CITY OF MIAMI
OFFICE OF INDEPENDENT AUDITOR GENERAL

AUDIT OF COMPLIANCE WITH THE FINANCIAL INTEGRITY PRINCIPLES

AUDIT REPORT NO. 010-005

Prepared By
Office of Independent Auditor General

Victor I. Igwe, CPA, CIA
Independent Auditor General

LEWIS BLAKE, CPA, CIA, STAFF SENIOR AUDITOR
November 17, 2009

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

Re: Audit of Compliance with the Financial Integrity Principles
Audit No. 010-005

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.” This report provides the result 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, 2007, through September 30, 2008 and selected transactions prior and subsequent to this period.

Based on our examination of applicable records we noted that the City did not comply with four (4) 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 I. Igwe, CPA, CIA
Independent Auditor General
Office of Independent Auditor General

OFFICE OF INDEPENDENT AUDITOR GENERAL/444 S.W. 2ND AVENUE, SUITE 711/Miami, Florida 33130-1910
C: The Honorable Mayor Tomas Regalado
   Pedro G. Hernandez, Chief Administrator/City Manager
   Members of the Audit Advisory Committee
   Larry M. Spring, Assistant City Manager/Chief Financial Officer
   Bill Anido, Assistant City Manager, Office of the City Manager
   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
   Maurice Kemp, Fire Chief, Fire-Rescue Department
   Ola Aluko, Director, Capital Improvement Program
   Ernest Burkeen, Director, Parks and Recreation Department
   Diana M. Gomez, CPA, Director, Finance Department
   David Rosemond, Director, NET Program
   Michael Boudreaux, Director, Strategic Planning, Budgeting & Performance Department
   David Shorter, Virginia Key Beach Trust
   Elaine Black, President/CEO, Liberty City Community Revitalization Trust
   James Villacorta, Executive Director, Midtown Miami Community Redevelopment Agency
   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, 2007, THROUGH SEPTEMBER 30, 2008**

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OFFICE OF INDEPENDENT AUDITOR GENERAL/444 S.W. 7TH AVENUE, SUITE 711/Miami, FLORIDA 33130-1910
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.
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 2009 Audit Plan. The examination covered the period October 1, 2007 through September 30, 2008 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 conclusions 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 compliance with the Financial Integrity Principles were observed by the City:

- Estimating Conference Committee meetings were held and attended by the required number of staff and non-staff members, and the committee's recommendations were communicated to the Mayor and the City Commission in accordance with Financial Integrity Principle Number 2.

- 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.

- The City's 5 Year Financial Plan was prepared and presented to the City Commission in a timely manner in accordance with Financial Integrity Principle Number 7.

- The Fiscal Year 2008-2009 Capital Improvement Plan was prepared and presented to the City Commission in a timely manner in accordance with Financial Integrity Principle Number 8.

- 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.

- A majority of the Evaluation Committee members were citizens and/or business professionals from outside City employment, and the committees' recommendations were
provided to the City Manager and City Commission prior to official action in accordance with Financial Integrity Principle Number 12.

- The full cost of providing core services was included in the FY2008 budget book in accordance with Financial Integrity Principle Number 13.
CONCLUSION AND SUMMARY OF FINDINGS

We conclude that over the period of October 1, 2007 through September 30, 2008 the City did not comply with four (4) 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 comply with the 4 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.

Refer to detailed audit findings and recommendations on pages 9 through 27.

FINANCIAL INTEGRITY PRINCIPLE NUMBER 3 – INTERFUND TRANSACTIONS
- We noted internal control deficiencies in grant management including: lack of monitoring of the Oracle Program and Grants (PnG) module for grant-related expenditure payments; inadequate and/or inaccurate supporting documentation for reimbursement requests; and, lack of inter-departmental communication resulting in:
  - Reimbursements not being made for allowable expenditures.
  - Requests for reimbursement of grant expenditures totaling $4,266,087 were not filed on a timely basis.
  - A total of $1,025,757 of fiscal year (FY) 2008 grant-related expenditures has not been reimbursed; and, $551,486 of FY 2007 grant-related expenditures has not been reimbursed as of July 28, 2009.
- The transfers of funds from Capital Projects to the General Fund totaling $26.3 million ($13.1 million in FY 2007 and $13.2 million in FY 2008) were used to
increase General Fund reserves. Said transfers depleted funds needed to commence/complete capital improvement projects including purchase of equipment listed in the Capital Plan Budget.

- The Office of Strategic Planning, Budgeting, and Performance (SPBP) impaired the performance of audit procedures relative to the above audit finding.

Refer to detailed audit findings and recommendations on pages 30 through 66.

**FINANCIAL INTEGRITY PRINCIPLE NUMBER 4 – SURPLUS ROLLOVER EXPENDITURES**

- The surplus rollover expenditures incurred by the Park and Recreation Department (PRD) exceeded the respective available surplus rollover funding by $531,440. Refer to detailed audit findings and recommendations on pages 68 through 70.

**FINANCIAL INTEGRITY PRINCIPLE NUMBER 5 – RESERVE POLICIES**

- "Unreserved, Designated" general fund balance reserves are $289,510 less than the amount required. Refer to detailed audit findings and recommendations on pages 72 through 79.
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

We noted that the fiscal year (FY) 2008 budget (presented by the Department of Strategic Planning, Budgeting, and Performance [SPBP] and adopted by the City Commission) indicated that $46,163,567 of non-recurring revenues (transfers of operating savings rollover amounts, as well as other transfers into the general fund) would be needed to fund non-recurring expenditures such as pension costs. However, the FY 2008 audited Comprehensive Annual Financial Report (CAFR) indicated that $52,810,621 of non-recurring revenues was actually required to balance the budget. Thus, the difference between the budgeted and actual performance was $6,647,054 (or 14.40%). Lastly, we noted that if not for $65,116,477 of pension costs, use of non-recurring sources to balance the City’s budget would have been unnecessary.

A well derived budget document assists the governing body in its decision making processes, therefore, the Office of Strategic Planning, Budgeting, and Performance should continue to enhance its budget forecasting techniques.
An annual budget is a financial operations plan that estimates proposed expenditures and the proposed means of financing them during each fiscal year. During FY 2008, 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 mainly to fund pension costs (non-recurring expenditures), in four (4) of the last five (5) 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 recurring revenues and other funding sources.

### NON-RECURRING EXPENDITURES HAVE DIMINISHED FUND BALANCE

<table>
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<tr>
<th>Fiscal Year</th>
<th>Ending Fund Balance</th>
<th>Yearly Increase (Decrease) fund balance</th>
<th>Yearly Percent Increase (Decrease)</th>
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<tbody>
<tr>
<td>2003</td>
<td>141,862,336</td>
<td></td>
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<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>
<tr>
<td>2008</td>
<td>93,577,448</td>
<td>(6,872,696)</td>
<td>-6.8%</td>
</tr>
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* Note: The zero amount precludes calculation of "Percentage Difference"
LACK OF COMPLIANCE WITH THE ANTI-DEFICIENCY ACT

OFFICE OF STRATEGIC PLANNING, BUDGETING, AND PERFORMANCE, FINANCE DEPARTMENT, MIDTOWN COMMUNITY REDEVELOPMENT ASSOCIATION, VIRGINIA KEY BEACH TRUST, AND LIBERTY CITY REVITALIZATION TRUST

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 exceeded their budgeted authorizations as illustrated in the table below:

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</tr>
</thead>
<tbody>
<tr>
<td>Emergency Services Fund Transfers Out/Other Financing Sources (Uses)</td>
<td>$ -</td>
<td>$16,561,808</td>
<td>$(16,561,808)</td>
</tr>
<tr>
<td>Fire Rescue Services Fund Transfers Out/Other Financing Sources (Uses)</td>
<td>0</td>
<td>43,300</td>
<td>(43,300)</td>
</tr>
<tr>
<td>Midtown CRA/Expenditures/Community Redevelopment Areas</td>
<td>7,000</td>
<td>1,119,084</td>
<td>(1,112,084)</td>
</tr>
<tr>
<td>Virginia Key Beach Trust/Expenditures/Capital Outlay</td>
<td>56,500</td>
<td>80,126</td>
<td>(23,626)</td>
</tr>
<tr>
<td>Liberty City Revitalization Trust/Other Financing Sources/Transfers In</td>
<td>565,000</td>
<td>550,000</td>
<td>(15,000)</td>
</tr>
</tbody>
</table>
Office of Strategic Planning, Budgeting, and Performance and Finance Department

Upon audit inquiry, we were informed that the $43,300 negative variance occurred because the appropriated amount as authorized by the Commission pursuant to Resolution 09-0115 was inadvertently not entered into the City’s financial accounting system in a timely manner.

As it relates to the $16,561,808 negative variance, we were informed by the City’s Finance Department (FD) that the variance was a result of “Top-Side” entries that were made “in order to separate the Emergency Medical Services Fund from the Fire Rescue Fund for CAFR presentation purposes. Each fund has its respective budget; however, they were grouped together in previous years’ CAFRs. In the current year (Fiscal Year 2008), the decision was made to report them separately on the face of the financial statement.” Accordingly, such transfers do not require City Commission approval because, according to FD, “no journal is made to the books of the City.” However, we noted that although the said $16.6 million transfer was listed in a schedule within the notes to the basic financial statements, the aforementioned explanation (justifying the transfers) was not included as a reference for financial statement users/readers.

Midtown Community Redevelopment Agency

The actual fiscal year 2008 (FY08) expenditures totaling $1,119,084 for the Midtown Community Redevelopment Agency (CRA) Special Revenue Fund (SRF) exceeded the $7,000 budgeted amount by $1,112,084. Upon audit inquiry, CRA management stated that the overage was caused by an adjusting journal entry (AJE) its external auditors required the agency to make in order to account for previously collected tax increment (TI) revenues that the Southeast Overtown Park/Omni CRA owed to the Midtown Miami Community Development District (CDD).

The AJE increased the CRA’s total expenditures by $1,114,409 and its liabilities/obligations (to transfer the TI monies to the CDD). The transfer of the TI monies to the CDD was mandated pursuant to the terms of a second amendment to an inter-local agreement between the City of Miami (City), Miami-Dade County (County), and the CRA. The amendment was executed 7 days prior to the end of FY 2008 on September 23, 2008 and, according to CRA management,
could not be foreseen when the FY08 budget was being prepared. We noted that City Commissioners, who comprise the governing board of the CRA, approved said $1,114,409 expenditure on November 3, 2008 via MCRA Resolution (MCRA-R-08-0003). In addition, CRA management informed us, and we subsequently confirmed, that at the July 30, 2007 MCRA Board meeting, the Commissioners approved the MCRA fiscal year 2008 budget, which included an “Inter-fund Transfer Budget Reserve” line item for $1,121,052 that was apparently set aside to cover the said $1,114,409 expenditure.

**Virginia Key Beach Trust**

The $23,626 negative variance relative to Virginia Key Beach Trust (VKBT) as shown on page 11 represents an increase of actual capital outlay expenditures over the budgeted amount. According to VKBT management, $50,000 of the said expenditures was actually donated in order to purchase the park’s historic carousel. As such, the VKBT’s budget should have been amended accordingly.

**Liberty City Revitalization Trust**

The $15,000 negative variance relative to Liberty City Revitalization Trust (LCRT) as shown on page 11 represents a decrease of actual “Transfers In.” According to LCRT management, even though the appropriate City department was timely informed regarding $15,000 of additional revenue that was received from the City’s Department of Off-Street Parking, the appropriate transfer was not made as requested.

**Recommendation**

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

See auditee responses on pages 15 through 27.
City of Miami

VICTOR I. KOWE, CPA, CIA
INDEPENDENT AUDITOR GENERAL

Date: September 1, 2009

To: Diana Gomez, Director
Finance Department

Michael Boutron, Director
Office of Strategic Planning, Budgeting, and Performance

From: Lewis R. Blake, CPA, CIA, and Senior Staff Auditor
Office of the Independent Auditor General

Subject: Audit of Financial Integrity Principles
Audit No. 09-015

In order to complete audit procedures pertaining to the Financial Integrity Audit for the period October 1, 2007 through September 30, 2008, and selected transactions prior and subsequent to this period, please confirm or clarify our understanding of the following and provide any additional records and/or documentation by September 8, 2009.

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....”
OBSERVATIONS

Our audit disclosed that certain functional categories exceeded their budgeted authorizations within the Fire Rescues Services and Emergency Services Funds as illustrated in the table below:

<table>
<thead>
<tr>
<th></th>
<th>Final Budgeted Amount</th>
<th>Actual</th>
<th>Variance Positive (Negative)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fire Rescue Services Fund Transfers Out/Other Financing Sources (Uses)</td>
<td>0</td>
<td>43,300</td>
<td>(43,300)</td>
</tr>
<tr>
<td>Emergency Services Fund Transfers Out/Other Financing Sources (Uses)</td>
<td>0</td>
<td>16,561,808</td>
<td>(16,561,808)</td>
</tr>
</tbody>
</table>

We noted that the $43,300 transfer was sanctioned by the Commission pursuant to Resolution 09-0115; however, the $43,300 negative budget variance occurred because the appropriated budget was not entered into the City’s financial accounting system in a timely manner.

