin Information, Direct and Overlapping Governmental Activities Debt, and Demographic and General Statistical Data.

The information/data included in the Financial and Statistical Sections of the CAFR and the information/data included in the Supplemental Report to Bond Holders provide adequate information to bondholders and secondary marketplace.

- Financial reports, offering statements and other financial related documents issued to the public, shall provide full and complete disclosure of all material financial matters.

- Our review disclosed that all monthly financial reports were issued in a timely manner (i.e. within 30 days after the close of the month), as itemized on the schedule on page 78. However, we noted that the Comprehensive Annual Financial Report (CAFR), Single audit, and Management Letter were issued 69 days late. Please note this was the first year that the audit was performed by the newly engaged external auditors.
FINANCE, STRATEGIC PLANNING, BUDGETING, AND PERFORMANCE, AND PURCHASING DEPARTMENTS

**BASIC FINANCIAL POLICIES - FINANCIAL INTEGRITY PRINCIPLE NUMBER 11.**

Our audit disclosed that the City has implemented policies, which reflect “best practices” in the areas of debt management, cash management and investments, budget development and adjustments, revenue collection, and purchasing policy, as discussed on pages 80 through 83.
PURCHASING AND EMPLOYEE RELATIONS DEPARTMENTS

**EVALUATION COMMITTEES - FINANCIAL INTEGRITY PRINCIPLE NUMBER 12.**

Our test of 19 of the RFP/RFQ/RFLI transactions disclosed that citizens and/or business appointees from outside City employment did not participate in the evaluation process for 3 (or 15%) of the 19 transactions tested and 1 RFQ did not use a committee at all. Additionally, we noted that evaluation committees are not being used for bids. Upon audit inquiry, the Director of the Purchasing department stated that an evaluation committee is not feasible for bids.

Given the constraints imposed by the “Cone of Silence”, the intent of this principle would be met, if recommendations obtained from the evaluation committees and the industry are considered in all material bid, RFP, RFLI and/or RFQ solicitations.

The constraints imposed by Chapter 447 of the Florida Statutes limit the use of citizens and/or business appointees from outside City employment during labor union Agreement negotiations between management and the union.
The core services provided by the City include: public safety (police and fire-rescue services), parks/recreation, solid waste and public works. The financial/budgetary systems, which accumulate all costs of delivering these core services, on an annual basis, have been implemented by the Finance Department and the Strategic Planning, Budgeting and Performance Department (SPBPD).

Although the Chief of SPBPD prepared and presented a partial full cost (consisting of Police, Fire, and Solid Waste) to the City Commission, the total full cost of providing all core services was not presented as part of the annual budget and financial plan.
The Chief Information Officer (CIO) of the Information Technology (IT) department stated that his department has implemented projects conducive to operating efficiencies as approved by the Information Technology Steering Committee. The CIO provided us with a list of projects within 15 Strategic Initiatives (projects) as defined in the City’s IT strategic plan and prioritized by the IT Steering Committee. The projects include, but are not limited to: replacement of Police and Fire emergency dispatch and reporting systems; acquisition and implementation of an integrated Enterprise Resources Planning (ERP) system (finance, budget, purchasing, personnel and payroll); implementation of a web based Burglar Alarm Permit System; implementation of a content management system; migration to a higher bandwidth technology that will provide much faster communications; disaster recovery services and communication infrastructure improvement along with the recurring technology refresh project. The listing provided indicated the status of the 15 Strategic Initiatives.

There are costs and benefits associated with every operation or activity that is outsourced. The various departments outsource functions when the total benefits out-weigh the total costs or when the department does not have the in-house resources required to perform such services. For example, Parks and Recreation department sometimes outsource the grass mowing and janitorial work for certain recreation centers when it is cost effective; the Information Technology department outsourced a portion of the implementation of the new ERP system to bring in necessary expertise; the CIP department outsourced program management of major citywide projects; and the Solid Waste department has outsourced the collection of commercial waste to private firms.
FINANCE DEPARTMENT


MANAGEMENT LETTER - The Rules of the State of Florida’s Office of Auditor General (OAG), Section 10.554(1)(g)1.a, require an external auditor to issue a Management Letter, which states whether or not inaccuracies, shortages, defalcations, fraud and/or violations of laws, rules, regulations, and contractual provisions reported in the Management Letter issued in connection with its preceding annual financial audit report have been corrected. Rachlin Cohen and Holtz LLP had no such issues in the 2004 year audit to report on. Additionally, pursuant to Rules of the State of Florida’s OAG, Section 10.554(1)(g)6.a) and Section 218.503(1), Florida Statutes, Rachlin Cohen and Holtz LLP determined that the City was not in a state of financial emergency.

However, the management letter noted other matters pertaining to internal controls over financial reporting that was reported in a Management Letter to the City dated February 8, 2005. The Rules of the OAG (Section 10.554(1)(g) 3.) require that a Management Letter shall include recommendations to improve the local government entity’s present financial management, accounting procedures and internal accounting controls. Section II of the Management Letter disclosed one reportable condition and 12 other “findings and questioned costs”, and management’s responses for the current year’s audit. The 13 observations are noted on pages 93 through 95.
The recommendations that were made in the prior years’ observations were addressed in the section titled “Prior Year Financial Statement Findings and Status” of the current Management Letter. The recommendations included in this schedule were for audit findings relative to the periods ended September 30, 1997, through September 30, 2003. The schedule disclosed a total of 9 outstanding prior audit findings yet to be resolved in the following fiscal years:

- Two (2) for the fiscal year ended 2003.
- One (1) for the fiscal year ended 2002.
- Two (2) for the fiscal year ended 2001.
- Two (2) for the fiscal year ended 2000.
- One (1) for the fiscal year ended 1999.
- One (1) for the fiscal year ended 1997.

**SINGLE AUDIT REPORT IN ACCORDANCE WITH THE FEDERAL OFFICE OF MANAGEMENT AND BUDGET (OMB) CIRCULAR A-133.**

Rachlin Cohen and Holtz LLP’s engagement contract also included the audit of Federal Awards and the State of Florida Financial Assistance received by the City for the fiscal year ended September 30, 2004. Federal Awards and State of Florida’s Financial Assistance are financial assistance and cost-reimbursement monies that non-Federal/State entities receive directly from Federal/State awarding agencies or indirectly from pass-through entities. Federal OMB Circular A-133 and the Florida Single Audit Act require a single audit when the total Federal Award/State Financial Assistance disbursed to non-Federal/State entity equals or exceeds $500,000. The auditors’ report issued in compliance with Circular A-133 (major Federal Programs for the fiscal year ended September 30, 2004) was unqualified. The two observations relative to single audit are noted on pages 96 through 97.
AUDIT FINDINGS AND RECOMMENDATIONS

STRATEGIC PLANNING, BUDGETING, AND PERFORMANCE DEPARTMENT

STRUCTURALLY BALANCED BUDGET - FINANCIAL INTEGRITY

PRINCIPLE NUMBER 1.

Chapter 18, Article IX, Section 18-542(1) of the City Code, provides that, “The City shall maintain a structurally balanced budget. Recurring revenues will fund recurring expenditures”.

Our audit disclosed that the City Commission adopted a budget for the fiscal year 2004 as required during the audit period. The projected recurring revenue was sufficient to fund recurring expenditures. We noted that Strategic Planning, Budgeting, and Performance Department (SPBPD), projected that approximately $33 million of non-recurring revenues (operating savings rollover and fund balance) would be needed to fund non-recurring expenditures (capital request and pension). However, the year-end audited Comprehensive Annual Financial Report (CAFR), page 17, disclosed a negative Net Change in Fund Balance totaling approximately $5 million in the General Fund, as opposed to the $33 million, projected by SPBPD. The difference could be attributed to better than expected revenue collections, vacant positions, and conservative budgeting.

An annual budget is a financial operations plan, which estimates proposed expenditures and the proposed means of financing them during a fiscal year. The difference between budget projections and actual amounts being projected would determine whether it would be necessary to increase revenues by raising certain fees/taxes and/or reducing certain services. Therefore, it is important that budget estimates be fairly close as possible to the actual amounts being projected. Closer budget projections would enhance the general public’s understanding of the City’s solvency and assist members of the governing body in making appropriate fiscal decisions.
Our prior audit report number 04-018 disclosed that the Gusman and Olympia Special Revenue Fund (Gusman) exceeded budgeted authorizations by $1.7 million. Also, the prior year audit report noted that Gusman’s total expenditures exceeded total revenues, thereby resulting in total deficit fund equity of $336,809 as of September 30, 2003. The fiscal year 2004 Comprehensive Annual Financial Statements (CAFR) again disclosed that the expenditures of Gusman’s exceeded its budgeted authorizations by $559,409. Please note that Gusman’s total revenues exceeded total expenditures and resulted in total positive fund equity of $71,061 as of September 30, 2004. In response to our audit inquiry, the Chief of SPBPD stated that the Gusman’s budget appropriation was presented and approved by the City Commission as part of the Department of OffStreet Parking (DOSP) budget. He noted that SPBPD will work with DOSP to ensure timely budget amendments in the future.

Recommendation.

We recommend that the SPBPD consult with the Finance Committee and/or outside rating agencies and determine the reasonable or acceptable level of variance between annual budget estimates and the actual amounts being projected within municipal entities. Also, we recommend that Gusman enhance its budget forecasting procedures to ensure that budget amendments are prepared and presented to the City Commission for approval.
Auditee’s Response and Action Plan.

In a written response, the Chief of SPBP stated: “We have reviewed the observation and recommendation made by the Auditor General. The Office of Strategic Planning Budgeting and Performance (OSPBP) performed an analysis of the year end variances (based on year end figures provided by Finance) and discovered that much of the positive variance is attributable to savings generated by the large number of vacancies, unexecuted outsource service contracts, and better than expected collections on charges for service and intergovernmental revenues. Overall the OSPBP considers this variance to be reasonable given that it represents a 6.3% positive variance over the amended fiscal year 2004 budget appropriation of $445 million. OSPBP utilizes the best information available to prepare that initial budget forecast, in addition our budget assumptions are reviewed by an outside estimating committee to ensure appropriateness and transparency in the City's budget development process. We will continue to fine tune our estimating process to ensure that the most accurate forecast are developed.”

Also, the Chief of SPBP stated that the Gusman and Olympia budget appropriation was presented and approved by the City Commission as part of the Department of OffStreet Parking (DOSP) budget. He noted that SPBPD will work with DOSP to ensure timely budget amendment in the future.
Chapter 18, Article IX, Section 18-542(2) of the City Code provides that, “The city shall adopt budgets and develop its long and short term financial and capital improvement plans containing estimates developed utilizing a professional estimating conference process. Conference principals shall include, but not be limited to: one principal from the budget office, one principal from the finance department and two non-staff principals with public finance expertise.”

