CITY OF MIAMI
OFFICE OF INDEPENDENT AUDITOR GENERAL

AUDIT OF COMPLIANCE WITH THE FINANCIAL INTEGRITY PRINCIPLES

AUDIT REPORT NO. 09-003

Prepared By
Office of Independent Auditor General

Victor I. Igwe, CPA, CIA
Independent Auditor General
November 13, 2008

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

Re: Audit of Compliance with the Financial Integrity Principles
Audit No. 09-003

Section 18-541 of the City Code, provides that, "The City’s Auditor General 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." As previously noted in a memorandum to the City Commission dated June 30, 2008, this report could not be finalized and issued by July 1, due to the delay in the issuance of the Comprehensive Financial Annual Report, Management Letter, Single Audit and other matters. This report provides the results of our audit of 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, for the period October 1, 2006, through September 30, 2007 and selected transactions prior and subsequent to this period.

Based on our examination of applicable records we noted that the City did not fully comply with all aspects of seven (7) of the 13 Financial Integrity Principles. Proper implementation and adherence to all 13 Principles would provide a strong framework for the integrity of the City’s financial system and would thus enhance the protection of public funds.
Sincerely,

Victor Igwe

Victor I. Igwe, CPA, CIA
Independent Auditor General
Office of Independent Auditor General

C: The Honorable Mayor Manuel A. Diaz
Pedro G. Hernandez, Chief Administrator/City Manager
Members of the Audit Advisory Committee
Roger Hernstadt, Chief of Staff, City Manager’s Office
Larry M. Spring, Assistant City Manager/Chief Financial Officer
Peter W. Korinis, Chief Information Officer, Information Technology Department
Julie O. Bru, 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
Ola Aluko, Director, Capital Improvement Program
George Mensah, Director, Community Development Department
Ernest Burkeen, Director, Parks and Recreation Department
Diana M. Gomez, CPA, Director, Finance Department
David Rosemond, Director, NET Program
Michael Boudreaux, Director, Budget Department
Priscilla A. Thompson, City Clerk, City Clerk’s Office
Audit Documentation File
CITY OF MIAMI
AUDIT OF COMPLIANCE WITH THE FINANCIAL INTEGRITY PRINCIPLES
FOR THE PERIOD OCTOBER 1, 2006, THROUGH SEPTEMBER 30, 2007
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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 regarding 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.

The above principles 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.
DEPARTMENTAL RESPONSIBILITY

The following table displays the departments responsible for each of the Financial Integrity Principles (FIP) and findings discussed in the report.

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OBJECTIVES, SCOPE, AND METHODOLOGY

The audit was performed pursuant to the authority set forth in Section 48 of the City’s Charter titled, “Office of Independent Auditor General”, and was conducted in accordance with the Fiscal Year 2008 Audit Plan. The examination covered the period October 1, 2006 through September 30, 2007 and focused on the following objectives:

- To determine whether the City complied with the 13 financial integrity principles (noted on page one (1)) as codified and amended in Chapter 18, Article IX, Sections 18-541 and 18-542 of the City Code.
- To recommend additional policies or actions to Management.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence in order to provide a reasonable basis for our findings and conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The audit methodology included the following:

- Obtained an understanding of internal controls by interviewing appropriate personnel, reviewing applicable written policies and procedures, and making observations to determine whether prescribed controls had been placed in operation.
- Determined the nature, timing and extent of substantive tests necessary and performed the required substantive tests.
- Determined compliance with the 13 financial integrity principles noted on page one (1).
- Performed other audit procedures as deemed appropriate.
- Drew conclusions based on the results of the testing, made corresponding recommendations, and obtained the auditee’s responses and corrective action plans.
NOTEWORTHY ACCOMPLISHMENTS

Based upon the audit tests performed, we determined that the following aspects of full compliance with the Financial Integrity Principles were observed by the City:

- Budget Surpluses for the Parks and Recreation, Public Facilities and Information Technology Departments were appropriately used for the purposes set forth in Financial Integrity Principle Number 4.

- Required reserves were maintained by the City as stipulated in Financial Integrity Principle Number 5.

- The City managed its debt in accordance with Financial Integrity Principle Number 9.

- The City maintained formal policies in the areas of debt, cash management and investments, budget development and adjustments, revenue collection, and purchasing as required by Financial Integrity Principle Number 11.

- The full cost of providing core services was included in the FY2007 budget book.
CONCLUSION AND SUMMARY OF FINDINGS

We conclude that over the period of October 1, 2006 through September 30, 2007 the City did not fully comply with all aspects of seven (7) of the 13 Financial Integrity Principles codified and amended in Chapter 18, Article IX, Sections 18-541 and 18-542 of the City Code.

Our testing disclosed the following audit findings and instances of non-compliance which resulted in our overall conclusion that the City did not fully comply with 7 Principles listed below:

FINANCIAL INTEGRITY PRINCIPLE NUMBER 1 - STRUCTURALLY BALANCED BUDGET

- Budget forecasting techniques could be enhanced.
- Funding of non-recurring expenditures has diminished the City’s fund balance.
- Certain functional categories within the City’s budget exceeded their budgeted authorizations.
- The disbursement of $711,341 towards a loan for the construction of Parrot Jungle Island & Gardens was not properly authorized/budgeted.

Refer to detailed audit findings and recommendations on pages 9 through 14.

FINANCIAL INTEGRITY PRINCIPLE NUMBER 2 - ESTIMATING CONFERENCE PROCESS

- No documentation was provided to evidence that recommendations made by the Estimating Conference Committee were provided to the City Manager, Mayor, and City Commission as required.

Refer to detailed audit findings and recommendations on pages 32 through 33.
FINANCIAL INTEGRITY PRINCIPLE NUMBER 3 – INTERFUND BORROWING

- Requests for reimbursement of grant expenditures totaling $12,702,923 were not filed on a timely basis.
- A total of $498,386 was disallowed and un-reimbursable due to non-compliance with grant terms.
- Our audit disclosed internal control deficiencies in grant management including: inadequate supervisory review resulting in a duplicate payment; inadequate supporting documentation for reimbursement requests; and lack of inter-departmental communication resulting in the understatement of expenditures reported in the financial system.
- There was a deficit in the Community Development Special Revenue sub-funds totaling $2.76 million caused by untimely drawdown and recording of reimbursement.
- The unreserved fund balance deficits in the Fire Rescue Services, Homeless Program, Gusman and Olympia, Transportation and Transit, and Parks and Recreation Capital Project funds totaled approximately $19.5 million.
- There was a deficiency of revenues over expenditures totaling approximately $1.8 million in debt service sub-funds.
- Quarterly reports of un-reimbursable expenses were not presented to the City Commission.

Refer to detailed audit findings and recommendations on pages 38 through 95.

FINANCIAL INTEGRITY PRINCIPLE NUMBER 7 - MULTI YEAR FINANCIAL PLAN

- The multi-year financial plan was not timely adopted.

Refer to detailed audit findings and recommendations on pages 105 through 106.

FINANCIAL INTEGRITY PRINCIPLE NUMBER 8 - MULTI YEAR CAPITAL IMPROVEMENT PLAN

- The multi-year Capital Improvement Plan was not timely approved and adopted.
FINANCIAL INTEGRITY PRINCIPLE NUMBER 10 - FINANCIAL OVERSIGHT AND REPORTING

- The monthly financial reports were not issued within 30 days after the close of each month for nine (9) of the 11 months tested.
- The Comprehensive Annual Financial Report (CAFR) was issued 121 days late.
- The Single Audit and Management Letter were issued 176 and 191 days late, respectively.

Refer to detailed audit findings and recommendations on pages 118 through 121

FINANCIAL INTEGRITY PRINCIPLE NUMBER 12 - EVALUATION COMMITTEES

- Evaluation committees were not created for 10% of the committees tested and did not consist of a majority of citizens and/or business appointees from outside City employment as committee members for 15% of the committees tested.

Refer to detailed audit findings and recommendations on pages 131 through 132.
AUDIT FINDINGS AND RECOMMENDATIONS

FINANCIAL INTEGRITY PRINCIPLE NUMBER 1 - STRUCTURALLY BALANCED BUDGET

OFFICE OF STRATEGIC PLANNING, BUDGETING, AND PERFORMANCE

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 review to determine whether the City maintained a structurally balanced budget disclosed the following:

FORECASTING TECHNIQUES COULD BE ENHANCED

Our audit disclosed that for the fiscal year (FY) 2007 budget (presented by the Office of Strategic Planning, Budgeting, and Performance and adopted by the City Commission), approximately $25,023,206 of non-recurring revenues (operating savings rollover and fund balance) would be needed to fund non-recurring expenditures such as pension and retroactive salary payments. However, the FY 2007 audited Comprehensive Annual Financial Report (CAFR) disclosed an actual change in fund balance of $25,806,369. Thus, the difference between the budgeted and actual performance was $783,163 (or 3.13%). The disparity between the projected fund balance needed to balance the budget and the actual change in fund balance (per CAFR) significantly improved in FY 2007 compared to prior years, as shown on the schedule below. A well derived budget document assists the governing body in its decision making processes, therefore, Office of Strategic Planning, Budgeting, and Performance should continue to enhance its budget forecasting techniques.
**NON-RECURRING EXPENDITURES HAVE DIMINISHED FUND BALANCE**

An annual budget is a financial operations plan, which estimates proposed expenditures and the proposed means of financing them during each fiscal year. During FY 2007, the City’s recurring revenues (taxes and fees) were sufficient to fund budgeted recurring expenditures (salaries and other operating expenses). However, non-recurring revenues (e.g. operating savings rollovers and transfers from fund balance reserves) were used to fund non-recurring expenditures, such as pensions, in three (3) of the last four (4) fiscal years. Such funding of non-recurring expenditures has continually diminished the City’s fund balance as illustrated below. Therefore, in budgeting for non-recurring expenditures, it is important that management closely monitor and structure the budget so as to decrease or limit total expenditures and/or increase revenues and other funding sources.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Ending Fund Balance</th>
<th>Yearly Increase (Decrease) Fund Balance</th>
<th>Yearly Percent Increase (Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>$141,862,336</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>136,852,762</td>
<td>(5,009,574)</td>
<td>-3.5%</td>
</tr>
<tr>
<td>2005</td>
<td>117,105,055</td>
<td>(19,747,707)</td>
<td>-14.4%</td>
</tr>
<tr>
<td>2006</td>
<td>126,256,513</td>
<td>9,151,458</td>
<td>7.8%</td>
</tr>
<tr>
<td>2007</td>
<td>100,450,144</td>
<td>(25,806,369)</td>
<td>-20.4%</td>
</tr>
</tbody>
</table>
LACK OF COMPLIANCE WITH THE ANTI-DEFICIENCY ACT

OFFICE OF STRATEGIC PLANNING, BUDGETING, AND PERFORMANCE, VIRGINIA KEY BEACH TRUST, AND GUSMAN AND OLYMPIA

The Anti-Deficiency Act as codified in Article IX, Division 1, Section 18-502(3) of the City Code states that: “Any obligation incurred in excess of an annual departmental or agency appropriation represents a violation of the Anti-Deficiency Act. No such obligation shall be incurred unless the city commission or city manager through emergency powers has enacted legislation or exercised authority extending a department’s or agency’s obligational authority of a department or agency…..”

Our audit disclosed that certain functional categories or department/programs exceeded their budgeted authorizations as illustrated in the table below:

<table>
<thead>
<tr>
<th>Category</th>
<th>Final Budgeted Amount</th>
<th>Actual</th>
<th>Variance Positive (Negative)</th>
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<tr>
<td>Police</td>
<td>137,860,396</td>
<td>139,214,772</td>
<td>(1,354,376)</td>
</tr>
<tr>
<td>Community Development /Transfer In/Other Financing Sources (Uses)</td>
<td>1,037,302</td>
<td>753,496</td>
<td>(283,806)</td>
</tr>
<tr>
<td>Communications Service Tax/Transfer Out/Other Financing Sources (Uses)</td>
<td>(53,697,000)</td>
<td>(57,319,069)</td>
<td>(3,622,069)</td>
</tr>
<tr>
<td>Homeless Program</td>
<td>1,339,823</td>
<td>1,362,697</td>
<td>(22,874)</td>
</tr>
<tr>
<td>Homeless Program/Transfers In/Other Financing Sources (Uses)</td>
<td>854,512</td>
<td>360,695</td>
<td>(493,817)</td>
</tr>
<tr>
<td>Convention Center/Transfers Out/Other Financing Sources (Uses)</td>
<td>(6,632,575)</td>
<td>(11,430,473)</td>
<td>(4,797,898)</td>
</tr>
<tr>
<td>Parks and Recreation Services/Transfers In/Other Financing Sources (Uses)</td>
<td>30,000</td>
<td>0</td>
<td>(30,000)</td>
</tr>
<tr>
<td>Transportation &amp; Transit/Transfers Out/Other Financing Sources (Uses)</td>
<td>(17,360,089)</td>
<td>(17,867,601)</td>
<td>(507,512)</td>
</tr>
<tr>
<td>Virginia Key Beach Trust/Transfers Out/Other Financing Sources (Uses)</td>
<td>0</td>
<td>(18,032)</td>
<td>(18,032)</td>
</tr>
<tr>
<td>Gusman and Olympia</td>
<td>1,712,454</td>
<td>2,469,219</td>
<td>(756,765)</td>
</tr>
<tr>
<td>General Obligation Bond/Payment to Escrow Agent for Refunding/Other Financing Sources (Uses)</td>
<td>0</td>
<td>(102,305,000)</td>
<td>(102,305,000)</td>
</tr>
<tr>
<td>General Obligation Bond/Premium (Discount) Issuance Costs /Other Financing Sources (Uses)</td>
<td>0</td>
<td>(5,971,709)</td>
<td>(5,971,709)</td>
</tr>
<tr>
<td>Other Special Obligation Bonds /Principal</td>
<td>10,358,753</td>
<td>10,359,753</td>
<td>(1,000)</td>
</tr>
<tr>
<td>Other Special Obligation Bonds /Proceeds received from refunding/Other Financing Sources (Uses)</td>
<td>32,837,683</td>
<td>30,615,000</td>
<td>(2,222,683)</td>
</tr>
<tr>
<td>Other Special Obligation Bonds/Payment to Escrow Agent for refunding/Other Financing Sources (Uses)</td>
<td>0</td>
<td>(29,470,000)</td>
<td>(29,470,000)</td>
</tr>
<tr>
<td>Other Special Obligation Bonds/Premium (Discount Issuance Costs)/Other Financing Sources (Uses)</td>
<td>0</td>
<td>(427,799)</td>
<td>(427,799)</td>
</tr>
</tbody>
</table>
Upon audit inquiry, we were informed by Office of Strategic Planning, Budgeting, and Performance (OSPBP) that the $1.35 million negative budget variance (over-expenditure), indicated on page 11 for the “Police” line item, was attributed to necessary overtime costs incurred by the City’s Police Department (PD) and that OSPBP was never timely notified by the PD in accordance with Section 18-502(12) of a budget deficiency. OSPBP also indicated that obligational authority for the said overtime expenditures was granted by the Commission pursuant to Resolution Nos. 06-0567 and 08-0257. In addition, OSPBP stated that the $3.6 million “transfers out” indicated for the “Communications Service Tax/Transfer Out/Other Financing Sources (Uses)” line item was, in fact, authorized by an approved budget amendment. However, best business practice will require OSPBP budget analysts to closely monitor departmental budgets and timely notify department heads in the event that total expenditures exceed, or are about to exceed, budgeted amounts. Such timely monitoring and notification would facilitate timely budget amendments and in turn mitigates negative budget variances.

There was evidence that the appropriation, or “transfers out” of the fund relative to the “Communications Service Tax” line item was properly authorized by the City Commission; however, a negative budget variance occurred because appropriated amounts were never entered into the City’s financial accounting system. OSPBP should also work closely with the City’s Finance Department (FD) so as to ensure that approved budget amendments are timely entered into the City’s financial accounting system. In the absence of procedures requiring the timely amendment of adopted budgets by the City Commission, adherence thereto and the integration of accurate budgetary data into the accounting system, the effectiveness of the budget as a means of controlling expenditures is limited. Therefore, it is important that actual expenditures be as close as possible to the projected budget. Budget amendments should be prepared, approved, and entered into the accounting system during the year to avert negative variances and ensure compliance with the Anti-Deficiency Act.
DISBURSEMENT NOT PROPERLY AUTHORIZED/BUDGETED

OFFICE OF STRATEGIC PLANNING, BUDGETING, AND PERFORMANCE

On September 9, 1998, the City and Miami-Dade County (County) entered into a joint participation agreement relative to a $25 million Section 108 loan from the United States Department of Housing and Urban Development (HUD) for the construction of Parrot Jungle Island & Gardens (Parrot Jungle). Pursuant to the agreement, the City and the County guaranteed 80% and 20% of the loan, respectively. Due to Parrot Jungle’s inability to repay the loan, the City assumed its responsibility under the loan guarantee agreement and began making loan payments.

During the period August 1, 2006 through February 14, 2008, the City disbursed four (4) loan payments totaling $4.2 million; however, our review determined that one (1) of the 4 payments was not properly authorized and/or budgeted. We noted that on January 25, 2007, the City processed and disbursed $711,341 using Communication Service Tax monies (Fund No. 13640); however, said disbursement was not authorized by the City Commission.

In accordance with the Anti-Deficiency Act, no such obligation shall be incurred unless the City Commission or City Manager, through emergency powers [in response to an emergency as defined under state law], extends a department’s or agency’s obligational authority. The lack of a formal or amended budget and the lack of Commission authorization prior to disbursement of funds diminish the effectiveness of the budget process as a means of controlling expenditures.

Recommendation

The disparity between the projected fund balance needed to balance the budget and the actual fund balance used (per CAFR) significantly improved in FY 2007 compared to prior years. OSPBP should continue to enhance its budget forecasting techniques because a well derived budget document would assist the governing body in its decision making process. Also, we recommend that OSPBP and components units enhance their budget forecasting procedures to ensure that budget amendments are timely prepared and presented to the City Commission for
approval. After such approval, amounts should be timely entered into the City’s financial accounting system. Furthermore, we recommend that every effort be made by management to minimize the reliance/use of the fund balance reserve to balance the City’s budgets.

**Auditee’s Response and Action Plan**

The auditee concurred with some of the audit observations and also provided written responses to explain its non-compliance with certain observations. *See auditee responses on pages 15 through 31.*
Date: August 11, 2008

To: Michael Boudreaux, Director
Strategic Planning, Budgeting, and Performance Department (SPBPD)

From: Marie B. Severe, CPA, CIA, Senior Staff Auditor
Office of Independent Auditor General

Subject: Audit of the Financial Integrity Principles

Dear Mr. Boudreaux:

Pursuant to our ongoing audit of the Financial Integrity Principles for the period October 1, 2006 through September 30, 2007, and selected transactions prior and subsequent to this period, please confirm our understanding of the following and provide any additional records and/or documentation by August 18, 2008.