Regarding the $16,561,808 negative variance, we were informed by the City’s Finance Department (FD) that the variance was a result of “Top-Side” entries that were made “in order to separate the Emergency Services Fund from the Fire Rescue Fund for CAFR presentation purposes. Each fund has its respective budget; however, they were grouped together in previous years’ CAFRs. In the current year (Fiscal Year 2008), the decision was made to report them separately on the face of the financial statement.” Accordingly, such transfers do not require City Commission approval because, according to FD, “no journal is made to the books of the City.” However, we noted that although the said $16.6 million transfer was listed in a schedule within the notes to the basic financial statements, the aforementioned explanation (justifying the transfers) was not included as a reference for financial statement users/readers.
Audittee Response and Action Plan:

☑️ I agree; ☐ I disagree. Please initial: ☐️

Explanation: all required disclosures were made
to the notes of the financial statements

Please confirm our understanding by signing on the space provided below and returning this memorandum to us. In the event that you disagree with any of the items listed above, please provide your explanation and attach all supporting documents/records by September 8, 2009.

If you have any questions, please feel free to contact me at 305-416-2173 or by email.

Cc: Victor Igwe, CPA, CIA, Auditor General
    Audit Documentation File
Date: July 24, 2009

To: James H. Villacorta, Executive Director
    Midtown Miami Community Redevelopment Agency

From: Lewis R. Blake, CPA, CIA, and Senior Staff Auditor
      Office of the Independent Auditor General

Subject: Audit of Financial Integrity Principles
         Audit No. 09-015

Pursuant to our ongoing audit pertaining to the Financial Integrity Audit for the period of
October 1, 2007 through September 30, 2008, and selected transactions prior and subsequent to
this period, please confirm or clarify our understanding of the following and provide any
additional records and/or documentation by July 31, 2009.

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.....”

Actual fiscal year 2008 (FY08) expenditures totaling $1,119,084 for the Midtown Community
Redevelopment Agency (CRA) Special Revenue Fund (SRF) exceeded the $7,000 budgeted
amount by $1,112,084. Upon audit inquiry, CRA management stated that the overage was
caused by an adjusting journal entry (AJE) its external auditors required the agency to make in order to account for previously collected tax increment (TI) revenues that the CRA owed to the Midtown Miami Community Development District (CDD).

The AJE increased the CRA’s total expenditures by $1,114,409 and its liabilities/obligations (to transfer the TI monies to the CDD). Transferring the TI monies to the CDD was mandated pursuant to the terms of a second amendment to an inter-local agreement between the City of Miami (City), Miami-Dade County (County), and the CRA. The amendment was executed 7 days prior to the end of FY 2008 on September 23, 2008 and, according to CRA management, could not be foreseen when the FY08 budget was being prepared. We noted that City Commissioners, who comprise the governing board of the CRA, approved the said $1,114,409 expenditure on November 3, 2008 via MCRA Resolution: MCRA-R-08-0003. In addition, CRA management informed us, and we subsequently confirmed, that at the July 30, 2007 MCRA Board meeting, the Commissioners approved the MCRA fiscal year 2008 budget, which included an “Inter-fund Transfer Budget Reserve” line item for $1,121,052 that was apparently set aside to cover the said $1,114,409 expenditure.

Auditee Response and Action Plan:

☐ I agree; ☐ I disagree. Please initial: ___________________

Explanation______________________________________________________________
_____________________________________________________________________
_____________________________________________________________________
_____________________________________________________________________
_____________________________________________________________________

Please confirm our understanding by signing on the space provided below and returning this memorandum to us. In the event that you disagree with any of the items listed above, please provide your explanation and attach all supporting documents/records by July 27, 2009.

If you have any questions, please feel free to contact me at 305-416-2173 or by email.

Cc: Victor Igwe, CPA, CIA, Independent Auditor General
Audit Documentation File

OFFICE OF INDEPENDENT AUDITOR GENERAL
444 S.W. 2nd Avenue, Suite 715/Miami, FL 33128
From: Pacheco, Jessica on behalf of Villacorta, James H
Sent: Monday, August 24, 2009 5:24 PM
To: Blake, Lewis
Cc: Igwe, Victor; Valentin, Miguel A; Villacorta, James H; Pacheco, Jessica
Subject: RE: Financial Integrity Audit FY08 - MOU Anti-Deficiency Act
Attachments: Second Amendment to Midtown Interlocal - dated September 23, 2008.pdf; CRA Resolution approving the Second Amendment.pdf; Resolution of Midtown CRA amending the budget.pdf; Budget attached to Legislation.pdf

LB,

Regarding the inquiry below, per the Interlocal Agreements creating the Midtown Community Redevelopment Agency (“CRA”), the CRA was accumulating TIF revenues to be used for retirement of bonds issued by the Midtown Community Development District (CDD) for construction of a parking garage and public plaza. These funds were to be paid over to the CDD upon their reaching certain development milestones. On September 23, 2008, after unanimous votes of the Miami City Commission, the Board of Commissioners of Miami-Dade County, the CRA Board of Commissioners, and the Board of Supervisors of the CDD, an amendment to the Interlocal Agreement with the CDD was entered into which provided for payment by October 23, 2008. (See Section 2(c), paragraph 2 of the Second Amendment to the Interlocal Agreement.)

As you can see, the Amendment was entered into during the final week of the 2008 budget year, though payment was not due until the third week of the 2009 budget year. At this point, both the 2008 and 2009 budgets had been approved by the CRA Board of Commissioners, and accepted by the Miami City Commission. As such, on November 3, 2009, a resolution was brought before the CRA Board of Commissioners which amended the budget to provide for the payment authorized under the amendment to the Interlocal Agreement. Payment was then made on November 4, 2009.

The Anti-Deficiency Act provides:

"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."

While it is debatable whether this item should have accrued to the 2008 or 2009 budget (as the agreement was executed in 2008, and payment was due in 2009), here by two separate votes, the Commissioners authorized amendment of the agreement, and amendment of the CRA’s budget to accommodate the payment, thereby, bringing this matter squarely within the provisions of the Act providing for expenditures where the “City Commission . . . has enacted legislation . . . extending a department or agency’s obligational authority . . . .”

We have attached copies of the resolutions approving the amendment to the interlocal agreement and the amended 2009 budget of the Midtown CRA for your use.

If you have any further questions, please do not hesitate to contact our office.

James H. Villacorta
Executive Director
Southeast Overtown/Park West, Omni, and Midtown Community Redevelopment Agencies
49 N.W. 5th Street, Suite 100
Miami, Florida 33125

1
Date: August 11, 2009

To: David Shorter, Executive Director
   Virginia Key Beach Trust

From: Lewis R. Blake, CPA, CIA, and Senior Staff Auditor
      Office of the Independent Auditor General

Subject: Audit of Financial Integrity Principles
         Audit No. 09-015

In order to complete audit procedures pertaining to the Financial Integrity Audit for the period October 1, 2007 through September 30, 2008, and selected transactions prior and subsequent to this period, please confirm or clarify our understanding of the following and provide any additional records and/or documentation by August 18, 2009.

**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.....”
OBSERVATIONS

The Comprehensive Annual Financial Report (CAFR) for fiscal year (FY) 2008 (Page 124) disclosed that the functional categories indicated below exceeded budgeted authorizations as illustrated in the table below:

<table>
<thead>
<tr>
<th>Virginia Key Beach Trust/Expenditures/Capital Outlay</th>
<th>Real Budgeted Amount</th>
<th>Actual</th>
<th>Variance (Positive/Negative)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>56,500</td>
<td>80,126</td>
<td>(23,626)</td>
</tr>
</tbody>
</table>

The amount of the $23,626 negative variance represents a 41.8% increase of actual capital outlay expenditures over the budgeted amount.

Virginia Key Beach Trust (VKBT) management is responsible for implementing procedures that mitigate the risk that functional categories will exceed budgeted amounts. In the absence of such procedures, which includes facilitating 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, including actual capital outlay expenditures, be as close as possible to the projected budget. Accordingly, budget amendments should be prepared, approved, and entered into the City’s accounting system during the year to avert negative variances and ensure compliance with the Anti-Deficiency Act.

Auditee Response and Action Plan:

☑️ I agree; ☐ I disagree. Please initial: \[signature\]

Explanation: Of the actual expenditures $50,000 were donated to help purchase the Park’s historical carousel. In the future, the Trust will amend its budget.
Date: August 11, 2009

To: Elaine Black, President/CEO
Liberty City Community Revitalization Trust

From: Lewis R. Blake, CPA, CIA, and Senior Staff Auditor
Office of the Independent Auditor General

Subject: Audit of Financial Integrity Principles
Audit No. 09-015

In order to complete audit procedures pertaining to the Financial Integrity Audit for the period October 1, 2007 through September 30, 2008, and selected transactions prior and subsequent to this period, please confirm or clarify our understanding of the following and provide any additional records and/or documentation by August 18, 2009.

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....”
OBSERVATIONS
The Comprehensive Annual Financial Report (CAFR) for fiscal year (Fy) 2008 (Page 123) disclosed that the functional categories indicated below exceeded budgeted authorizations as illustrated in the table below:

<table>
<thead>
<tr>
<th>Category</th>
<th>Final Budgeted Amount</th>
<th>Actual</th>
<th>Variance (Negative)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liberty City Revitalization Trust/Other Financing Sources/Transfers In</td>
<td>565,000</td>
<td>550,000</td>
<td>(15,000)</td>
</tr>
</tbody>
</table>

The amount of the $15,000 negative variance represents a 2.65% decrease of actual “Transfers In” under the budgeted amount.

Liberty City Community Revitalization Trust management is responsible for implementing procedures that mitigate the risk that functional inflow categories will be less than budgeted amounts. In the absence of such procedures, which includes facilitating 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 funding inflows, including “Transfers In”, be as close as possible to the projected budget. Accordingly, budget amendments should be prepared, approved, and entered into the City’s accounting system during the year to avert negative variances and ensure compliance with the Anti-Deficiency Act.

Auditee Response and Action Plan:

☐ I agree; ✓ I disagree. Please initial:  

Explanation: The Liberty City Trust informed the appropriate City Department regarding the additional revenue of $15,000 received from Off-Street Parking for lot clearing. Unfortunately, it was not noted by the department. (see attached documents)
From: Hudson, Iris
Sent: Tuesday, November 13, 2007 2:46 PM
To: Reigadas, Ramon
Subject: LCT Revenue Budget FY2007-08 w account codes.xls
Attachments: LCT Revenue Budget FY2007-08 w account codes.xls
<table>
<thead>
<tr>
<th>Line Item</th>
<th>Budget FY07-08</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPA - 1199 NW 62nd Street - (Project No. 93-110159)</td>
<td>$179,888.08</td>
<td>10490.930101.434000</td>
</tr>
<tr>
<td>EPA - 1501 NW 62nd Street (Project No. 93-110135)</td>
<td>65,280.03</td>
<td>10490.930101.434000</td>
</tr>
<tr>
<td>2003 Neighborhood Initiative Grant (Project No. 93-110149)</td>
<td>826,500.00</td>
<td>10490.930101.464000</td>
</tr>
<tr>
<td>2002 Neighborhood Initiatives Grant (Project No. 93-110128)</td>
<td>125,000.00</td>
<td>10490.930101.464000</td>
</tr>
<tr>
<td>General Fund Request</td>
<td>550,000.00</td>
<td>10490.930101.481000</td>
</tr>
<tr>
<td>Miami Parking Authority</td>
<td>15,000.00</td>
<td>Miami Parking Authority is not tied into Oracle and therefore I cannot provide Account number. Arrangements have been made with Miami Parking Authority to submit a check to the Liberty City Trust quarterly to pay for maintenance on Parking Lots.</td>
</tr>
<tr>
<td></td>
<td>$1,761,668.11</td>
<td></td>
</tr>
</tbody>
</table>
Hudson, Iris

To: Reigadas, Ramon
Subject: SET-UP EXPENDITURE LINE ITEM - Professional Services (531000); Lot Clearing

Ray,

Lot Clearing is not set up in our budget. There need to be a expenditure account set up for Lot Clearing (Professional Services - 531000). The Liberty City Trust is in charge of maintaining 4 parkings lots on behalf of Off-street Parking. Off-Street Parking contributes $15,000 annually to the LCT to pay the vendor for their services. The $15,000 is paid quarterly as reimbursement to the Trust. We have incurred expenses and we have received funding already for these services. However, I need you to set up a Line item for Lot Clearing (531000) which is different from Other Contractual Services (534000).
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.”