Our audit disclosed that an Estimating Conference Committee (Committee) met on September 15, 2004, and examined the underlying assumptions supporting the City’s proposed budget for the fiscal year 2005. The Committee commended the staff and the Chief of Strategic Planning Budgeting and Performance for “sound budget assumptions” and although the long-term financial and capital improvement plans were not specifically addressed, most of the Committee’s comments and recommendations were of a longer term consideration. In a memorandum to the Mayor, the Commission, and the City Manager, dated September 27, 2004, the Committee expressed certain concerns and/or recommendations, as noted below:

1. The Committee expressed concerns about the amount of reserves that would be needed to balance the budget. The Committee noted that at the rate at which reserves are being utilized, the City could deplete its reserves in a few years and potentially violate the Financial Integrity Ordinance Section 5b (General Fund Undesignated Reserve) and 5c (General Fund Designated Reserve). The Committee strongly recommended that revenue enhancing and cost saving initiatives be pursued immediately.

In response to this concern, the Budget Coordinator stated that the City, as part of its strategic plan, has made cost reductions and boosting of revenues a top priority. In
addition, the City has embarked on an ERP implementation that once completed would help the City realize cost savings via operating efficiencies.

2. The Committee expressed concerns relative to pension costs. The pension obligation has increased from the previous fiscal year and is a significant portion of the 2005 budget. The City needs to focus significant attention in this area, including but not limited to, how it will continue to fund this liability and the overall pension plan structures. It is also recommended that for the purpose of the budget presentation that the entire pension contribution be considered recurring (i.e., no distinction should be made between the normal cost portion and the increase associated with market fluctuations). Consequently, the recommended approach could violate the structurally balanced budget provision of the Financial Integrity Ordinance. In response to this concern, the Budget Coordinator stated that Pension cost in fiscal year 2004 was treated as non-recurring transaction associated with market fluctuations. She noted that no change to this philosophy has been communicated. Regarding a policy to deal with pension long term, the City is considering introducing some changes to the pension offerings in the next few labor negotiations, however, that will be a very long process and will require union agreement and possibly a revision of the Gates settlement.

3. The Committee expressed concern relative to recurring expenses growing at a rate faster than recurring revenues. The Committee strongly recommended that the City immediately pursue initiatives that would stabilize expense growth particularly given the concern that the significant increases currently being experienced in ad valorem taxes will not be sustainable at this rate long term. It should be noted that this concern was expressed by the estimating conference in the prior year. In response to this concern, the Budget Coordinator stated that her department has initiated analysis and changes to fee structures that have not changed in many years (particularly those related to construction in the City). The City is also currently in the process of implementing an ERP system which will help the City realize cost savings through operating efficiencies. The first phase of the implementation is
expected to be completed by October 2005. With Phase 2 going live in January of 2006 and Phase 3, final e-solutions and the budget portion going live in March 2006.

4. The committee recognized that additional positions would be needed to fulfill some of the City’s strategic priorities particularly the ERP project and parks initiative; however, recommended that temporary staffing solutions and re-programming of existing vacancies be used whenever possible. The Committee recommended that a study be performed to determine whether existing personnel can be trained to fulfill the City’s strategic priorities.

In response to this observation, the Budget Coordinator noted that these strategies were communicated to departments to review as part of their business process reviews that were conducted for the ERP project. Additionally, with the advent of the new ERP solution many of these staffing re-organizations will take place.

5. The City needs to focus more attention on boosting revenues, and reducing expenses generated from the City’s relationship with the County, particularly the bed tax income, property appraiser’s administrative fees, local government payment in lieu of taxes, and tax and fee exemptions provided to public and subsidized housing. Other non-taxed entities that utilize City services must bear their fair burden and a proactive effort must be initiated by the City to accomplish this objective.

The Budget Coordinator stated that the recommendation has been noted and analysis is being conducted on these types of revenues.

6. The Committee recommended that the City develop the appropriate models necessary to forecast the additional personnel and infrastructure needs associated with the population growth and increased residential density. The resulting data should be utilized to develop a five year forecast.

The Budget Coordinator stated that the recommendation has been noted and this analysis will be included in the five year plan upon completion of the labor negotiations.
We noted that long term financial and capital improvement plans were never addressed specifically by the Conference Principals but most of the committee’s comments and recommendations were of a longer term consideration.

**Recommendation.**

We concur with the recommendations made by the Estimating Conference Committee as discussed above. The SPBP department should continue to work towards the implementation of the recommendations. Also, we recommend that long term financial and capital improvement plans be addressed by the Conference Principals in all future meetings.

**Auditee’s Response and Action Plan.**

The Chief of SPBPD concurred with the recommendation. He noted that the Estimating Conference’s review of the current year’s long term financial plan was mitigated by the City Commission’s approved delay of the preparation of the long term financial plan, until labor negotiations are completed.
Chapter 18, Article IX, Section 18-542(3) of the City Code, provides that, “The city shall not borrow or use internal fund transfers to obtain cash from one fund type or reserve to fund activities of another fund type or reserve unless such use is deemed lawful, and unless the estimating conference has determined that (a) the funds to be loaned will not be needed during the lending period, and (b) the funds for repayment will be available within a two-year period. Any actions taken to borrow funds under these conditions must be separately presented to and approved by the city commission and the term of such borrowing shall not extend beyond the last day of the subsequent fiscal year.”

The total transfers from/to other funds as reported on the “Statement of Revenues, Expenditures and Changes in Fund Balances”, was approximately $225 million for the fiscal year ended September 30, 2004. Our review of approximately $70 million (or 31%) of the $225 million disclosed that the operating transfers were for transactions such as transfers from Public Service Tax accounted for as Special Revenue Funds to other governmental funds for the repayment of debts and salaries/benefits; and transfers from the Transportation and Transit, and Local Option Gas Tax sub-funds accounted for as Special Revenue Funds to the General and other Governmental funds, for capital project/capital improvement program funding. These operating fund transfers as noted above are typical and consistent with the activities of governmental fund types and operations of the City.
Recommendation.

None.

Auditee’s Response and Action Plan.

None.
REQUEST FOR REIMBURSEMENTS WERE NOT FILED ON A TIMELY BASIS - FINANCIAL INTEGRITY PRINCIPLE NUMBER 3.

Chapter 18, Article IX, Section 18-542(3) of the City Code, provides that, “Recognizing that some programs are funded by grants or other entities on a reimbursement basis, the city shall apply for such reimbursements on a timely basis to minimize the period that City funds are used as float. In the event loans/float for these reimbursements extend beyond the end of a fiscal year, such reimbursements shall be reflected as receivables in the annual financial statements to the extent allowed under generally accepted accounting principles. The department of finance shall make a quarterly determination of the amount of expenses incurred which may not be reimbursable under these programs. A quarterly report of expenses incurred but not reimbursable shall be presented to the city commission, together with the actions needed to avoid project deficits.” Our review to determine whether reimbursements were filed on a timely manner disclosed the following:

OFFICE OF THE HOMELESS PROGRAMS.

- Our test of 14 monthly reimbursement packages relative to 2 different grants, disclosed that one (or 7%) reimbursement package was filed late. The total amount due from the one reimbursement package that was filed late was $20,434.57. The number of days that the reimbursement package was filed late was 6 days.

- A contract for the Super NOFA for the period June 2004 through May 2005, was not fully executed (signed) by HUD and Miami-Dade County in a timely manner. Consequently, the Agreement between Miami-Dade County and the City of Miami was not signed until December 3, 2004. Payments for June through
September of 2004 in the amount of $98,123.22 were delayed until February 2005. This delay impacted cash flow.

**PARKS AND RECREATION DEPARTMENT.**

- Our test of 8 monthly/quarterly reimbursement packages relative to 2 different projects, disclosed that 3 (or 37%) reimbursement packages were filed late. The total amount due from the reimbursement packages that were filed late was $170,117. The number of days that reimbursement packages were filed late ranged from 9 to 40 days.

- Our audit disclosed that the expenditures for the Summer Food Program and the Child Day Care Food Program were commingled and reported as a single project in the General Ledger. We noted that the single project had a beginning fund balance deficit of $61,639.27 and an excess of Expenditures over Revenues totaling $161,741.94 on September 30, 2004. The total excess of Expenditures over Revenues was caused by (1) $176,868 of expenditures for the Child Day Care Food Program that was charged to this project while the corresponding revenues were accounted for in the General Fund; (2) $41,991 was not accrued at the end of the fiscal year; and (3) $4,522 of expenditures were not fully reimbursed (reimbursements were made at lower of a “per meal/snack” or the actual operating and administrative costs).

- We noted that the Parks department did not submit any of the monthly reports of non-reimbursable expenditures to the Finance department for inclusion in the monthly report to the City Commission, as required. Also, the Finance department was not provided with reimbursable expenditures totaling $41,991 for accrual as receivables for the Summer Food Program.
Title 31 Code of Federal Regulation (CFR) Part 205 and Title 44 CFR Part 13, provides that a Grantee must maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of funds and their expenditure. The timing and amount of cash advances should be as close as administratively possible to the actual cash disbursement by the grantee. However, our audit disclosed the following deficiencies:

- Our test of 24 monthly draw downs of reimbursable costs relative to 2 different grants for the period October 1, 2003, through September 30, 2004, disclosed that 11 (or 46%) monthly reimbursements were not drawn-down in a timely manner. The number of days late ranged from 8 to 80 days and the value of the draw-downs totaled $539,130 and ranged from $1,537 to $236,207.

- Our audit disclosed that a total of $1,537 of grant related expenditures was incurred in connection with the Weapon of Mass Destruction (WMD) program during the period September 2004 through November 2004. However we noted that $126,710 was drawn down. Also, we noted that a total of $189,482 was drawn down to cover $6,036 relative to Urban Search and Rescue (USR) expenditures. The total amount drawn down was not fully utilized until two and a half months later.

- We noted that the Finance department was not provided with reimbursable expenditures totaling $47,822 for accrual as receivables for the USR program and $1,537 for accrual as receivable for the WMD program.

Recommendation.

We recommend that adequate internal control policies and procedures be established and implemented to ensure that reimbursement requests are filed on a timely manner. Also, the timing and amount of cash advances should be as close as administratively possible to the actual cash disbursement.
Auditee’s Response and Action Plan.

Auditees concurred with the findings and recommendations. See auditee’s responses on pages 46 through 61.
FINANCE, PARKS & RECREATION, ECONOMIC DEVELOPMENT AND
COMMUNITY DEVELOPMENT DEPARTMENTS

NON-REPORTING OF UNREIMBURSABLE EXPENSES – FINANCIAL
INTEGRITY PRINCIPLE NUMBER.