**BUDGET FORECASTING TECHNIQUES COULD BE ENHANCED.**

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 projected recurring revenue was sufficient to fund recurring expenditures for the fiscal year (FY) 2007 adopted budget. However, the budget document that was presented to the City Commission for adoption by the Strategic Planning, Budgeting, and Performance Department (SPBPD) projected that approximately
$25,023,206 million of non-recurring revenues (operating savings rollover and fund balance) would be needed to fund non-recurring expenditures. The FY 2007 audited Comprehensive Annual Financial Report (CAFR) disclosed a change in fund balance totaling $25,806,369 as opposed to Change in Fund Balance totaling $25,023,206 million projected by SPBPD, as noted above. Thus, the difference between the FY 2007 budgeted and actual performance was $783,163 (or 3.13%) ($25,806,369 minus $25,023,206). The disparity between the projected fund balance and the actual change in fund balance per CAFR significantly improved in FY 2007 compared to prior years, as shown on the schedule below. SPBPD should continue to enhance its budget forecasting techniques because a well derived budget document would assist the governing body in its decision making process.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Projected Fund Balance Needed to Balance the budget</th>
<th>Actual Change in Fund Balance Per CAFR</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>($33 million)</td>
<td>($5 million)</td>
</tr>
<tr>
<td>2005</td>
<td>($47 million)</td>
<td>($20 million)</td>
</tr>
<tr>
<td>2006</td>
<td>($35 million)</td>
<td>$9 million</td>
</tr>
<tr>
<td>2007</td>
<td>($25 million)</td>
<td>($25.8 million)</td>
</tr>
</tbody>
</table>

I agree ☑️ I disagree ☐ Initials mfp Date 10 [2] 08

Explanation


THE USE OF FUND BALANCE TO BALANCE CITY BUDGET.
An annual budget is a financial operations plan, which estimates proposed expenditures and the proposed means of financing them during each fiscal year. However, non-recurring revenues (operating savings rollovers and fund balance) were used to fund non-recurring expenditures (balance the budget) in the last four fiscal years. These yearly reliance/use of fund balance reserve to balance City’s budgets in effect have decreased fund balance reserve as illustrated below. Fund balance reserve should be used solely for unforeseen/unanticipated emergencies or contingencies. Therefore, it is important that every effort be made by management to closely monitor the budget and limit expenditures and other financing uses within revenues and other financing sources.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Ending Fund Balance</th>
<th>Yearly Increase (Decrease) fund balance</th>
<th>Yearly Percent Increase (Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>$141,862,336</td>
<td>(5,009,574)</td>
<td>-3.5%</td>
</tr>
<tr>
<td>2004</td>
<td>136,852,762</td>
<td>(19,747,707)</td>
<td>-14.4%</td>
</tr>
<tr>
<td>2005</td>
<td>117,105,056</td>
<td>9,151,458</td>
<td>7.8%</td>
</tr>
<tr>
<td>2006</td>
<td>126,256,513</td>
<td>(25,866,369)</td>
<td>-20.4%</td>
</tr>
<tr>
<td>2007</td>
<td>100,450,144</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

I agree [ ] I disagree [✓] Initials [yd] Date 10/2/08

Explanation [PLEASE SEE ATTACHED]

LACK OF COMPLIANCE WITH THE ANTI-DEFICIENCY ACT

The Anti-Deficiency Act as codified in Article IX, Division 1, Section 18-502 (3) of the City Code states that: “Any obligation incurred in excess of an annual departmental or

OFFICE OF INDEPENDENT AUDITOR GENERAL
444 S.W. 2nd Avenue, Suite 715/Miami, FL 33128
agency appropriation represents a violation of the Anti-Deficiency Act. No such obligation shall be incurred unless the city commission or city manager through emergency powers has enacted legislation or exercised authority extending a department’s or agency’s obligational authority of a department or agency...

Our audit disclosed certain functional categories exceeded their budgeted authorizations as illustrated in the table below:
<table>
<thead>
<tr>
<th>Description</th>
<th>Final Budgeted Amount</th>
<th>Actual</th>
<th>Variance Positive (Negative)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Police</td>
<td>137,860,396</td>
<td>139,214,772</td>
<td>(1,354,376)</td>
</tr>
<tr>
<td>Community Development/Transfer In/Other Financing Sources (Uses)</td>
<td>1,037,302</td>
<td>753,496</td>
<td>(283,806)</td>
</tr>
<tr>
<td>Communications Service Tax/Transfer Out/Other Financing Sources (Uses)</td>
<td>(53,697,000)</td>
<td>(57,319,069)</td>
<td>(3,622,069)</td>
</tr>
<tr>
<td>SEOPW CRA/Transfers Out/Other Financing Sources (Uses)</td>
<td>(410,000.00)</td>
<td>(943,611.00)</td>
<td>(533,611)</td>
</tr>
<tr>
<td>Homeless Program</td>
<td>1,339,823</td>
<td>1,362,697</td>
<td>(22,874)</td>
</tr>
<tr>
<td>Homeless Program/Transfers In/Other Financing Sources (Uses)</td>
<td>854,512</td>
<td>360,695</td>
<td>(493,817)</td>
</tr>
<tr>
<td>Convention Center/Transfers Out/Other Financing Sources (Uses)</td>
<td>(6,632,575)</td>
<td>(11,430,473)</td>
<td>(4,797,898)</td>
</tr>
<tr>
<td>Parks and Recreation Services/Transfers In/Other Financing Sources (Uses)</td>
<td>30,000</td>
<td>0</td>
<td>(30,000)</td>
</tr>
<tr>
<td>Transportation &amp; Transit/Transfers Out/Other Financing Sources (Uses)</td>
<td>(17,360,089)</td>
<td>(17,867,601)</td>
<td>(507,512)</td>
</tr>
<tr>
<td>Virginia Key Beach Trust/Transfers Out/Other Financing Sources (Uses)</td>
<td>0</td>
<td>(18,032)</td>
<td>(18,032)</td>
</tr>
<tr>
<td>Guzman and Olympia</td>
<td>1,712,454</td>
<td>2,469,219</td>
<td>(756,765)</td>
</tr>
<tr>
<td>General Obligation Bond/Payment to Escrow Agent for Refunding/Other Financing Sources (Uses)</td>
<td>0</td>
<td>(102,305,000)</td>
<td>(102,305,000)</td>
</tr>
<tr>
<td>General Obligation Bond/Premium (Discount) Issuance Costs (Other Financing Sources (Uses)</td>
<td>0</td>
<td>(5,971,709)</td>
<td>(5,971,709)</td>
</tr>
<tr>
<td>Other Special Obligation Bonds/Principal</td>
<td>10,358,753</td>
<td>10,359,753</td>
<td>(1,000)</td>
</tr>
<tr>
<td>Other Special Obligation Bonds/Proceeds received from refunding/Other Financing Sources (Uses)</td>
<td>32,837,683</td>
<td>30,615,000</td>
<td>(2,222,683)</td>
</tr>
<tr>
<td>Other Special Obligation Bonds/Payment to Escrow Agent for refunding/Other Financing Sources (Uses)</td>
<td>0</td>
<td>(29,470,000)</td>
<td>(29,470,000)</td>
</tr>
<tr>
<td>Other Special Obligation Bonds/Premium (Discount Issuance Costs)/Other Financing Sources (Uses)</td>
<td>0</td>
<td>(427,799)</td>
<td>(427,799)</td>
</tr>
</tbody>
</table>

SPBPD is responsible for ensuring that all functional categories do not exceed budgeted amounts. In the absence of procedures requiring the timely amendment of adopted budgets by the City Commission, adherence thereto and the integration of accurate budgetary data into the accounting system, the effectiveness of the budget as a means of controlling expenditures is limited. Therefore, it is important that actual expenditures be
as close as possible to the projected budget. Budget amendments should be prepared and approved during the year to ensure a balanced year end budget and compliance with the Anti-Deficiency Act.

I agree [ ] I disagree [ ] Initials [ ] Date 10/2/08

Explanation PLEASE SEE ATTACHED

DISBURSEMENT NOT PROPERLY AUTHORIZED AND/OR BUDGETED FOR.

On September 9, 1998, the City and Miami-Dade County (County) entered into a joint participation agreement relative to a $25 million Section 108 Loan from the United States Department of Housing and Urban Development (HUD) for the construction of the Parrot Jungle Island & Gardens (Parrot Jungle). Pursuant to the agreement, the City guaranteed 80% of the loan contingent upon certain conditions and the county guaranteed 20% of the loan. Due to Parrot Jungle’s inability to keep up with the loan repayment, the County adopted Resolution Number 916-06 on July 18, 2006 authorizing a new loan to Parrot Jungle in the amount of $4,701,782 to cover the amounts advanced by the County to HUD for Loan repayments through February 2006. Said Resolution deferred Parrot Jungle’s payments on the Loan totaling $25 million until 2012 subject to City’s approval and authorized the County Manager to negotiate the City’s assumption of 80% of the said Loan.
During the period August 1, 2006 through February 14, 2008, the City disbursed 4 payments totaling $4.2 million to the County in connection with the said Section 108 Loan. However, our review to determine whether said disbursements to the County were properly authorized and/or budgeted for, disclosed that 1 of the 4 payments was not properly authorized and/or budgeted for. We noted that on January 25, 2007, the City processed and disbursed $711,341 to the County using Communication Services Tax monies (Fund #13640). However, said disbursement was not budgeted for and/or authorized by the City Commission.

In accordance with the Anti-Deficiency Act, no such obligation shall be incurred unless the City Commission or City Manager through emergency powers [in response to an emergency as defined under state law] exercised authority extending a department’s or agency’s obligational authority. Therefore, absent adequate controls requiring an approved budget and/or formal authorization from the City Commission prior to disbursement of funds, the effectiveness of the budget as a means of controlling expenditures are limited.

I agree [✓] I disagree [□] Initials [ ] Date 10/2/08

Explanation

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

Please initial and date, if you agree with the audit findings. If you disagree, please provide a written explanation and supporting documents by August 18, 2008. Additionally, please indicate what procedures would be implemented to address the
observations noted above. Due to the urgency of this audit engagement, a timely response would be greatly appreciated. If you have any questions or comments, please feel free to contact me at 305-416-2049.

C: Victor Igwe, CPA, CIA, Independent Auditor General
   Audit Documentation File
THE USE OF FUND BALANCE TO BALANCE CITY BUDGET

Chapter 18, Article IX, Division 2 Financial Integrity Principles allows for a contingency reserve of $5,000,000 from the City's fund balance to be budgeted annually and used for unforeseen/anticipated expenditures.

In fiscal year 2007, the fund balance was correctly budgeted and subsequently used for this purpose. During this period, the fund balance was primarily used for retroactive payments as a result of the approval of all union contracts and the payment of the fire assessment settlement. These expenditures were approved by the City Commission under resolution nos. 07-0273, 07-0346, 07-0382, and 08-0257. Also during this fiscal year, other uses of fund balance were subsequently returned due to the asset valuation method change in the Fire and Police Pension (FIFO) and the return of unused General Fund contributions from the Capital Improvement Fund. These two actions were approved by the City Commission under resolution nos. 07-0449 and 08-0257.

The use of fund balance for contingency purposes included in the City's annual budget should be considered as a financing source since it is approved for use in the annual budget. The amount of fund balance increase (decrease) indicated under this finding for fiscal years 2004, 2005 and 2007 should be adjusted for the approved use of contingency reserves during these fiscal years.

In fiscal year 2008 and 2009, the General Fund Budget limited the use of fund balance to only $5,000,000 for contingency purposes.

LACK OF COMPLIANCE WITH THE ANTI-DEFICIENCY ACT

I do not agree with the lack of compliance in the Police Department. The appropriate compliance measures were performed by the Office of Strategic Planning, Budgeting and Performance (OSPBP) as defined under Chapter 18, Article IX, Division 1 Anti-Deficiency Act. In accordance with Section 18-503, "a duly adopted ordinance or resolution shall provide obligation authority and if enacted will not constitute a violation of this act." Resolutions nos. 06-0567 and 08-0257 were enacted and provided obligation authority to use fund balance as a result of overtime cost exceeding budget. Section 18-502(12), also states the department
director would notify the OSPBP and provide the appropriate written notification of the cause of the deficiency, the amount and the recommended action to the OSPBP. No written notification was provided to the OSPBP.

I do not agree with the lack of compliance within the Communication Service Tax Fund. Resolution no. 08-0257 provided obligation authority to transfer funds from the Community Service Tax Fund to the General Fund. This adjustment was not properly noted under the final budget section on page 82 of the fiscal year 2007 Comprehensive Annual Financial Report. Please see attachment (1) page 2 for details. We will work closely with the Finance Department to avoid this occurrence in the future.

I agree with the lack of compliance issue within the SEOPW CRA. However, this lack of compliance is not applicable to the OSPBP. In accordance with Chapter 18, Article IX, Division 1 Anti-Deficiency Act, Section 18-501, the Executive Director of the SEOPW CRA and persons responsible for the annual budget of this agency should be noted for lack of compliance with the Anti-Deficiency Act. The OSPBP does not prepare and/or monitor the budget of the SEOPW CRA and should not have been cited for this lack of compliance.

I agree with the lack of compliance within the Homeless Fund.

I agree with the lack of compliance within the Convention Center Fund. This fund had prior fiscal year negative fund balances, which were left unreported and unadjusted. A correction to the fund balance will be made at the end of fiscal year 2008.

I agree with the lack of compliance within the Parks and Recreation Services Fund. The amount noted was requested to be transferred by the OSPBP but was not performed by the Finance Department. Please see attachment (2) for details. The OSPBP will work closely with the Finance Department to make sure operating transfers are made in accordance with the budgeted amounts.

I agree with the lack of compliance within the Transportation and Transit Fund. The amount noted was requested to be transferred by the OSPBP to the Finance Department and should have been limited to the total provided in attachment (3). The OSPBP will work closely with the Finance Department to make sure operating transfers are made in accordance with the budgeted amounts.

I agree with the lack of compliance issue within the Virginia Key Beach Trust (VKBT). However, this lack of compliance is not applicable to the OSPBP. In accordance with Chapter 18, Article IX, Division 1 Anti-Deficiency Act, Section 18-501, the Executive Director of the VKBT and persons responsible for the annual budget of this trust should be noted for lack of compliance with the Anti-Deficiency Act. The OSPBP does not prepare and/or monitor the budget of the VKBT and should not have been cited for this lack of compliance.

I agree with the lack of compliance issue within Gusman and Olympia. However, this lack of compliance is not applicable to the OSPBP. In accordance with Chapter 18, Article IX, Division 1 Anti-Deficiency Act, Section 18-501, the Executive Director of Gusman and Olympia and persons responsible for the annual budget of this agency should be noted for lack of compliance.
with the Anti-Deficiency Act. The OSPBP does not prepare and/or monitor the budget of the Gusman and Olympia and should not have been cited for this lack of compliance.

I agree with the lack of compliance issue within the General Obligation and Special Obligation Bond Funds. The OSPBP receives the debt payment schedule and any subsequent adjustments from the Treasury Section of the Finance Department. The OSPBP also provides the Finance Department with an operating transfer schedule to ensure the appropriate transfers are made in the fiscal year. The OSPBP will work closely with the Finance Department to make sure the debt payment schedule and any subsequent adjustments are properly coordinated and booked to the correct GL accounts.

MB/mb

c: Roger Hemstadt, Assistant City Manager
    Marie Severe, Sr. Staff Auditor, Office of Auditor General
Date: October 6, 2008

To: David Shorter, Executive Director
Virginia Key Beach Park Trust

From: Marie B. Severe, CPA, CIA, Senior Staff Auditor
Office of Independent Auditor General

Subject: Audit of the Financial Integrity Principles - Audit #08-020

Dear Mr. Shorter:

Pursuant to our ongoing audit of the Financial Integrity Principles for the period October 1, 2006 through September 30, 2007, and selected transactions prior and subsequent to this period, please confirm our understanding of the following and provide any additional records and/or documentation by October 10, 2008.

LACK OF COMPLIANCE WITH THE ANTI-DEFICIENCY ACT

The Anti-Deficiency Act as codified in Article IX, Division 1, Section 18-502 (3) of the City Code states that: "Any obligation incurred in excess of an annual departmental or agency appropriation represents a violation of the Anti-Deficiency Act. No such obligation shall be incurred unless the city commission or city manager through emergency powers has enacted legislation or exercised authority extending a department’s or agency’s obligational authority of a department or agency....."
The audited Comprehensive Annual Financial Report (CAFR) for the Fiscal Year (FY) ended 2007 (page 122) disclosed that the functional categories indicated below exceeded budgeted authorizations as illustrated in the table below:

<table>
<thead>
<tr>
<th>Final Budgeted Amount</th>
<th>Actual</th>
<th>Variance (Positive/Negative)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Virginia Key Beach Trust/Transfers Out/Other Financing Sources (Uses)</td>
<td>0</td>
<td>(18,032)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(18,032)</td>
</tr>
</tbody>
</table>

The Virginia Key Beach Park Trust management is responsible for ensuring that all functional categories do not exceed budgeted amounts. In the absence of procedures requiring the timely amendment of adopted budgets by the City Commission, adherence thereto and the integration of accurate budgetary data into the accounting system, the effectiveness of the budget as a means of controlling expenditures is limited. Although there was no budget appropriation allocated for the above line item (transfer-out), the total actual transfer-out processed and disbursed was $18,032. Budget amendments should be prepared and approved during the year to ensure a balanced year end budget for all budget line items and compliance with the Anti-Deficiency Act.

I agree [x] I disagree [ ] Initials [ ] Date 10/9/08

Explanation: The expenditures were approved by the Grant (National Park Service). The transfer-out was a payment for General Fund expenditures from the Capital Improvement Fund. In the future, the transfer will be budgeted.

Please initial and date, if you agree with the audit findings. If you disagree, please provide a written explanation and supporting documents by October 10, 2008.

OFFICE OF INDEPENDENT AUDITOR GENERAL
444 S.W. 2nd Avenue, Suite 715/Miami, FL 33128
Additionally, please indicate what procedures would be implemented to address the observation noted above. Due to the urgency of this audit engagement, a timely response would be greatly appreciated. If you have any questions or comments, please feel free to contact me at 305-416-2049.

C: Victor Igwe, CPA, CIA, Independent Auditor General
Audit Documentation File
City of Miami

Date: October 6, 2008

To: Art Noriega, Executive Director
    Miami Parking Authority

From: Marie B. Severe, CPA, CIA, Senior Staff Auditor
      Office of Independent Auditor General

Subject: Audit of the Financial Integrity Principles

Dear Mr. Noriega:

Pursuant to our ongoing audit of the Financial Integrity Principles for the period October 1, 2006 through September 30, 2007, and selected transactions prior and subsequent to this period, please confirm our understanding of the following and provide any additional records and/or documentation by October 10, 2008.

LACK OF COMPLIANCE WITH THE ANTI-DEFICIENCY ACT

The Anti-Deficiency Act as codified in Article IX, Division 1, Section 18-502 (3) of the City Code states that: "Any obligation incurred in excess of an annual departmental or agency appropriation represents a violation of the Anti-Deficiency Act. No such obligation shall be incurred unless the city commission or city manager through emergency powers has enacted legislation or exercised authority extending a department's or agency's obligational authority of a department or agency...."
The Comprehensive Annual Financial Report (CAFR) for the Fiscal Year (FY) ended 2007 (page 123) disclosed that the expenditures of the Gusman and Olympia fund exceeded their budgeted authorizations by $756,765 as illustrated in the table below. A similar observation was noted in our prior audit report numbers 04-018, 05-020 and 06-010.

<table>
<thead>
<tr>
<th>Final Budgeted Amount</th>
<th>Actual</th>
<th>Variance Positive (Negative)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gusman and Olympia</td>
<td>1,712,454</td>
<td>2,469,219</td>
</tr>
</tbody>
</table>

The Miami Parking Authority (Gusman and Olympia) management is responsible for ensuring that all functional categories do not exceed budgeted amounts. In the absence of procedures requiring the timely amendment of adopted budgets by the City Commission, adherence thereto and the integration of accurate budgetary data into the accounting system, the effectiveness of the budget as a means of controlling expenditures is limited. Therefore, it is important that actual expenditures be as close as possible to the projected budget. Budget amendments should be prepared and approved during the year to ensure a balanced year end budget and compliance with the Anti-Deficiency Act.

I agree [ ] I disagree [ ] Initials [ ] Date [11/4/08] [An]

Explanations:
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

Please initial and date, if you agree with the audit findings. If you disagree, please provide a written explanation and supporting documents by October 10, 2008. Additionally, please indicate what procedures would be implemented to address this
recurring observation as noted above. Due to the urgency of this audit engagement, a
timely response would be greatly appreciated. If you have any questions or comments,
please feel free to contact me at 305-416-2049.