Estimating Conference Committee meetings were held and attended by the required number of staff and non-staff members, and the committee's recommendations were communicated to the Mayor and the City Commission via a letter dated August 31, 2007. The recommendations were summarized as follows:

- “The Committee expressed that the City may benefit from the establishment of a verification process on property tax assessments for boundary properties.
- The Committee expressed a desire to establish guidelines of acceptable variations from budget to actual. It is the Committee’s recommendation that acceptable levels of variations be expressly outlined in the Financial Integrity Principles Ordinance. It was further recommended that variation threshold is implemented in the form of a sliding scale: 4% variation first year of implementation, 3% second year of implementation and 2% for all future years.
• The Committee recommended that an Enterprise Resource System (ERP) cost-benefit analysis be prepared so that the leadership of the project can complete the implementation for said system. As said implementation will allow management to reap the benefits of accurate financial information.

• The Committee recommended that the Fire Assessment Settlement payment should be represented as a single object code in the FY 2008 budget rather than the current display which houses it between two object codes. Additionally, the Committee agrees that the budget presentation should incorporate a footnote disclosure that expressly states that the City is entitled to receive and expects to collect the original disbursement of $3.7 million that was component of the original settlement. Thereby presenting that the net settlement impact of the Fire Assessment Settlement is $11.8 million.”

**Recommendation**

None

**Auditee’s Response and Action Plan**

None required.
FINANCIAL INTEGRITY PRINCIPLE NUMBER 3 – INTERFUND BORROWING

REQUESTS FOR REIMBURSEMENTS WERE NOT MADE IN A TIMELY MANNER

The City of Miami’s (City) Financial Integrity Principles as codified in Article IX, Division 1, Section 18-502(3) (b) 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...” As such, in order to verify citywide compliance with this principle, we tested reimbursement requests for fiscal year 2008 grant related expenditures totaling $5,937,525.

Fire-Rescue Department

During fiscal year 2008 (FY08), the Fire Rescue Department (FRD) expended $12,713,851 pursuant to twelve (12) grant programs. We selected the Assistance to Firefighters (Award # 1217) and the Urban Area Security Initiative (Award # 1323) grant programs for testing and examined all the requests for reimbursement for said 2 programs, which totaled $2,709,669.59.

We noted that the agreement for the 2 grant programs did not stipulate reimbursement requirement deadlines or due dates. However, good business practice would require the Fire Rescue Department to file for the reimbursement, or draw down the eligible reimbursement from the grantor agency, as soon as it complies with all stated goals relative to the grant including the use of City funds. Such timely filing of reimbursements would minimize the period that City fund are used as float. As such, we calculated the timeliness of filing as follows:

1. We determined the date of the City of Miami’s (COM) check that was issued to pay for the expenditure.
2. We determined the date that the reimbursement request was made as indicated on the source documents.
3. We calculated the time that elapsed (in days) between the date that COM check was issued and date the request for reimbursement was filed. Our audit procedures disclosed the following:

**Urban Area Security Initiative Grant – Award #1323**

Our audit determined that all of the 11 grant reimbursement request samples tested relative to the Urban Area Security Initiative (UASI) grant were not filed in a timely manner. The expenditures applicable to the said reimbursement requests totaled $1,689,784.56, and the time (in days) that elapsed between incurring of expenditures and the filing of reimbursement requests ranged from 147 days to 281 days (or an average of 213 days). A total of $465,435.99 of the reimbursement requests filed had not been paid to the City as of the date that we conducted our audit field work on June 5, 2009.

Also, we noted that during FY08, a total of $1,999,658.88 of UASI expenditures were incurred; however, reimbursement requests totaling $309,874.32 (or 15.5% of the FY08 expenditures) had not been filed as of the date that we conducted our audit field work on June 5, 2009. Therefore, considering the duration of time (in days) that had elapsed from the end of fiscal year 2008 (FY08) to the date of our audit field work (July 31, 2009), the reimbursement requests for $309,874.32 of expenditures are at least 304 days late.

Based on the above analysis, a total of **$775,310.31** (or 38.8%) of the $1,999,658.88 FY08 expenditures had not been reimbursed as of as of July 31, 2009, as indicated in the table below:
<table>
<thead>
<tr>
<th>UASI FY06 Grant</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY08 Activity</td>
</tr>
<tr>
<td>Total FY08 Expenditures</td>
</tr>
<tr>
<td>Total Reimbursements Submitted</td>
</tr>
<tr>
<td>Reimbursements Not Submitted</td>
</tr>
<tr>
<td>Total Reimbursements Submitted</td>
</tr>
<tr>
<td>Total Reimbursements Received</td>
</tr>
<tr>
<td>Reimbursements Not Received</td>
</tr>
<tr>
<td>Total Expenditures that have not been reimbursed</td>
</tr>
</tbody>
</table>

We were informed by Fire Rescue Department (FRD) staff that the cause of the delay for filing for reimbursement as described above was because the Florida Division of Emergency Management (grantor) precluded FRD from making further reimbursement requests as a result of errors identified in one of its initial reimbursement requests for $69,991 (included in $465,436 as noted above). Said grantor indicated that until the errors are corrected, FRD will not be paid for the $465,436 balance of the reimbursements previously submitted, nor can FRD submit reimbursement requests for the $309,874 expenditures it had not previously submitted.

*Assistance to Firefighters Grant Program – Award #1217*

As we noted above, there were no reimbursement requirement deadlines or due dates stipulated in the Assistance to Firefighters Grant Agreement. However, good business practice would require FRD to file for reimbursements, or draw downs, as soon as it complies with all stated goals relative to the grant including the use of City funds. As such, we calculated the time (days) that elapsed between the date of the check (payment of the expenditure) and the date the reimbursement request was actually made as described above.
Our audit determined that eight (8) of the 9 grant reimbursement request samples tested relative to this grant were not filed in a timely manner. Our audit test determined that $685,980.71 of the $710,010.71 expenditures applicable to the said reimbursement requests were filed late. The time (in days) that elapsed between incurring of the expenditures and filing of the reimbursement requests ranged from 18 days to 122 days (or an average of 53 days). We were informed by FRD staff that challenges experienced by the project contractor attributed to the delay of reimbursement request submittals. However, all reimbursements were received without exception.

The untimely filing of requests for reimbursement prolongs the period that city funds are used as float and precludes the City from optimizing the interest it could be earning on reimbursable funds.

FOLLOW-UP ON PRIOR YEAR AUDIT FINDINGS

*Inadequate Supporting Documentation – Urban Area Security Initiative (UASI) Grants*

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 (State of Florida Department of Community Affairs) provides that all bills for fees or other compensation for services or expenses shall be submitted in detail sufficient for a proper audit.

The prior year’s audit # 09-003, dated November 13, 2008 disclosed that 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 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 audit report # 09-003, only $2,537,088 of the $3.6 million had 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.”

As a result of our audit follow-up procedures performed on July 30, 2009 relative to the $3,609,967 as described above, we noted that an additional $521,391 had been received as of the date of our audit field work (July 31, 2009). As such, $551,488 ($3,609,967 - $2,537,088 - $521,391) is still pending reimbursement by the Florida Department of Community Affairs (DCA). The number of days that had elapsed from March 26, 2008 (the last date when the reimbursements were filed) to the date of our audit field work (July 31, 2009) is 490 days; therefore, the City has forgone at least 490 days of interest it could have earned on $551,486.

Requests for Reimbursements Not Filed on a Timely Basis – Urban Area Security Initiative (UASI) Grants

Also, the previous audit report noted that there were expenditure reimbursements totaling $2,867,100.40 that were filed 185 to 461 days late. As of the date of our audit field work (July 31, 2009), the Oracle AR module (OAR) indicated that $2,040,557.21 of the said amount had been reimbursed. However, $826,543 is still pending reimbursement by DCA. According to OAR, the said $2.87 million reimbursement was internally billed/invoiced to DCA on September 30, 2007. A total of 668 days had elapsed from the reimbursement billing date to the date of our audit field work (July 31, 2009). As such, the City has forgone at least 668 days of interest that it could have earned on $826,543.

Recommendation:

FRD staff should implement internal control procedures that ensure that all reimbursement requests have proper supporting documentation. In addition, staff should closely monitor check payments made to vendors/suppliers under respective award numbers in the Oracle “Program and Grants” module (PnG) system so that at a minimum, supporting documentation can be compiled and reimbursement requests can be made by the 15th day of the subsequent month.
Auditee Response and Action Plan:

See auditee responses on pages 38 through 49.

**Parks and Recreation Department (PRD)**

**Safe Neighborhood Program (SNP) Grant – Award #1216**

The grant agreement provides that “Parks is required to submit requests for reimbursement within six months or two quarters (180 days) following the date which the expense is incurred…” A test of 34 SNP requests for reimbursements indicated that 8 reimbursements (or 23.5%) totaling $201,995.16 (or 39.4% of the FY08 expenditures totaling $512,660) were not filed in a timely manner. The time (in days) that elapsed between incurring of the expenditures and filing of the requests for reimbursements ranged from 4 days to 414 days.

Of the 8 expenditures totaling $201,995.16 that the related requests for reimbursement were filed late, 4 of the said expenditures totaling $83,502.76 were incurred by the City’s Capital Improvement Program (CIP) Department. We were informed by PRD staff that there is a lack of communication between CIP and PRD with regards to the amount of construction-related expenditures that CIP incurs on behalf of PRD. Based on the above analysis, a total of $250,447 (or 48.8%) of the $512,660 expenditures had not been reimbursed as of as of July 31, 2009,

We also were informed by PRD staff that a $200,000 reimbursement request was delayed by the grantor because scope changes at the Virginia Key Beach Park site had not been reviewed and approved by the grantor.

The untimely filing of request for reimbursement prolongs the period that city funds are used as float and precludes the City from optimizing the interest it could be earning on reimbursable funds.
Recommendation:

PRD staff should implement internal control procedures that ensure that all reimbursement requests involving scope changes to capital projects are vetted and approved by grantors before the requests are made. In addition, staff should closely monitor check payments made to vendors/suppliers under respective award numbers in the Oracle “Program and Grants” module (PnG) system so that supporting documentation can be compiled and reimbursement requests can be made in accordance with contractual provisions.

Auditee Response and Action Plan:
See auditee responses on pages 50 through 51.

Capital Improvement Programs (CIP)

We noted that there were no reimbursement requirement deadlines or due dates stipulated in the applicable grant agreements examined. However, good business practice would require the grantee (CIP) to file for the reimbursement or draw down authorized funding from the grantor agency as soon as it complies with all stated goals relative to the grant including the use of City funds. As such, we calculated the time (days) that elapsed between the date of the check (payment of the expenditure) and the date the reimbursement request was actually made, as described on pages 30 and 31. Our audit procedures disclosed the following:

Florida Department of Transportation Grant - Jose Marti Park Riverwalk – Award #1106

Our audit tests disclosed that the 4 requests for reimbursement totaling $1,148,162.05 (or 100% of those examined) were not filed in a timely manner. The time (in days) that elapsed between payment of the expenditures and filing of the request for reimbursements ranged from 43 to 190 days (or an average of 112 days); however, all reimbursements were received without exception.
Florida Department of Environmental Protection Grant – Flagami/West End Storm Sewer Improvements – Award #1121

Our audit tests disclosed that 5 requests for reimbursement totaling $693,425.43 (or 100% of those examined) were not filed in a timely manner. The time (in days) that elapsed between payment of the expenditures and filing of the request for reimbursement ranged from 181 days to 301 days (or an average of 234 days). However, all reimbursements were received without exception.

We were informed by CIP staff that other functional duties precluded them from ensuring that requests for reimbursements are being filed on a timely basis. However, the untimely filing of requests for reimbursement prolongs the period that city funds are used as float and precludes the City from optimizing the interest it could be earning on reimbursable funds.

Recommendation:

CIP staff should implement internal control procedures to ensure that all reimbursement requests have proper supporting documentation and also filed in a timely manner. Accordingly, designated staff should be trained to closely monitor check payments made to vendors/suppliers under respective award numbers in the Oracle “Program and Grants” module (PnG) system so that at a minimum, supporting documentation could be compiled and reimbursement requests could be made by the 15th day of the subsequent month.

Auditee Response and Action Plan:

See auditee responses on page 52.
In response to the audit pertaining to the Financial Integrity Audit for the period of October 1, 2007 through September 30, 2008, please find the following responses to your request for additional documentation.

REQUESTS FOR REIMBURSEMENTS WERE NOT MADE IN A TIMELY MANNER

Response, pg. 4:

Fire-Rescue staff have already put a work flow in place to ensure that all UASI-related reimbursement requests have accurate supporting documentation. When a package has been compiled, it routes to the UASI Fiscal Assistant for initial review, followed by the Senior Budget and Financial Support Advisor’s final review.