The Financial Integrity Principle number 3 requires the Finance department to make a quarterly determination of the amount of expenses incurred that may not be reimbursable for all applicable programs. Upon determination, the department should prepare a quarterly report of expenses incurred but not reimbursable and present to the City Commission, together with the actions needed to avoid project deficits.

In response to an audit finding relative to the prior audit report, the Finance Department (FD) began sending memorandum in April 2004 to the responsible departments requesting non-reimbursable grant expenditures incurred by said departments for inclusion in the monthly financial reports. The Police, Homeless, and Fire-Rescue departments responded and provided the information requested. However, the Community Development (CD), Parks and Recreation, and Conferences, Conventions and Public Facilities (CCPF) did not respond to any of the requests. Upon audit inquiry, the CD department indicated that the 23rd deadline requested by the Finance department did not allow the department enough time to complete its reconciliation; and CCPF indicated that it did not have any non-reimbursable grant expenditures to report during the audit period. The Finance department agreed to enhance its internal control procedures to require a positive or negative response from all applicable departments. Also, we noted that the Finance department did not request non-reimbursable expenditures from the Economic Development and Public Works departments.
Recommendation.

We recommend that requests for non-reimbursable expenditures be sent to all applicable departments and internal control procedures be enhanced to require a positive or negative response from all applicable departments.

Auditee’s Response and Action Plan.

The Finance department agreed to enhance its internal control procedures to require a positive or negative response from all applicable departments.
FINANCE, PARKS & RECREATION, FIRE-RESCUE, COMMUNITY DEVELOPMENT, OFFICE OF THE HOMELESS PROGRAMS, POLICE AND ECONOMIC DEVELOPMENT DEPARTMENTS

DEFICIT FUND BALANCES IN SOME SPECIAL REVENUE AND CAPITAL FUNDS FOR GRANTS

Our audit disclosed that some federal/state programs are funded by grants on a reimbursement basis. By applying for such reimbursement on a timely basis, the period that the City’s financial resources are used as float would be minimized. We noted that the City disbursed approximately $56 million of various federal and state monies during the audit period.

Our review of pertinent financial records for special revenue and capital funds disclosed that fund balance deficits on the general ledger for the period ended September 30, 2004 totaled $1,024,309.

Our audit of Fiscal Year 2004 disclosed end-of-year fund balance deficits in Special Revenue and Capital Funds for the following departments:

<table>
<thead>
<tr>
<th>Department</th>
<th>Fund Balance Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parks</td>
<td>$243,665</td>
</tr>
<tr>
<td>Fire-Rescue</td>
<td>451,588</td>
</tr>
<tr>
<td>Community Development</td>
<td>271,029</td>
</tr>
<tr>
<td>Office of the Homeless</td>
<td>21,025</td>
</tr>
<tr>
<td>Police</td>
<td>2,077</td>
</tr>
<tr>
<td>Economic Development</td>
<td>34,925</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,024,309</strong></td>
</tr>
</tbody>
</table>

A grant that is properly administered would typically generate adequate revenues to offset expenditures and minimize use of City resources. The proper administration of federal and/or state grants requires that management establish and maintain internal
control policies and procedures that would ensure that grant accounts are properly reconciled, reimbursement requests be filed in a timely manner and minimum performance requirements be achieved.

It appears that the above fund balance deficits could be the result of one or a combination of the following:

- Grant related expenditures might have been funded with City’s resources and reimbursement requests were not filed.
- Grant related expenditures might have been funded with City’s resources and reimbursement requests, which were filed, were still in transit.
- Grant related expenditures might have been funded with City’s resources and reimbursement requests were filed; however, reimbursement was denied by the funding agency due to the City’s failure to meet the required guidelines for reimbursement, as in the case of performance-based contracts or for unreimbursable costs.
- Grant related expenditures might have been funded with City’s resources and reimbursement requests were filed and disbursed to the City. However, the wrong Special revenue account may have been credited.

Recommendation.

We recommend that adequate internal control policies and procedures be established and implemented to ensure that adequate revenues are generated to offset expenditures and also to minimize the use of City resources to fund federal and/or state programs.
Auditee’s Response and Action Plan.

Upon audit inquiry, all the departments indicated that they are working with the Finance department to clear up the deficits. See auditee’s responses on pages 46 through 61.
The findings reported by your office to the Department of Fire-Rescue regarding the Financial Integrity Principles Audit / Grants - Audit 05-020 for procedure and detail issues are correct. We appreciate and agree with your findings but wish to offer some background information related to your findings in order to provide you with a satisfactory response.

**Procedural Issues**

A. The USAR grants were transferred from the over taxed budget section of the Department of Fire-Rescue to the Disaster Management & Public Affairs (DMPA) Division to provide additional administrative oversight. However, the newly identified DMPA staff did not receive a thorough orientation and adequate training in order to effectively manage the complex grants. Already delayed administrative work was further impacted by learning curve required of the new DMPA staff.

B. Due to the aforementioned lack of familiarity when the new DMPA staff inherited responsibility for this grant the responsible party was not immediately aware that a draw down in advance was not allowed. This division also handles the UASI grants which initially allowed a 25% cash advance. Based on this practice, the division staff, in good faith applied the same principle to the USAR grants.

C. This error was also precipitated by a lack of understanding with this specific program guidance and the lack of time provided the employee to prepare to absorb these additional responsibilities. This will be addressed through enhanced familiarization and oversight within this Department.

D. Error precipitated as in A. and C. above. A corrective plan of action will be detailed below. A memorandum was generated by the employee during the audit process to immediately report this issue through a journal entry.

**Deficit Findings**

E. Codes established for emergency procurement (such as for hurricanes) are established in anticipation of a disaster declaration by the Federal Government in order to facilitate and effectively track emergency purchases. Regarding project # 800001 and # 800002 these emergency activations were later deemed ineligible for reimbursement; these project codes ran in deficit and were then declared non reimbursable.
May 18, 2005
Financial Integrity Principles
Grants Deficits – Audit 05-020
Page Two

The Department has cleared up this unavoidable circumstance with the Finance Director and the expenditures have been directed to the General Fund. Project # 800000 was created as mentioned above, to facilitate emergency spending in October 2000. The event received federal declaration and was later issued a new project code # 313855. The project issue was corrected by transferring its activity to the newly formed, appropriate project code.

Corrective Plan of Action
In answer to your findings we offer the following plan of action to correct and prevent any future occurrences:

The Staff Auditor principal will be directed to review each grant guideline in detail and prepare a synopsis document that summarizes the guidance for each respective program and present these findings to his immediate supervisor, the Assistant Chief of Disaster Management.

The Staff auditor principal will establish monthly recurring meetings with finance, budget and grants staff and others deemed appropriate to discuss any issues regarding USAR, USAI and Disaster Recovery Grant Management.

These steps will serve to address some of the aforementioned findings/situations such as cash advance activity and/or deficit amounts in process of reimbursement.

The Staff Auditor principal will brief his Assistant Chief on a monthly basis regarding grant activity. A bi-monthly meeting will be held by the Staff Auditor Principal and the Assistant Chief of Disaster Management to brief the Deputy Chief of Administration regarding all grant activities under the Staff Auditor Principal’s responsibility.

The Staff Auditor Principal, Assistant and Deputy Chief, will periodically review and recommend controls to assure that adherence to procedures is maintained at the highest level.

I am confident that these steps will adequately address the concerns communicated by your findings.

Should you have any questions or require further information, please feel free to contact me @ 305.416.5401.

WWB/MLK/JRF/I
Chapter 18, Article IX, Section 18-542 (3) of the City Code, provides that “Recognizing that some programs are funded by grants or other entities on a reimbursement basis, the City shall pay for such reimbursements on a timely basis to minimize the period that City funds are used as float. In the event loans/float for these reimbursements extend beyond the end of a fiscal year, such reimbursements shall be reflected as receivables in the annual financial statements to the extent allowed under generally accepted accounting principles. The department of Finance shall make a quarterly determination of the amount of expenses incurred but not reimbursable under these programs. A quarterly report of expenses incurred but not reimbursable shall be presented to the City commission, together with the actions needed to avoid project deficits.”

1. In accordance with the grant contract, Treasury regulations at 31 CFR 205, and FEMA regulations at 44 CFR 13, the Grantee must maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their expenditure. The timing and amount of cash advances should be as close as administratively possible to the actual cash disbursement by the Grantee.

   Our test of 12 monthly draw down periods of reimbursable costs related to 2 different “draw down” grants for the period of October 1, 2003 through September 30, 2004 disclosed that for 11 periods reimbursements were not drawn-down in a timely manner. The number of days late ranged from 8 to 80 days and the value of the periods expenses ranged from $7,475 to $239,207. The total amount due from the 11 drawdowns which were not filed in a timely manner was $404,196.

   Your understanding is Correct [X] Incorrect [ ]

   Response:

   **See Response Memo, Letter “A”**

2. Per the timeliness requirement as noted in the first point, our review disclosed that for three periods in one grant (WMD 110115) a total of $1,537 was incurred in costs but a draw in the amount of $125,710 was made.

   Your understanding is Correct [X] Incorrect [ ]

   Response:

   **See Response Memo, Letter “B”**

3. Also per the timeliness requirement as noted in the first point, our review disclosed that in one project (US&R 110120) an undocumented and unknown draw down of $189,482 was made which covered $6,036
in previously incurred expenses and covered over 2 ½ months of expenses into the future. The value of the
2 monthly advances ranged from $10,511 to $88,565 and the number of days in advance was 25 and 56.

Your understanding is correct [X] incorrect [ ]

Response:

See Response Memo, Letter “C”

4. Based on information obtained during the audit, our review disclosed that $47,622 should have been
accrued in receivables for the US&R Grant (110120) for the end of the year and $1,537 should have been
accrued in receivables for the WMD Grant (110115).

Your understanding is correct [X] incorrect [ ]

Response:

See Response Memo, Letter “D”
Relating to the Financial Integrity Principles audit, Chapter 16, Article IX, Section 11-542 (3) of the City Code, provides that "recognizing that some programs are funded by grants or other entities on a reimbursement basis, the City shall apply for such reimbursements on a timely basis to minimize the period that City funds are used as float. In the event loans/float for these reimbursements extend beyond the end of a fiscal year, such reimbursements shall be reflected as receivables in the annual financial statements to the extent allowed under generally accepted accounting principles. The department of finance shall make a quarterly determination of the amount of expenses incurred but not reimbursable under these programs. A quarterly report of expenses incurred but not reimbursable shall be presented to the city commission, together with the actions needed to avoid project deficits."