C: Victor Igwe, CPA, CIA, Independent Auditor General
   Scott Simpson, Chief Financial Officer
   Audit Documentation File
FINANCIAL INTEGRITY PRINCIPLE NUMBER 2 - ESTIMATING CONFERENCE PROCESS

OFFICE OF STRATEGIC PLANNING, BUDGETING, AND PERFORMANCE

THE ESTIMATING CONFERENCE COMMITTEE RECOMMENDATIONS WERE NOT PROVIDED TO THE CITY MANAGER, MAYOR, AND CITY COMMISSION

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 plans utilizing a professional estimating conference process. The principal responsibilities of the conference will include review of the assumptions and estimates prepared by the City and making recommendations for changes. Any recommendations made should be summarized and reported to the city manager, mayor, and city commission. 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 review of records maintained at the Office of Strategic Planning, Budgeting, and Performance (OSPBP) disclosed that the Estimating Conference Committee (Committee) met on July 24, 2007 and August 29, 2007 to examine the underlying assumptions supporting the City’s Fiscal Year 2007/2008 budget. Our review of the approved minutes of said meetings disclosed the following recommendations:

- The Fire Fee Assessment totaling $15.5 million should be presented as a separate line item and the related $3.7 million fire fee recovery should also be fully disclosed in the footnote.
- The cost and benefit of the ERP system and its capability to provide accurate financial information should be determined and the cost of implementing said system should be budgeted for.
All issues relative to the Oracle implementation should be reported to the City Commission.

However, we were not provided with any document to evidence that the recommendations made by the Committee were provided to the City Manager, Mayor and City Commission as required. It is important that any recommendations made by the Committee as part of the annual budget process be properly summarized and reported to the City Commission for consideration. When sufficient and relevant budget information is not provided to elected officials, there is an increased risk that said officials will not be able to make informed decisions.

Recommendation

We recommend that the recommendations made by the Estimating Conference Committee be summarized and reported to the City Manager, Mayor and City Commission as required.

Auditee’s Response and Action Plan

The auditee concurred with the finding and recommendation.

See auditee’s response on pages 34 through 37.
Date: August 6, 2008

To: Michael Boudreaux, Director
   Strategic Planning, Budgeting, and Performance Department (SPBPD)

From: Marie B. Severe, CPA, CIA, Senior Staff Auditor
   Office of Independent Auditor General

Subject: Audit of the Financial Integrity Principles

Dear Mr. Boudreaux:

Pursuant to our ongoing audit of the Financial Integrity Principles for the period October 1, 2006 through September 30, 2007, and selected transactions prior and subsequent to this period, please confirm our understanding of the following and provide any additional records and/or documentation by August 12, 2008.

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 plans utilizing a professional estimating conference process. The principal responsibilities of the conference will include review of the assumptions and estimates prepared by the City and making recommendation for changes. Any recommendations made should be summarized and reported to the City Manager, Mayor, and City Commission. 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 review of documents maintained at the SPBPD disclosed that the Estimating Conference Committee (Committee) met on July 24, 2007 and August 29, 2007 to examine the underlying assumptions supporting the City’s budget for the Fiscal Year (FY) 2007/2008. Our review of the approved minutes of the said meetings disclosed the following recommendations:

- The Fire Fee Assessment totaling $15.5 million should be presented as a separate line item and the related $3.7 million fire fees recoveries should also be fully disclosed in the footnote.
- The cost and benefit of the ERP system and its capability to provide accurate financial information should be determined and the cost of implementing said system should be budgeted for.
- All issues relative to the Oracle implementation should be reported to the City Commission.

However, we were not provided with any document to evidence that the recommendations made by the said Committee were provided to the City Manager, Mayor and City Commission as required. One of the City Commission’s critical responsibilities is to approve annual budgets that would fund core services/programs; therefore, it is important that any assistance/input/recommendation provided by the Committee as part of the annual budget process be properly summarized and reported to the City Commission so that Commissioners can make informed decisions. When sufficient and relevant budget information is not provided to City Officials, there is an increased risk the said officials will not be able to make informed decisions.

I agree [x] I disagree [ ] Initials [ ] Date [01/11/08]

OFFICE OF INDEPENDENT AUDITOR GENERAL
444 S.W. 2nd Avenue, Suite 715/Miami, FL 33128
Explanation: Please see attached explanation.

Please initial and date, if you agree with the audit findings. If you disagree, please provide a written explanation and supporting documents by August 12, 2008. Due to the urgency of this project, a timely response would be greatly appreciated. If you have any questions or comments, please feel free to contact me at 305-416-2049.

C: Victor Igwe, CPA, CIA, Auditor General
Audit Documentation File
Explanation: A review of the Charter and Code, City of Miami, Article IX, Financial Policies, Division 2, Financial Integrity Principles, Sec. 18-542. Financial integrity principles as reviewed on Municode.com did not indicate any recommendations made should be summarized and reported to the City Manager, Mayor, and City Commission. The recommendations made by the Estimating Conference Committee were included in the Fiscal Year (FY) 2008, but no written summary was provided. It has been brought to the OSPBP attention that the Charter and Code information in Municode.com may not be up-to-date and the OSPBP is now in possession of the updated Financial Integrity Principles.
INTERNAL FUND TRANSFERS

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.”

We noted that a total of $29,988,666 was reported in the General Fund as Due to Fire Rescue Services, Communication Services Tax, Homeless, Transportation and Transit and, Special Obligation Bonds. The notes to the financial statements stated that the outstanding balance was due mainly to time lags between the dates that: (a) interfund goods and services were provided or reimbursable expenditures occurred, (b) transactions were recorded in the accounting system, and (c) payments between funds were made. Upon audit inquiry, the Finance Director stated that the transactions in question were recorded only for financial presentation purposes and, as such, do not constitute a loan. She also stated that deficit cash balances occurred throughout the year due to timing of authorized expenditures and reimbursements. Furthermore, the City utilizes the pooled cash concept which allows deficit cash balances to be funded with surpluses from other funds in order to maximize its cash position and return on investment.

The total transfers from/to other funds as reported on the “Statement of Revenues, Expenditures, and Changes in Fund Balance”, were approximately $278 million for the fiscal year ended September 30, 2007. Our review of approximately $72.4 million (or 26%) of the $278 million
disclosed that operating transfers were for transactions such as: (1) transfers from the Public Service Tax Special Revenue Fund and Public Facilities to other governmental funds for the repayment of debt; (2) transfers from Transportation and Transit, and Public Facilities for capital project/capital improvement program funding (3) transfers from the Community Development Fund to Debt Service Funds for the repayment of principal and interest on HUD Section 108 Loans. These operating fund transfers are typical and consistent with the activities of governmental fund types and operations of the City.

Recommendation

None required.

Auditee’s Response and Action Plan

None required.
REQUESTS FOR REIMBURSEMENT WERE NOT FILED ON A TIMELY BASIS

NET/MIAMI HOMELESS ASSISTANCE PROGRAM, PARKS AND RECREATION, CAPITAL IMPROVEMENTS AND TRANSPORTATION, AND FIRE-RESCUE DEPARTMENTS

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 Comprehensive Annual Financial Statements Report (CAFR) to the extent allowed under accounting principles generally accepted in the United States of America (GAAP).”

Our audit test to determine whether reimbursement requests for City departments were filed in a timely manner disclosed that expenditure transactions totaling $12,702,923 (or 73% of the $17,333,835 expenditures tested), as itemized and discussed below, were not filed in a timely manner. The number of days late ranged from 1 to 512 days. A similar finding was noted in our prior audit report number 07-016 dated July 24, 2007.
<table>
<thead>
<tr>
<th>Program Name</th>
<th>Total Expenditures Tested</th>
<th>Reimbursable Expenditures Not Timely Filed</th>
<th>% Not Timely Filed</th>
<th>Un-reimbursable Expenditures</th>
<th>% Un-reimb Exp</th>
<th># of days late</th>
<th>From</th>
<th>To</th>
</tr>
</thead>
<tbody>
<tr>
<td>Miami Homeless Assistance Program</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supportive Housing Program Grant</td>
<td>$250,724.00</td>
<td>$83,860.00</td>
<td>33%</td>
<td>$</td>
<td>0%</td>
<td>11</td>
<td>68</td>
<td></td>
</tr>
<tr>
<td>Emergency Hotel/Motel Grant</td>
<td>$24,971.00</td>
<td>$11,025.00</td>
<td>44%</td>
<td>$8,050.00</td>
<td>32%</td>
<td>8</td>
<td>128</td>
<td></td>
</tr>
<tr>
<td>Alliance for Human Services</td>
<td>$32,808.00</td>
<td>$20,820.00</td>
<td>63%</td>
<td>$</td>
<td>0%</td>
<td>25</td>
<td>148</td>
<td></td>
</tr>
<tr>
<td>Outreach to Homeless Detainees</td>
<td>$100,285.00</td>
<td>$95,128.00</td>
<td>95%</td>
<td>$</td>
<td>0%</td>
<td>1</td>
<td>34</td>
<td></td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>408,788.00</strong></td>
<td><strong>210,833.00</strong></td>
<td></td>
<td><strong>8,050.00</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Parks and Recreation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Safe Neighborhood Parks</td>
<td>$747,465.00</td>
<td>$613,121.00</td>
<td>82%</td>
<td>$</td>
<td>0%</td>
<td>3</td>
<td>384</td>
<td></td>
</tr>
<tr>
<td>After School Snack Program</td>
<td>$115,174.00</td>
<td>0.00</td>
<td>0%</td>
<td>$63,726.00</td>
<td>55%</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>862,639.00</strong></td>
<td><strong>613,121.00</strong></td>
<td></td>
<td><strong>63,726.00</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CIP/Transportation Department</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Miami Street Car Project</td>
<td>$2,092,887.95</td>
<td>$1,773,104.00</td>
<td>85%</td>
<td>$404,636.00</td>
<td>19%</td>
<td>4</td>
<td>256</td>
<td></td>
</tr>
<tr>
<td>FEMA Hazard Mitigation</td>
<td>$2,089,767.00</td>
<td>$2,089,767.00</td>
<td>100%</td>
<td>$</td>
<td>0%</td>
<td>203</td>
<td>509</td>
<td></td>
</tr>
<tr>
<td>FEMA Disaster Recovery Assistance</td>
<td>$3,218,574.00</td>
<td>$3,218,574.00</td>
<td>100%</td>
<td>$</td>
<td>0%</td>
<td>192</td>
<td>512</td>
<td></td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>7,401,228.95</strong></td>
<td><strong>7,081,445.00</strong></td>
<td></td>
<td><strong>404,636.00</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fire-Rescue Department</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Urban Area Security Initiative Grant II</td>
<td>$2,996,494.00</td>
<td>$1,241,019.00</td>
<td>41%</td>
<td>$21,974.00</td>
<td>1%</td>
<td>1</td>
<td>148</td>
<td></td>
</tr>
<tr>
<td>Urban Area Security Initiative Grant III</td>
<td>$2,652,520.81</td>
<td>$559,196.24</td>
<td>21%</td>
<td>$</td>
<td>0%</td>
<td>31</td>
<td>265</td>
<td></td>
</tr>
<tr>
<td>Urban Area Security Initiative Grant III</td>
<td>$2,867,100.40</td>
<td>$2,867,100.40</td>
<td>100%</td>
<td>$</td>
<td>0%</td>
<td>185</td>
<td>461</td>
<td></td>
</tr>
<tr>
<td>State Homeland Security Grant</td>
<td>$141,602.90</td>
<td>$126,748.00</td>
<td>90%</td>
<td>$</td>
<td>0%</td>
<td>16</td>
<td>325</td>
<td></td>
</tr>
<tr>
<td>State Homeland Security Grant</td>
<td>$3,460.60</td>
<td>$3,460.60</td>
<td>100%</td>
<td>$</td>
<td>0%</td>
<td>321</td>
<td>477</td>
<td></td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>8,661,178.71</strong></td>
<td><strong>4,797,524.24</strong></td>
<td></td>
<td><strong>21,974.00</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Grand total</strong></td>
<td><strong>17,333,834.66</strong></td>
<td><strong>12,702,923.24</strong></td>
<td></td>
<td><strong>498,386.00</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note 1  As of June 26, 2008, expenditures had not yet been submitted for reimbursement.

Note 2  As of July 1, 2008, expenditures had not yet been submitted for reimbursement.

Note 3  As of July 22, 2008, expenditures had not yet been submitted for reimbursement.

As discussed on page 94, when testing Quarterly Reports of Un-reimbursable Expenditures, we noted additional un-reimbursable (disallowed) expenditures. For example, we noted that an additional $681,028 was un-reimbursable for grants/programs administered by the Fire Rescue Department.
UN-REIMBURSABLE/DISALLOWED EXPENDITURES

Our testing also disclosed that $498,386 of reimbursement requests were disallowed, and therefore un-reimbursable, due to non-compliance with grant terms. Said disallowed/un-reimbursable items are indicated in the schedule on page 41 and described below:

- **NET/HOMELESS ASSISTANCE PROGRAM – Emergency Hotel/Motel Grant**

  Article One, Section 1 (a) of the ‘Emergency Hotel/Motel Grant’ agreement provides that the City is responsible for referring and placing eligible homeless families in area hotels/motels. The Article defines homeless families as families who are unable to be placed into an emergency shelter/other housing due to the unavailability of beds within the homeless continuum of care. Based on our testing, we noted that $16,921 of the $24,971 expended was reimbursed to the City; however, the remaining $8,050, (or 32%) which was used for temporary hotel relocation of 21 families displaced by a fire at Town Park Village, was disallowed by the grantor. Upon audit inquiry, we were informed that said amount ($8,050) was not reimbursed because the Homeless Assistance Program did not obtain prior authorization from the grantor (County) before placing the families, as required by the agreement with the County.

- **PARKS AND RECREATION – After School Snack Program**

  On December 7, 2006, the City and the State of Florida’s Department of Health (DOH) entered into an agreement to provide food to after-school program participants in various City parks. The term of the agreement was for the period October 1, 2006 through September 30, 2007. Section II (A) of the agreement provides that claims for reimbursement not filed with the DOH within 60 days after the close of the month in which the expenditures were incurred shall be disallowed. Our review of 14 expenditure transactions totaling $115,174 that were processed and funded with general fund monies during the period September 1, 2006 through October 31, 2007, disclosed that $63,726
(or 55%) were un-reimbursable. The Parks and Recreation Department (PRD) provided the following reasons for the un-reimbursable expenditures:

<table>
<thead>
<tr>
<th>Amount</th>
<th>Reason provided by Parks and Recreation Department</th>
</tr>
</thead>
<tbody>
<tr>
<td>$18,943.00</td>
<td>Oversight</td>
</tr>
<tr>
<td>12,049.00</td>
<td>Contractual agreement not timely executed</td>
</tr>
<tr>
<td>8,701.00</td>
<td>Misunderstanding relative to the effective date of contract</td>
</tr>
<tr>
<td>13,800.00</td>
<td>The number of snacks purchased exceeded the number of children that attended the after school program**</td>
</tr>
<tr>
<td>9,732.00</td>
<td>Expenditures were incurred prior to official execution of the contract</td>
</tr>
<tr>
<td>500.50</td>
<td>Miami-Dade County public school was not in session as required by the agreement</td>
</tr>
<tr>
<td>$63,725.50</td>
<td></td>
</tr>
</tbody>
</table>

**However, we were not provided with any record to evidence the names of the after school program participants who benefited from the $13,800 worth of after school snacks, which include milk, juice, cereal, water, crackers and fruits**

In addition, the PRD explained that after-school program attendance records were not adequately maintained at the Lemon City Park site and that due to Lemon City’s failure to comply with the submission of the appropriate paperwork, the Park was removed from the snack program.

- **CIP/TRANSPORTATION DEPARTMENT – Miami Street Car Project**

Section 12.10 of the agreement between the City and the Florida Department of Transportation (FDOT) states that: “The Agency shall not execute any contract or obligation in any manner requiring the disbursement of the Department joint participation funds, including consultant, construction or purchase of commodities contracts or amendments thereto, with any third party with respect to the project without the written approval of the Department. Failure to obtain approval shall be sufficient cause for nonpayment by the Department…” Based on our testing, we noted that $404,636, (or 13%) of the $3,156,304 expended, was disbursed to a third party contractor for services performed pursuant to the Joint Participation Agreement prior to obtaining
written approval from FDOT. As a result, the request for reimbursement of the $404,636 was disallowed by FDOT.

**FIRE RESCUE DEPARTMENT – Urban Area Security Initiative Grant II**

Pursuant to Attachment A of the Urban Area Security Initiative Grant II agreement dated July 1, 2004, between the City and State of Florida Department of Community Affairs (DCA), the City is authorized to expend grant funding for a specified list of activities, including but not limited to planning, training, exercises, and equipment acquisition. However, we noted that $21,974 (or 0.73%) of the $2,996,494 expended was used to purchase questionable items including oversized flower pots (used as barriers) for the City of Miami Administration Building (MRC) and boat parts/maintenance (marine patrol). Due to the fact that these items were not included on the list of authorized activities, the $21,974 was disallowed by the grantor (DCA). Upon audit inquiry, the Fire Rescue Department contended that the $21,974 was inappropriately disallowed and indicated that the DCA has agreed to provide reimbursement. However, as of the date of this report, we were not provided with any documentation evidencing reimbursement of said amount to the City.

**OTHER INTERNAL CONTROL DEFICIENCIES RELATIVE TO GRANT MANAGEMENT**

Based on our testing of grant reimbursement requests we also noted the following internal control deficiencies:

- **PARKS AND RECREATION – After School Snack Program**

**DUPLICATE PAYMENT – INADEQUATE SUPERVISORY REVIEW**

Good business practice dictates that invoices be properly reviewed prior to disbursement in order to avoid overpayment and to detect potential errors/irregularities. However, we noted that an invoice totaling $510.25 for services (snacks) provided on April 30, 2007,
in connection with the After School Snack Program was billed and paid for twice. Upon audit inquiry, PRD indicated that it has made an effort to recover the overpayment from the vendor. However, as of the date of this report, we were not provided with any documentation evidencing reimbursement of said amount to the City.

- **FIRE RESCUE DEPARTMENT – Urban Area Security Initiative Grant (II and III)**

**INADEQUATE SUPPORTING DOCUMENTATION**

Title 28, Chapter I, Part 66, Section 66.20(b)(6) of the Code of Federal Regulations provides that accounting records must be supported by source documentation such as cancelled checks, paid bills, payroll time and attendance records, contract and subgrant award documents etc. Additionally, Section 17(c) of the agreement between the City and DCA provides that all bills for fees or other compensation for services or expenses shall be submitted in detail sufficient for a proper audit.

Our audit disclosed that the Fire Rescue Department (FRD) did not properly complete and provide adequate supporting documentation (such as time and attendance records, training records, cancelled checks, invoices, and transaction descriptions) for 22 reimbursement requests totaling $3.6 million that were processed and paid with general fund monies. Said reimbursement requests were submitted to DCA during the period August 15, 2007 through March 26, 2008; however, as of the date of this report, only $2,537,088 of the $3.6 million has been collected. According to FRD management, efforts have been made to re-organize the department and develop procedures to ensure that the reimbursement process is timely and in accordance with all City and State requirements.

**FRD WAS REIMBURSED FOR AN EXPENDITURE NOT YET PAID**

Section 3(g) of the agreement between the City and DCA provides that: “… All payments for professional services and authorized expenses, including travel expenses, will be paid
to the subrecipient only upon timely and satisfactory completion of all services and other units of deliverables…”

Our audit disclosed that on January 24, 2008, the City requested, and subsequently received, reimbursement from the State of Florida Department of Financial Services (DFS) for an employee travel expenditure totaling $516. However, our review of the City’s Oracle Accounting System disclosed no evidence of any payment (check) issued to the employee for said travel expenditure. Upon audit inquiry, we were informed that the $516 has not been reimbursed/paid to the employee because the employee failed to provide the documentation required to process the travel reimbursement request. Due to the fact that payment for the travel expenditure was not disbursed to the employee, the City was never entitled to reimbursement from DFS. As a result, the City should refund DFS and future reimbursement requests should not be sought without adequate supporting documentation.