Fire-Rescue staff have already obtained the closing schedule from the Finance Department in order to better monitor payments to vendors in PnG. However, Finance’s needs and departmental priorities may vary during the course of the fiscal year. When that occurs, the Finance Department re-prioritizes its workload in order to work as efficiently as possible even though it unfortunately results in postponing the scheduled month-end closing dates. Fire-Rescue staff need to wait until Finance officially closes a month so that our reimbursement requests match the City financials. Then, Fire-Rescue staff runs a Project and Grants Expenditure Actuals report on the UASI awards in order to begin compiling reimbursement packages. Fire-Rescue staff cannot use a PnG Expenditure Actuals report before a month is closed because there is a risk of missing data by working from an incomplete record of expenditures.

In addition, our backup documentation requests are not always made a priority with key departments or UASI sub-grantees, which also unfortunately add to the reimbursement delays. While we are dependent on the City’s Finance Department adhering to their closing schedule, Fire-Rescue staff ensures that only the most accurate information is used when preparing UASI reimbursement
requests. We are dependent on the Finance department for source documentation such as copies of cancelled checks and copies of paid invoices in order to compile a reimbursement package. Please also note that we are dependent on Fire Payroll and their Payroll counterparts in other City Departments for payroll time and attendance record source documentation. Lastly, we also depend on the UASI Project Managers or vendors for training records regarding training classes or exercises.

**AFG Response, pg. 5:**

Fire-Rescue staff have made a conscious effort to modify their workflow to ensure that the Assistance to Firefighter Grant Program reimbursement packages are submitted in a timely manner. Every month, the Fiscal Assistant will check for any payments made to suppliers in Oracle’s PnG module, compile the supporting documents, and route to the Principal Staff Analyst for review. The Program Manager will then be notified to request reimbursement. The Grants Liaison will be notified and an official reimbursement request will be submitted via the eGrant system. After receiving confirmation that the reimbursement request has been approved, appropriate budgetary and fiscal personnel will be notified of its anticipated arrival date.

**Follow up on Prior year audit findings - Inadequate Supporting Documentation**

Response, pgs. 5-6:

Fire-Rescue staff have made a conscious effort to modify their workflow to ensure that UASI reimbursement packages are as complete as possible before they are submitted to the State.

**Follow up on Prior year audit findings – Requests for Reimbursements not filed on a timely basis**

Response, pg. 6

Fire-Rescue staff already have a work flow in place to ensure that all UASI-related reimbursement requests have accurate supporting documentation. Please note that the workflow process in place included notifying our UASI subgrantees of the new reimbursement package supporting document requirements, to include copies of all training materials and handouts. When a package has been compiled, it routes to the UASI Fiscal Assistant for initial review, followed by the Senior Budget & Financial Support Advisor’s final review.
Fire-Rescue staff have already obtained the closing schedule from the Finance Department in order to better monitor payments to vendors in PnG. However, Finance’s needs and departmental priorities may vary during the course of the fiscal year. When that occurs, the Finance Department re-prioritizes its workload in order to work as efficiently as possible even though it unfortunately results in postponing the scheduled month-end closing dates. Fire-Rescue staff need to wait until Finance officially closes a month so that our reimbursement requests match the City financials. Then, Fire-Rescue staff runs a Project and Grants Expenditure Actuals report on the UASI awards in order to begin compiling reimbursement packages. Fire-Rescue staff cannot use a PnG Expenditure Actuals report before a month is closed because there is a risk of missing data by working from an incomplete record of expenditures.

In addition, our backup documentation requests are not always made a priority with key departments or UASI sub-grantees, which also unfortunately add to the reimbursement delays. While we are dependent on the City’s Finance Department adhering to their closing schedule, Fire-Rescue staff ensures that only the most accurate information is used when preparing UASI reimbursement requests. We are dependent on the Finance department for source documentation such as copies of cancelled checks and, copies of paid invoices in order to compile a reimbursement package. Please also note that we are dependent on Fire Payroll and their Payroll counterparts in other City Departments for payroll time and attendance record source documentation. Lastly, we also depend on the UASI Project Managers or vendors for training records regarding training classes or exercises.

RD/ACP

Cc: Maurice L. Kemp, Fire Chief
    Victor Igwe, CPA, CIA, Independent Auditor General
Date: July 31, 2009

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

From: Lewis R. Blake, CPA, CIA, and Senior Staff Auditor
       Office of the Independent Auditor General

Subject: Audit of Financial Integrity Principles
         Audit No. 09-015

Pursuant to our ongoing audit pertaining to the Financial Integrity Audit for the period October 1, 2007 through September 30, 2008, and selected transactions prior and subsequent to this period, please confirm or clarify our understanding of the following and provide any additional records and/or documentation by August 7, 2009.

REQUESTS FOR REIMBURSEMENTS WERE NOT MADE IN A TIMELY MANNER

The City of Miami’s (City) Financial Integrity Principles as codified in Article IX, Division 1, Section 18-502(3) (b) 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...”

During fiscal year 2008 (FY08), the Fire Rescue Department (FRD) expended $12,713,851 pursuant to twelve (12) grant programs. We selected 2 of the grant programs for testing and examined all of the FY08 reimbursement requests for the 2 programs. Total FY08 expenditures for the 2 programs were $2,769,669.59.
We noted that there were no reimbursement requirement deadlines or due dates stipulated in the applicable grant agreements for the programs; however, good business practice would require the grantee (Fire Rescue Department) to file for the reimbursement, or draw down the eligible reimbursement from the grantor agency, as soon as it complies with all stated goals relative to the grant including the use of City funds. As such, we calculated the time (days) that elapsed between the date of the check (payment of the expenditure) and the date the reimbursement request was actually made, as follows:

1. We noted the date of the City of Miami’s (COM) check that was issued to pay for the expenditure.
2. We noted the date that the reimbursement request was made as indicated via source documents.
3. We calculated the time elapsed (in days) between the expenditure date (the date of the COM check) and the reimbursement request date.

*Urban Area Security Initiative Grant – Award #1323*

Our audit determined that all of the 11 grant reimbursement request samples tested relative to the Urban Area Security Initiative (UASI) grant were not filed in a timely manner (See attached spreadsheet). The expenditures applicable to the said reimbursement requests totaled $1,689,784.56, and the average time (in days) that elapsed between incurrence of expenditures and making respective reimbursement requests ranged from 133 days to 281 days (or an average of 201 days).

We also noted that during FY08, a total of $1,999,658.88 of UASI expenditures was incurred; however, $465,435.99 of the reimbursement requests filed has not been paid to the City (or 23.3% of the $1.99 million in FY08 expenditures). In addition, reimbursement requests totaling $309,874.32 (or 15.5% of the FY08 expenditures) have not been made; therefore, considering the amount of time (in days) that has elapsed from the end of fiscal year 2008 (FY 08) to the
date of this MOU, the reimbursement requests for $309,874 of expenditures are at least 304 days late.

As a result, $775,310.31 (or 38.8%) of the $2.0 million FY08 expenditures have not been reimbursed as indicated in the table below:

<table>
<thead>
<tr>
<th>UASI FY08 Grant</th>
<th>FY08 Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total FY08 Expenditures</td>
<td>$ 1,959,659</td>
</tr>
<tr>
<td>Total Reimbursements Submitted</td>
<td>$ 1,689,785</td>
</tr>
<tr>
<td>Reimbursements Not Submitted</td>
<td>$ 309,874</td>
</tr>
<tr>
<td>Total Reimbursements Submitted</td>
<td>$ 1,689,785</td>
</tr>
<tr>
<td>Total Reimbursements Received</td>
<td>$ 1,224,349</td>
</tr>
<tr>
<td>Reimbursements Not Received</td>
<td>$ 465,436</td>
</tr>
<tr>
<td>Total Expenditures that have not been reimbursed</td>
<td>$ 775,310</td>
</tr>
</tbody>
</table>

We were informed by Fire Rescue Department (FRD) staff that the cause of the reimbursement delay and non-payment was because the grantor (Florida Division of Emergency Management) precluded FRD from making reimbursement requests because of errors discovered in one of its initial reimbursement requests for $60,991. Until the errors are corrected, FRD will not be paid for the balance of the reimbursements previously submitted ($465,436), nor can FRD submit reimbursement requests for expenditures it had not previously submitted ($309,874).

Not timely requesting reimbursement requests prevents the City from optimizing the interest it could be earning on reimbursable funds.
Recommendation:
FRD staff should implement internal control procedures that ensure that all reimbursement requests have accurate supporting documentation. In addition, staff should closely monitor check payments made to vendors/suppliers under respective award numbers in the Oracle “Program and Grants” module (PnG) system so that at a minimum, supporting documentation could be compiled and reimbursement requests could be made by the 15th day of the subsequent month.

Auditee Response and Action Plan:
☒ I agree; ☐ I disagree. Please initial: ____________________________

Explanation See attached.

Assistance to Firefighters Grant Program – Award #1217

As we noted above, there were no reimbursement requirement deadlines or due dates stipulated in the Assistance to Firefighters Grant Agreement; however, good business practice would require FRD to file for reimbursements, or draw downs, as soon as it complies with all stated goals relative to the grant including the use of City funds. As such, we calculated the time (days) that elapsed between the date of the check (payment of the expenditure) and the date the reimbursement request was actually made as described above.

Our audit determined that eight (8) of the 9 grant reimbursement request samples tested relative to the Assistance to Firefighters grant were not filed in a timely manner (See attached spreadsheet). The expenditures applicable to the said reimbursement requests totaled $710,010.71, and the average time (in days) that elapsed between incurring of expenditures and making respective reimbursement requests ranged from 18 days to 122 days (or an average of 53 days). We were informed by FRD staff that challenges experienced by the project contractor...
attributed to the delay of reimbursement request submittals. However, all reimbursements were received without exception.

In spite of unforeseen delays and project challenges, not timely requesting reimbursement requests prevents the City from optimizing the interest it could be earning on reimbursable funds.

Recommendation:
See above.

Auditee Response and Action Plan:

☒ I agree; ☐ I disagree. Please initial: ________________
Explanation  See attached.

FOLLOW-UP ON PRIOR YEAR AUDIT FINDINGS

Inadequate Supporting Documentation – Urban Area Security Initiative (UASI) Grants

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 (State of Florida Department of Community Affairs) provides that all bills for fees or other compensation for services or expenses shall be submitted in detail sufficient for a proper audit.

The prior year’s audit # 09-003, dated November 13, 2008 disclosed that 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 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 audit report # 09-003, only $2,537,088 of the $3.6 million has been collected. According to FRD management, efforts have been made to reorganize the department and develop procedures to ensure that the reimbursement process is timely and in accordance with all City and State requirements.

As a result of our audit follow-up procedures performed on July 30, 2009 relative to the $3,609,967 as described above, we noted that an additional $521,391 has been received as of the date of this MOU. As such, $551,488 ($3,609,967 - $2,537,088 - $521,391) is still pending reimbursement by the Florida Department of Community Affairs (DCA). The number of days that have elapsed from March 26, 2008 (the last date when the reimbursements were filed) to the date of this MOU is 490 days; therefore, the City has foregone at least 490 days of interest it could have earned on $551,488.

Requests for Reimbursements Not Filed on a Timely Basis – Urban Area Security Initiative (UASI) Grants

The previous audit report noted that there were expenditure reimbursements totaling $2,867,100.40 that were filed 185 to 461 days late. As of the date of this MOU, the Oracle AR module (OAR) indicates that $2,040,557.21 of the said amount has been reimbursed; however, $826,543 is still pending reimbursement by DCA. According to OAR, the said $2.87 reimbursement was internally billed/invoiced to DCA on September 30, 2007 and indicates that a total of 668 days have elapsed from the reimbursement billing date to the date of this MOU. As such, the City has foregone at least 668 days of interest that it could have earned on $826,543.

Recommendation:
See above.
Auditee Response and Action Plan:

☒ I agree; ☐ I disagree. Please initial: ____________________________

Explanation: See attached.

Please confirm our understanding by signing on the space provided below and returning this memorandum to us. In the event that you disagree with any of the items listed above, please provide your explanation and attach all supporting documents/records by August 7, 2009.

If you have any questions, please feel free to contact me at 305-416-2173 or by email.