1. Our audit of Fiscal Year 2004 disclosed end of year fund balance deficits in the following programs which are accounted for in Special Revenue Funds:

<table>
<thead>
<tr>
<th>PROJECT</th>
<th>GRANTOR/PROGRAM TITLE</th>
<th>Fund Balance</th>
<th>Deficit ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>110115</td>
<td>US&amp;R Weapons of Mass Destruction</td>
<td>1,537.25</td>
<td></td>
</tr>
<tr>
<td>000000</td>
<td>FEMA October 2000 Floods</td>
<td>275,075.76</td>
<td></td>
</tr>
<tr>
<td>00001</td>
<td>FEMA Hurricane Frances 2004</td>
<td>32,438.94</td>
<td></td>
</tr>
<tr>
<td>00002</td>
<td>FEMA Hurricane Ivan 2004</td>
<td>990,076.04</td>
<td></td>
</tr>
<tr>
<td>110120</td>
<td>Urban Search and Rescue '03-'06</td>
<td>47,862.17</td>
<td></td>
</tr>
</tbody>
</table>

Your understanding is correct ☑ incorrect ☐

Response:

See Response Memo, Letter "E"
Chapter 16, Article IX, Section 18-542 (3) of the City Code, provides that "Recognizing that some programs are funded by grants or other entities on a reimbursement basis, the City shall apply for such reimbursements on a timely basis to minimize the period that City funds are used as float. In the event loans/float for these reimbursements extend beyond the end of a fiscal year, such reimbursements shall be reflected as receivables in the annual financial statements to the extent allowed under generally accepted accounting principles. The department of Finance shall make a quarterly determination of the amount of expenses incurred but not reimbursable under these programs. A quarterly report of expenses incurred but not reimbursable shall be presented to the City commission, together with the actions needed to avoid project deficits."

1. Based on information obtained during the audit, it is our understanding that the September 2004 reimbursement package for the Super NOFA grant in the amount of $26,434.57 was filed 6 days late.

Your understanding is: Correct ☑ Incorrect ☐

2. Based on information obtained during the audit, it is our understanding that two reimbursement packages for the Super NOFA grant (for June and September 2004) were returned in January for missing support documentation and were subsequently re-filed on January 14, 2005.

Your understanding is: Correct ☑ Incorrect ☐

3. Based on information obtained during the audit, it is our understanding that since a contract for the Super NOFA grant had not been signed between HUD and Miami-Dade County, and subsequently between Miami-Dade County and the City of Miami until January 2003, payments for June, July, August and September of 2004 were delayed until February 2005.

Your understanding is: Correct ☑ Incorrect ☐
Please confirm in writing the accuracy of my understanding of the above three points. If you have any questions or comments please feel free to contact me at any time at 305.416.2173 or via email.

Thank you for your cooperation in this matter.
Chapter 18, Article IX, Section 18-542 (3) of the City Code, provides that "Recognizing that some programs are funded by grants or other entities on a reimbursement basis, the City shall apply for such reimbursements on a timely basis to minimize the period that City funds are used as float. In the event loans/float for these reimbursements extend beyond the end of a fiscal year, such reimbursements shall be reflected as receivables in the annual financial statements to the extent allowed under generally accepted accounting principles. The department of Finance shall make a quarterly determination of the amount of expenses incurred but not reimbursable under these programs. A quarterly report of expenses incurred but not reimbursable shall be presented to the City commission, together with the actions needed to avoid project deficits."

1. Based on information obtained during the audit, our review of the 8 selected monthly reimbursement packages related to 2 different grants for the period of October 1, 2003 through September 30, 2004 disclosed that 1 reimbursement package (14%) was not filed in a timely manner. This package was worth $139,143 and was 11 days late.

Your understanding is: Correct ☐ Incorrect ☐

2. Based on information obtained during the audit, our review disclosed that the Summer Food Program, which has expenses from two programs being tracked through one project, had an excess of expenditures over revenues in the amount of $161,741.94 for FY2004; in addition, research indicated that Child Day Care Food Program revenues (the second program) were recorded in the General Fund.

Your understanding is: Correct ☐ Incorrect ☐
3. Based on information obtained during the audit, it is our understanding that although one pass through grant can file claims as often as desired and has 12 months to get claims processed. In two of the 5 months examined, delays of 39 days and 70 days were experienced in the submission of the reimbursement requests. These delays impact cash flow.

Your understanding is: Correct [☑] Incorrect [☐]

[Signature]

4. Based on information obtained during the audit, it is our understanding that the department has not been submitting the non-reimbursable expenses report to Finance on a monthly basis. As a result, Finance did not accrue $41,991 in receivables for the August filing for the Summer Food Program (P104014).

Your understanding is: Correct [☐] Incorrect [☑]

[Signature]

Please confirm in writing the accuracy of my understanding of the above points. If you have any questions or comments, please feel free to contact me at any time at 305.416.2173 or via email at djonsson@ci.miami.fl.us.

Thank you for your cooperation in this matter.
TO: Dennis D. Johnson  
Staff Auditor  
Office of Auditor General

FROM: John F. Timoney  
Chief of Police

DATE: MAY 11 2005

SUBJECT: Memorandum of Understanding

REFERENCES: Financial Integrity Principles Audit  
Grant Deficits – Audit 03-520

ENCLOSURES:

Pursuant to your request, the Police Department has verified your audit findings, in which you disclosed fund balance deficits in the Domestic Preparedness Equipment Support Program, South Florida Cali Cartel Enforcement Group and Gang Reduction Activities & Sports grants, as of September 30, 2004.

Attached, please find an analysis of these deficits along with corrective measures we have taken to clear said deficits.

Should you require additional information, please contact Major Hector Mirabile, Commander, Business Management Section, at (305) 579-6575.

JFT/ALB/HM/mds

Attachments
CITY OF MIAMI, FLORIDA
INTER-OFFICE MEMORANDUM

TO: All Affected Departments

DATE: May 20, 2005

FROM: Dennis D. Johnson, Staff Auditor
Office of the Auditor General

SUBJECT: Memorandum of Understanding

REFERENCE: Financial Integrity Principles Audit
Grants Deficits - Audit 05-020

ENCLOSURES:

Our review of pertinent financial records for special revenue funds disclosed that fund balance deficits on the general ledger for the period ended September 30, 2004 totaled over $847,000.

Our audit of Fiscal Year 2004 disclosed end of year fund balance deficits in Special Revenue Funds for the following departments:

<table>
<thead>
<tr>
<th>Department</th>
<th>Fund Balance Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parks</td>
<td>$243,307</td>
</tr>
<tr>
<td>Fire-Rescue</td>
<td>$275,076</td>
</tr>
<tr>
<td>Community Development</td>
<td>$271,029</td>
</tr>
<tr>
<td>Office of the Homeless</td>
<td>$21,025</td>
</tr>
<tr>
<td>Police</td>
<td>$2,077</td>
</tr>
<tr>
<td>Economic Development</td>
<td>$34,925</td>
</tr>
<tr>
<td>Total</td>
<td>$847,438</td>
</tr>
</tbody>
</table>

A grant that is properly administered would typically generate adequate revenues to offset expenditures and minimize use of City resources. The proper administration of federal and/or state grants requires that management establish and maintain internal control policies and procedures that would ensure that grants accounts are properly reconciled, reimbursement requests be filed in a timely manner, and minimum performance requirements are achieved.

It appears that the above fund balance deficits could be the result of one or a combination of the following:

- Grant related expenditures might have been funded with City’s resources and reimbursement requests were not filed.
- Grant related expenditures might have been funded with City’s resources and reimbursement requests, which were filed, were still in transit.
- Grant related expenditures might have been funded with City’s resources and reimbursement requests were filed; however, reimbursement was denied by the funding
agency due to the City's failure to meet the required guidelines for reimbursement, as in the case of performance-based contracts.

- Grant related expenditures might have been funded with City's resources and reimbursement requests were filed and disbursed to the City. However, the wrong Special revenue account may have been credited.

Upon audit inquiry, all the departments indicated that they are working with the Finance department to clear up the deficits.

Please confirm in writing the accuracy of my understanding of the above point.

Your understanding is: Correct ☑ Incorrect ☐

If my understanding is incorrect, please provide written response and attach supporting documentations.

Barbara Gomez-Rodriguez

Thank you for your cooperation in this matter.
Relating to the Financial Integrity Principles audit, Chapter 18, Article IX, Section 18-542 (3) of the City Code, provides that "Recognizing that some programs are funded by grants or other entities on a reimbursement basis, the City shall apply for such reimbursements on a timely basis to minimize the period that City funds are used as float. In the event loans/float for these reimbursements extend beyond the end of a fiscal year, such reimbursements shall be reflected as receivables in the annual financial statements to the extent allowed under generally accepted accounting principles. The department of Finance shall make a quarterly determination of the amount of expenses incurred but not reimbursable under these programs. A quarterly report of expenses incurred but not reimbursable shall be presented to the City commission, together with the actions needed to avoid project deficits."

1. Our audit of Fiscal Year 2004 disclosed an end of year fund balance deficit in the following program which is accounted for in a Special Revenue Fund:

<table>
<thead>
<tr>
<th>PROJECT #</th>
<th>GRANTOR/PROGRAM TITLE</th>
<th>Fund Balance Deficit ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>344101</td>
<td>Watson Island Aviation &amp; Visitors Center</td>
<td>$34,925.05</td>
</tr>
</tbody>
</table>

Your understanding is: Correct ☐ Incorrect ☐

We are working with Finance to resolve any discrepancy.

Please confirm in writing the accuracy of my understanding of the above point. If you have any questions or comments, please feel free to contact me at any time at 305.416.2173 or via email at dejohnson@miami.fls.us.

Thank you for your cooperation in this matter.
Relating to the Financial Integrity Principles audit, Chapter 18, Article IX, Section 18-542 (3) of the City Code, provides that "Recognizing that some programs are funded by grants or other sources on a reimbursement basis, the City shall apply for such reimbursements on a timely basis to minimize the period that City funds are used as float. In the event loans/float for these reimbursements extend beyond the end of a fiscal year, such reimbursements shall be reflected as receivables in the annual financial statements to the extent allowed under generally accepted accounting principles. The Department of Finance shall make a quarterly determination of the amount of expenses incurred but not reimbursable under these programs. A quarterly report of expenses incurred but not reimbursable shall be presented to the City Commission, together with the actions needed to avoid project deficits."

1. Our audit of Fiscal Year 2004 disclosed end of year fund balance deficits in the following programs which are accounted for in Special Revenue Funds:

<table>
<thead>
<tr>
<th>PROJECT #</th>
<th>GRANTOR/PROGRAM TITLE</th>
<th>Fund Balance Deficit ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>114014</td>
<td>Summer Food Service Program</td>
<td>$223,381.21</td>
</tr>
<tr>
<td>110116</td>
<td>Urban and Community Forestry Grant</td>
<td>$1,639.09</td>
</tr>
<tr>
<td>110106</td>
<td>Virginia Key Nature Trail Dev.</td>
<td>$11,164.00</td>
</tr>
<tr>
<td>116003</td>
<td>Safe Neighborhood Program</td>
<td>$7,480.32</td>
</tr>
</tbody>
</table>

Your understanding is: Correct ☒ Incorrect ☐

Please confirm in writing the accuracy of my understanding of the above point. If you have any questions or comments, please feel free to contact me at any time at 305.416.2173 or via email at deckmason@ci.miami.fl.us.