**GRANT EXPENDITURES REPORTED IN THE FINANCIAL ACCOUNTING SYSTEM WERE UNDERSTATED**

Title 28, Chapter I, Section 66.20 (3) of the Code of Federal Regulations provides that effective internal control and accountability must be maintained for all grants.

Our audit disclosed that the total expenditures for the State Homeland Security Grant (Award No. 1353) as reported on the Schedule of Expenditures of Federal Awards and State Financial Assistance that was derived from the City’s Comprehensive Annual financial Report (CAFR) for the year ended September 30, 2007, was understated by $55,450. The understatement occurred because journal entries to transfer payroll overtime and travel expenditures from other cost centers (general fund and other special revenues funds) to the State Homeland Security Grant account were not requested by the FRD until November 27, 2007 (for $8,039), May 12, 2008 (for $43,426) and June 18, 2008 (for $3,985). The proper accounting for the Schedule of Expenditures of Federal Awards and State Financial Assistance requires that the journal entries necessary to transfer expenditures to the appropriate grant accounts be requested by FRD and posted.
by the Finance Department in a timely manner. The understatement of expenditures on the said schedule, could affect the external auditor’s classification of program types (A, B, or C) required for single audit testing purposes.

Recommendation

We recommend that adequate internal control policies and procedures be established and implemented to ensure that reimbursement requests are filed in a timely manner and in accordance with grant provisions, best business practices, and State and Federal statutes.

Auditees’ Responses and Action Plans

The auditee concurred with some of the audit observations and also provided written responses to explain its non-compliance with certain observations. See auditees’ responses on pages 48 through 83.
Date: July 14, 2008

To: David Rosemond, Director
    Neighborhood Enhancement Team Offices

From: Marie B. Severe, CPA, CIA, Senior Staff Auditor
      Office of Independent Auditor General

Subject: Audit of the Financial Integrity Principles – Audit #08-020

Dear Mr. Rosemond:

Pursuant to our ongoing audit of the Financial Integrity Principles for the period October 1, 2006 through September 30, 2007, and selected transactions prior and subsequent to this period, please confirm our understanding of the following and provide any additional records and/or documentation by July 21, 2008.

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 Comprehensive Annual Financial Statements Report (CAFR) to the extent allowed under generally accepted accounting principles accepted in the United States of America (GAAP). 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 reimbursement requests for the Homeless Program were filed in a timely manner during the period October 1, 2006 through September 30, 2007 disclosed the following deficiencies:

REQUESTS FOR REIMBURSEMENT WERE NOT TIMELY FILED

1. Supportive Housing Program Grant
   On January 24, 2007, the City entered into an agreement with Miami-Dade County (County) to provide outreach, information, referral, assessment and placement services to homeless individuals. The agreement was for the period June 1, 2006 through May 31, 2007. Section II (A) (2) of the said agreement stipulates that request for payment shall be submitted by the 15th of the month. Our review of 13 monthly expenditure transactions totaling $250,724 disclosed that 5 (or 38%) expenditure transactions totaling $83,860 (or 33%) were filed late. The number of days late ranged from 11 to 68 days. Although reimbursement requests were not filed in a timely manner, the City received full reimbursement for the entire $250,724.

   I agree [ ] I disagree [ ] Initials [ ] Date 8/1/07

   Explanation __________________________________________
   __________________________________________
   __________________________________________

2. Emergency Hotel/ Motel Grant
   On December 13, 2006, the City entered into an agreement with Miami Dade County (County) to provide emergency hotel/motel placements of homeless families. The agreement was for the period October 1, 2006 through September 30, 2007. Article 1, Section 3(c) of the said agreement stipulates that reimbursement requests shall be
submitted to the County no later than the 15th day of each month. However, our review of 13 monthly expenditure transactions totaling $24,971 disclosed that 6 (or 46%) monthly expenditures totaling $11,025 (or 44%) were filed late. The number of days late ranged from 8 to 128 days. A similar finding was noted in two prior audit reports (report no. 06-010 dated July 1, 2006 and report no. 07-016 dated July 24, 2006).

I agree [ ] I disagree [ ] Initials [ ] Date [ ]

Explanation

UN-REIMBURSABLE EXPENDITURES

Article One, Section 1 (a) of the ‘Emergency Hotel/Motel Grant’ agreement (discussed in item #2 above) provides that the City is responsible for referring and placing eligible homeless families in area hotels/motels. The said article defines homeless families as families who are unable to be placed into an emergency shelter/other housing due to the unavailability of beds within the Homeless Continuum of care. However, we noted that only $16,921 (or 68%) of the $24,971 discussed above was reimbursed to the City. The remaining $8,050, which was used for temporary hotel relocation of 21 families displaced by a fire at Town Park Village, was disallowed by the grantor. Upon audit inquiry, we were informed that the said amount ($8,050) was not reimbursed because the Office of the Homeless Program (OHP) failed to obtain prior authorization from the grantor (County) before placement as required by the agreement with the County. An effective system of internal controls is necessary to ensure only eligible homeless families are placed in area hotels/motels.

I agree [ ] I disagree [ ] Initials [ ] Date [ ]

OFFICE OF INDEPENDENT AUDITOR GENERAL
444 S.W. 2nd Avenue, Suite 715/Miami, FL 33128
3. **Alliance for Human Services**

On August 2, 2004, the City and Miami Dade County (County) entered into agreement to provide social/human services. The agreement was subsequently amended on October 9, 2006 and July 10, 2007. The agreement was for the period July 1, 2006 through September 30, 2007. Section XIV(C) of the said agreement, as amended, provides that a monthly summary of expenditures report (reimbursement request) must be submitted no later than the 15th day of the month following the month services were provided. However, our review of 12 monthly expenditure transactions totaling $32,808 disclosed that 8 (or 67%) expenditure transactions totaling $20,820 (63%) were filed late. The number of days late ranged from 25 to 148 days late. Furthermore, we noted that as of June 23, 2008, a total of $13,896 (or 42%) of the $32,808 has not been reimbursed to the City. Upon audit inquiry, we were informed that the City has not been reimbursed because the reimbursement requests were not correctly completed by the OHP. The OHP is in the process of revising the said requests for re-submission to the County. An effective system of internal controls is necessary to ensure that reimbursement requests are properly completed prior to submission to the County.

I agree [✓] I disagree [ ] Initials [ ] Date 6/1/08

Explanation

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444 S.W. 2nd Avenue, Suite 715/Miami, FL 33128

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4. Outreach to Homeless Detainees

On November 10, 2006, the City and Miami-Dade County (County) entered into an agreement to provide outreach, assessment, referral and transportation services to detainees at the Dade County Jail. The agreement was for the period June 1, 2006 through June 30, 2007. Section D(2) of the said agreement provides that requests for payment are due by the 5th business day of the month following the end of the previous month. Our review of 12 monthly expenditure transactions totaling $100,285 disclosed that 11 (or 92%) expenditure transactions totaling $95,128 (95%) were filed late. The number of days late ranged from 1 to 34 days. Although reimbursement requests were not filed in a timely manner, the City received full reimbursement for the entire $100,285.

I agree [ ] I disagree [ ] Initials [ ] Date 8/1/08

Explanation ____________________________________________

Internal controls are not working effectively at the Homeless Office to ensure that reimbursement requests are filed in a timely manner thus minimizing the period City funds are used as float. When city departments and/or offices fail to timely request reimbursement of grant funds, the City has to wait to be reimbursed by the grantors for general fund monies that were used to pay for federal and/or state funded projects. As a result, the City cannot earn interest on its own funds and can lose substantial amounts of interest income each year. Additionally, the grantor may disallow requests for funds submitted for reimbursement after the required deadline.

Please initial and date, if you agree with the audit findings. If you disagree, please provide written explanation and supporting documents by July 21, 2008. Due to the urgency of
completing this audit, a timely response would be greatly appreciated. If you have any questions or comments, please feel free to contact me at 305-416-2049.

Thank you for your cooperation in this matter.

C: Victor Igwe, CPA, CIA, Auditor General
Lai-Wan McGinnis, Staff Auditor
Audit Documentation File
City of Miami

Date: July 24, 2008

To: Ernest W. Burkeen, Director
   Parks and Recreation Department

From: Marie B. Severe, CPA, CIA, Senior Staff Auditor
       Office of Independent Auditor General

Subject: Audit of the Financial Integrity Principles - Audit #08-020

Dear Mr. Burkeen:

Pursuant to our ongoing audit of the Financial Integrity Principles for the period October 1, 2006 through September 30, 2007, and selected transactions prior and subsequent to this period, please confirm our understanding of the following and provide any additional records and/or documentation by August 4, 2008.

Chapter 18, Article IX, Section 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 Comprehensive Annual Financial Statements Report (CAFR) to the extent allowed under generally accepted accounting principles accepted in the United States of America (GAAP). 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 reimbursement requests
for the Parks and Recreation Department were filed in a timely manner disclosed the
following:

1. Safe Neighborhood Parks

On August 23, 2005, the City and Miami Dade County (County) entered into an
agreement to provide capital improvements for certain parks, beaches and recreational
facilities. The term of the agreement was for the period June 6, 2005 through June 5,
2008. Section II of the said agreement requires the City to comply with the
Administrative Rules for specified project grants. Section 9 of the Safe Neighborhood
Parks Bond Program’s Administrative Rules stipulates that grantees must submit
reimbursement requests on a quarterly basis. However, our review of 25 expenditure
transactions totaling $747,465 disclosed that 21 of 25 (or 84%) expenditure transactions
totaling $613,121 were filed late. The number of days late ranged from 3 to 384 days.
Although these reimbursements were not submitted in a timely manner, the entire
$747,465 was reimbursed to the City.

I agree [ ] I disagree [ ] Initials _____ Date _____

Explanation
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2. After School Snack Program

OFFICE OF INDEPENDENT AUDITOR GENERAL
444 S W 2nd Avenue, Suite 715/Miami, FL 33128

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On December 7, 2006, the City and the State of Florida’s Department of Health (DOH) entered into an agreement to provide food to after school program participants in various City parks. The agreement was for the period October 1, 2006 through September 30, 2007. Section II (A) of the said agreement provides that claims for reimbursement not filed with the DOH within 60 days after the close of the month in which the expenditures were incurred shall be disallowed. Our review of 14 expenditure transactions totaling $115,174 that were processed and funded with general fund monies during the period September 1, 2006 through October 31, 2007, disclosed that $63,726 (or 55%) of the $115,174 were unreimbursable as noted below:

<table>
<thead>
<tr>
<th>Program</th>
<th>Amount</th>
<th>Reason for disallowance provided by Parks and Recreation</th>
</tr>
</thead>
<tbody>
<tr>
<td>After School Snack</td>
<td>$18,943</td>
<td>Oversight</td>
</tr>
<tr>
<td></td>
<td>$12,049</td>
<td>Contractual agreement not timely executed</td>
</tr>
<tr>
<td>After School Snack</td>
<td>$8,701</td>
<td>Misunderstanding relative to the effective date of contract</td>
</tr>
<tr>
<td></td>
<td>$13,800</td>
<td>The number of snacks purchased exceeded the number of children that attended the after school program**</td>
</tr>
<tr>
<td>After School Snack</td>
<td>$9,732</td>
<td>Expenditures were incurred prior to official execution of the contract</td>
</tr>
<tr>
<td>After School Snack</td>
<td>$500.50</td>
<td>Miami-Dade County public school was not in session as required by the agreement</td>
</tr>
<tr>
<td></td>
<td>$63,725.50</td>
<td></td>
</tr>
</tbody>
</table>

**However, we were not provided with any record to evidence the names of the after school program participants who benefited from the $13,800 worth of after school snacks, which include milk, juice, cereal, water, crackers and fruits.
Internal controls are not working effectively at the PRD to ensure that reimbursement requests are filed in a timely manner thus minimizing the period City funds are used as float. When city departments and/or offices fail to timely request reimbursement of grant funds, the City has to wait to be reimbursed by the grantors for general fund monies and/or other funds that were used to pay for federal and/or state funded projects. As a result, the City cannot earn interest on its own funds and can lose substantial amounts of interest income each year. Additionally, general fund monies are primarily used to fund these grant related expenditures, in anticipation that said funds will be replenished upon reimbursement. Therefore, when reimbursement requests are disallowed as a result of noncompliance with the provisions of the program agreement as noted above, the available general fund reserve balance will decrease.

INTERNAL CONTROL DEFICIENCIES
Our test to determine whether adequate internal controls were maintained at the PRD in connection with the After School Snack Program disclosed the following:

DUPLICATE PAYMENT
Good business practice dictates that invoices be properly reviewed prior to disbursement in order to avoid overpayment and/or detect potential
errors/irregularities. However, we noted that an invoice totaling $510.25 for services (snacks) provided on April 30, 2007, in connection with the After School Program was billed and paid for twice. As a result, there was a duplicate payment of $510.25 for the same services provided on April 30, 2007. Internal controls are not working effectively at the PRD to ensure that invoices are properly reconciled in order to prevent duplicate payments from occurring. Upon audit inquiry, we were informed that the PRD would try to recover the overpayment from the vendor.

I agree [ ] I disagree [ ] Initials [ ] Date [ ]

Explanation
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FAILURES TO MAINTAIN ADEQUATE RECORDS

Section L(A) of the Agreement between the City and DOH states that: “records that support claims for reimbursement include, but are not limited to, free and reduced price meal applications, daily meal counts, menu records, enrollment records and attendance records.” Additionally, Title 7, Part 226, Section 226.10 (d) of the CFR provides that all records supporting claims (reimbursement requests) must be retained for three (3) years. However, our test of 17 parks to determine whether adequate documentation was maintained by the PRD and whether after school snacks were properly accounted for disclosed that the PRD could not account for $22,672 (or 20%) of the $115,174 after school snacks due to the fact that attendance records were not maintained by the said parks as required.
These transactions and/or observations noted above give the appearance of impropriety. Adequate grant monitoring procedures are not in place at the PRD to ensure that all City parks complied with the After School Program grant requirements. Failure to adequately monitor the After School Program at City parks have resulted in significant deficiencies in internal controls and have contributed to disallowed/un-reimbursable costs as noted above. Lack of required attendance records could result in refund to DOH in the event of an audit and/or monitoring by the DOH.

I agree  [ ] I disagree  [ ] Initials  [ ] Date  [ ]

Explanation

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Please initial and date, if you agree with the audit findings. If you disagree, please provide written explanation and supporting documents by August 4, 2008. Due to the urgency of completing this audit, a timely response would be greatly appreciated. If you have any questions or comments, please feel free to contact me at 305-416-2049.

Thank you for your cooperation in this matter.

C: Victor Igwe, CPA, CIA, Auditor General
Lai-Wan McGinnis, Staff Auditor
Audit Documentation File
Marie B. Severe, CPA, CIA  
Senior Staff Auditor  
Office of Independent Auditor General  

Ernest W. Burgeen, Jr.  
Director  
Department of Parks and Recreation  

October 8, 2008  

Audit of the Financial Integrity Principles  
Audit #08-020  

This memorandum is in response to the memorandum from your office dated July 24, 2008 regarding the review and findings of Safe Neighborhood Parks Bond Program and After School Snack Program.

1. **Safe Neighborhood Parks Bond Program**

   The Parks and Recreation Department was fully reimbursed all eligible grant expenses. Due to the learning curve of the new Oracle financial system, the department has faced many challenges in obtaining the financial records incurred by another department. The Parks and Recreation Department has worked closely with the Finance and CIP departments to improve the timely submission of these reimbursement requests.

2. **After School Snack Program**

   In order to address the timeliness of the execution of the contract with the State of Florida (Department of Health), Department of Parks and Recreation has worked with the local regional representative from the Snack Program in order to receive the annual snack contract renewal package a week earlier to assist in the additional time needed to route the contract on the City’s end. The Department of Health requires the City to submit the executed contract in a month after the issuance of the contract. It has been a challenge because of the City’s complicated procedures for contract execution. However, the Department of Parks and Recreation will continue to work closely with the other internal departments to ensure that the contract is routed in a timely manner.

   The Department of Health requires that a snack be ordered for each participant registered in the after school program. However, the Parks Department orders snack based on the consistent attendance at each site. This amount is always less than the enrolled amount of participants. The number of attendees varies daily. To ensure each attendee receive his/her daily snack required by the program, we have to order a sufficient amount, which may exceed the actual number of attendees in a given day. Attendance records are submitted as a part of each site’s
reimbursement package and are attached to a copy of each month’s reimbursement package. Once the snacks are distributed to each child in attendance, the extra snacks are distributed to the kids in attendance on that day.

**Internal Control Deficiencies**

- Duplicate Payment

In processing the payment of $510.25 for the services of snacks, records did not show that the invoice had been paid. This was due to the fact that two different invoice numbers had been assigned for that date of service. Implementation of new procedures, have been made to ensure that the invoices and snack receipts are matched. Additional reconciliation has been done to rectify the situation. The Department has made an effort to recover the overpayment from the vendor.

- Failure to Maintain Adequate Records

Attendance records are submitted as a part of each site’s reimbursement package and are attached to a copy of the Department’s monthly reimbursement package and kept on file, with the exception of Lemon City. As a corrective action, Lemon City was removed from the snack program for the failure to comply with the submission of the appropriate paperwork. Enrollment cards for each participant are kept on file at each site. Once the snacks are distributed to each child in attendance, the extra snacks are distributed to the kids in attendance on that day or are kept to accommodate snacks for extra participants on the next day. Once the snacks have been distributed to each attendee, excess snacks will be distributed to the attendees upon request. Additional documentation is now required to keep account of all extra snacks that are distributed to participants.

Should you have further questions, please contact Michelle Choi at 305-416-1359.

EBW/co/mc

c: Maria Perez, Support Services Coordinator, Department of Parks and Recreation
   Maria De Cardenas, Parks Services Coordinator, Department of Parks and Recreation
   Elizabeth Ott, Administrative Assistant III, Department of Parks and Recreation
   Michelle Choi, Principal Staff Analyst, Department of Parks and Recreation
   LaCleveia Morley, Administrative Assistant II, Department of Parks and Recreation
Date: July 14, 2008

To: Ola Aluko, Director
   Capital Improvement Program

From: Marie B. Severe, CPA, CIA, Senior Staff Auditor
      Office of Independent Auditor General

Subject: Audit of the Financial Integrity Principles- Audit #08-020

Dear Mr. Aluko:

Pursuant to our ongoing audit of the Financial Integrity Principles for the period October 1, 2006 through September 30, 2007, and selected transactions prior and subsequent to this period, please confirm our understanding of the following and provide any additional records and/or documentation by July 21, 2008.

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 Comprehensive Annual Financial Statements Report (CAFR) to the extent allowed under generally accepted accounting principles accepted in the United States of America (GAAP). 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 reimbursement requests for the Capital Improvement Program (CIP) were filed in a timely manner during the period October 1, 2006 through September 30, 2007 disclosed the following deficiencies in connection with five (5) awards/grants reviewed:

1. Miami Street Car Project

On April 12, 2006, the City and the State of Florida Department of Transportation (FDOT) entered into a joint participation agreement to provide funding for the City Street Car project studies including alternative analysis, environmental documentation, and preliminary engineering and program/management services. The FDOT participation rate was 66.3082%. The agreement was for the period April 12, 2006, through March 31, 2008. However, on March 26, 2008, the said agreement was extended through September 30, 2009. Our review of expenditure transactions totaling $3,156,303 and incurred during the period December 8, 2006 through November 6, 2007 disclosed the following:

REQUESTS FOR REIMBURSEMENT WERE NOT TIMELY FILED

Exhibit C of the said agreement stipulates that invoices for payment must be submitted to FDOT no later than 120 days after the services are rendered. However, our review of 28 expenditure transactions totaling $3,156,303, for which the City is entitled to receive $2,092,888 (or 66.3082% multiplied by $3,156,303), disclosed that:

- The request for reimbursement related to eighteen (18) expenditure transactions totaling $1,610,746 were filed late. The number of days late ranged from 4 to 496 days.
• The request for reimbursement related to Six (6) expenditure transactions totaling $162,358 that were incurred during the period August 6, 2007 through November 6, 2007 were not filed as of June 26, 2008. The number of days late ranged from 113 to 215 days as of June 26, 2008.