Cc: Victor Igwe, CPA, CIA, Independent Auditor General
Maurice Kemp, Deputy Fire Chief
Audit Documentation File
### Test - Reimbursement Request Timeliness

**Fire-Rescue Department**

**UASJ FY 2006 - Award #1323**

<table>
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<tr>
<th>Item#</th>
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<th>Date Reimb</th>
<th>Amt Reimb</th>
<th>Outstanding Amt</th>
<th>Reimbursement Request Timely Submitted?</th>
<th>Reimbursement Received?</th>
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</table>

**Total FY08 Expenditure Reimb Requested**: 1,889,784.56

**Total FY08 Expenditure Reimb Requested**: 1,224,348.57

**Total Expenditure that have not been reimbursed**: 665,435.99

**Number of "Yes"**: 0

**Number of "No"**: 3

**Number of "Not Applicable"**: 0

**Average time (Days elapsed)**: 201

**Number of "No"**: 13

**Number of "Not Applicable"**: 2

**FY09 Payments (Not Applicable - Expenditures were paid with checks dated subsequent to the fiscal year being tested - FY08)**

**Total**: 13
## Test - Reimbursement Request Timeliness

<table>
<thead>
<tr>
<th>Item</th>
<th>Expend Date</th>
<th>Check#</th>
<th>Reimb Request ExpAmt</th>
<th>Reimb Request Date</th>
<th>Time (Days) elapsed between Exp &amp; Reimb Request Date</th>
<th>Date Reimb</th>
<th>Amt Reimb</th>
<th>Outstanding Amt</th>
<th>Reimbursement Request Timely Submitted?</th>
<th>Reimbursement Received?</th>
</tr>
</thead>
<tbody>
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### Total FY08 Expenditures

- Reimb Requested: 710,010.71
- Reimb Request Timely Submitted: 710,010.71
- Reimb Request Not Applied For: 0.00
- Average Time (Days elapsed): 53
- Number of "Yes": 9
- Number of "No": 0
- Total Items: 9
In response to the memorandum from your office dated July 28, 2009 regarding the review and findings of the Safe Neighborhood Parks (SNP) Program award No. 1216, the Parks and Recreation Department (PRD) agrees with the recommendation presented in your report. Specifically, to implement internal procedures involving approval of scope adjustments and closely monitoring check payments for capital expenses in the Oracle "Program and Grants" module.

PRD staff has always recognized the importance of providing the Office of Safe Neighborhood Parks (OSNP) with timely reimbursements requests, in order for the City to obtain the funds back in an expeditious manner. To this end, PRD staff strives to comply with numerous requests by OSNP staff to re-submit reimbursement requests, provide for additional back-up documentation and submit for scope adjustments that have not been required by the previous OSNP staff in the history of the SNP program. These actions contribute to the delays noted in your report as the new OSNP staff communicates their interpretation of the SNP administrative rules.

If further information is requested, please do not hesitate to get in touch with me.

EWB/jag

c: Victor Igwe, CPA, CIA
   Independent Auditor General

   Maria M. Perez
   Support Services Coordinator
Auditee Response and Action Plan:

☑ I agree; ☐ I disagree. Please initial:  

Explanation

Please confirm our understanding by signing on the space provided below and returning this memorandum to us. In the event that you disagree with any of the items listed above, please provide your explanation and attach all supporting documents/records by August 4, 2009.

If you have any questions, please feel free to contact me at 305-416-2173 or by email.

Cc: Victor Igwe, CPA, CIA, Independent Auditor General
   Audit Documentation File
The aspect of your findings we agree with is that the requests for reimbursements could be filed more timely. We do not agree with the findings as to the impacts on CIP's ability to file more timely or frequently and we do not agree with the recommendations.

**Audit Findings**

Your finding reflects that the only reason for delays is due to staff workload. While this is a significant reason it is not the sole reason. Other reasons include but are not limited to:

- Staffing
- Reports/information from Project Managers/ Construction Managers or Contractors/Consultants are pending submission due to project closeout duration
- Project delays
- Revisions in scopes of work Impacting spend down of funds
- Expenses shown in Oracle are not eligible

The reasons noted above play a significant role in the timing of any request for reimbursements.

**Audit Recommendation**

Your sole recommendation is that Grant Administration & Strategic Initiatives (GASI) monitor grant-related expenditures and make sure that requests are made in a timely manner.

As written this would just be another layer of oversight and would only result in GASI notifying CIP that it is time to file a reimbursement request. This recommendation does not address the issue or the recommendation that was previously discussed by CIP, Finance, and the Fire Department. It was agreed that the best solution was for CIP to have an additional staff position for grants and that this position could actually pay for itself through the earning of greater interest. Unfortunately due to the current economic state of the City, even though the position would pay for itself, CIP has not been approved to create this additional position. Once the position is approved, CIP will hire the required personnel to fulfill these duties.

The audit recommendation only recommends additional oversight rather than address a viable option that would allow for more frequent reimbursement requests. CIP will be establishing policy that requires a reimbursement to be requested within a "time certain" period. This will be the responsibility of the staff person hired to monitor these reimbursements.

Until the required staff is hired, we shall continue to monitor the reimbursement request closely and strive to minimize the number of days in order to optimize the City’s interest dollars.
FUND TRANSFERS TO GENERAL FUND DEPLETED FUNDS NEEDED FOR FUTURE CAPITAL PROJECTS

Financial Integrity Principle Number 3 states that “The city shall not...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...” As such, monies contributed by the General Fund (GF) via operating transfers to various capital projects should facilitate funding of capital projects identified in the Capital Budget, which is included in the annual Six-Year Capital Improvement Plan (CIP). Financial Integrity Principle Number 8 requires the CIP to be approved by the City Commission by November 30th each fiscal year. The CIP lists cost estimates for all necessary infrastructure improvements needed to support City services, including adequate repairs and replacement components. The City’s CIP is detailed by fund; includes recommended project prioritization criteria; and, identifies funding sources and unfunded projects. The primary source of funding capital improvement projects are City Bonds. Other sources of funding include storm water utility trust funds, local option gas tax, half cent surtax, fire assessment fees, miscellaneous county/city taxes/fees, and impact fees. Due to overwhelming need, the sources of funding described above are hardly sufficient to fund all capital improvement projects including repairs and maintenance of the City’s infrastructure identified in the capital improvement plan. For instance, as indicated in the table below, the CIP for the 6-year period commencing FY07-08 indicated that the City needed $725 million to commence and complete 505 capital projects during said period; and the FY07 and FY08 actual expenditures for the City’s capital project funds totaled only $84 million and $84.1 million respectively; therefore, the General Fund (GF) makes annual contributions to supplement the primary and other funding sources for Capital Project Funds.
<table>
<thead>
<tr>
<th>Capital Project Funding Needs</th>
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<tbody>
<tr>
<td>* Data extracted from unaudited CIP’s indicated</td>
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<tr>
<td>Number of Projects identified in the 6-year CIP</td>
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<tr>
<td>Total Project Cost Estimates</td>
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<tr>
<td>Less: Total Identified Funding</td>
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<tr>
<td><strong>Total Funding Needed</strong></td>
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<tr>
<td>% Increase of Funding Needed Compared to Prior Year</td>
</tr>
<tr>
<td>Total Capital Project Fund Expenditures</td>
</tr>
<tr>
<td></td>
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</tbody>
</table>

All contributions from General Funds to the Capital Project Funds (CPF) are approved by the City Commission. Such contributions are made via journal entries (JE) which facilitate the transfer of funds between the GF and various CPF. We noted that there were operating transfers made from CPF to the GF at the end of FY07 and FY08 totaling $26,366,537 (Note: $13,101,442 was transferred on April 29, 2008 per Journal #14368, and $13,265,095 was transferred on March 19, 2009 per Journal #24443).

It appears that the transfers were used to increase GF balance reserves. On Page 8 of the FY08 Comprehensive Annual Financial Report (CAFR) under Management’s Discussion and Analysis Section, management described the said Capital Projects fund transfers into the General Fund (GF) as follows: “The decrease in the General Fund’s fund balance was off-set by approximately $21.3 million of transfers from the capital projects funds which were unused appropriations that were initially funded from the general fund in prior years…” A similar transfer totaling
$13,101,442 was also noted in the City’s FY 2007 CAFR. We noted that as a result of the said transfers, there was a 15% increase in the FY07 GF balance reserves and a 16.52% increase in the FY08 GF balance reserves as indicated in the table below. However, the use of the transfers to increase the GF balance reserves appears to be unjustified in light of capital project funding shortages exacerbated by overwhelming need for City-wide infrastructure improvements, repairs/maintenance, and equipment as described above.

<table>
<thead>
<tr>
<th>% Increase to General Fund (GF) Due to Operating Transfers</th>
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<tr>
<td><strong>FY07</strong></td>
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<tr>
<td>Ending GF Balance (Per CAFR)</td>
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<tr>
<td>Less: the Operating Transfer</td>
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<tr>
<td>GF Balance w/out the Operating Transfer</td>
</tr>
<tr>
<td>Increase to GF as a result of Operating Transfer</td>
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</table>

*Written Justification for Fund Transfer as provided to the City Commission Was Inaccurate*

The Statement on Auditing Standards (SAS) Number 99, *Consideration of Fraud in a Financial Statement Audit*, states “the auditor should design procedures to test the appropriateness of journal entries recorded in the general ledger and other adjustments.” As such, our audit procedures included examination of the JE’s that facilitated the $26.3 million transfers described above. As indicated above, all contributions from the GF to the Capital Project Funds were approved by the City Commission. Such contributions were made via journal entries (JE) which facilitated the transfer of funds between the General Fund (unrestricted funds) and various Capital Project Funds (restricted funds). Therefore, any request to the City Commission to
authorize the return of contributions back to the GF should be supported with accurate, relevant, transparent, and reliable information. The City Commission approved the transfer of the monies back to the GF based on City Management’s assertion that the said GF contributions in the CPFs were “unused.” The term “unused” implies that the said funds were no longer needed to commence or complete capital projects including repair/maintenance of infrastructure and procurement of equipment. However, the table above indicates that the $26.3 million in transfers to the GF depleted funds that were sorely needed to fund capital projects that had been identified in the Six-Year Capital Improvement Plan and approved by the City Commission. These facts should have been fully disclosed and included in the source documents provided to the City Commission and the public.

The $13.1 million transfer was subsequently disclosed in the City’s FY07 Comprehensive Annual Financial Report (CAFR), and the $13.2 million transfer was included in a $76.8 million transfer that was subsequently disclosed in the FY08 CAFR. The written explanation in a memorandum dated April 28, 2008 from the Office of Strategic Planning, Budgeting, and Performance (SPBP) to the Finance Department (FD) justifying the JE facilitating the $13.1 million transfer stated: “A review of the balances in the CIP Fund indicates the availability of unused contributions from the General Fund at 9/30/07. The City Manager has agreed to allow all unused General Fund contributions in the CIP Fund….to be returned to the General Fund.” However, in light of the $906 million capital project funding shortage described above, the statement that the $26.4 million ($13.1 million transferred to the GF during FY07 and the $13.2 million transferred to the GF during FY08) was unused, therefore implying that the funds were not needed, was inaccurate and misleading.

We reviewed legislative documentation (Resolution #09-0115) that authorized FY08 operating transfers to the GF, as well as a memorandum dated March 13, 2009 from SPBP to FD requesting the previously described $13,265,095 million operating transfer that was made pursuant to the said resolution. Similar to the written explanation noted above that justified the $13.1 million transfer made in FY07, the memorandum dated March 13, 2009 also requested the return of “unused General Fund contributions in the Capital Improvement Fund back to the General Fund…” Included in the $13.2 million transfer was $8,200,183 of Impact Fee monies
that was in the Impact Fee Capital Project Fund. However, during our review of the Impact Fee Fund we noted that all of the $8.2 million was generated entirely from impact fee revenues and that none of the monies included contributions from the GF as asserted in the memorandum. Based on the inaccurate assertions made by the SPBP Department, the City Commission authorized the transfer of $13.2 million of Capital Project Funds, which included $8.2 million of Impact fee monies to the GF.

Incorrect Usage of the Impact Fee Fund

As noted above, our audit field work determined that a journal entry (JE) dated March 19, 2009 for $13,265,095 that was proposed by the SPBP Department and recorded by the Finance Department transferred the said amount from two (2) Capital Projects Funds (restricted funds) to the GF (unrestricted funds). Included in the $13,265,095 JE was the transfer of $8,200,183 of Impact Fee Fund monies (Fund 31100) to the GF. However, as stated above, we determined that all the monies in the Impact Fee Fund (31100) were generated solely from impact fee assessments. Such fees are assessed on the potential “impact”, or increased demand, new construction will generate for the City’s core services (i.e. public safety, parks and recreation, solid waste, and general services). As such, the use and administration of the Impact Fee Fund is restricted pursuant to the City Code, Section 13-13(c) which requires “the placement of such funds into appropriate separate accounts by type of impact fee …” Additionally, City Code Section 13-13(b) states that the funds of these accounts shall not be commingled with other funds or revenues of the City.