Thank you for your cooperation in this matter.
From: Ott, Elizabeth
Send: Friday, April 15, 2005 4:12 PM
To: Johnson, Dennis
Cc: Burkeen, Ernest; Matas, Jose; Kitchen, Gwendolyn
Subject: RE: FY2004 Deficit Funds
Importance: High

Hi, Dennis. I hope all is well. Jose, Gwen, and I spoke with Mr. Burkeen about the 2004 Summer Food Service Program as it relates to Project Number 114014. As you are aware, part of the fund balance deficit (5229.381.21) related the fact that the Day Care expenditures were being charged to this project and the revenues received were being deposited into the general fund. We have taken steps to provide the Day Care Food Program with its own project (114015). We will request the Finance Department to move the cost center for the day care food program out of Project 114014 and into 114015. Also, I believe your office and the Finance Department were checking to see if the day care food program revenues could be transferred to cover the expenditures so that the project does not appear to be in deficit.

With respect to the Summer Food Service Program, we focused on cost center 580249, which was the cost center for the program in 2004. We reviewed the state-approved budget, the expenses of the program, the reimbursements requested, and the reimbursements received. The program provides reimbursements based upon operational costs and administrative costs, each of which have corresponding reimbursement rates based upon the number of approved meals/snacks served. At no time can the reimbursements exceed the approved budget for operational and administrative expenses. While it appears we received at least most of the operational costs, it appears as though we may have incurred more administrative costs than that which was recovered.

Jose has obtained the guidelines on reimbursement, and we are reviewing the options to prevent this situation from re-occurring. I think we should have a meeting to further discuss this issue. Please let me know.

As it relates to the other below-identified projects

- Finance has been requested to close 110116, the Urban and Forestry Grant.
- There was no activity during Fiscal Year 2003 and 2004 on 116106, the Virginia Key Nature Trail Dev (per the attached email);
- The Safe Neighborhood Program has continued to receive reimbursements for the inspection of capital projects.

Betsy Otto
Administrative Assistant III
Department of Parks and Recreation
Phone: 305-376-5372

60
This is regarding your enquiry into the reported deficit in account #147011 as of 9/30/04.

The following will serve as an explanation for said deficit:

- The contract for the Super NOFA grant was not signed until December.
- This delayed June through September reimbursements.
- Since the contract was not signed and receipt was not expected within 60 days at EOY, accruals were not made for these delayed reimbursements.
- The Homeless Programs Accountants met with the Finance and Budget Departments on April 5th and reconciled all accounts. Each Department made the necessary adjustments in order to ensure proper crediting to each of the 147011 accounts.

If you need additional information, please advise.
Chapter 18, Article IX, Section 18-542(4) of the City Code as amended, provides: “For purpose of this section, city-wide surplus for any fiscal year is defined as the increase in unreserved general fund balance as reflected in the city’s annual financial statements. City-wide deficit for any fiscal year is defined as the decrease in unreserved general fund balance as reflected in the city’s annual financial statements. Budget surplus of any office, department or elected official is defined as the excess of budgeted expenses over actual expenses in any fiscal year.

Notwithstanding anything to the contrary in this section, the total amount of budget surplus to be added to designated reserves and special revenue funds pursuant to this section (together, the "rollover amounts") is limited to city-wide surplus for any fiscal year. In the event the rollover amounts would result in a city-wide deficit, then each budget surplus within the rollover amounts shall be reduced proportionately so the City's annual financial statements will reflect no change in undesignated, unreserved general fund balance. In the event that a city-wide deficit would result before effecting the rollover amounts in any fiscal year, then no rollover amounts shall be available.”

The unreserved general fund balance for fiscal year 2003 totaled $136,905,142 as compared to $133,413,642 for the fiscal year 2004. Unreserved general fund balance decreased by $3,491,500, therefore, no amounts shall be available for rollover.

Chapter 18, Article IX, Section 18-542(4)(b) of the City Code as amended provides:

“Budget surpluses of the parks and recreation department shall be allocated, as of the end of the fiscal year in which such surplus arose, to a parks special revenue fund. Allowed
expenditures from the parks special revenue fund shall be limited to the purchase of parks 
recreational and maintenance equipment and the direct operations of recreational 
programs in and for the city's parks, subject to appropriation by the city commission.”

Our test of $24,585 (62.3% of the $39,653 of surplus roll over balance) expenditure 
transactions disclosed that roll over monies were appropriately used for the purchase of 
equipment and the operations of recreational programs in the City’s parks.

Chapter 18, Article IX, Section 18-542(4)(c) provides: “Budgeted surpluses of the 
department of conferences, conventions and public facilities shall be allocated, as of the 
end of the fiscal year in which such surplus arose, to a public facilities special revenue 
fund. Allowed expenditures of the public facilities special revenue fund shall be limited 
to capital improvements for the city's public facilities, subject to appropriation by the city 
commission.”

Our test of $502,757 (100% of all surplus roll over balance) expenditure transactions 
disclosed that roll over monies were appropriately used for the capital improvements 
related to Coconut Grove Convention Center, Marine Stadium Marina, and Dinner Key 
Marina.

Chapter 18, Article IX, Section 18-542(4)(d) provides: “Budgeted surpluses of the 
department of information technology shall be allocated, as of the end of the fiscal year in 
which such surplus arose, to an IT strategic plan special revenue fund. Allowed 
expenditures of the IT strategic plan special revenue fund shall be limited to 
expenditures, excluding those related to permanent city staff, necessary for the 
implementation of the city's information technology strategic plan, subject to 
appropriation by the city commission.”

Our test of $430,042 (64.8% of the $671,941 surplus roll over balance) expenditure 
transactions disclosed that roll over monies were appropriately used for the 
implementation of the City’s information technology strategic plan, as required.
Recommendation.

None


None
RESERVE POLICIES - FINANCIAL INTEGRITY PRINCIPLE NUMBER 5.

The following three reserve policy categories were established for the general operating fund of the City:

CURRENT FISCAL YEAR CONTINGENCY – Chapter 18, Article IX, Section 18-542(5)(a) of the City Code, as amended, provides that, “A ‘contingency’ reserve level of $5,000,000 shall be budgeted annually. Such contingency reserve shall be available for use, with city commission approval, during the fiscal year, to fund unanticipated budget issues which arise or potential expenditures overruns which cannot be offset through other sources or actions. The unused portion of the budgeted contingency reserve in any fiscal year shall be reflected as designated reserves until such time as the City has funded 50 percent of the liabilities in its general long-term debt account group. Amounts not needed to satisfy the 50 percent requirement shall be considered general fund undesignated reserve and be treated in accordance with paragraph 5(b) of this section.”

Our review of the City’s fiscal year 2004 budget for non-departmental accounts disclosed that $5.75 million was budgeted for contingency reserve ($5 million is required). Pursuant to Ordinance number 12543, which was passed and adopted by the Commission on June 10, 2004, $4,545,620 of the $5.75 million was appropriated for pension and municipal operations. Ordinance number 12600, which was passed and adopted by the Commission on October 28, 2004, appropriated additional $927,341 for additional pension and municipal operations costs. Ordinance number 12662 replenished the contingency reserve with $1,967,567 (reflecting an increase of Inter-governmental revenues and Non-revenues). This resulted in an ending reserve level of $2,244,606.
GENERAL FUND UNDESIGNATED RESERVE – Chapter 18, Article IX, Section 18-542(5)(b) of the City Code as amended provides that, “The city shall retain undesignated reserves equal to a threshold ten percent of the prior three years average of general revenues. Such reserves may only be used for offsetting an unexpected mid-year revenue shortfall or for funding an emergency such as a natural or man-made disaster, which threatens the health, safety and welfare of the city’s residents, businesses or visitors. Any time these reserve funds fall below the ten percent threshold, the city commission shall adopt a plan to achieve the threshold within two fiscal years. Amounts in excess of the ten percent threshold may be used for capital improvements, unanticipated expenditures necessary to assure compliance with legal commitments, and for expenditures that will result in the reduction of recurring costs or the increase in recurring revenues of the city.”

The undesignated reserve balance of $39,342,636 for fiscal year 2004 exceeded the ten percent of the prior three years (fiscal years 2001 through 2003) average of general revenues in the general fund, which totaled $32,178,047.

DESIGNATED RESERVE – Chapter 18, Article IX, Section 18-542(5)(c) of the City Code as amended, provides that, “The city shall retain reserves equal to ten percent of the prior three years average of general revenues. Such reserves shall be used for funding long-term liabilities and commitments of the city such as:

1. Compensated absences and other employee benefit liabilities, including liabilities related to post-retirement benefits;
2. Self-insurance plan deficits (including workers compensation, liability claims and health insurance);
3. Infrastructure to be funded on a cash basis;
4. Strategic initiatives (until completed);
5. Blue Ribbon Commission Initiatives (until completed);
6. Anticipated adjustments in pension plan payment resulting from market losses in plan assets and other unanticipated payments necessary to maintain compliance with contractual obligations.
Payment for compensated absences and other employee benefit liabilities and self-insurance plan deficits may be drawn from this reserve during the fiscal year and shall be replenished each year until fifty percent (50%) of such liabilities are funded. Other designated reserves may be drawn upon without the need for replenishment.”

The ten percent of the prior three years (fiscal years 2001 through 2003) average of general revenues in the general fund totaled $32,178,047 and the total designated fund balance in the general fund for fiscal year 2004 was $94,071,006.

As a follow-up to last year’s Financial Integrity Principles Audit, we noted that both the Designated and Undesignated fund balances were disclosed in the City’s Comprehensive Annual Financial Statements (CAFR) for fiscal year 2004.

Recommendation.

None

Auditee’s Response and Action Plan.

None
Chapter 18, Article IX, Section 18-542(6) of the City Code provides that: “The City shall establish proprietary funds only if the costs to provide the service are fully funded from the charges for the service.” In accordance with the National Council of Governmental Accounting Statement (NCGAS) No. 1, which established the various types of Funds, an enterprise (proprietary) fund should be used to account for any services provided to the public that was primarily funded from the fees derived from said services. The only service provided to residents that could be accounted for using a proprietary fund is solid waste services; however, since the fees charged for the services is significantly lower than the cost of providing such services, a proprietary fund was not established.

Recommendation.

None.

Auditee’s Response and Action Plan.