Upon audit inquiry, we were informed that the reimbursement requests for the said 6 expenditure transactions have not been filed due to changes in staffing caused by a project consultant staff that left the City. We were also informed that the reimbursement requests for the said 6 expenditure transactions will be included in the reimbursement package that will be submitted to the FDOT by July 10, 2008. An effective system of internal controls is necessary to ensure that reimbursement requests are filed in a timely manner thus minimizing the period City funds are used as float.

I agree ☑ I disagree ☐ Initials __________________________ Date ______/____/____

Explanation ________________________________

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UN-REIMBURSABLE EXPENDITURES

Section 12.10 of the agreement between the City and FDOT states that: "The Agency shall not execute any contract or obligate itself in any manner requiring the disbursement of the Department joint participation funds, including consultant, construction or purchase of commodities contracts or

OFFICE OF INDEPENDENT AUDITOR GENERAL
444 S.W. 2nd Avenue, Suite 715/Miami, FL 33128
amendments thereto, with any third party with respect to the project without the written approval of the Department. Failure to obtain approval shall be sufficient cause for nonpayment by the Department...” We noted that $404,636 (or 13%) of the $3,156,304 as indicated above was disbursed to a third party contractor that performed certain services pursuant to the Joint Participation Agreement prior to obtaining written approval from FDOT. As a result, the request for reimbursement for the $404,636 was disallowed by the FDOT. Upon audit inquiry, we were informed by CIP staff that the funds ($404,636) were disallowed due to a misunderstanding by staff relative to Section 12.10 of the agreement.

I agree [ ] I disagree [ ] Initials [ ] Date [ ]

Explanation [ ]

2. Flagler Greenway

On March 6, 2007, the City and FDOT entered into a joint participation agreement (Agreement), through June 30, 2009, to provide funding for the Flagler Street Bridge Area. Pursuant to Exhibit D of the Agreement and the Local Agency Program Manual, progress billings (reimbursement requests) could be filed monthly by the City. However, our review of 15 reimbursement request transactions totaling $757,138 disclosed that 11 (or 73%) reimbursement request transactions totaling $714,228.47 (or 94%) were not filed monthly as allowed under the agreement. The number of days late ranged from ranged from 30 to 122 days. An effective system of internal controls is necessary to ensure
that reimbursement requests are filed in a timely manner thus minimizing the period City funds are used as float. It should be noted that although the reimbursement requests were not filed within the time period allowed under the agreement the entire $757,138 was reimbursed to the City.

I agree □ I disagree ✔ Initials _____ Date _____

Explanation __________________________________________________________________________
_______________________________________________________________________________________

3. **Federal Emergency Management Agency (FEMA) Hazard Mitigation and FEMA Disaster Recovery Assistance**

On April 14, 2004, the City and the State of Florida Department of Community Affairs (DCA) entered into an agreement to provide federal funding (FEMA Hazard Mitigation) for the City Flagami Drainage Improvement Project. The agreement was for the period April 14, 2004 through May 6, 2006. On March 16, 2007, said agreement was extended through March 31, 2009. Subsequently, on December 1, 2005 and January 11, 2006, the City and DCA entered into two other agreements, to provide disaster relief funding for Hurricane Katrina and Hurricane Wilma, respectively.

Federal Public Assistance Reimbursement Guidelines establish procedures to reimburse grantees as expenditures are incurred and/or needed. Generally, the grantee submits requests for reimbursement within a reasonable time interval such as monthly or quarterly to avoid the use of its own funds as float. In addition, according to the third Financial Integrity Principle (Chapter 18, Article
IX, Section 18-542 (3) of the City Code, "the City shall apply for reimbursements on a timely basis to minimize the period that city funds are used as float." However, our audit disclosed that as of June 26, 2008 expenditures incurred during the period October 1, 2006 through September 30, 2007, totaling $2,089,767 relative to FEMA Hazard Mitigation (Award #1125) and $3,218,574 relative to FEMA Disaster Recovery Assistance (Award #1127) have not been submitted for reimbursements. The number of days late ranged from 192 to 512 days. Upon audit inquiry, we were informed that the FEMA reimbursement process was a coordinated effort between the CIP and Fire Rescue Departments. However, the person assigned to this task in the Fire Rescue Department retired in Fiscal Year ended 2007. As a result, the burden of compiling the entire reimbursement package and filing for reimbursement has been placed on CIP. Furthermore, the individual (in CIP) responsible for preparing and filing FEMA reimbursement requests is not solely dedicated to this function. The CIP also stated that previous management decided that only one reimbursement request would be filed at the completion of the project.

I agree [✓] I disagree [ ] Initials [ ] Date [ ]

Explanation

On January 3, 2006, the City and the Florida Inland Navigation District entered into an agreement to provide assistance for the Bicentennial Park Shoreline

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Stabilization. Section 7 of the said agreement provides that project funds may be released upon submittal of a payment request by the City. The District shall retain 10% of each installment until the completion of the project. The outstanding receivables for the Bicentennial Park Shoreline Stabilization for the fiscal year ended 2007 were $5,589 for award number 1147 and $145,111 for award number 1347. However, our audit disclosed that as of June 26, 2008 reimbursement requests have not been filed for the outstanding receivables. Upon audit inquiry, we were informed that the reimbursement requests were not submitted because CIP had not received a response from the grantor regarding a revised line item budget request but that the requests will be submitted in July 2008.

I agree [ ] I disagree [ ] Initials ______ Date ______

Explanation: See attached Response.

When city departments and/or offices fail to timely request reimbursement of grant funds, the City has to wait to be reimbursed by the grantors for general fund monies and/or other funds that were used to pay for federal and/or state funded projects. As a result, the City cannot earn interest on its own funds and can lose substantial amounts of interest income each year. Additionally, the grantor may disallow requests for funds submitted for reimbursement after the required deadline.

Please initial and date, if you agree with the audit findings. If you disagree, please provide written explanation and supporting documents by July 21, 2008. Due to the

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urgency of this project, a timely response would be greatly appreciated. If you have any questions or comments, please feel free to contact me at 305-416-2049.

Thank you for your cooperation in this matter.

C: Victor Igwe, CPA, CIA, Auditor General
Lai-Wan McGinnis, Staff Auditor
Audit Documentation File
CITY OF MIAMI, FLORIDA
INTER-OFFICE MEMORANDUM

TO:       Marie B. Severe, CPA, CIA
          Senior Staff Auditor
          Office of Independent Auditor General

DATE: 7/29/08
FILE:

FROM:     Ola O. Aluko
          Director
          Department of Capital Improvements

SUBJECT: Audit #08-020
REFERENCES:
ENCLOSURES: Streetcar Reimbursement Package

1) Miami Street Car Project
Requests for reimbursement were not timely filed
We agree. The outstanding 6 expenditure transactions were packaged on July 18, 2008 and
have been transmitted to FDOT. A copy of the reimbursement package is attached for Ms.
Severe. According to the FDOT Public Transportation Manager who manages the Joint
Participation Agreement, the 120 days deadline for reimbursement applies to the date on the
most recent check paid to the contractor. Therefore, the package also contains all remaining
reimbursements including the most recent payments to the contractors which are May 19, 2008
for A&P Consulting Engineers and June 16, 2008 for Gannett Fleming. We concur that
reimbursement requests need to be filed in a timely manner given the appropriate staff
resources. The Miami Streetcar Project is a highly complex project with multiple sub-projects
and phases. In reference to the eighteen (18) expenditure transactions that were filed late—
During the invoice period covered in this audit, the Streetcar Project was on a fast pace in order
to meet a projected opening date. Also, the project required the services of several consultants.
For example, the work scope with Gannett Fleming as the prime consultant included the
services of four sub-consultants. The verification of these services and the necessary back up
documentation created a labor intensive effort that resulted in late reimbursements. Future
reimbursements will be made in a timely manner.

Un-reimbursable Expenditures
We agree. The services rendered by Invoice No. 1-4 with the contractor, Manuel Vera and
Associates, were not part of the initial scope of the project and required a second 3rd Party
Concurrence approval by FDOT. Consultant staff opined that the second concurrence approval
was not needed since the firm complied with the Consultants’ Competitive Negotiation Act in
Article 12.20 of the JPA. We concur that reimbursement requests need to be filed in a timely
manner given the appropriate staff resources.

2) Flagler Greenway
We concur that progress billings could be filed on a monthly basis and that in may instances
they were not. However, we do not agree with the statement “number of days late” as there
was no mandated timeline for submission. The report states, “An effective system of internal
controls is necessary to ensure that reimbursement requests are filed in a timely manner.” An
effective system on controls could include quarterly as opposed to monthly billings. CIP's
limited manpower and the tasking of said manpower to meet existing priorities are the
determining factors in the frequency of the progress billings. A potential solution is to have one
individual basically dedicated to grants management, which most likely could be done without increased cost. By filing monthly or timely as required by each grant the City’s need to float money would be reduced which would result in the City earning interest on the money staying in the bank. The earned interest may be more than sufficient to pay for the required staff position.

As noted in the findings all of the funding available under the grant was received by the City.

3) **Federal Emergency Management Agency (FEMA) Hazard Mitigation and FEMA Disaster Recovery Assistance**

We agree.

4) **Bicentennial Shoreline Stabilization**

We concur with the findings. As noted in the report the reimbursement requests was delayed until we received a response from the grantor concerning a line item budget revision. We are currently finalizing the reimbursement request and it will be submitted before the end of July.

cc: David Mendez, Assistant Director  
    Gary Fabrikant, Assistant Director  
    Pilar Saenz, Assistant Director  
    Lilia Medina, Assistant Transportation Coordinator
Date: September 10, 2008

To: William W. Bryson, Chief
    Fire-Rescue Department

From: Marie B. Severe, CPA, CIA, Senior Staff Auditor
      Office of Independent Auditor General

Subject: Audit of the Financial Integrity Principles – Audit#08-020

Dear Mr. Bryson:

Pursuant to our ongoing audit of the Financial Integrity Principles for the period October 1, 2006 through September 30, 2007 and selected transactions prior and subsequent to this period, please confirm our understanding of the following and provide any additional records and/or documentation by September 17, 2008.

Title 28, Chapter I, Section 66.20 (3) of the Code of Federal Regulations (CFR) provides that effective internal control and accountability must be maintained for all grants.

Our audit disclosed that the total expenditures reported on the Schedule of Expenditures of Federal Awards and State Financial Assistance and/or recorded in Oracle Financial System for the year ended September 30, 2007, relative to the State Homeland Security Grant (Award #1353) was understated by $55,450. The understatement occurred because journal entries to transfer overtime payroll and/or travel related expenditures totaling $55,450 from other cost
centers (general funds and/or other special revenues funds) to the appropriate State Homeland Security Grant Program account for the fiscal year ended 2007 were not requested by the FRD until November 27, 2007 ($8,039), May 12, 2008 ($43,426) and June 18, 2008 ($3,985). The proper accounting for the Schedule of Expenditures of Federal Awards and State Financial Assistance will require that the appropriate journal entries necessary to transfer payroll/travel related expenditures to the appropriate grant account be done in a timely manner. The said journal entries are processed by the Finance Department only upon a written request from the FRD. Adequate grant monitoring procedures are not in place at the FRD to ensure that the said transfers were performed in a timely manner. The understatement of expenditures on the said schedule, could affect the external auditor's classification of program types (A, B, or C) required for single audit testing purposes.

I agree [ ] I disagree [ ] Initials [ ] Date 9/25/08

Explaination [ ]

Please initial and date, if you agree with the audit findings. If you disagree, please provide written explanation and supporting documents by September 17, 2008. If you have any questions or comments, please feel free to contact me at 305-416-2049.

Thank you for your cooperation in this matter.

C: Victor Igwe, CPA, CIA, Auditor General
   Lai-Wan McGinnis, Staff Auditor
   Audit Documentation File
Date: September 10, 2008

To: William W. Bryson, Chief
Fire-Rescue Department

From: Marie B. Severe, CPA, CIA, Senior Staff Auditor
Office of Independent Auditor General

Subject: Audit of the Financial Integrity Principles – Audit#08-020

Dear Mr. Bryson:

Pursuant to our ongoing audit of the Financial Integrity Principles for the period October 1, 2006 through September 30, 2007 and selected transactions prior and subsequent to this period, please confirm our understanding of the following and provide any additional records and/or documentation by September 17, 2008.

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 Comprehensive Annual Financial Statements Report (CAFR) to the extent allowed under generally accepted accounting principles accepted in the United States of America (GAAP). 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 transactions not paid but not reimbursable shall be presented to the city commission, together with the actions needed to avoid project deficits.”

Our review to determine whether reimbursement requests for the Fire Rescue Department (FRD) were filed in a timely manner disclosed that expenditure transactions totaling $4,797,524.24 as itemized below were not filed in a timely manner as discussed below. A similar finding was noted in our prior audit report number 07-016 dated July 24, 2007.

<table>
<thead>
<tr>
<th>Program Name</th>
<th>Total expenditures tested</th>
<th>Number of Transactions tested</th>
<th>Number of transactions not timely filed for reimbursement</th>
<th>Exception rate</th>
<th>Amount filed late</th>
<th>Range number of days late</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban Area Initiative Grant II</td>
<td>$2,996,494.00</td>
<td>106</td>
<td>91</td>
<td>80%</td>
<td>$1,241,019.00</td>
<td>1 through 148 days</td>
</tr>
<tr>
<td>Urban Area Initiative Grant III</td>
<td>5,519,621.00</td>
<td>363</td>
<td>89</td>
<td>25%</td>
<td>559,196.24</td>
<td>31 through 265 days</td>
</tr>
<tr>
<td>Urban Area Initiative Grant III</td>
<td>5,519,621.00</td>
<td>363</td>
<td>264</td>
<td>72%</td>
<td>2,867,100.00</td>
<td>185 through 461 days as of June 30, 2008</td>
</tr>
<tr>
<td>State Homeland Security Grant Program</td>
<td>145,064.00</td>
<td>53</td>
<td>39</td>
<td>74%</td>
<td>126,748.00</td>
<td>16 through 325 days</td>
</tr>
<tr>
<td>State Homeland Security Grant Program</td>
<td>145,064.00</td>
<td>53</td>
<td>11</td>
<td>21%</td>
<td>3,463.00</td>
<td>260 through 477 days as of July 22, 2008</td>
</tr>
<tr>
<td>Total</td>
<td>$4,797,524.24</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Request for reimbursement has not been submitted as of June 30, 2008

** Request for reimbursement has not been submitted as of July 22, 2008

An effective system of internal control is necessary to ensure that reimbursement requests are filed in a timely manner thus minimizing the period City funds are used as float. When the Fire Rescue department fails to timely request reimbursement of grant funds, the City has to wait to be reimbursed by the grantors for general fund monies and/or other funds that were used to pay for federal and/or state funded projects. As a result, the City cannot earn interest on its own funds and can lose substantial amounts of interest income each year. Additionally, the grantor may disallow requests for funds submitted for reimbursement after the required deadline.

I agree [ ] I disagree [ ] Initials [ ] Date [ ]

OFFICE OF INDEPENDENT AUDITOR GENERAL
444 S.W. 2nd Avenue, Suite 715/Miami, FL 33129

75
Please initial and date, if you agree with the audit findings. If you disagree, please provide written explanation and supporting documents by September 17, 2008. If you have any questions or comments, please feel free to contact me at 305-416-2049.

Thank you for your cooperation in this matter.

C: Victor Igwe, CPA, CIA, Auditor General
   Lai-Wan McGinnis, Staff Auditor
   Audit Documentation File
Date: September 10, 2008

To: William W. Bryson, Chief
Fire-Rescue Department

From: Marie B. Severe, CPA, CIA, Senior Staff Auditor
Office of Independent Auditor General

Subject: Audit of the Financial Integrity Principles – Audit#08-020

Dear Mr. Bryson:

Pursuant to our ongoing audit of the Financial Integrity Principles for the period October 1, 2006 through September 30, 2007 and selected transactions prior and subsequent to this period, please confirm our understanding of the following and provide any additional records and/or documentation by September 17, 2008.

Our review to determine whether the City was subsequently reimbursed for reimbursement requests submitted by the Fire Rescue Department (FRD) disclosed the following questionable expenditures:

**URBAN AREA SECURITY INITIATIVE GRANT PROGRAM (II AND III)**

- Title 28, Chapter I, Part 66, Section 66.20 (b) (6) of the Code of Federal Regulations (CFR) provides that accounting records must be supported by such source documentation.
such as cancelled checks, paid bills, payroll time and attendance records, contract and subgrant award documents etc. Additionally, Section 17 (c) the agreement between the City and DCA provides that all bills for fees or other compensation for services or expenses shall be submitted in detail sufficient for a proper audit.

Our audit disclosed that the FRD failed to properly complete and provide adequate supporting documentation such as time and attendance records, training records, cancelled checks, invoices and transaction descriptions for 22 reimbursement requests totaling $3.6 million that were processed and funded with general fund monies. Said reimbursement requests were submitted to DCA during the period August 15, 2007 through March 26, 2008. Due to lack of adequate supporting documentation and other records, the said $3.6 million has not been reimbursed to the City as of the date of this MOU. Upon audit inquiry, we were informed that the FRD is in the process of compiling the missing supporting documentation for re-submission to the DCA. Adequate internal controls are not in place at the FRD to ensure reimbursement requests are properly supported and in sufficient detail for a proper audit. Absent all these required information, the City cannot be assured it will be reimbursed by DCA for the $3.6 million of general fund monies expended by the FRD.

I agree [ ] I disagree [ ] Initials [ ] Date [ ]

Explanation [ ]

OFFICE OF INDEPENDENT AUDITOR GENERAL
444 S.W. 3rd Avenue, Suite 715/Miami, FL 33128

78
Pursuant to Attachment A of an agreement dated July 1, 2004, between the City and State of Florida Department of Community Affairs (DCA), the City is authorized to expand grant fund (Urban Area Initiative Grant Program II) only for a list of authorized activities, included but not limited to planning, training, exercises, equipment acquisition etc. However, we noted that a total of $21,974 (or 0.73%) of $2,996,494 grant expenditures were used to purchase questionable items including oversized flower pots (used as barriers) for the MRC Building and boat parts/maintenance (marine patrol), which were not included on the list of authorized activities for which said funds could be used for. As a result, the said $21,974 was disallowed by the grantor (DCA). An effective system of internal control is necessary to ensure that grant funds are expended only for authorized activities. Upon audit inquiry, the FRD indicated that the said $21,974 was inappropriately disallowed by the DCA and it is currently working with the DCA to obtain reimbursement for the said $21,974. However, as of the date of this MOU, we were not provided with any subsequent reimbursement relative to the said $21,974.
THE FRD WAS REIMBURSED BY THE STATE FOR EXPENDITURES NOT YET PAID.

- Title 28, Chapter I, Part 66, Section 66.20 (b) (6) of the Code of Federal Regulations (CFR) provides that accounting records must be supported by such source documentation such as cancelled checks, paid bills, payroll time and attendance records, contract and subgrant award documents etc. Additionally, Section 3 (g) of the said agreement provides that: "... All payments for professional services and authorized expenses, including travel expenses, will be paid to the subrecepient only upon timely and satisfactory completion of all services and other units of deliverables..."