Upon audit inquiry, we received a copy of another memorandum dated October 15, 2009 from SPBP to FD which requested a correction/adjustment to the initial JE described above. However, the proposed JE in the memorandum dated October 15, 2009 did not return the $8.2 million from the General Fund back to the Impact Fee Fund where it is truly needed in order to assist in fulfilling the funding needs described above; instead, $8.2 million of the balances in the Solid Waste and General Government capital project funds were reclassified to Impact Fee capital project funds in the Oracle Project and Grants (PnG) system. There was no indication that this journal entry, which corrected an earlier journal entry authorized by the City Manager
and the City Commission, was re-submitted to the City Manager and the City Commission for consideration and approval.

**Zero Interest Income Earned in the Impact Fee Fund Due To Operating Transfer**

Section 13-13(c) of the City Code also states that impact fee revenues shall be: “deposited in interest-bearing accounts in a bank authorized to receive deposits of city funds. Interest earned by each account shall be credited to that account and shall be used solely for the purposes specified for funds of such account.”

However, subsequent to the operating transfer of $8,200,183 as discussed above, the balance in the Impact Fee Fund was $0.14 as of September 30, 2008 (after closing adjusting entries were recorded). As a result of the transfer, no interest was allocated to the Impact Fee Fund. The allocation of interest earned is based on the account balance at the end of each fiscal year.

**Rebuttal to Auditee Response**

The Director of SPBP disagreed with our findings. Please see his written response on page 61.

The insinuation that we lacked understanding of the Capital Plan is unfounded and seemed to have been a ploy used to obscure the real issue—that the journal entries totaling $26.3 million, which SPBP requested the Finance Department to make, was used to increase depleting General Fund (GF) balance reserves as discussed on pages 53 through 57. The resulting effect of said transfer was depletion of funding for future capital expenditures (for both equipment and construction projects). Furthermore, the implication that the Capital Plans that were referenced in our finding did not reflect equipment purchases was also unfounded. For instance, the FY08-09 Capital Plan refers to the following appropriations for equipment: B-74220 – Police Vehicle Replacement ($4.3 million); B-74200 – Citywide General Fleet Replacement ($338,501) (Please see pages 63 and 64).
Also, SPBP stated that the GF contributions were solely for equipment purchases. However, we noted that FY08 GF contributions included transfers of $6,696,110 and $400,000 to the Storm Water Utility (38000) and Streets and Sidewalks (36000) capital project funds respectively. As such, unless SPBP had evidence proving otherwise, said funds were transferred in order to commence/complete certain street/sidewalks and storm water utility construction projects.

The reports SPBP provided to us did not evidence any unused GF contributions. In fact, the records did not show the amount(s) of initial contributions made minus the amounts that were actually expended on specific projects and the “unused” amount. The over-arching theme of the finding is that contributions from GF to the Capital Projects Fund (CPF) earmarked for much needed capital expenditures (for both equipment and construction projects) were transferred back to the GF to increase depleting General Fund (GF) balance reserves as discussed on pages 53 through 57.

Lastly, the SPBP Director cancelled (see page 62) the November 16, 2009 scheduled meeting, which he had agreed to attend and provide accounting records to evidence that that contributions from GF to the CPF (earmarked for much needed capital expenditures for both equipment and construction projects) were not transferred back to the GF to increase depleting General fund balances for fiscal years ended September 30, 2007 and 2008.
Recommendation

All JE’s that facilitate return of monies to the GF from capital project funds should be supported with source documentation that clearly demonstrates that such GF contributions are no longer needed to commence/complete capital projects including purchase of equipment. Accordingly, in order to rationalize or justify the return of monies to the GF, alternative or replacement funding sources should be identified and the impact of such transfer on capital improvement projects budget plan should be documented and disclosed to the City Commission and the public.

Auditee Response and Action Plan

SPBP disagreed with our findings. Please see his written response on page 61.
Mr. Blake:

I totally disagree with your audit finding. The Capital Improvement Funds and its annual plan reflects the requirement to fund both capital projects and equipment purchases, which your audit report does not clearly and comprehensively explain. It also demonstrates a lack of understanding by you of how the City of Miami uses its Capital Funds for both capital improvement projects and equipment purchases. The Capital Improvement staff has been advise to not reflect equipment purchases in the total costs of the Capital Plan as it distorts the true requirement to fund projects in the plan. The General Fund (GF) contributions provided to the Capital Funds were for equipment purchases (i.e. vehicle purchases, solid waste equipment, ERP etc.). These are not considered a capital project. The funds returned to the GF which were not utilized were based on information contained in the applicable financial reports, which reflected the balances considered unused and subsequently transferred back to the GF. These reports were provided to you. All of the information was disclosed to the City Manager and approved by the City Commission. These funds were not to support the Capital Plan as you stated in your report.

It appears that the Office of the Auditor General knows from which capital projects the $26m came from. So would you please provide me a breakdown because it was not clearly defined in your audit report? Thanks.

Mike Boudreaux

From: Blake, Lewis
Sent: Thursday, November 12, 2009 4:51 PM
To: Boudreaux, Michael
Subject: 010-005 FIP3 (Operating Transfers & Audit Impairment)
Importance: High

Mr. Boudreaux,

Please review the attached excerpt from the audit report and provide your response by 5 PM tomorrow November 13, 2009.

If no response is received by then, we will assume that you concur with the contents of the excerpts and will issue the audit report.

Thanks.

Lewis R. Blake, CPA, CIA
Senior Staff Auditor
City of Miami, Office of Auditor General
Phone: (305) 460-2173
Fax: (305) 460-5130
Blake, Lewis

From: Boudreaux, Michael
Sent: Monday, November 16, 2009 8:20 AM
To: Blake, Lewis
Subject: Declined: Operating Transfers Finding

I am sorry but I would need to cancel today's meeting. Please submit your report as required.
### 2008-2009 CAPITAL BUDGET

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<th>Prior Years</th>
<th>Federal Grant</th>
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<th>Miami-Dade County Grant</th>
<th>Other Grant</th>
<th>City Bonds</th>
<th>CIP Fees / Revenues</th>
<th>Private Donations / Other</th>
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<th>Estimated Project Cost</th>
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## 2008-2009 Capital Budget

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<th>Project Description</th>
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<th>Federal Grant</th>
<th>State Grant</th>
<th>Miami-Dade County Grant</th>
<th>Other Grant</th>
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<th>CIP Fees / Revenues</th>
<th>Private Donations / Other</th>
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<th>Future</th>
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<tr>
<td>MRC - Glass Window System</td>
<td>362,034</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>500,003</td>
</tr>
<tr>
<td>Property Maintenance Building Improvements - Asphalt Concrete Overlay</td>
<td>161,090</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>141,000</td>
</tr>
<tr>
<td>Police Vehicle Replacement</td>
<td>17,689,413</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>22,209,413</td>
</tr>
<tr>
<td>Police Motorcycle Lease</td>
<td>313,335</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>395,790</td>
</tr>
<tr>
<td>Business Continuity</td>
<td>76,127</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>778,855</td>
</tr>
<tr>
<td>Citywide Time &amp; Attendance System</td>
<td>56,741</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>636,741</td>
</tr>
<tr>
<td>Upgrade P.C. Software &amp; Hardware</td>
<td>2,204,621</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>7,174,621</td>
</tr>
</tbody>
</table>
IMPAIRMENT TO THE PERFORMANCE OF AUDIT PROCEDURES

Generally Accepted Government Auditing Standards Chapter 8.11 state that “Auditors should also report significant constraints imposed on the audit approach by information limitations or scope impairments, including denials of access to certain records or individuals.” Furthermore, according to the Institute of Internal Auditors (IIA) International Standards No. 1130 for the Professional Practice of Internal Auditing, “If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties.” The glossary to the IIA Standards states that, “Impairment to organizational independence and individual objectivity may include personal conflicts of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations (funding).” In addition, Section 48 of the City Charter states that “the Independent Auditor General shall have free and unrestricted access to city government employees, officials, records and reports and when appropriate require all branches, departments, agencies and officials of city government to provide oral and written reports and to produce documents, files and other records.”

According to Practice Advisory No. 1130-1 of the IIA Standards, a scope limitation is a restriction placed upon the internal auditing department that precludes the department from accomplishing its objectives and plans. Among other things, a scope limitation may restrict the:

- Scope defined in the charter
- Department's access to records, personnel, and physical properties relevant to the performance of audits
- Approved audit work schedule
- Performance of necessary auditing procedures
- Approved staffing plan and financial budget

As a result of our request for evidence to substantiate any original contributions from the GF to the Impact Fee Fund (31100), SPBP thwarted our efforts to obtain the relevant documentation and thereby impaired our ability to complete the audit in a timely manner; furthermore, SPBP attempted to limit the scope of our audit by claiming, both verbally and in writing, that our audit
procedures are inconsistent with audit procedures used in previous years as indicated on pages
101 through 106.

Recommendation

In accordance with the above referenced standards and the City Charter, OIAG should be
provided free/unrestricted access and full cooperation in future audits of the SPBP. The Director
of the SPBP should be more cognizant of the importance of the oversight functions and the
related checks and balances.

Auditee’s Response and Action Plan

None Required.
CITYWIDE DEFICIT

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, 2008 totaled $88,961,368 as compared to $96,681,318 for the fiscal year ended September 30, 2007. This is equivalent to a decrease (citywide deficit) of $7,719,950 in unreserved (designated and undesignated) general fund balance.
**SURPLUS ROLLOVER EXPENDITURES WERE FOR ALLOWABLE PURPOSES**

**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, 2008, there was no surplus amount available for rollover in Fiscal Year (FY) ended 2008. 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. All expenditures we examined were for allowable purposes in accordance with Financial Integrity Principle number 4.

<table>
<thead>
<tr>
<th>Department</th>
<th>* Budget Surplus available for Roll Over in FY08</th>
<th>Accumulated Roll Over from prior years</th>
<th>FY 08 Expenditures</th>
<th>Expenditures tested</th>
<th>Prior year surplus properly appropriated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elected Officials</td>
<td>None</td>
<td>$364,413</td>
<td>$</td>
<td>$</td>
<td>N/A</td>
</tr>
<tr>
<td>Parks &amp; Recreation</td>
<td>None</td>
<td>$1,534,947</td>
<td>$2,066,387</td>
<td>$1,248,088</td>
<td>YES</td>
</tr>
<tr>
<td>Public Facilities</td>
<td>None</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>N/A</td>
</tr>
<tr>
<td>Information Technology</td>
<td>None</td>
<td>$2,941,269</td>
<td>$1,977,320</td>
<td>$1,209,978</td>
<td>YES</td>
</tr>
</tbody>
</table>

* No surplus amount was available for roll over in FY2008  
N/A = No amounts were expended during FY 2008

**EXPENDITURES EXCEEDED AVAILABLE SURPLUS ROLLOVER BALANCE**

As described above, surplus rollover funds must be expended in accordance with Financial Integrity Principle number 4; moreover, such expenditures should not exceed the amount of surplus rollover funding available from year to year. Accordingly, expenditure activity must be monitored by SPBP so as to ensure that such expenditures do not exceed available surplus rollover balances.

68
As indicated in the table below, when we compared total rollover expenditures by respective departments to the amounts of surplus rollover funding available according to the City’s GL, we noted that the rollover expenditures incurred by the Park and Recreation Department (PRD) exceeded the available rollover balance by $531,440.

The apparent cause of the discrepancy was the lack of monitoring performed by SPBP.

<table>
<thead>
<tr>
<th>Organization Code</th>
<th>Organization Name</th>
<th>Beg Bal 10/07</th>
<th>Revenue/Transfer In FY08</th>
<th>FY 08 Expenditures</th>
<th>Expenditure under(over) Available Funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>220000</td>
<td>Public Facilities</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>251000</td>
<td>IT Strategic Plan</td>
<td>2,941,268.76</td>
<td>0.00</td>
<td>1,977,319.79</td>
<td>963,948.97</td>
</tr>
<tr>
<td>291001</td>
<td>Parks &amp; Rec</td>
<td>1,534,946.76</td>
<td>0.00</td>
<td>2,066,386.87</td>
<td>(531,440.11)</td>
</tr>
</tbody>
</table>

Recommendation

It is suggested that SPBP use the Oracle “Summary 2 Trial Balance”, or such other methodology, to monitor surplus rollover expenditures in order to ensure that such expenditures do not exceed available surplus rollover balances.

Auditee Response and Action Plan:

SPBP concurred with the audit finding and recommendation and stated that: “appropriate steps will be made to eliminate this deficit balance ($531,440) with the Parks and Recreation Department in fiscal year 2010.” See written responses on page 70.
Blake, Lewis

From: Boudreaux, Michael
Sent: Wednesday, October 21, 2009 7:17 AM
To: Blake, Lewis
Subject: Re: 09-015 Strategic Rollover Expenditures and Available Balances - Parks & Rec Dept (PRD)

Mr. Blake:

Upon further review, I concur with your finding. The appropriate steps will be made to eliminate this deficit balance with the Parks and Recreation Department in fiscal year 2010. Thanks.