None.
Chapter 18, Article IX, Section 18-542(7) of the City Code as amended by Ordinance number 12518 provides that: “The City Commission shall annually adopt a five year financial plan by September 30 of each year, reflecting as the base year, the current year’s budget. For fiscal year 2004 the multi-year financial plan will be adopted no later than 30 days after the completion of labor negotiations. Such plan will include cost estimates of all current city operations and pension obligations, anticipated increases in operations, debt service payments, reserves to maintain the city’s officially adopted levels and estimated recurring and non-recurring revenues. This plan will be prepared by fund and reflect forecasted surpluses or deficits and potential budget balancing initiatives, where appropriate.”

The City Commission passed Ordinance number 12596, which adopted an annual budget (Financial Plan) for the fiscal year ending September 30, 2005, during its meeting of September 28, 2004. The City Commission had previously passed Ordinance number 12518 during its meeting of March 25, 2004 which noted in the first paragraph (above), that the multi-year financial plan is not required to be finalized and adopted until 30 days after the completion of labor negotiation. As of the date of this report, we were informed that the current multi-year financial plan is in progress and would be finalized and adopted no later than 30 days after the conclusion of the union and management labor agreement.
Recommendation.

We recommend that a multiple-year financial plan for all funds, be finalized and adopted as planned.

Auditee’s Response and Action Plan.

The auditee stated that the current multi-year financial plan would be finalized and adopted no later than 30 days after the conclusion of the union and management labor agreement.
Chapter 18, Article IX, Section 18-542(8) of the City Code provides that, “The city Commission shall annually adopt a capital improvements plan (“CIP”) by November 30th of each year. The CIP shall address cost estimates for all necessary infrastructure improvements needed to support city services, including information technology, with an adequate repair and replacement (“R&R”) component. Funded, partially funded and unfunded projects shall be clearly delineated. The CIP shall be detailed for the current fiscal year and for five additional years and, if practicable, additional required improvements aggregated for two additional five year periods. To the extent feasible, department heads shall be required to submit independent needs assessments for their departments for use in preparing the CIP. The CIP will be detailed by fund, include recommended project prioritization rankings, identified revenue sources, planned financing options and unfunded projects. The CIP shall include estimates of the operational impacts produced for the operation of the capital improvements upon their completion. The CIP shall include a component reflecting all on-going approved capital projects of the city, the date funded, amount budgeted, amount spent since the start date, remaining budget, fiscal impact of known changes to financial assumptions underlying the project, estimated expenditures by fiscal year for the project and estimated completion date. Approved projects, with circumstances that arise which change the funding requirements of the project, shall be addressed in the CIP annually.”

Our audit disclosed that a capital improvement plan (CIP) for the fiscal year 2004/2005 along with a multi-year plan (fiscal years 2005/2006 through 2009/2010) was approved/adopted (Resolution 04-0741) by the City Commission on November 18, 2004. The major sections of the CIP are as follows:

- Section 1 of the CIP Report described the CIP process including, but not limited to, an overview of the plan, the purpose of the plan, the legal authority, the
organization of the plan, capital improvement priorities, and sections of the plan. It also included both summary and detail project reports covering Funding by program areas.

- Section 2(c) of the CIP Report disclosed all the strategic program areas and the corresponding City departments responsible for said program areas. The said programs/departments are Public Safety (Fire Rescue and Police) with a total project value of $67 million; Recreation and Culture (Parks/Recreation and Conferences, Conventions and Public Facilities) with a total project value of $155 million; Infrastructure and Environment (Transportation and Solid Waste) with a total value of $388 million; Community and Economic Development (Planning and Economic Development) with a total value of $27 million; and General Government/Services (Information Technology and General Services Administration) with a total value of $36 million. Each of the strategic program areas includes a brief summary of the program strategy, completed projects during fiscal year 2003/2004, highlights of the fiscal year 2004/2005 capital program and multi-year plan, unfunded needs and priorities, and a summary of fully funded, partially funded and unfunded projects.

- Section 3 of the CIP Report described all aspects of the $255 Homeland Defense/Neighborhood Improvement Bonds program including, but not limited to, program allocations (area projects, total bond authorization, total authorization from first series, and balance for future issue), project status (planning, design, bidding, land acquisition, and construction), summary sheet of appropriations/expenditures by project, park projects/neighborhood park improvement projects, and quality of life projects.

- Section 4 of the CIP Report provided funding sources, which include federal, state, Miami-Dade County and other grants, City bond monies, CIP fees/revenues, and other.

- Section 5 of the CIP Report provided capital improvement projects information grouped by the five districts of the City.
The audit also disclosed that the current CIP does not include estimates of the operational impacts produced for the operation of the capital improvements upon their completion; and it did not include the date funded or the estimated completion dates for on-going capital projects.

**Recommendation**

We recommend that the CIP not only include estimates of the operational impacts produced for the operation of the capital improvements upon their completion but also include the date funded and the estimated completion dates for on-going capital projects.

**Auditee’s Response and Action Plan**

The CIP Administrator stated that the funded and estimated completion dates are available in the new software (TRACS) and will be included in future updates to the CIP Plan. Also, they are currently coordinating with the Strategic Planning, Budgeting and Performance Department to collect and evaluate operational impacts anticipated by the various departments as a result of new or expanded facilities. Their intent is to update the CIP Plan to include these findings.
DEBT MANAGEMENT – FINANCIAL INTEGRITY PRINCIPLE 9.

DEBT MANAGEMENT - Chapter 18, Article IX, Section 18-542(9) of the City Code provides that, the City shall manage its debt in a manner consistent with the following principles:

- (a) Capital projects financed through the issuance of bonded debt shall be financed for a period not to exceed the estimated useful life of the project.

  - The City did not issue any new bonded debt that financed new capital projects during the audit period. The only bonds issued during fiscal year 2004 were advance refunding bonds. On December 2, 2003, the City issued General Obligation Refunding Bonds, Series 2003 (interest rates 2.5-3.5%) to advance refund General Obligation Bonds Series 1992 (interest rate of 5.5%). This provided a net present value economic gain of $519,676.

- (b) The net direct general obligation debt shall not exceed five percent and the net direct and overlapping general obligation debt shall not exceed ten percent of the taxable assessed valuation of property in the City.

  - Based on the information/data provided in the Comprehensive Annual Financial Report for fiscal year 2004, the net taxable property is assessed at $18,871,123,318 and the general obligation debt was $224,978,830. Therefore, the general obligation debt is 1.19% ($224,978,830/$18,871,123,318 x 100) of the taxable assessed valuation of property in the City, which is less than 5%. The total net direct and overlapping GOB is $487,528,917 ($224,978,830+$262,550,087). The net direct and overlapping GOB is 2.58% ($487,528,917/$18,871,123,318 x 100) of the taxable assessed valuation of property in the City, which is less than 5%.
x 100) of the taxable assessed valuation of property in the City, which is less than 10%. Therefore, the City is in compliance with both ratios.

- (c) The weighted average general obligation bond maturity shall be maintained at 15 years or less.
  
  - The weighted average GOB maturity is 10.64 years ($2,404,825,509/$225,944,956), which is less than 15 years. The City is in compliance.

- (d) The special obligation debt service shall not exceed 20 percent of non-ad valorem general fund revenue.
  
  - The special obligation debt service is 8.3% ($21,691,771/$260,251,789 x 100), which is less than 20% of non-ad valorem general fund revenue. The City is in compliance.

- (e) Revenue based debt shall only be issued if the revenue so pledged will fully fund the debt service after operational costs plus a margin based on the volatility of the revenues pledged.
  
  - Revenue based debt was not issued during the audit period.

**Recommendation.**

None

**Auditee’s Response and Action Plan.**

None.
Chapter 18, Article IX, Section 18-542(10) of the City Code as amended, states that, “The city shall provide for the on-going generation and utilization of financial reports on all funds comparing budgeted revenue and expenditure information to actual on a monthly and year-to-date basis. The finance department shall be responsible for issuing the monthly reports to departments, the mayor and city commission, and provide any information regarding any potentially adverse trends or conditions. These reports should be issued within thirty (30) days after the close of each month.” The following reports shall be prepared:

- (a) The annual external audit of the City shall be prepared and presented to the Mayor and City Commission within 120 days of the close of each fiscal year. The City Commission shall convene a workshop meeting with the external auditors to review the findings and recommendations of the audit.

  - The Comprehensive Annual Financial Report for the fiscal year ended September 30, 2004 was published on April 29, 2005 and subsequently the related Management Letter, the audit observations and recommendations pertinent to the Single Audit, pursuant to the requirements of Office of Management and Budget (OMB) Circular A-133, were published. The audit findings and recommendations relative to the single audit together with the Comprehensive Annual Financial Report and Management Letter were presented to the City Commission in the City Commission meeting of June 9, 2005.
(b) The City shall prepare an annual report to provide information to bondholders and the secondary marketplace.

- The City also published on April 29, 2005 a Supplemental Report to Bond Holders. This report includes a description of the covenant to budget and appropriate bonds; a description of various special obligation and revenue bonds/loans with specific pledge of revenues; the escrow agreement with the Wachovia Bank, N.A. for all of the City’s debt; a description of the general obligation debt; a summary of the GOB bonds; a summary of special obligation and revenue bonds with specific pledge of revenues and a summary of the covenant to budget and appropriate bonds.

- The Comprehensive Annual Financial Report (CAFR) typically includes two major Sections, namely, Financial and Statistical Sections. The Financial Section includes Basic Financial Statements, Notes to the Financial Statements, Required Supplementary Information (unaudited), and Combining and Individual Fund Statements and Schedules. The Statistical Section (unaudited) of the CAFR included various statistical analysis and ratios, such as: Property Tax Levies and Collections, Net Assessed Value and Estimated Actual Value of Taxable Property, Legal Debt Margin Information, Direct and Overlapping Governmental Activities Debt, and Demographic and General Statistical Data.

The information/data included in the Financial and Statistical Sections of the CAFR and the information/data included in the Supplemental Report to Bond Holders provide adequate information to bondholders and secondary marketplace.

(c) Financial reports, offering statements and other financial related documents issued to the public, shall provide full and complete disclosure of all material financial matters.
Our review disclosed that all monthly financial reports were issued in a timely manner (i.e. within 30 days after the close of the month), as itemized on the schedule below. However, we noted that the Comprehensive Annual Financial Report (CAFR), Single audit, and Management Letter were issued 69 days late. Please note this was the first year that the audit was performed by the newly engaged external auditors.

<table>
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<tr>
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<tr>
<td>7/31/2004</td>
<td>8/14/2004</td>
<td>9/13/2004</td>
<td>30</td>
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<td>CAFR/Mgt Letter</td>
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Recommendation.

We recommend that the Finance department continue to work with the new external auditors to ensure that the CAFR, Single Audit and Management Letter are issued in a timely manner.

Auditee’s Response and Action Plan.