Our audit disclosed that on January 24, 2008, the City requested and received reimbursement from the State of Florida Department of Financial Services (DFS) for an employee travel related expenditures totaling $516. The only supporting documentation included in the reimbursement request submitted to the DFS was a copy of the "Travel Reimbursement Request" from the employee. However, our review of the City’s Oracle Accounting System disclosed no evidence of any payment (check) issued to the employee for the said $516 reimbursed by the DFS. Upon audit inquiry, we were informed that the said $516 has not been reimbursed/paid to the employee because the said employee failed to provide proof of vehicle insurance required to process the travel reimbursement request. Adequate grant monitoring procedures are not in place at the FRD to ensure that request for reimbursements are properly supported by invoices/cancelled checks and only funds actually expended by the City are requested for reimbursement. Absent all the required documentation, the City may have to refund the DFS in the event of an audit and/or monitoring by the DFS.

I agree [ ] I disagree [ ] Initials [ ] Date [ ]
Please initial and date, if you agree with the audit findings. If you disagree, please provide written explanation and supporting documents by September 17, 2008. If you have any questions or comments, please feel free to contact me at 305-416-2049.

Thank you for your cooperation in this matter.

C: Victor Igwe, CPA, CIA, Auditor General
Lai-Wan McGinnis, Staff Auditor
Audit Documentation File
Response to Audit of the Financial Integrity Principles- audit # 08-020

Item #1

The Fire Department Agrees.

Item #2

The Fire Department Agrees.

Explanation: Of the $4,797,524.24 not submitted in a timely manner, to date $4,606,513. Has been prepared and submitted to the State. Effective, 8-21-08 the UASI/financial/administrative responsibilities were transferred to the Deputy Chief of Fire Administration. A team consisting of all of the financial and budgetary resources in the department as well as contract personnel is committed to clearing the backlog. Also, new procedures are being developed to ensure that the reimbursement process is timely and in accordance with City of Miami and State requirements. This issue has been discussed in great detail with the State and there is no reason to believe that these funds are at risk of not being reimbursed.

Item #3

The Fire Department Agrees.

Explanation: In the period of 9-04-08 to the present, the department has prepared and re-submitted $2,720,014.67 worth of reimbursement packages to the State of the $3,600,000 initially mentioned in the audit finding. The remaining $880,000 will be re-submitted shortly. The reimbursement packages questioned in this finding were sent to the State for processing and the State modified their standards after the packets were submitted and they retroactively applied their new requirements to the packages that were completed under the previously accepted standards. Effective 8-21-08, the financial/administrative responsibilities were transferred to the Deputy Chief of Fire Administration. A team consisting of all of the financial and budgetary resources of the department as well as contract personnel is committed to resubmitting all of the previously denied reimbursement packages. Also new procedures are being developed to ensure that the reimbursement process is timely and in accordance with all City and State requirements.

This issue has been discussed in great detail with the State. There is no reason to believe that these funds are at risk of not being reimbursed once the additional documentation is provided.
Item # 4

The Fire Department Agrees.

Explanation: As stated in the audit finding, the State has agreed to reimburse the $21,974. But as of this date the funds have not been reimbursed.

Item # 5

The Fire Department agrees.

Explanation: The Fire Department will either refund the $516 to DFS or reimburse/pay the employee once he provides proper documentation. Procedures are being developed to ensure to ensure proper monitoring and compliance.
DEFICIT FUND BALANCES IN SPECIAL REVENUE AND CAPITAL PROJECTS FUNDS

Our audit disclosed that the City disbursed approximately $70.3 million of Federal and State monies during the audit period for various federal and state programs that are funded by grants on a reimbursement basis. By timely requesting reimbursements from Federal and State agencies, the time period that the City’s general fund monies are used as float would be minimized. In addition, timely recording of the corresponding grant revenue (“due from” the agencies) in the respective fund accounts upon receipt of grant monies would prevent the occurrence of fund balance deficits.

However, as of September 30, 2007, the general ledger fund balance deficits for certain project accounts in the Special Revenue and Capital Projects funds totaled approximately $22.3 million as discussed below.

- COMMUNITY DEVELOPMENT DEPARTMENT

Our audit disclosed a fiscal year 2007 (FY 2007) ending fund balance deficit totaling $2.8 million for the following 5 projects (sub-funds) which are accounted for in Special Revenue Funds. A similar observation was noted in our prior audit report no. 07-016 dated July 24, 2007.

<table>
<thead>
<tr>
<th>#</th>
<th>Program Title</th>
<th>Project #</th>
<th>FY 2007 Fund Balance Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>CDBG</td>
<td>14001</td>
<td>(979,574)</td>
</tr>
<tr>
<td>2</td>
<td>CD Home</td>
<td>14002</td>
<td>(789,271)</td>
</tr>
<tr>
<td>3</td>
<td>CD-Hopwa</td>
<td>14005</td>
<td>(971,385)</td>
</tr>
<tr>
<td>4</td>
<td>CD-Lead Hazard Control</td>
<td>14007</td>
<td>(21,633)</td>
</tr>
<tr>
<td>5</td>
<td>CD Housing Loan Recovery</td>
<td>14013</td>
<td>(54,261)</td>
</tr>
<tr>
<td></td>
<td>Grand Total</td>
<td></td>
<td>$ (2,816,123)</td>
</tr>
</tbody>
</table>

During the audit period, Community Development (CD) department procedures required draw down or reimbursement requests to be made subsequent to month-end closings. Accordingly, the
Finance Department (FD) recognized and recorded revenues and the related receivables (Due From Other Governments) of grant expenditure reimbursements that were reasonably expected to be collected at year end or shortly thereafter. Our audit disclosed that transactions totaling approximately $2.9 million that were originally recorded as receivables (Due From Other Governments) were reversed by the external auditors as part of the FY 2007 audit. The entries were reversed due to the fact that reimbursements/draw-downs were not actually available (received) within the current period or shortly thereafter (60 days after year end per City policy) in accordance with Generally Accepted Accounting Principles (GAAP). The reversing entries, in essence, were accomplished by debiting revenue and crediting deferred revenue (liability). As a result of these reversing entries, 4 of the 5 CD projects noted in the schedule on page 84 had fund balance deficits totaling $2,761,863 ($979,574+$789,271+$971,385+$21,633). It is likely that such deficits could have been avoided if the related reimbursements were drawn down and recorded in the accounting system in a timely manner.

Effective grant management procedures would also require that projects accounted for in special revenue funds are reconciled to ensure that all revenues/expenditures are properly recorded and discrepancies (if any) are timely corrected. However, we noted that a prior year (FY 2006) revenue and fund balance totaling $121,106, relative to the CD Housing Loan Recovery (Project #14013) noted in the schedule on page 84, was erroneously recorded in another project (#14011) during the crosswalk conversion from the GEMS accounting system to the Oracle system. As a result, the CD Housing Loan Recovery Fund (Project# 14013) had a fund balance deficit totaling $54,261 as of September 30, 2007. Upon audit inquiry, we were informed that the CD department is currently working with the Finance Department to correct the fund balance for said project.

**FIRE RESCUE SERVICES, NET/HOMELESS PROGRAM, GUSMAN AND OLYMPIA, CIP/TRANSPORTATION AND TRANSIT, AND PARKS AND RECREATION**

As of September 30, 2007, the unreserved fund balance deficits in the Fire Rescue Services, NET/Homeless Program, Gusman and Olympia, CIP/Transportation and Transit, and Parks and Recreation Capital Project funds totaled approximately $19.5 million (as noted on page 35 of the
The notes to the financial statements stated that the undesignated deficits are the results of encumbrances and other reserves exceeding available fund balance or the deferral of revenues. The City plans to eliminate these deficits in the ensuing fiscal year.

<table>
<thead>
<tr>
<th>Fund</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Special Revenue</td>
<td>Fire Rescue Services</td>
<td>$17,545,192</td>
</tr>
<tr>
<td>Special Revenue</td>
<td>Homeless</td>
<td>468,501</td>
</tr>
<tr>
<td>Special Revenue</td>
<td>Gusman and Olympia</td>
<td>136,234</td>
</tr>
<tr>
<td>Special Revenue</td>
<td>Transportation and Transit</td>
<td>6,927</td>
</tr>
<tr>
<td>Capital Project</td>
<td>Parks and Recreation</td>
<td>1,377,005</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>$19,533,859</strong></td>
</tr>
</tbody>
</table>

**DEFICIT FUND BALANCE IN DEBT SERVICE SUB-FUND**

**FINANCE DEPARTMENT**

Pursuant to Governmental Accounting Standard Board (GASB) Codification number 1300.107, a debt service fund should be used to account for the accumulation of resources for, and the payment of, general long term debt principal and interest. The procedures in place at the Finance Department (FD) require each debt series to be accounted for in a separate debt service sub-fund. Our review to determine whether revenues (resources) were recorded in the corresponding sub-fund to offset expenditures (debt service payments) as they became due disclosed the following:

During the fiscal year ended 2006, debt service payments (expenditures) totaling approximately $3.8 million were made for the Sunshine State Commercial Loan Series 1988 and the Special Obligation Refunding Bonds Series 2002C. However, the applicable revenues to offset said expenditures (debt payments) were not recorded by the Finance Department in the sub-funds. As a result, for the fiscal year ended 2006 there was a deficiency in the sub-funds totaling approximately $1.8 million. We noted that said deficiency was carried forward in FY2007 and has not been corrected as of the date of this report. Effective debt management procedures are necessary to ensure that the applicable revenues (resources) are recorded in the corresponding
debt service sub-funds as expenditures (debt service payments) are disbursed. Upon audit inquiry, the Finance Director indicated that going forward the Finance Department would ensure that the correct amount (revenues/resources) is recorded in each debt service sub-fund. The Finance Director also stated that although there was a deficiency in the two (2) sub-funds, the overall debt service fund had a positive fund balance in FY2006 and FY2007.

**Recommendation**

Proper administration of federal and/or state grants requires that management establishes and maintains internal control policies and procedures that would ensure that:

- Grant funding and spending activity is timely and accurately recorded and such activity is periodically and properly reconciled to respective fund accounts
- Reimbursements/drawn-down requests are made in a timely manner so that such requests can be properly reflected as revenues/receivables in accordance with Generally Accepted Accounting Principles (GAAP), and
- Grant program objectives are achieved.

We recommend that 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. We also recommend that the Finance Department record the correct amount of revenues (resources) in the corresponding debt service sub-funds.

**Auditee’s Response and Action Plan**

The auditees concurred with the findings and recommendation.

*See auditees’ responses on pages 88 through 93.*
City of Miami

Date: September 2, 2008

To: George Mensah, Director
      Community Development

From: Marie B. Severe, CPA, CIA, Senior Staff Auditor
      Office of Independent Auditor General

Subject: Audit of the Financial Integrity Principles – Audit #08-020

Dear Mr. Mensah:

Pursuant to our ongoing audit of the Financial Integrity Principles for the period October 1, 2006 through September 30, 2007, and selected transactions prior and subsequent to this period, please confirm our understanding of the following and provide any additional records and/or documentation by September 9, 2008.

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 Comprehensive Annual Financial Statements Report (CAFR) to the extent allowed under generally accepted accounting principles accepted in the United States of America (GAAP). 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.” However, our audit disclosed end-of-year (FY 2007) fund balance deficit totaling $2.8 million, for the following 5 projects (sub-funds) which are accounted for in Special Revenue Funds. A similar observation was noted in our prior audit report no. 07-016 dated July 24, 2007.

<table>
<thead>
<tr>
<th>Department</th>
<th>Program Title</th>
<th>Project #</th>
<th>FY 2007 Fund Balance Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community Development</td>
<td>CDBG</td>
<td>14001</td>
<td>$(979,574.30)</td>
</tr>
<tr>
<td>Community Development</td>
<td>CD Home</td>
<td>14002</td>
<td>$(789,270.86)</td>
</tr>
<tr>
<td>Community Development</td>
<td>CD-Hopwa</td>
<td>14005</td>
<td>$(971,384.57)</td>
</tr>
<tr>
<td>Community Development</td>
<td>CD-Lead Hazard Control</td>
<td>14007</td>
<td>$(21,632.76)</td>
</tr>
<tr>
<td>Community Development</td>
<td>CD Housing Loan Recovery</td>
<td>14013</td>
<td>$(54,260.91)</td>
</tr>
<tr>
<td>Grand Total</td>
<td></td>
<td></td>
<td>$ (2,816,123.40)</td>
</tr>
</tbody>
</table>

During the audit period, the procedures in place at the CD department requires draw down of funds to be performed after the month-end closings and the Finance Department (FD) recognizes as revenues and the related receivables (Due From Other Governments) those transactions that can be reasonably expected to be collected at year end or shortly thereafter. Our audit disclosed that transactions totaling approximately $2.9 million that were originally recorded as receivables (Due From Other Governments) because of the reasonable expectation to be collected/draw down at year end or shortly thereafter were reversed by the external auditors as part of the FY 2007 audit. The said entries were reversed due to the fact that reimbursements/draw-downs were not available (received) within the current
period or shortly thereafter (60 days after year end) to be recognized as revenues as required per Generally Accepted Accounting Principles (GAAP). The reversing entries, in essence, were accomplished by debiting revenue and crediting deferred revenue (liability). As a result of these reversing entries, 4 of the 5 CD projects noted above had fund balance deficits totaling $2,761,862 ($979,574.30 + $789,270.86 + $971,384.57 + $21,632.76). 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 grant requires that management establish and maintain internal control policies and procedures that would ensure that grant accounts are properly reconciled, reimbursements drawn-down in a timely manner and minimum performance requirements be achieved. An effective system of internal controls is necessary to ensure that only transactions that have met all eligibility criteria required by the grant agreement and have a reasonable expectation of being collected within the current period or shortly thereafter (60 days) are recognized as revenues.

Good business practice would dictate that projects accounted for in special revenue fund are properly reconciled to ensure all revenues and/or expenditures are properly recorded and discrepancies are timely corrected. However, we noted that the revenue and fund balance from prior year (FY 2006) totaling $121,106 relative to 1 of the 5 projects (CD Housing Loan Recovery) noted above was mistakenly recorded in another project (14011) during the crosswalk from GEMS system to Oracle system. As a result, the CD Housing Loan Recovery (Project#14013) had a fund balance deficit totaling $54,260.91 as of September 30, 2007. An effective system of internal control is necessary to ensure that projects accounted for in special revenue fund are properly reconciled and discrepancies corrected in a timely manner to ensure that the correct fund balance is reported at year end. Upon audit inquiry, we were informed that the CD department is currently working with the Finance Department to correctly adjust the fund balance for the said project.

I agree ☑ I disagree ☐ Initials (AN) Date 9/24/08

OFFICE OF INDEPENDENT AUDITOR GENERAL
444 S.W. 2nd Avenue, Suite 715/716, Miami, FL 33128

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Explaination  The findings are noted. The department will work with Finance to ensure that we review all reports and make the necessary adjustments or draw-down revenues as needed.

Please initial and date, if you agree with the audit findings. If you disagree, please provide written explanation and supporting documents by September 9, 2008. Due to the urgency of completing this audit, a timely response would be greatly appreciated. If you have any questions or comments, please feel free to contact me at 305-416-2049.

Thank you for your cooperation in this matter.

C: Victor Igwe, CPA, CIA, Auditor General
   Pedro Mirones, Assistant Director, Community Development
   Audit Documentation File
Date: October 2, 2008

To: Diana M. Gomez, Director
Finance Department

From: Marie B. Severe, CPA, CIA, Senior Staff Auditor
Office of Independent Auditor General

Subject: Audit of the Financial Integrity Principles – Audit #08-020

Dear Mrs. Gomez:

Pursuant to our ongoing audit of the Financial Integrity Principles for the period October 1, 2006 through September 30, 2007, and selected transactions prior and subsequent to this period, please confirm our understanding of the following and provide any additional records and/or documentation by October 9, 2008.

Pursuant to Governmental Accounting Standard Board (GASB) Codification number 1300.107, a debt service fund should be used to account for the accumulation of resources for, and the payment of general long term debt principal and interest. The procedures in place at the Finance Department (FD) require each debt series to be accounted for in a separate debt service sub-fund. Our review to determine whether revenues (resources) were recorded in the corresponding sub-fund to offset expenditures (debt service payments) as they become due disclosed the following:
During the fiscal year ended 2006, debt service payments (expenditures) totaling approximately $3.8 million were made for the Sunshine State Commercial Loan Series 1988 and the Special Obligation Refunding Bonds Series 2002C. However, the applicable revenues to offset the said expenditures (debt payments) were not recorded by the Finance Department in the said sub-funds. As a result, there was a deficiency of revenues over expenditures totaling approximately $1.8 million in the said sub-funds as of September 30, 2006, as noted in the table below. The said deficiency was carried forward in FY2007 and has not been corrected as of the date of this MOU. An effective debt management procedures are necessary to ensure the applicable revenues (resources) are recorded in the corresponding debt service sub-funds as expenditures (debt service payments) are made. Upon audit inquiry, the Finance Director indicated, going forward, the Finance Department would ensure the correct amount (revenues/resources) is recorded in each individual debt service sub-fund. The Finance Director also stated that although there was a deficiency in the said 2 sub-funds, the overall debt service fund had a positive fund balance in FY2006 and FY2007.

<table>
<thead>
<tr>
<th>Description</th>
<th>Revenues (1)</th>
<th>Expenditures</th>
<th>Excess (Deficiency) of revenues over expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sunshine State Commercial Loan Series 1988</td>
<td>253,052.94</td>
<td>(1,832,968.91)</td>
<td>(1,579,915.97)</td>
</tr>
<tr>
<td>Special Obligation Refunding Bond Series 2002C</td>
<td>1,815,744.79</td>
<td>(2,014,781.26)</td>
<td>(199,036.47)</td>
</tr>
<tr>
<td>Total</td>
<td>2,068,797.73</td>
<td>(3,847,750.17)</td>
<td>(1,778,952.44)</td>
</tr>
</tbody>
</table>

(1) Funds available in the debt service series

I agree [✓] I disagree [ ] Initials [ ] Date [ ]

OFFICE OF INDEPENDENT AUDITOR GENERAL
444 S.W. 2nd Avenue, Suite 715/Miami, FL 33128
QUARTERLY REPORTS OF UN-REIMBURSABLE EXPENSES WERE NOT PRESENTED TO THE CITY COMMISSION

FINANCE DEPARTMENT

Chapter 18, Article IX, Section 18-542(3) of the City Code, requires that, “...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 a quarterly report of expenses incurred but not reimbursable were presented to the City Commission, together with the actions needed to avoid project deficits, disclosed that the Finance Department (FD) did not present such quarterly reports during the audit period as required. Upon audit inquiry, we determined that the Finance department included the required financial information (un-reimbursable expenditures) along with the financial transactions (listed by month) for the period October 1, 2006 through August 2007 in a single report that was issued on November 5, 2007. However, the intent of this financial integrity principle, as articulated, is for said information to be presented to the City Commission (as a body) for discussion and necessary action.

When the City Commission is not presented with said information, their ability to make informed decisions is diminished and there is an increased risk that the elected officials will not have the opportunity to take the appropriate and necessary actions. For example, as indicated in the cumulative report issued on November 5, 2007, we noted that un-reimbursable expenditures totaling $681,028 and $25,711 were reported for grants/programs administered by the Fire-Rescue (FRD) and Parks and Recreation Departments (PRD), respectively; however, as of the date of this report, no course of action has been taken to write-off these deficits as un-reimbursable expenditures. Upon inquiry, the Finance Director indicated that, beginning in fiscal year 2007-2008, the FD has started making quarterly presentations of non-reimbursable grant expenditures to the City Commission as a discussion item.
**Recommendation**

We recommend that non-reimbursable expenditures, together with the actions needed to avoid project deficits, be presented to the City Commission (as a whole) for discussion.