Mike Boudreaux
Director, Management and Budget

This communication may contain confidential and/or otherwise proprietary material and is thus for use only by the intended recipient. If you received this in error, please contact the sender and delete the e-mail and its attachments from all computers.

---

From: Blake, Lewis
To: Boudreaux, Michael
Sent: Tue Oct 20 16:41:04 2009
Subject: FW: 09-015 Strategic Rollover Expenditures and Available Balances - Parks & Rec Dept (PRD)

Mr. Boudreaux,

Thanks for the reconciliation you provided this morning. However, as noted and highlighted below, Oracle PnG indicates a budget of $2,355,389 (see attached) and your reconciliation confirmed that the FY08 budget for PRD was $1,534,946.76 — a difference of $820,442.24. As such, if the said $1,534,947 budget number is compared to PRD FY08 expenditures of $2,066,386.87, there would be a budget overage of $553,440.11.

Please explain the apparent budget amount difference ($820,442) and budget overage ($553,440), and provide us with supporting documentation ASAP so that we can bring this issue to closure as well.

Thanks,

Lewis Blake

---

From: Blake, Lewis
Sent: Friday, October 09, 2009 1:39 PM
To: Boudreaux, Michael
Subject: RE: 09-015 Strategic Rollover Expenditures and Available Balances - Anti-Deficiency Observations (MOU) - FIP 1 Observations (MOU)

Mr. Boudreaux:

As indicated in the attached worksheet, we allocated the fund balance of $1.185 Million to each organization’s balance based on the proportion of the organization’s balance to the total organization balance of $4.7 Million. After doing so, there was still a $318K difference between the Parks-Recreation Department’s (PRD) allocated balance ($1,748,501) and the PRD FY08 expenditures totaling $2.07 Million. In addition, per discussions with PRD, PnG indicated a budget of $2,355,389 (See Attached). As such, there was an apparent $961,091 difference between the budget in the SR Tracking sheet ($1,394,298) and the PnG module in Oracle.
**FINANCIAL INTEGRITY PRINCIPLE NUMBER 5 – RESERVE POLICY**

**THE REQUIRED CONTINGENCY RESERVE WAS INCLUDED IN THE FISCAL YEAR 2008 BUDGET**

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 2008 budget for non-departmental accounts disclosed that $5 million was budgeted for contingency reserve as required. Pursuant to Resolution No.07-0556 (passed and adopted by the Commission on September 27, 2007) all $5 million was appropriated for various unanticipated expenditures.

**THE GENERAL FUND UNRESERVED, UNDESIGNATED RESERVE WAS ADEQUATE**

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 2008 undesignated reserves totaling $44,625,439 equals ten percent of the summation of the prior three years (fiscal years 2005 through 2007) general revenues average. Therefore, the City is in compliance with this financial integrity principle requirement.

<table>
<thead>
<tr>
<th>Year</th>
<th>General Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$490,095,954</td>
</tr>
<tr>
<td>2006</td>
<td>451,270,132</td>
</tr>
<tr>
<td>2005</td>
<td>397,397,108</td>
</tr>
<tr>
<td>Total general revenue for prior 3 years</td>
<td>$1,338,763,194</td>
</tr>
<tr>
<td>Average annual general revenue for prior 3 years</td>
<td>$446,254,398</td>
</tr>
<tr>
<td>10% of 3 year average annual general revenue</td>
<td>$44,625,439</td>
</tr>
</tbody>
</table>

**THE GENERAL FUND UNRESERVED, DESIGNATED RESERVE WAS INADEQUATE**

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 2008 designated reserves totaling $44,335,929 is $289,510 less than ten percent of the summation of the prior three years (fiscal years 2005 through 2007) general revenues average totaling $644,625,439. Therefore, the City is not in compliance with this financial integrity principle requirement.

<table>
<thead>
<tr>
<th>Deficient Designated Reserves Per FY08 CAFR:</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund Reserves</td>
</tr>
<tr>
<td>Strategic Initiatives</td>
</tr>
<tr>
<td>Management Initiatives</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
<tr>
<td>Required Designated Reserves</td>
</tr>
<tr>
<td>Excess (Deficient) Reserves</td>
</tr>
</tbody>
</table>

According to the Finance Department (FD) Director, the cause of the deficiency was due to the fact that $3.65 million, which would have been added to the existing “Fund Balance: Unreserved, Designated” reserve amount, had to otherwise be used in order to create a “Fund Balance: Reserved” amount for the Building Department (BD). As such, the FD Director asserted that the over-arching goal of the said financial integrity principle: to ensure that there will be funds available to sustain and improve general fund operations, was accomplished.
The FD Director also stated that the said reserve was created at the suggestion of the City’s external auditors in order to comply with State of Florida Statutes Chapter 553.80, Paragraph 7 (FS 553.80(7)), and that the reserve was never created until fiscal year 2008 (FY2008). However, we noted that there was no such description of the $3.65 million BD reserve in the notes to the City’s FY 2008 Comprehensive Annual Financial Report (CAFR).

Recommendation:

FD should implement internal control procedures that ensure that the required fund balance is maintained.

Auditee Response and Action Plan:

See auditee responses on pages 75 through 79.
Date: September 1, 2009

To: Diana Gomez, Director
Finance Department

From: Lewis R. Blake, CPA, CIA, and Senior Staff Auditor
Office of the Independent Auditor General

Subject: Audit of Financial Integrity Principles
Audit No. 09-013

In order to complete audit procedures pertaining to the Financial Integrity Audit for the period October 1, 2007 through September 30, 2008, and selected transactions prior and subsequent to this period, please confirm or clarify our understanding of the following and provide any additional records and/or documentation by September 8, 2009.

We noted the following with respect to the three reserve policies that were established for the general operating fund of the City:

THE REQUIRED CONTINGENCY RESERVE WAS INCLUDED IN THE FISCAL YEAR 2008 BUDGET

Chapter 18, Article IX, Section 18-542(5)(a) of the City Code, as amended, provides that, “A “contingency” reserve level of $3,000,000 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 2008 budget for non-departmental accounts disclosed that $5 million was budgeted for contingency reserve as required. Pursuant to Resolution No.07-0056 (passed and adopted by the Commission on September 27, 2007) all $5 million was appropriated for various unanticipated expenditures.

**THE GENERAL FUND UNRESERVED, UNDESIGNATED RESERVE WAS ADEQUATE**

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 2008 undesignated reserves totaling $44,625,439 equals ten percent of the summation of the prior three years (fiscal years 2005 through 2007) general revenues average. Therefore, the City is in compliance with this financial integrity principle requirement.
UNRESERVED, DESIGNATED RESERVE WAS INADEQUATE

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 lia
2. bilities, including liabilities related to post-retirement benefits;
3. Self-insurance plan deficits (including workers compensation, liability claims and health insurance);
4. Strategic initiatives (until completed);
5. Blue Ribbon Commission Initiatives (until completed);
6. Anticipated adjustments in pension plan payment resulting from market losses in plan assets and other unanticipated payments necessary to maintain compliance with contractual obligations.

Payment for compensated absences and other employee benefit liabilities and self-insurance plan deficits may be drawn from this reserve during the fiscal year and shall be replenished each year until fifty percent (50%) if such liabilities are funded. Other designated reserves may be drawn upon without the need for replenishment.”

Our calculation of the required amount of “Unreserved, Designated Reserves for Subsequent Year’s Expenditures” (Designated Reserves) indicated a $289,510 deficiency as illustrated in the table below:
### Calculation of 10% of prior three years average of general revenues:

<table>
<thead>
<tr>
<th>Year</th>
<th>General Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$490,095,964.00</td>
</tr>
<tr>
<td>2006</td>
<td>$451,270,132.00</td>
</tr>
<tr>
<td>2005</td>
<td>$397,397,108.00</td>
</tr>
<tr>
<td></td>
<td><strong>Total general revenue for prior 3 years</strong></td>
</tr>
</tbody>
</table>

Average annual general revenue for prior 3 years: $446,254,398.00

10% of 3 year average annual general revenue: $44,625,439.00

### Deficient Designated Reserves Per FY08 CAFR:

<table>
<thead>
<tr>
<th>General Fund Reserves</th>
<th>$5,000,000.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Initiatives</td>
<td>$1,648,710.00</td>
</tr>
<tr>
<td>Management Initiatives</td>
<td>$37,937,219.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$44,335,929.00</td>
</tr>
<tr>
<td>Required Designated Reserves</td>
<td>$44,625,439.00</td>
</tr>
<tr>
<td><strong>Excess (Deficient) Reserves</strong></td>
<td>$(289,510.00)</td>
</tr>
</tbody>
</table>

The said deficiency was .65% of the required $44,625,439 “Unreserved, Designated” general fund balance reserve amount. The total “Unreserved” general fund balance reserve for fiscal year 2008 (FY 2008) was $88,961,368 as opposed to the required $89,250,878. According to the Finance Department (FD) Director, the cause of the deficiency was due to the fact that $3.65 million, which would have been added to the existing “Fund Balance: Unreserved, Designated” reserve amount, had to otherwise be used in order to create a “Fund Balance: Reserved” amount for the Building Department (BD). As such, the FD Director asserted that the overarching goal of the said financial integrity principle: to ensure that there will be funds available to sustain and improve general fund operations, was accomplished.

OFFICE OF INDEPENDENT AUDITOR GENERAL
444 S.W. 2nd Avenue, Suite 711/Miami, FL 33130

OFFICE OF INDEPENDENT AUDITOR GENERAL/444 S.W. 2ND AVENUE, SUITE 711/Miami, FLORIDA 33130-1910
The FD Director also mentioned that the said reserve was created at the suggestion of the City’s external auditors in order to comply with State of Florida Statutes Chapter 553.80, Paragraph 7 (FS 553.80(7)), and that the reserve was never created until fiscal year 2008 (FY2008). However, we noted that there was no such description of the $3.65 million BD reserve in the notes to the City’s FY 2008 Comprehensive Annual Financial Report (CAFR).

Recommendation:
FD should implement internal control procedures that ensure that required reserves are adequately described in notes to the City’s CAFR.

Auditee Response and Action Plan:
☐ I agree; ☐ I disagree. Please initial: ☑

Explanation Note: all required disclosures were made to the notes of the financial statements.

Please confirm our understanding by signing on the space provided below and returning this memorandum to us. In the event that you disagree with any of the items listed above, please provide your explanation and attach all supporting documents/records by September 8, 2009.

If you have any questions, please feel free to contact me at 305-416-2173 or by email.

Cc: Victor Igwe, CPA, CIA, Auditor General
Audit Documentation File
FINANCIAL INTEGRITY NUMBER 6 – PROPRIETARY FUNDS

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 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.”

The City's Five Year Financial Plan was prepared and presented to the City Commission in a timely manner on September 27, 2007. We also verified that the plan included 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. In addition, the plan was prepared by fund and reflects forecasted surpluses or deficits and potential budget balancing initiatives.

Recommendation

None required

Auditee’s Response and Action Plan

None required
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.”

The Fiscal Year 2008-2009 Capital Improvement Plan was prepared and presented to the City Commission in a timely manner on November 13, 2008, or 17 days earlier than the required November 30th due date. Also, the plan contained all the required components prescribed by Financial Integrity Principle Number 8 including:
• Cost estimates for all necessary infrastructure improvements needed to support City services, including information technology, with an adequate repair and replacement component.
• Delineation of funded, partially funded, and unfunded projects.
• Details for the current fiscal year and for five additional years.
• Detail by fund of recommended project prioritization rankings, identified revenue sources, planned financing options, and unfunded projects.
• Approved projects with circumstances that arise which change the funding requirements of the projects.
• Estimates of the operational impacts produced for the operation of the capital improvements upon completion.
• 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 of the project and estimated completion date.
• Approved projects with circumstances that arise which change the funding requirements of the projects.

Recommendation

None required

Auditee’s Response and Action Plan

None required
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 December 5, 2007, the City issued $80,000,000 in Special Obligation Bonds, Series 2007 (a/k/a Street Bonds). Our review disclosed that said debt was issued for the purpose of financing various street and sidewalk capital improvement projects whose estimated useful lives (approximately 30 to 50 years) are greater than the life of the 29 year bonds. Therefore, the City is in compliance with this requirement.