The auditee agreed with the findings and recommendations.
Chapter 18, Article IX, Section 18-542(11) of the City Code, provides that, “The City shall endeavor to maintain formal policies, which reflect “best practices” in the areas of:

“(a) Debt: Such policy shall address affordability, capacity, strategies for re-entering the bond market in the future, debt issuance and management.”

- Our audit disclosed that the “Debt Management Policy manual”, which describes the purpose, policy statement, the finance committee, general debt governing policies, specific debt policies, ratios and measurement, has been implemented. The “Debt Management Procedures manual” covered issues such as capital budget review, establishment of a schedule for the issuance of debt obligation, method of sale, financing team, selection of bond counsel and disclosure counsel, selection of financial advisors, selection of bond underwriters, review of financing team and other processes and procedures. If the “Debt Management Policy and Procedures Manuals” as articulated are properly implemented, issues relating to affordability, capacity to issue and manage debt would be enhanced. The City re-entered the bond market in fiscal year 2002.

“(b) Cash Management and Investments: Such policy shall require twenty-four (24) months gross and net cash-flow projections by fund and address adequacy, risk, liquidity and asset allocation issues.”

- Our audit disclosed that an “Investment Policy” has been implemented. The issues covered include but are not limited to, investment objectives, delegation of authority, standards of prudence, ethics and conflict of interests, internal controls
and investment procedures, competitive selection of investment instrument, derivatives and reverse repurchase agreements, performance measurements, and reporting. The Treasury Division of the Finance department is responsible for managing cash and investment transactions for all the funds held by or for the benefit of the City. We obtained and reviewed the monthly cash flow statements for the fiscal years 2004 and 2005. The statements reviewed included beginning balances, projected revenues, projected expenditures and ending balances. All the projected ending balances had positive balances.

“(c) Budget Development and Adjustments: Such policy shall establish proper budgetary preparation procedures and guidelines, calendar of events, planning models by fund, budget adjustment procedures, establishment of rates and fees, indirect costs/interest income and the estimating conference process. The proposed budget should be scheduled to allow sufficient review by the mayor and city commission while allowing for sufficient citizen input. The city budget document reflecting all final actions as adopted by the city commission on or before September 30 of each year, shall be printed and made available within 30 days of such adoption.”

- We noted that every department was provided with a “Budget Preparation Toolkit”, which included detailed budgetary preparation procedures, guidelines, and a calendar of events for the City’s annual budget. The Anti-Deficiency Ordinance sets forth a policy that would ensure that expenditures do not exceed budgeted amounts and that budget adjustments be documented on a “Transfer of Funds” form. The City Commission in accordance with applicable State Statutes determines the millage rates and also set the fire/solid-waste fees. The estimates for interest income are provided to the Strategic Planning, Budgeting and Performance department by the Finance department in accordance with the Finance department’s investment policy. We noted that the Estimating Conference principals provided input and assistance in connection with the 2004/2005 fiscal year budget process. The annual budget for the audit period was adopted on September 25, 2003.
“(d) Revenue Collection: Such policy shall provide for maximum collection and enforcement of existing revenues, monitoring procedures, and the adequacy level of subsidy for user fees.”

- We noted that “Collection Accounts Policies and Procedures” and “Billings and Collections Manual” have been implemented. The policies/procedures manual described the procedures to be followed during revenue collection. Additionally, it described the process of monitoring accounts receivable and determining which accounts would be placed with the collection agencies. The City has a contract with Penn Credit, a debt collection agency. All payments received from the debt collection agency is processed and monitored through a lockbox system. The agency is paid 15% of the amount collected.

“(e) Purchasing Policy: Such policy shall establish departmental policies and procedures and provide appropriate checks and balances to ensure the city departments adhere to the city’s purchasing policies.”

- The City Charter Sections 28 through 30 and Chapter 18, Article III, Sections 71 through 146 of the City Code governs the acquisition of goods/services utilized in the operation of the City. Additionally, we noted that the Purchasing department has implemented a Procurement Procedure Manual, which describes procurement functions, the bidding process, the buying process and the preparation of applicable forms. The applicable Sections of the City Charter/Code and the Procurement Procedure Manual, as noted above, provide detailed policies and procedures. The Manual is posted on the City’s website. The policies and procedures if properly implemented would provide appropriate checks and balances as it relates to the acquisition of good/services.

Recommendation.
We recommend that all policies and procedures be reviewed and updated periodically.

Auditee’s Response and Action Plan.

The auditee concurred with the recommendation.
Chapter 18, Article IX, Section 18-542(12) of the City Code, provides that, “Such committees shall be created, to the extent feasible, and contain a majority of citizen and/or business appointees from outside city employment to review city solicitations (bids, ‘requests for proposals’, etc.), contracts or contract amendments over $10,000.00 and all collective bargaining contract issues. The recommendations of the evaluation committee shall be provided to the mayor and city commission on all such contracts prior to presentation for official action.”

Our review disclosed that City of Miami Ordinance number 12271 includes a section titled “Cone of Silence.” This section of the Ordinance prohibits any verbal communication regarding bids, requests for proposals (RFP), request for qualifications (RFQ), or request for letter of interest (RFLI) with an outside body. We noted that the City issued approximately 119 bids and 48 RFP/RFQ/RFLI transactions during the audit period.

Our test of 19 of the RFP/RFQ/RFLI transactions disclosed that citizens and/or business appointees from outside City employment did not participate in the evaluation process for 3 (or 15%) of the 19 transactions tested and 1 RFQ did not use a committee at all. Additionally, we noted that evaluation committees are not being used for bids. Upon audit inquiry, the Director of the Purchasing department stated, “An evaluation committee is not feasible for bids because the award process is based on the lowest responsive, responsible bidder and since the City formulates the exact specifications, scope of work, and/or services for the commodity or services needed, this formal competitive process is objective in which lowest bid is the determining factor as long as the low bidder complies with all the material aspect of the bid requirements.
(responsiveness); and, the bidder has the experience, staffing, equipment, finances, etc. (responsibility) to deliver the goods/services required.”

Given the constraints imposed by the “Cone of Silence”, the intent of this principle would be met if recommendations obtained from the evaluation committees and the industry are considered in all material bid, RFP, RFLI, and/or RFQ solicitations.

The constraints imposed by Chapter 447 of the Florida Statutes limits the use of citizens and/or business appointees from outside City employment during labor union Agreement negotiations between management and the union. During the audit period, an evaluation committee was used for the on-going labor union negotiations; however, the committee of non-city people, appointed by the Commission, only reviewed the approach to negotiations and intended outcomes and will review the proposal prior to it being presented to the City Commission. This approach appears to not violate the constraints of the “Cone of Silence”.

**Recommendation.**

We recommend that citizens and/or business appointees from outside City employment be invited to participate, to the extent allowed by the Cone of Silence provisions, in the evaluation process of all material bid, RFP, RFLI, and/or RFQ solicitations.

**Auditee’s Response and Action Plan.**

See the Auditee’s response on pages 86 and 87.
I'm in possession of the memorandum forwarded by you to my office regarding the audit conducted on the Financial Integrity Principle and its requirement of evaluation committees to be from outside city employment to the extent feasible on formal solicitations necessitating evaluation/selection committees. My response is as follows:

1. I agree that for RFP No. 03-04-005, Consulting Service for Impact Fee Study, only City employees were part of this evaluation. However, given the sensitive nature of the scope of work for this RFP, it would have not been feasible for outside committee members to participate. These members needed to possess extensive knowledge of the various city projects throughout the City of Miami to understand fees are collected from these new development in order to fund particular capital projects to provide new, modify, or improve the infrastructure related to the new development, such as street improvements, storm sewer improvements, Parks and Recreation facilities, Fire-rescue facilities and equipment, etc. The member(s) also needed to possess an extensive financial background to review the proposers' approach on calculating debits and credits, its impact fee methodology and calculation of fees. Hence, using only city employees for this Request for Proposal was most appropriate and outside committee members would have not been feasible.

2. I agree that for RFP No. 03-04-078, Life and AD&D Insurance Benefits, only City employees were part of this evaluation. Since this Request for Proposal was to seek a life insurance carrier for Employee Benefit Life and Accidental Death and Dismemberment (AD & D) Plans to provide coverage for City executives, management/confidential, Fire Non-Union and Retirees, the committee needed to mirror and provide a fair representation of City Employees.

3. I agree that for RFP No. 03-04-151, ERP System Implementation Services, only City employees were part of this evaluation. The ERP system will assist the City to meet its strategic goals of providing excellent customer service, achieving cost-effective municipal services, facilitating service access for customers, achieving operational savings, and delivering technology and e-solutions and, therefore, in the City's best interest for only City executive employees to evaluate proposals due to the fact that the executive employees all have an organizational/departmental knowledge base and understanding of the Business Process review undertaken by Blackwell/Answerthink on the City's current businesses practices, future business practices, and gap fit analysis fundamentally
important in selecting a software integrator who would incorporate the City's future business practices, flows, and processes into the Oracle software.

(4) I agree that for RFQ No. 03-04-029, General Appraisal Services, no evaluation committee was used. A committee was not used because most of the firms submitting their qualifications were previously qualified in another procurement process by the City.
FULL COST OF SERVICE - FINANCIAL INTEGRITY PRINCIPLE NUMBER 13.

Chapter 18, Article IX, Section 18-542(13) of the City Code, provides that, “The city shall define its core services and develop financial systems that will determine on an annual basis the full cost of delivering those services. This information shall be presented as part of the annual budget and financial plan.”

The core services provided by the City include: public safety (police and fire-rescue services), parks/recreation, solid waste and public works. The financial/budgetary systems, which accumulate all costs of delivering these core services, on an annual basis, have been implemented by the Finance Department and the Strategic Planning, Budgeting and Performance Department (SPBPD).

Although the Chief of SPBPD prepared and presented a partial full cost (consisting of Police, Fire, and Solid Waste) to the City Commission, the total full cost of providing all core services was not presented as part of the annual budget and financial plan.

Recommendation:

The total full cost of providing all core services should be presented as part of the annual budget and financial plan.

Auditee’s Response and Action Plan:

The Chief of SPBPD concurred with the finding and recommendation.
FULL COST OF SERVICE - FINANCIAL INTEGRITY PRINCIPLE
NUMBER 13.

Chapter 18, Article IX, Section 18-542(13) of the City Code, provides that, "The City shall define its core services and develop financial systems that will determine on an annual basis the full cost of delivering those services. This information shall be presented as part of the annual budget and financial plan."