**Auditee’s Response and Action Plan**

The auditee concurred with the finding and recommendation.

*See auditee’s response on pages 96 through 98.*
Date: September 8, 2008

To: Diana M. Gomez, Director
   Finance Department

From: Marie B. Severe, CPA, CIA, Senior Staff Auditor
   Office of Independent Auditor General

Subject: Audit of the Financial Integrity Principles – Audit#08-020

Dear Mrs. Gomez:

Pursuant to our ongoing audit of the Financial Integrity Principles for the period October 1, 2006 through September 30, 2007, and selected transactions prior and subsequent to this period, please confirm our understanding of the following and provide any additional records and/or documentation by September 12, 2007.

Chapter 18, Article IX, Section 18-542 (3) of the City Code, states 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, reimbursements shall be reflected as receivables in the Comprehensive Annual Financial Statements Report (CAFR) to the extent allowed under generally accepted accounting principles accepted in the United States of America (GAAP). 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 a quarterly report of expenses incurred but not reimbursable were presented to the City Commission, together with the actions needed to avoid project deficits disclosed that the Finance Department (FD) did not present such quarterly reports during the audit period, as required. Upon audit inquiry, the Finance Director stated that the required financial information (un-reimbursable expenditures) was included in the cumulative monthly financial report for the period October 1, 2006 through August 2007, which was issued on November 5, 2007, to each member of the City Commission. However, the intent of this financial integrity principle, as articulated, is for the said information to be presented to the City Commission (as a body) for discussion and necessary action. The information that was included in the cumulative financial report was not formally presented to the City Commission as a whole, for discussion. The FD has the primary responsibility to prepare and provide City officials with sufficient, competent and relevant financial information in order to make informed decisions. When said information is not presented to the City Commission as a whole, there is an increased risk that the said officials would not have the opportunity to discuss and take the appropriate and necessary actions. For example, we noted that un-reimbursable expenditures totaling $681,027.78 and $25,710.75 were reported for grants/programs administered by the Fire-Rescue (FRD) and Parks and Recreation departments (PRD), respectively, as indicated in the cumulative report issued on November 5, 2007. However, as of the date of this MOU, no course of action has been taken to clear and/or write-off these deficits (un-reimbursable expenditures). Upon further inquiry, the Finance Director indicated that, beginning fiscal year 2007-2008, the FD has started making quarterly presentations of non-reimbursable grant expenditures to the City Commission as a discussion item.

I Agree ☑ I Disagree ☐ Please Initial ☐ Date 9/9/08

Explanation


OFFICE OF INDEPENDENT AUDITOR GENERAL/444 S.W. 2ND AVENUE, SUITE 715/MIAMI, FLORIDA 33130-1910
Please initial and date, if you agree with the finding. If you disagree, please provide written explanation and supporting documents by September 12, 2008. Due to the urgency of completing this project, a timely response would be greatly appreciated. If you have any questions or comments, please feel free to contact me at 305-416-2049.

Thank you for your cooperation on this matter.

C: Victor Igwe, CPA, CIA, Auditor General
   Lai-Wan McGinnis, Staff Auditor
   Audit Documentation File
Chapter 18, Article IX, Section 18-542(4) of the City Code as amended, provides:

“For purposes 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 Comprehensive Annual Financial Report (CAFR). City-wide deficit for any fiscal year is defined as the decrease in unreserved general fund balance as reflected in the city’s Comprehensive Annual Financial Report (CAFR). 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 Comprehensive Annual Financial Report (CAFR) 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 (designated and undesignated) general fund balance for fiscal year ended September 30, 2007 totaled $96,681,318 as compared to $125,362,454 for the fiscal year ended September 30, 2006. This is equivalent to a decrease (citywide deficit) of $28,681,136 in unreserved (designated and undesignated) general fund balance.
SURPLUS ROLLOVER AMOUNTS ACCUMULATED FROM PRIOR YEARS

PARKS AND RECREATION, PUBLIC FACILITIES, AND INFORMATION TECHNOLOGY DEPARTMENTS

Based on our examination of surplus rollover amounts we noted that due to the Citywide deficit for fiscal year ended September 30, 2007, there was no surplus amount available for rollover in Fiscal Year (FY) ended 2007. As also indicated in the table below, we examined surplus rollover amounts accumulated from prior years in order to determine whether they had been used for their intended purposes, without exception.

<table>
<thead>
<tr>
<th>Department</th>
<th>Budget Surplus available for rollover in FY2007 *</th>
<th>Accumulated Roll over from prior years</th>
<th>Expenditures tested</th>
<th>Prior year surplus properly appropriated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elected Officials</td>
<td>None</td>
<td>$385,991.00</td>
<td>$</td>
<td>N/A</td>
</tr>
<tr>
<td>Parks and Recreation</td>
<td>None</td>
<td>$1,792,704.00</td>
<td>195,538.26</td>
<td>Yes</td>
</tr>
<tr>
<td>Public Facilities</td>
<td>None</td>
<td>$967,370.00</td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>Information Technology</td>
<td>None</td>
<td>$2,952,471.00</td>
<td>11,202.24</td>
<td>Yes</td>
</tr>
</tbody>
</table>

* No surplus amount was available for roll over in FY2007
N/A No amounts were expended during FY 07

Recommendation.

None required.


None required.
REQUIRED RESERVES WERE MAINTAINED

FINANCE DEPARTMENT AND OFFICE OF STRATEGIC PLANNING, BUDGETING, AND PERFORMANCE

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 expenditure 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 of the long-term liabilities (excluding bonds, loans, and capital lease payables) as reflected in the city’s Comprehensive Annual Financial Report (CAFR). 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 2007 budget for non-departmental accounts disclosed that $5 million was budgeted for contingency reserve. Pursuant to Resolution No.07-0273 (passed and adopted by the Commission on May 10, 2007) all $5 million was appropriated for various unanticipated expenditures.
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.”

Our audit disclosed that the fiscal year 2007 undesignated reserves totaling $40,630,342 equals ten percent of the summation of the prior three years (fiscal years 2004 through 2006) general revenues average. Therefore, the City is in compliance with this financial integrity principle requirement.

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. Strategic initiatives (until completed);
4. Blue Ribbon Commission Initiatives (until completed);
5. 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%) if such liabilities are funded. Other designated reserves may be drawn upon without the need for replenishment.”

Our audit disclosed that the fiscal year 2007 designated reserves totaling $56,050,976 exceeded ten percent of the summation of the prior three years (fiscal years 2004 through 2006) general revenues average, which totaled $40,630,342. Therefore, the City is in compliance with this financial integrity principle requirement.

**Recommendation.**

None required.

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

None required.
NO ENTERPRISE (PROPRIETARY) FUNDS REPORTED

FINANCE DEPARTMENT

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 National Council of Governmental Accounting (NCGA) Statement 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 are primarily funded from the fees derived from said services. There were no enterprise (proprietary) funds reported in the fiscal year ended September 30, 2007, CAFR.

Recommendation

None required

Auditee’s Response and Action Plan

None required
FINANCIAL INTEGRITY PRINCIPLE NUMBER 7 – MULTI-YEAR FINANCIAL PLAN

MULTI-YEAR FINANCIAL PLAN WAS NOT TIMELY ADOPTED

OFFICE OF STRATEGIC PLANNING, BUDGETING, AND PERFORMANCE

Chapter 18, Article IX, Section 18-542(7) of the City Code as amended by Ordinance No. 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.”

During its March 25, 2004 meeting, the City Commission passed Ordinance No. 12518 which stated that the multi-year financial plan was not required to be finalized and adopted until 30 days after the completion of labor negotiations.

Our audit disclosed that the multi-year financial plan was not adopted within 30 days after the June 14, 2007 completion of labor negotiations (i.e. by July 14, 2007), as required. Instead, we noted that the multi-year financial plan was included in the FY 2008 budget book which was adopted on September 27, 2007, 105 days after the completion of labor negotiations. The multi-year budget document is an important policy/planning tool that requires considerable input from elected officials to ensure that it reflects their vision of anticipated increases in the City’s operations, debt service payments, reserves to maintain the City’s officially adopted levels of estimated recurring and non-recurring expenditures, and the level of services to be provided to City residents. Upon audit inquiry, we were informed that procedures would be implemented to
ensure that all future multi-year financial plans are formally presented to the City Commission, in a timely manner, for discussions and formal adoption.

**Recommendation**

We recommend that a multiple-year financial plan for all funds be timely presented to the City Commission for discussion and formal adoption prior to its publication as required.

**Auditee’s Response and Action Plan**

The auditee concurred with the finding and recommendation.

*See auditee’s response on pages 107 through 109.*
Date: August 20, 2008

To: Michael Boudreaux, Director
Strategic Planning, Budgeting, and Performance Department

From: Marie B. Severe, CPA, CIA, Senior Staff Auditor
Office of Independent Auditor General

Subject: Audit of the Financial Integrity Principles

Dear Mr. Boudreaux:

Pursuant to our ongoing audit of the Financial Integrity Principles for the period October 1, 2006 through September 30, 2007, and selected transactions prior and subsequent to this period, please confirm our understanding of the following and provide any additional records and/or documentation by August 25, 2008.

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.” During its meeting of March 25, 2004 the City Commission passed Ordinance number 12518 which stipulated that the multi-year financial plan is not required to be finalized and adopted until 30 days after the completion of labor negotiations.

Our audit disclosed as of June 14, 2007, all four labor union agreements (Fraternal Order of Police (FOP), American Federation of State County and Municipal Employees (AFSCME), International Association of Fire Fighters - AFL-CIO Local 587 (IAFF) and the Florida Public Employee Council 79, AFSCME - AFL-CIO, (Local 871) were completed. We noted that the multi-year financial plan was included in the budget book for Fiscal Year (FY) 2008, and published on October 26, 2007, 134 days after the completion of the labor negotiations and not 30 days as noted above. Additionally, we were not provided with any document to evidence that the said multi-year plan was formally presented to the City Commission for discussion and formal adoption prior to its publication, as required. The multi-year budget document is an important policy/planning tool that requires considerable input from elected officials to ensure that it reflects their vision of anticipated increases in City’s operations, debt service payments, reserves to maintain the City’s officially adopted levels and estimated recurring, non-recurring revenues and the level of services to be provided to the residents. Upon audit inquiry, we were informed that procedures would be implemented to ensure that all future multi-year financial plans will be formally presented to the City Commission for discussions and formal adoption.

I agree ☑️ I disagree ☐  Initials ☐ ☐ Date 1/2/905

Explanation

____________________________________________________________________

OFFICE OF INDEPENDENT AUDITOR GENERAL
444 S.W. 2nd Avenue, Suite 715/Miami, FL 33128
Please initial and date, if you agree with the audit findings. If you disagree, please provide written explanations and supporting documents by August 25, 2008. Due to the urgency of this project, a timely response would be greatly appreciated. If you have any questions or comments, please feel free to contact me at 305-416-2049.

Thank you for your cooperation in this matter.

C: Victor Igwe, CPA, CIA, Auditor General
Audit Documentation File
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 the City did not adopt a Capital Improvement Plan (CIP) by November 30, 2007, as required. The CIP for fiscal year 2007/2008 along with the Multi-Year Capital Improvement Plan (for fiscal years 2008/2009 through 2012/2013) were approved and adopted by Resolution 07-01410 on June 26, 2008, 209 days late. In response to a similar audit
observation (noted in audit report number 07-016 dated July 24, 2007), the CIP Department stated that it would contact the City Attorney’s Office for further clarification because, based on the CIP Department’s research of Ordinance Nos. 12276, 12353, and 12427, it believed that the due date for completion of the CIP should have automatically reverted to March 31st. In a written response to the CIP Department dated August 21, 2007, the City Attorney’s Office stated that too much time had elapsed since 2003 and that the CIP Department must present an amended ordinance to the City Commission setting forth a March 31st due date.

Upon audit inquiry, we were informed that the CIP Department never presented an amended ordinance to the City Commission that would have changed the due date for CIP Plan submittal to March 31st; moreover, management decided not to submit said plan for approval by the November 30, 2007 deadline since the contract for the program management consultant that developed and updated the CIP Plan (HDR Engineering) was due to expire in the first quarter of 2008. Therefore, management believed it was prudent to allow the new consultant (Post, Buckley, Schuh & Jernigan, Inc. d/b/a PBS&J) the opportunity to re-evaluate all projects included in the CIP Plan drafted by HDR Engineering and determine whether the plan was adequate, or whether changes or revisions were necessary.

The adoption of the CIP Plan by November 30th will ensure that citywide capital needs compete favorably with other needs for resources (projected revenues) during the development of the citywide annual financial budget (which allocates projected revenues to overall citywide needs).

**Recommendation**

We recommend that the CIP be prepared by November 30th of each year as required by the Financial Integrity Principle.

**Auditee’s Response and Action Plan**

The auditee concurred with the findings and recommendations.
See auditee’s responses on pages 113 through 115.
August 13, 2008

Ola Aluko, Director
Capital Improvement Program

Marie B. Severe, CPA, CIA, Senior Staff Auditor
Office of Independent Auditor General

Audit of the Financial Integrity Principles - Audit #08-020

Dear Mr. Aluko:

Pursuant to our ongoing audit of the Financial Integrity Principles for the period October 1, 2006 through September 30, 2007, and selected transactions prior and subsequent to this period, please confirm our understanding of the following and provide any additional records and/or documentation by August 18, 2008.

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..."
Our audit disclosed that the City did not adopt a Capital Improvement Plan (CIP) by November 30, 2007 as required. The CIP for fiscal year 2007/2008 along with a Multi-Year Capital Improvement Plan (for fiscal years 2008/2009 through 2012/2013) was approved and adopted by Resolution 07-01410 on June 26, 2008, 209 days late. In response to a similar audit observation as noted in audit report number 07-016 dated July 24, 2007, the CIP Department stated that it will contact the City Attorney’s Office for further clarification because it believes that the due date for the completion of the CIP should have automatically reverted to March 31st 2003 after November 30, 2003 based on its research and review of Ordinance Nos. 12276, 12353 and 12427. In a written response to the CIP Department dated August 21, 2007, the City Attorney’s Office stated that too much time has elapsed since 2003 and that CIP Department must present an amended ordinance to the City Commission setting forth the correct March 31st due date. However, as of July 30, 2008, we were not provided with such amended ordinance, as opined by the City Attorney’s Office.

The adoption of the CIP Plan by November 30th will ensure that the said Plan, which addresses citywide capital needs, is prepared currently with the citywide annual financial budget, which allocates projected revenues to overall citywide needs. Therefore, the completion of the CIP Plan in November of each year will ensure that capital needs will compete favorably with other needs for the yearly limited resources (projected revenues). Upon audit inquiry, we were informed that the CIP Department did not present an amended ordinance to the City Commission because the draft CIP was fully prepared with the intent to be submitted to the City Commission for approval before the November 30, 2007 deadline. However, management decided not to submit the said CIP for approval by the November 30, 2007 deadline since the contract for the consultant (HDR Engineering) that developed and updated the CIP Plan was due to expire by the first quarter of 2008. Therefore, management believed it was prudent to allow the new CIP Program Management Consulting Company (Post, Buckley, Schuh & Jernigan, Inc. d/b/a PBS&J) the opportunity to re-evaluate
all projects included in the draft CIP Plan, the related scope/costs, and determine whether the draft CIP Plan is adequate or whether changes or revisions were necessary.

I agree [✓] I disagree [ ] Initials [ ] Date [8/13/08]

Explanation

Please initial and date, if you agree with the audit findings. If you disagree, please provide written explanation and supporting documents by August 18, 2008. Due to the urgency of this project, a timely response would be greatly appreciated. If you have any questions or comments, please feel free to contact me at 305-416-2049.

Thank you for your cooperation in this matter.

C: Victor Igwe, CPA, CIA, Auditor General
   Lai-Wan McGinnis, Staff Auditor
   Audit Documentation File
FINANCIAL INTEGRITY PRINCIPLE 9 – DEBT MANAGEMENT

DEBT MANAGED IN ACCORDANCE WITH REQUIRED PRINCIPLES

FINANCE DEPARTMENT

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.

- On July 10, 2007, the City issued $50,000,000 in Limited Ad Valorem Tax Bonds, Series 2007B (Homeland Defense/Neighborhood Capital Improvement Project). Our review disclosed that said debt was issued to continue the implementation of 15 projects, including but not limited to construction/renovation of City parks, fire stations, museums, and storm sewers, whose estimated project lives are greater than the life of the bonds (approximately 21 years). Therefore, the City is in compliance with this requirement.

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

- Based on the information provided in the audited Comprehensive Annual Financial Report for the fiscal year ended September 30, 2007, the net direct general obligation debt is 0.74% [$243,385,192 (net direct general obligation debt)/$33,032,909,346 (taxable assessed valuation of property)x 100] of the taxable assessed valuation of property in the City, which is less than five percent (5%).
The total net direct and overlapping GOB is $425,838,859 ($245,689,409+$180,149,450) or 1.29% ($425,838,859/$33,032,909,346 x 100) of the taxable assessed valuation of property in the City, which is less than ten percent (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 10.95 years ($2,690,128,666.20/$245,689,408.50), which is less than 15 years. Therefore, the City is in compliance with this requirement.

(d) Special obligation debt service shall not exceed 20 percent of non-ad valorem general fund revenue.

The special obligation debt service is 5.28% ($15,534,423/$294,252,081 x 100), which is less than twenty percent (20%) of non-ad valorem general fund revenue. Therefore, the City is in compliance with this requirement.

(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.

We noted that no revenue based debt was issued during the audit period.

**Recommendation**
None required.

**Auditee’s Response and Action Plan**
None required.
FINANCE DEPARTMENT

Chapter 18, Article IX, Section 18-542(10) of the City Code as amended, provides 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 annual external audit reports (Comprehensive Annual Financial Report (CAFR), Single Audit, and Management Letter) of the city shall be prepared and presented to the mayor and city commission by March 31 of each year. The City Commission shall convene a workshop meeting with the external auditors to review the findings and recommendations of the audit. 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 audit disclosed that financial reports issued by the Finance Department, as described below, generally provide disclosure of all material financial matters. Our review to determine whether the required reports were issued in a timely manner disclosed the following:

MONTHLY REPORTS WERE NOT TIMELY ISSUED

The monthly financial reports were not issued within 30 days after the close of each month, as required, for 9 of the 11 months tested. Instead, all monthly financial data for the year (10/1/06 through 9/30/07) was individually presented in one report that was issued on November 5, 2007. The number of days late ranged from 3 to 242 days as noted in the schedule on page 119. Upon audit inquiry, the Finance Director stated that challenges associated with the implementation of
the Oracle (ERP) system and the task of extracting data from the new system into a useable format delayed the preparation and timely issuance of the monthly financial reports.

<table>
<thead>
<tr>
<th>#</th>
<th>Reporting Month</th>
<th>Date Books Closed</th>
<th>A+30=B</th>
<th>Report Issued</th>
<th>Early (Late)</th>
</tr>
</thead>
</table>

**THE CAFR WAS NOT TIMELY ISSUED**

Our audit disclosed that the Comprehensive Annual Financial Report (CAFR), for the year ended September 30, 2007, was dated July 22, 2008, but was actually issued on July 30, 2008 (121 days late) as noted below.

<table>
<thead>
<tr>
<th>A</th>
<th>B</th>
<th>A-B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date Required to Present to Mayor and Commission</td>
<td>Date Actually Issued</td>
<td>Days Late</td>
</tr>
<tr>
<td>3/31/2008</td>
<td>7/30/2008</td>
<td>(121)</td>
</tr>
</tbody>
</table>
SINGLE AUDIT AND MANAGEMENT LETTER WERE NOT TIMELY ISSUED

We noted that the Single Audit and the Management Letter for the year ended September 30, 2007, were issued on September 23, 2008 (176 days late) and October 8, 2008 (191 days late) respectively as noted below.

<table>
<thead>
<tr>
<th></th>
<th>Date Required to be Presented to Mayor and Commission</th>
<th>Date Actually Issued</th>
<th>Days Late</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management Letter</td>
<td>3/31/2008</td>
<td>10/10/2008</td>
<td>(193)</td>
</tr>
</tbody>
</table>

Pursuant to the Office of Management and Budget (OMB) Circular A-133, Subpart C, Section 320 (a), the Single Audit shall be completed and the data collection form and reporting package shall be submitted to the Federal Audit Clearinghouse the earlier of 30 days after receipt of the auditor’s report or nine months after the end of the audit period. The City’s fiscal year ended September 30, 2007; therefore, the Single Audit Report was due to the Federal Audit Clearinghouse by June 30, 2008 (nine months after the end of the audit period). Although the report was due by June 30, 2008 the City was granted an extension up to August 15, 2008; however, the Single Audit was not submitted to the Federal Audit Clearinghouse until October 6, 2008 (52 days late).

Upon audit inquiry, the Finance Director stated that the issuance of the CAFR (discussed in the preceding section) and the Single Audit were delayed due to the following: (1) New ERP system implementation; (2) Change of external auditors; (3) Contract dispute with the prior year auditors, which prevented the current external auditors from getting access to the prior year’s work papers in a timely manner. Said access was granted on February 2008, which significantly delayed the external auditor’s fieldwork; and (4) Restatement of the prior year’s (FY 2006) financial statements.
Recommendation

The Finance Department has the primary responsibility to prepare and provide the public and City officials with timely and accurate financial information/data. Delays in timely financial reporting decrease the usefulness of such information and affect the City’s ability to comply with continuing disclosure requirements.

We recommend that the Finance Department continue to work with the 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 concurred with the findings and recommendations.

See auditee’s responses on pages 122 through 126.
Date: September 8, 2008

To: Diana M. Gomez, Director
Finance Department

From: Marie B. Severe, CPA, CIA, Senior Staff Auditor
Office of Independent Auditor General

Subject: Audit of the Financial Integrity Principles – Audit #08-020

Dear Mrs. Gomez:

Pursuant to our ongoing audit of the Financial Integrity Principles for the period October 1, 2006 through September 30, 2007, and selected transactions prior and subsequent to this period, please confirm our understanding of the following and provide any additional records and/or documentation by September 12, 2008.

Chapter 18, Article IX, Section 18-542 (10) of the City Code as amended, states that, “The City shall provide for ongoing 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 annual external audit reports (Comprehensive Annual Financial Report (CAFR), Single Audit, and Management Letter) of the City shall
be prepared and presented to the Mayor and City Commission by March 31 of each year. The City Commission shall convene a workshop meeting with the external auditors to review the findings and recommendation of the audit. 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 to determine whether required reports were issued in a timely manner disclosed the following:

- The monthly financial reports were not issued within 30 days after the close of each month for 9 of the 11 months tested, as required. Instead, monthly financial data for the said period was presented in a cumulative monthly financial report that was issued on November 5, 2007. The number of days late ranged from 3 to 242 days as noted below. Upon audit inquiry, the Finance Director stated that challenges from the implementation of the Oracle (ERP) system and the task of extracting data from the new system into a useable format delayed the preparation and timely issuance of the monthly financial statements.

<table>
<thead>
<tr>
<th>#</th>
<th>Reporting Month</th>
<th>Date Books Closed</th>
<th>Date Reports Due</th>
<th>Report Issued</th>
<th>Early (Late)</th>
</tr>
</thead>
</table>
I agree  [ ] I disagree  [ ] Initials  [ ] Date 9/10/08

Explanation


○ Our audit disclosed that the Comprehensive Annual Financial Report (CAFR), for the year ended September 30, 2007, was dated July 22, 2008, but was actually issued/published on July 30, 2008 (121 days late) as noted below.

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>A-B</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Date Required to Present to Mayor and Commission</td>
<td>Date Actually Issued</td>
<td>Days Late</td>
<td></td>
</tr>
<tr>
<td>3/31/2008</td>
<td>7/30/2008</td>
<td>121</td>
<td></td>
</tr>
</tbody>
</table>

I agree  [ ] I disagree  [ ] Initials  [ ] Date 9/10/08

Explanation


○ We noted that as of September 9, 2008, the Single Audit and the Management Letter have not been published (a delay of 162+ days) as noted below.
<table>
<thead>
<tr>
<th>Single Audit Management Letter</th>
<th>A</th>
<th>B</th>
<th>A-B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3/31/2008</td>
<td>9/9/2008</td>
<td>(162)</td>
</tr>
</tbody>
</table>

Pursuant to the Office of Management and Budget (OMB) Circular A-133, Subpart C, Section 320 (a), the Single Audit shall be completed and the data collection form and reporting package shall be submitted to the Federal Audit Clearinghouse the earlier of 30 days after receipt of the auditor’s report or nine months after the end of the audit period. The City’s fiscal year ended September 30, 2007; therefore, the Single Audit Report was due to the Federal Audit Clearinghouse by June 30, 2008 (nine months after the end of the audit period). However, as of September 9, 2008, said audit has not been completed, published and submitted to the Federal Audit Clearinghouse.

Upon audit inquiry, the Finance Director stated that the issuance of the CAFR (discussed in the preceding bullet) and the Single Audit were delayed due to the following: (1) New System Implementation; (2) Change of external auditors; (3) Contract dispute with the prior year auditors, which prevented the current external auditors from getting access to the prior year’s work papers in a timely manner. Said access was granted on February 2008, which significantly delayed external auditor’s fieldwork; and (3) Restatement of prior year’s (FY 2006) financial statements. The Finance Director also stated that the City was granted an extension up to August 15, 2008 for the Federal Single Audit Report to be submitted to the Clearinghouse. However, as of September 9, 2008, said Report has not been finalized and publicly issued.
The Finance Department has the primary responsibility to prepare and provide the public and City officials with timely and accurate financial information/data. Delays in timely financial reporting decrease the usefulness of such information and affect the City’s ability to comply with continuing disclosure requirements.

Please initial and date, if you agree with the audit findings. If you disagree, please provide written explanation and supporting documents by September 12, 2008. Due to the urgency of completing this audit, a timely response would be greatly appreciated. If you have any questions or comments, please feel free to contact me at 305-416-2049.

Thank you for your cooperation in this matter.

C: Victor Igwe, CPA, CIA, Auditor General  
LaiWan McGinnis, Staff Auditor  
Audit Documentation File
BASIC FINANCIAL POLICIES WERE MAINTAINED

FINANCE DEPARTMENT, OFFICE OF STRATEGIC PLANNING, BUDGETING, AND PERFORMANCE AND PURCHASING DEPARTMENT

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, debt issuance and management.”

- Our audit disclosed that the “Debt Management Policy,” which describes the finance committee, general debt governing polices, specific debt policies, and ratios and measurement, has been implemented. In addition, we noted that the “Debt Management Procedures Manual” covered areas 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 advisor, and selection of bond underwriters. If the Debt Management Policy and Procedures Manuals as articulated are properly implemented, issues relating to affordability, and capacity to issue and manage debt would be enhanced.

“(b) Cash Management and Investments: Such policy shall require 24-month 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, 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 noted that 24-month gross and net cash-flow projections were prepared by fund.

“(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 sets the fire/solid-waste fees.
- The Office of Strategic Planning, Budgeting and Performance (OSPBP) is responsible for performing the indirect cost analysis, which was included in the FY 2007 budget book.
- The City has a policy related to the estimating conference process which includes requirements for membership, meetings, and reporting.
- The estimates for interest income are provided to the OSPBP by the Finance Department in accordance with the Finance Department’s investment policy.
- The annual budget for the audit period was adopted on September 28, 2006 before the September 30 deadline.
“(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 a “Collection Accounts Policies and Procedures” and “Billings and Collections Manual” have been implemented. These manuals describe the procedures to be followed for revenue collection, monitoring accounts receivable, and determining which accounts would be placed with collection agencies. The City has a contract with Penn Credit, a debt collection agency. All payments received from the debt collection agency are 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.”

- Section 29 of the City Charter and Chapter 18, Article III, Sections 71 through 146 of the City Code govern 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 Manual is posted on the City’s website. The applicable Sections of the City Charter/Code and the *Procurement Procedure Manual*, as noted above, provide detailed purchasing policies and procedures that, if properly implemented, would provide appropriate checks and balances as it relates to the acquisition of good/services.

**Recommendation**

We recommend that the Finance Department, Purchasing Department, and Office of Strategic Planning, Budgeting and Performance continue to review and update all policies and procedures periodically.
Auditee’s Response and Action Plan

None required.
FINANCIAL INTEGRITY PRINCIPLE NUMBER 12 – EVALUATION COMMITTEES

EVALUATION COMMITTEES WERE NOT PROPERLY CREATED

PURCHASING AND CAPITAL IMPROVEMENTS AND TRANSPORTATION DEPARTMENTS

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 (“requests for proposals”, etc.), 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.”

During the audit period we noted that the City issued/initiated approximately 76 bids and 35 RFP/RFQ/RFLI competitive processes. We tested 20 competitive processes for compliance, including 14 processes issued by the Purchasing Department (PD) and six (6) issued by the Capital Improvement Department (CIP). Of the 14 PD competitive processes tested, there were two (2) processes in which evaluation committees were not created, and there were 2 processes that did not consist of a majority of citizens and/or business appointees from outside City employment. Of the 6 CIP competitive processes tested, there was one (1) Evaluation Committee which did not consist of a majority of citizens and/or business appointees from outside City employment. Upon audit inquiry we were informed that there were certain situations or circumstances for which creating an evaluation committee was not feasible.

Recommendation

In order to facilitate an independent evaluation of each RFP/RFLI/RFQ and also facilitate accountability and transparency in the vendor selection process, we recommend that citizens
and/or business appointees from outside City employment be invited to participate on all evaluation committees (to the extent feasible) and that their communications be governed by the Cone of Silence provisions.

City of Miami Ordinance No. 12271 includes a section titled “Cone of Silence” which prohibits communication regarding Invitations for Bids (IFB), Requests for Proposals (RFP), Requests for Qualifications (RFQ), Requests for Letter of Interest (RFLI) or any other advertised solicitation with an outside body.

**Auditee’s Response and Action Plan**

*See auditee’s responses on pages 133 through 137.*
Date: September 9, 2008

To: Ola Aluko, Director
   Capital Improvement Program (CIP)

From: Marie B. Severe, CPA, CIA, Senior Staff Auditor
       Office of Independent Auditor General

Subject: Audit of the Financial Integrity Principles- Audit #08-020

Dear Mr. Aluko:

Pursuant to our ongoing audit of the Financial Integrity Principles for the period October 1, 2006 through September 30, 2007, and selected transactions prior and subsequent to this period, please confirm our understanding of the following and provide any additional records and/or documentation by September 12, 2008.

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 ("requests for proposals", etc.), and all collective bargaining contract issues. The recommendations of the evaluation committee shall be provided to the Mayor and the City Commission on all such contracts prior to presentation for official action."

During the audit period we noted that the City issued approximately 76 bids and 35 RFP/RFQ/RFLI transactions (including 16 RFP/RFQ/RFLI related to Capital Improvement
Program (CIP) Projects). Our test of 6 of the RFP/RFQ/RFLI transactions relative to CIP projects disclosed that citizens and/or business appointees from outside City employment did not participate in 1 (or 17%) of the 6 transactions tested as noted below. An evaluation committee composed of a majority of knowledgeable citizens and/or business appointees from outside City employment will provide a more independent and objective evaluation of approved proposals (RFP/RFQ/RFLI). Upon audit inquiry, we were informed that it was not feasible to obtain individuals from outside City employment to serve on the said evaluation committee due to an immediate need for architectural services. Therefore, management decided to use in house staff (City employees) in order to complete the evaluation process by July 2007 for presentation to the City Commission.

<table>
<thead>
<tr>
<th>Number</th>
<th>Description</th>
<th>Was an Evaluation Committee created?</th>
<th>Were Citizens and/or Business Appointees outside City employment part of the evaluation committee</th>
<th>Were Citizens and/or Business Appointees the majority?</th>
<th># of Citizens and/or Business Appointees outside City employment</th>
<th># of City Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>06:07:010</td>
<td>Miscellaneous Architectural Services</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>0</td>
<td>4</td>
</tr>
</tbody>
</table>

I agree [x] I disagree [ ] Initials [ ] Date [ ]

Explanation_____________________________

_____________________________

_____________________________

Please initial and date, if you agree with the audit findings. If you disagree, please provide written explanation and supporting documents by September 12, 2008. Due to the urgency of
completing this audit, a timely response would be greatly appreciated. If you have any questions or comments, please feel free to contact me at 305-416-2049.

Thank you for your cooperation in this matter.

C: Victor Igwe, CPA, CIA, Auditor General
   Lai-Wan McGinnis, Staff Auditor
   Audit Documentation File
I have reviewed your following testing and preliminary findings of the issuance of fourteen (14) Request for Proposals (RFPs), Request for Qualifications (RFQs), and Request for Letters of Interest (RFLOIs) by the Purchasing Department to determine compliance with the Financial Integrity Principle. You have concluded in your preliminary findings that an Evaluation/Selection Committee was not created for RFQ No. 27012, Pre-Qualification of Building/Specialty Trade Contractor and RFQ No. 69034, Latent Print Examination Services.

A closer examination of the above mentioned Request for Qualifications will provide you with the rationale on why an Evaluation/Selection Committee were not feasible for these two formal solicitations.

Unlike the typical RFQ process where an Evaluation/Selection Committee is created to review the qualifications of firms to acquire professional services and award is made to the highest ranked firm based on weighted factors other than price, including, but not limited to financial capability, reputation, experience, etc. The RFQ for the Pre-Qualification of Building/Specialty Trade Contractors was a multi-step bidding process where contractors were first required to submit a current valid certificate for the trade they were seeking to be qualified under and then asked to submit bids (pricing) for the requested Building/Specialty Trade work to be performed. The method of award was and still is an objective process based on the lowest responsive and responsible bidder. In the case of the RFQ issued for Latent Print Examination Services, once again weighted factors were not the basis of award. Instead interested individuals needed to meet certain requirements (i.e. certifications, successfully passing a background investigation, successfully completing a Latent Print Competency Test, etc.). Therefore, the qualification process was and still is based on a pass/fail test where individuals have to meet the requirements or else they were/are not qualified. This is a very objective process where pricing is not even a factor because the City established the fee schedule for these services. In a typical RFQ, once the highest ranked firm is selected based upon their qualification, then the City would enter into the competitive negotiations phase to negotiate costs, fees, or rates. In neither of these two RFQs mentioned herein were negotiations required because pricing were competitively sought amongst the qualified contractors, or prices were pre-established by the City.
Accordingly, the creation of an Evaluation/Selection Committee was not feasible for these two RFQs.

Your testing and preliminary findings also revealed that RFQ No. 5010, State Lobbying Services and RFQ No. 31027, Catering Services, did not include a majority of citizens/or business appointees from outside City employment.

I agree that for RFQ for State Lobbying Services, only City employees were part of this evaluation because it would not have been feasible to utilize outside, non-city employees as extensive knowledge and understanding of the City's lobbying issues and needs was of the utmost importance here. That extensive knowledge was used in qualifying firms under the various categories of expertise involving the Florida Cabinet, the Executive Office of the Governor and its Agencies, the State of Florida Legislature and its Agencies, etc.

However, while agree with you findings regarding the RFQ for Catering Services, the Purchasing Department made a concerted effort to comply with the Financial Integrity Principle by having the majority of Evaluation/Selection Committee compose of external members. Unfortunately, the Purchasing Department was only able to locate four (4) members to serve on the Committee instead of the five (5) originally sought. Out of the four (4) appointed to the Committee two were internal members (i.e. Julie Mansfield, Director of the Office of Cultural Arts and Entertainment and Albert Zamorano, Wynwood/Edgewater Net Administrator) and two were external members (i.e. Doris Meltzer, Director of the Bakehouse Art Complex and Garfield Price, CEO Infinite Markets). As reflected in our records, both Albert Zamorano and Doris Meltzer were unable to participate due to personal reasons and a schedule conflict respectively. Therefore, the Evaluation/Selection Committee was comprised of one internal member (i.e. Julie Mansfield) and one external member (i.e. Garfield Price). Based on the following facts, it demonstrates a good faith effort by the Purchasing Department to comply with the Financial Integrity Principle.

If you any further questions, please do not hesitate to contact my Office.
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 Office of Strategic Planning, Budgeting and Performance (OSPBP). Our audit disclosed that the full cost of providing core services was included in the FY2007 budget book.

**Recommendation**

None

**Auditee’s Response and Action Plan**

None required.
McGladrey & Pullen, LLP, partnered with Sanson, Kline Jacomino, to audit the City’s Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2007. The auditors issued an unqualified opinion on the City’s CAFR in an audit report dated July 22, 2008. When an unqualified opinion is issued, the auditors certify that the City’s basic financial statements present fairly, in all material respects, the financial position and changes in financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, for the year then ended in conformity with accounting principles generally accepted in the United States.

Section 10.554(1)(i), Rules of the Auditor General, State of Florida, require the external auditors to issue a Management Letter and include it as a part of the audit report. The Management Letter shall include: a statement as to whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report; a statement as to whether or not the City complied with Section 218.415 Florida Statutes regarding the investment of public funds; inaccuracies, shortages, defalcations, fraud and/or violations of laws, rules, regulations, and contractual provisions that have occurred; a statement as to whether or not the City has met one or more of the financial emergency conditions described in Section 218.503(1), Florida Statutes; information regarding the auditor’s financial condition assessment; any recommendations to improve the City’s financial management, accounting procedures, and internal controls; and other matters. Based on our review of the Management Letter dated July
22, 2008 and the accompanying Schedule of Findings and Questioned Costs, we noted that McGladrey & Pullen, LLP, determined the following:

1. Appendix A of the Management Letter titled “Current Year’s Recommendations to Improve Financial Management, Accounting Procedures and Internal Controls Fiscal Year ended 2007” disclosed eight (8) internal controls deficiencies, one (1) compliance issue and seven (7) other comments.


3. The recommendations that were made in prior years were addressed in the Section (Appendix C) titled “Status of Prior Year’s Recommendations to Improve Financial Management, Accounting Procedures and Internal Controls Fiscal Year ended September 30, 2007”. The said section disclosed a total of 14 outstanding prior audit findings that have yet to be resolved:
   - Eleven (11) for the fiscal year ended 2006.
   - Two (2) for the fiscal year ended 2004.
   - One (1) for the fiscal year ended 2003.
   - One (1) for the fiscal year ended 2000.

4. The City complied with Section 218.415, Florida Statutes relative to the investment of public funds.

5. The City did not meet any of the conditions described in Section 218.503 (1), Florida Statutes and was therefore not in a state of financial emergency.

**SINGLE AUDIT REPORT**

McGladrey & Pullen, LLP’s engagement contract also included the audit of Federal awards, as well as State of Florida financial assistance received by the City for the fiscal year ended 2007. 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 stated that in their opinion, the City complied, in all material aspects, with the requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*, and the requirements described in the Executive Office of the Governor’s State Projects Compliance Supplement, that are applicable to each of its major Federal awards programs and State financial assistance projects for the fiscal year ended September 30, 2007. However, the results of the auditor’s procedures disclosed 14 instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and Chapter 10.550, Rules of the Auditor General. In addition, the auditors noted certain matters involving internal controls over compliance that are considered to be reportable conditions. The Schedule of Findings and Questioned Costs disclosed four (4) significant internal control deficiencies over compliance, three (3) of which are considered material weaknesses.

**Recommendation**

The departments responsible should continue to work towards the resolution of all audit findings and recommendations, particularly prior years’ observations and recommendations that were issued as far back as 2000 through 2006.