The core services provided by the City include: public safety (police and fire-rescue services), parks/recreation, solid waste, and public works. A financial/budget system, which accumulates all costs of delivering these core services, on an annual basis, has been implemented by the Finance Department and the Strategic Planning, Budgeting and Performance Department. This accumulation of costs (both direct and indirect) allowed a consultant, whom the City had engaged (DMG Maximus), to develop an indirect cost allocation plan. The resulting indirect costs allocation algorithms, as calculated by the consultant, allocate indirect costs to core service direct costs which would result in the full cost.

This cost allocation report is available through the department of Strategic Planning, Budgeting, and Performance. Although the Director of Strategic Planning Budgeting and Performance prepared a partial presentation of full cost (consisting of Police, Fire, and Solid Waste) for presentation to the City Commission, the actual "full cost" of providing all core services was not presented as part of the annual budget and financial plan.
INFORMATION TECHNOLOGY DEPARTMENT

PROMOTING OPERATING EFFICIENCIES - FINANCIAL INTEGRITY
PRINCIPLE NUMBER 14.

Chapter 18, Article IX, Section 18-542(14) of the City Code, provides that, “The city shall develop programs and incentives to encourage operating efficiencies through the use of technology, outsourcing, or any other curriculum.”

In a written response to our audit inquiry, the Chief Information Officer (CIO) of the Information Technology (IT) department stated that his department has implemented projects conducive to operating efficiencies as approved by the Information Technology Steering Committee. The CIO provided us with a list of 15 Strategic Initiatives (projects) as defined in the City’s IT strategic plan and prioritized by the IT Steering Committee. The projects include but are not limited to: replacement of Police and Fire emergency dispatch and reporting systems; acquisition and implementation of an integrated Enterprise Resources Planning (ERP) system (finance, budget, purchasing, personnel and payroll); implementation of a web based Burglar Alarm Permit System; implementation of a content management system; migration to a higher bandwidth technology that will provide much faster communications; disaster recovery services and communication infrastructure improvement along with the recurring technology refresh project. The listing provided indicated the status of the 15 Strategic Initiatives.

There are costs and benefits associated with every operation or activity that is outsourced. The various departments outsource functions when the total benefits out-weigh the total costs or when the department does not have the in-house resources required to perform such services. For example, Parks and Recreation department sometimes outsource the grass mowing and janitorial work for certain recreation centers when it is cost effective; the Information Technology department outsourced a portion of the implementation of the new ERP system to bring in necessary expertise; the CIP department outsourced
program management of major citywide projects; and the Solid Waste department has outsourced the collection of commercial waste to private firms.

Recommendation

None

Auditee’s Response and Action Plan.

None
Chapter 18, Article IX, Section 18-541 of the City Code, provides that, “The city’s internal auditor shall be responsible for preparation of a written report to be transmitted to the mayor and the members of the city commission by July 1 of each year as to compliance with the principles and policies set forth in this division. The report shall include recommendations for additional policies or actions, to be considered for action after reviewing the latest annual audit and management letter comments.”

COMPREHENSIVE ANNUAL FINANCIAL REPORT – Rachlin Cohen and Holtz LLP partnered with Harvey, Branker & Associates, Rodriguez, Trueba & Co., CPA, P.A., and Susan M Garcia, P.A. in connection with the audit of the City’s Comprehensive Annual Financial Report (CAFR) for the period ended September 30, 2004. The auditors issued an unqualified opinion on the City’s CAFR in an audit report published on April 29, 2005. An “unqualified opinion” implies that the City’s basic financial statements are fairly stated in all material respects in relation to the basic financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining funds of the City as of September 30, 2004, and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States.

MANAGEMENT LETTER - The Rules of the State of Florida’s Office of Auditor General (OAG), Section 10.554(1)(g)1.a, require an external auditor to issue a Management Letter, which states whether or not inaccuracies, shortages, defalcations, fraud and/or violations of laws, rules, regulations, and contractual provisions reported in the Management Letter issued in connection with its preceding annual financial audit report have been corrected. Rachlin Cohen and Holtz LLP had no such issues in the 2004
year audit to report on. Additionally, pursuant to Rules of the State of Florida’s OAG, Section 10.554(1)(g)6.a) and Section 218.503(1), Florida Statutes, Rachlin Cohen and Holtz LLP determined that the City was not in a state of financial emergency.

However, the management letter noted other matters pertaining to internal controls over financial reporting that was reported in a Management Letter to the City dated February 8, 2005. The Rules of the OAG (Section 10.554(1)(g)(3.) require that a Management Letter shall include recommendations to improve the local government entity’s present financial management, accounting procedures and internal accounting controls. Section II of the Management Letter disclosed one reportable condition and 12 other “findings and questioned costs”, and management’s responses for the current year’s audit. The 13 observations are as follows:

**REPORTABLE CONDITION.**

- A reconciliation of the payroll bank account and the City’s books and records disclosed a difference of approximately $464,000. The payroll cash balance, as reflected on the City’s records, was overstated by $246,000 and the cash balance, as reflected on City records, included non-cash items, which overstated cash by approximately $218,000.

The City staff concurred with the finding and has adjusted the amount and revised the policy and procedures for bank reconciliations and payroll processing.

**OTHER MATTERS.**

- The Allowance for Doubtful Accounts was understated by approximately $1.2 million; amounts in accrued payroll, accounts payable, retainages payable, and due to other governments liability accounts which could not be substantiated; there are deposits reflected as deposits refundable in the General Fund which have remained inactive in excess of several years.

The Finance Department concurred and is working closely with other City departments to ensure that these adjustments are made and reviewed on a timely basis. The implementation of Oracle eBusiness Suite 11i accounts receivable application will enhance the City’s ability to effectively record, bill, and monitor all outstanding accounts receivable of the City.

- Capital assets are not always properly capitalized, some capitalized items did not meet the definition of a capital asset, and some capitalized amounts were not in
agreement with the invoiced costs; capital assets in GEMS did not agree with underlying documentation; $3.2 million of leased computer equipment was recorded as an operating lease; the schedule of construction-in-progress did not reflect those projects which were completed and should have been transferred to an appropriate asset category.

The City is implementing an ERP system which includes a fixed asset module which will allow the City to properly record its assets; also, the City will be conducting a complete physical inventory of all machinery and equipment to complement the conversion to the new system.

• Numerous times grant revenues were not recognized properly; deferred revenues were sometimes not recorded; and year-end receivables were not always recorded.

The City is implementing an ERP system which includes a projects and grants module; also, the City is centralizing grant billing within the Finance Department.

• Claims for reimbursement with the Florida Department of Transportation for the DuPont Plaza Project for the 2004 fiscal year had not been prepared for submission.

The City is implementing an ERP system which includes a projects and grants module; also, the City is centralizing grant billing within the Finance Department.

• A zero balance bank account which is used solely to pay health claims was not reflected on the books of the City; neither was a bank reconciliation prepared.

The City is currently replacing Moore and GEMS with Oracle eBusiness Suite 11i financial applications which will enhance the effectiveness of recording, billing, and monitoring of all outstanding accounts receivable and cash balances.

• Minimal disaster recovery planning exists for windows-based servers and application.

The City has purchased software to facilitate in the backup of windows servers; additionally, the city is currently developing a detailed recovery testing environment and recovery plan and expects to perform recovery testing during 2005.

• The Moore/GEMS payroll interface is not tested on a consistent basis. The Finance Department is now reconciling each payroll cycle interface between the two systems.

• No written policies and procedures currently exist for disabling network access upon employee termination.
The new ERP system will assist the City in addressing security issues regarding employee terminations and job responsibility changes.

- Older, replaced workstations which are reused for the “Digital Divide” program are not fully cleared of information.

The City is purchasing a disk “cleaning” software package and implementing procedures which will erase hard drives prior to disposal.

- A clear delineation between network administration, user support, and server maintenance should be established.

Management believes that the current segregation of duties within the Technical Services Division ensures efficiencies in operations and provides an appropriate level of internal control in our processes. As the infrastructure migrates from a predominately mainframe environment to a windows environment, ITD management will periodically adjust the organizations structure to improve/enhance service levels for their client.

- ITD management needs to address succession planning for the mainframe support personnel.

ITD places a high priority on organizational structure, development, staffing and training as the organization moves from the legacy environment into the new Windows environment.

- Due to the complex issues involved in the calculation and reporting of other post-employment benefits (OPEB) expenditures for governmental funds, it is recommended that the City obtain a thorough understanding of the requirements and initiate planning for implementation in a prudent manner.

The City concurs and will inquire of Rachlin Cohen & Holtz LLP as to their assistance in implementing GASB No. 45.

The recommendations that were made in the prior years’ observations were addressed in the section titled “Prior Year Financial Statement Findings and Status” of the current Management Letter. The recommendations included in this schedule were for audit findings relative to the periods ended September 30, 1997, through September 30, 2003. The schedule disclosed a total of 9 outstanding prior audit findings yet to be resolved in the following fiscal years:
• Two (2) for the fiscal year ended 2003.
• One (1) for the fiscal year ended 2002.
• Two (2) for the fiscal year ended 2001.
• Two (2) for the fiscal year ended 2000.
• One (1) for the fiscal year ended 1999.
• One (1) for the fiscal year ended 1997.

SINGLE AUDIT REPORT IN ACCORDANCE WITH THE FEDERAL OFFICE OF MANAGEMENT AND BUDGET (OMB) CIRCULAR A-133.

Rachlin Cohen and Holtz LLP’s engagement contract also included the audit of Federal Awards and the State of Florida Financial Assistance received by the City for the fiscal year ended September 30, 2004. Federal Awards and State of Florida’s Financial Assistance are financial assistance and cost-reimbursement monies that non-Federal/State entities receive directly from Federal/State awarding agencies or indirectly from pass-through entities. Federal OMB Circular A-133 and the Florida Single Audit Act require a single audit when the total Federal Award/State Financial Assistance disbursed to non-Federal/State entity equals or exceeds $500,000. The auditors’ report, issued in compliance with Circular A-133 (major Federal Programs for the fiscal year ended September 30, 2004) was unqualified. The following findings were noted:

• All funds received from the U.S Department of Homeland Security under the Urban Area Security Initiatives Grant Program were not expended as of the end of fiscal year 2004. Although they had been invested during the time as required, the interest earned had not been allocated to this grant.

The City is implementing an ERP system which includes a projects and grants module which will assist the City in accounting for grants. Additionally, the City has established new procedures to ensure that interest income is allocated to all grants.

• Under HUD’s Community Development Block Grant (CDBG) and HOME Investment partnership, a required on-site inspection had not been performed in the frequency required and required annual audited financial statements had not been submitted.
The multi-family unit has implemented detailed procedures to ensure compliance with Housing Quality Standards inspections during the affordability period.

Recommendation.

Those departments responsible should continue to work towards the resolution of all audit findings/recommendations, particularly those Prior Year’s Observations and Recommendations that were issued as far back as 1997 through 2003.

Auditee’s Response and Action Plan.

See auditee’s response following each finding above.