   - On October 3, 2007, the City obtained a $6,600,000 Sunshine State Governmental Financing Commission Loan (a/k/a Sunshine State Financing Commission Number 1). The note disclosures to the Comprehensive Annual Financial Report (CAFR) indicated that the said loan was obtained for the purpose of financing various capital improvement projects. The City has covenanted to budget and appropriate in its annual budget non-ad valorem revenues sufficient to satisfy the required annual debt service payments for this loan. We noted that proceeds from this loan are being used to supplement or complete various capital improvement projects financed with bond proceeds. The estimated useful lives (approximately 30 years) of the capital improvement projects financed with the loan proceeds are greater than the term of the 9 year loan.
On August 14, 2008, the City obtained a $42,500,000 Sunshine State Governmental Financing Commission Loan (a/k/a Sunshine State Financing Commission Number 1). The note disclosures to the Comprehensive Annual Financial Report (CAFR) indicated that the said loan was obtained for the purpose of financing various capital improvement projects. The City has covenanted to budget and appropriate in its annual budget non-ad valorem revenues sufficient to satisfy the required annual debt service payments for this loan. We noted that proceeds from this loan are being used to supplement or complete various capital improvement projects financed with bond proceeds. The estimated useful lives (approximately 30 years) of the capital improvement projects financed with the loan proceeds are greater than the term of the 8 year loan.

On September 19, 2008, the City obtained a $3,999,000 HUD Section 108 Loan under the Department of Housing and Urban Development Section 108 Program. Our review disclosed that the said loan was obtained for the purpose of financing the Wagner Square Project, which is an arrangement between the City and Wagner Square LLC (Wagner), a developer to build a mixed-use development consisting of two residential towers each to include 99 units of which 52 are to be affordable housing units. Once developed, the estimated useful life of the project will be greater than the term of the 15 year loan (approximately 30 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, 2008, the net direct general obligation debt is 0.62% [$235,393,765 (net direct general obligation debt)/$37,755,839,094 (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 $408,885,838 ($235,393,765 + $173,492,073) or 1.08% ($408,885,838 / $37,755,839,094 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 10.4 years ($2,444,439,257.70 / $235,393,765), 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 10.37% ($30,160,086 / $290,957,360 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

- The monthly financial reports were issued within 30 days after the close of each month, as required, for 6 of the 11 months tested. The number of days early ranged from 1 to 10 days early.
- The monthly financial reports were not issued within 30 days after the close of each month, as required, for 5 of the 11 months tested. The number of days late ranged from 1 to 12 days late.

**THE CAFR WAS TIMELY ISSUED**

- The Comprehensive Annual Financial Report was issued on March 30, 2009, or 1 day early.

**SINGLE AUDIT AND MANAGEMENT LETTER WERE NOT TIMELY ISSUED**

We noted that both the Single Audit and the Management Letter for the year ended September 30, 2008, were issued on June 8, 2009 (69 days late).

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, 2008; therefore, the Single Audit Report was due to the Federal Audit Clearinghouse by June 30, 2009 (nine months after the end of the audit period). The Single Audit report was timely transmitted to the Federal Audit Clearinghouse (FAC) on June 29, 2009, or 1 day earlier than the required June 30th deadline date.
Recommendation

The timeliness of reports has significantly improved in FY 2008 compared to prior years. We recommend that the Finance Department continue to work with the external auditors to ensure that the Single Audit and Management Letter are issued in a timely manner.

Auditee’s Response and Action Plan

None required.
FINANCIAL INTEGRITY PRINCIPLE NUMBER 11 – BASIC FINANCIAL POLICIES

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, as amended, 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 (SPBP) is responsible for performing the indirect cost analysis, which was included in the FY 2008 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 SPBP by the Finance Department in accordance with the Finance Department’s investment policy.
• The annual budget for the audit period was adopted on September 27, 2007 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.”

• The 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 goods/services.
**Recommendation**

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

**Auditee’s Response and Action Plan**

None required.
FINANCIAL INTEGRITY PRINCIPLE NUMBER 12 – EVALUATION COMMITTEE

EVALUATION COMMITTEES WERE PROPERLY CREATED

PURCHASING AND CAPITAL IMPROVEMENTS AND TRANSPORTATION DEPARTMENTS

Chapter 18, Article IX, Section 18-542(12) of the City Code, as amended, 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 91 formal solicitations, which included Requests for Proposals (RFP), Requests for Qualifications (RFQ), and Invitations for Bid (IFB). We tested 8 competitive processes for compliance, including 5 processes issued by the Purchasing Department (PD) and 3 issued by the Capital Improvement Department (CIP). Our audit test disclosed that:

- Each RFP/RFQ process included a majority of Evaluation Committee members who were citizens and/or business appointees from outside City employment.
- The Committees' recommendations were provided to the City Manager and City Commission prior to official action.

Recommendation

None required.

Auditee’s Response and Action Plan

None required.
**FINANCIAL INTEGRITY PRINCIPLE NUMBER 13 – FULL COST OF SERVICE**

**FULL COST OF SERVICES WAS INCLUDED IN BUDGET BOOK**

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

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 annually accumulate all the costs of delivering these core services have been implemented by the Finance Department and the Office of Strategic Planning, Budgeting and Performance (SPBP). Our audit disclosed that the full cost of providing core services was included in the FY2008 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, 2008. The auditors issued an unqualified opinion on the City’s CAFR in an audit report dated March 26, 2009. 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.

MANAGEMENT LETTER

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 March
26, 2009 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 2008” disclosed five (5) internal controls deficiencies, two (2) compliance issues and four (4) other comments.

2. Appendix B of the Management Letter titled “Listing of Findings and Questioned Costs Fiscal Year Ended September 30, 2008” disclosed two (2) internal control findings and one (1) compliance finding.

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, 2008”. The said section disclosed a total of 20 outstanding prior audit findings that have yet to be resolved:

   • Fifteen (15) for the fiscal year ended 2007
   • One (1) for the fiscal year ended 2006.
   • None reported for the fiscal year ended 2005
   • One (1) for the fiscal year ended 2004.
   • One (1) for the fiscal year ended 2003.
   • None reported for the fiscal year ended 2002
   • One (1) for the fiscal year ended 2001.
   • 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 2008. 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, 2008. However, the results of the auditor’s procedures disclosed an instance of noncompliance with eligibility requirements which is 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 five (5) instances in which there were significant deficiencies in internal controls over financial reporting, two (2) of which were considered to be material weaknesses. Lastly, the auditors noted that there were two (2) instances in which there were significant deficiencies in internal controls over compliance; however, neither was considered to be a material weakness.
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 2007.

Auditee Response and Action Plan

None required.
July 15, 2009 – We met with the SPBP Director in his office during which he vehemently insisted that “no borrowing” occurred between General and Capital Project Funds, which he acknowledged would have resulted in noncompliance with Financial Integrity Principle #3 (FIP3). However, we repeatedly requested documentation to evidence that General Fund – unrestricted monies (GF) made contributions to the affected capital project funds – restricted monies (CPF), which justified the transfers back to the GF.

July 21, 2009, 6:31 PM – We sent the SPBP Director an e-mail requesting evidence that provided him with assurance, or a “comfort-level” that reimbursements in an attached list of operating transfer JE’s were due to the general fund.

July 21, 2009, 7:19 PM – The SPBP Director replied to the above e-mail by stating that there was “no information I (he) can provide regarding this issue. No inter-fund borrowing, in accordance with FIP3, occurred with the operating transfers…” (Note: We never requested evidence to justify the occurrence of inter-fund borrowing).

July 27, 2009, 4:48 PM – We sent the SPBP Director a “Memorandum of Understanding” (MOU) which stated that “we have not been provided with any documentation to evidence that general fund provided the initial funding and was, therefore, entitled to be “reimbursed” by the respective capital projects funds…” (Note: We met with the Finance Director on August 28, 2009 and October 1, 2009 during which we were provided with evidence that appears to indicate all but the $8.2 million mentioned above was originally provided to CPF through GF contributions).

July 27, 2009, 9:48 PM – The SPBP Director sent us an e-mail requesting “documentation indicating the audit review of Financial Integrity Principle Audits for fiscal years 2002 until 2007. In particular, all work papers related to principle #3 – Inter-fund Borrowing and the review of this principle as performed by your department in previous years.” (Note: Based on what
transpired during our July 28th meeting as described below, this request appears to have been made in order for the SPBP Director to prove that our audit procedures differed from audit procedures used in previous audits).

**July 28, 2009, 12:10 PM** – The Auditor General informed the SPBP Director via an e-mail that he could make arrangements to review the work papers in our office. The SPBP never made said arrangement.

**July 28, 2009, 2:30 PM** – The SPBP Director met with us and asserted that our audit procedures were not consistent. He stated that we had never audited inter-fund transactions during previous financial integrity audits. We explained that in accordance with Governmental Auditing Standards, audit procedures are apt to change from year to year depending on existing audit risks. The SPBP Director then requested an inspection of previous audit work papers. As such, he was requested to schedule a time for such inspection so that arrangements could be made for office space within which the inspection could be conducted and overseen. He never scheduled a time for an inspection as advised. The SPBP Director accused our office of being vindictive by performing audit procedures pertaining to the above mentioned inter-fund transactions that was published in the Miami Herald article dated July 12, 2009. He stated that he would make a complaint to the Florida Board of Accountancy.

**August 3, 2009, 8:25 AM** – The SPBP Director sent us an e-mail requesting to extend the deadline for responding to the July 27th Memorandum of Understanding (MOU) to August 20, 2009.

**August 3, 2009, 3:21 PM** – We replied to the SPBP Director’s e-mail by re-affirming the original due date of August 10, 2009.

**August 3, 2009, 3:51 PM** – In reply to our e-mail response, the SPBP Director indicated that “considering the importance of this year’s budget and based on the results of the findings in FIP #1 and #3”, a request would be made to the City Manager and the Mayor to “allow more time to respond to the findings upon completion of the City’s budget. If further approval is required by the City Commission the appropriate actions will be taken.”
August 3, 2009, 7:26 PM – In reply to the SPBP Director’s 8/3/09, 3:51 PM e-mail, we acknowledged the importance of the budget process, but we also acknowledged that he had already responded to our inquiries concerning inter-fund transfers via his July 21st e-mail. We stated that with the MOU we were confirming that he did not have any additional “information/documentation to support that the monies that were transferred back from the respective capital project funds to the general fund originated from the general fund.”

August 3, 2009, 8:39 PM – In response to our 8/3/09, 7:26 PM e-mail, the SPBP Director stated that the FY 2008 operating transfers were approved by the City Commission. He asserted that the “scope of your audit continues to expand beyond what is stated in the City’s Financial Integrity Principle….”

August 4, 2009, 5:45 PM – We sent the SPBP Director a memorandum which explained that in accordance with the Financial Integrity Principles Ordinance and Generally Accepted Government Auditing Standards (GAGAS) that our audit procedures “may change…pursuant to our review of the CAFR as compared to previous CAFR’s…” As a result of this review, we cited an increase of 29.8% in the usage of transfers-in as compared to the average usage of the previous 4 years…” We also noted that he appeared to be withholding documentation that should be readily available in support of the JE’s that facilitated transfers to the GF. We informed him that such actions would be cited in our audit report as scope limitations.

August 4, 2009, 7:02 PM – In response to my memo, the SPBP Director reiterated that the operating transfers had Commission approval. He stated that “it is your (Office of Independent Auditor General (OIAG)) intent to prove fraudulent activity occurred related to the operating transfers as a result of the newspaper article written by the Miami Herald…I also feel that my (Budget) department will not receive a fair and independent review…as a result of this intent”. He suggested our office conduct a review of the FY 2008 operating transfers to determine origin and approval, and he added that he did not agree with the methods used to relate the (operating transfers) as borrowed funds.

October 16, 2009 – We sent a memorandum to the SPBP Director in response to his August 4, 2009 e-mail above, stating that in spite of any such newspaper articles, there is nothing in
governmental auditing standards that precludes us from using any information source, including news articles, professional journal articles, and the OIAG “Fraud Hotline”, as springboards for the creation of audit procedures that will ensure the transparency and accountability of public fund transactions. Whether such transactions are mentioned in the public media or not, all JE’s facilitating such transactions should be supported with relevant, accurate, and adequate documentation which should be readily available and/or attached to the JE. Moreover, in lieu of acting defensively to our request for such documentation, it would seem reasonable to expect for him to have been eager to provide the documentation, especially because of the public attention the newspaper article generated. Instead, the SPBP Director thwarted our efforts to obtain the documentation and thereby impaired our ability to complete the audit in a timely manner as described above.

October 15, 2009, - We received a copy of another memorandum dated October 15, 2009 from the Director of SPBP to the Director of the Finance Department (Please see pages 107 and 108) that proposed yet another journal entry that will transfer $8.2 million back to the Impact Fee Fund account # 31100 via monies coming from the General Government (31000) and the Solid Waste (39000) capital project funds; once the monies are returned, then the monies would be transferred back to 31000 and 39000 and awarded to specific projects via the Oracle Projects and Grants (PnG) system. However, the newly proposed JE (dated October 15, 2009) would still not return $8.2 million from the General fund back to the Impact Fee Fund so that it could be used as codified in the City Code.

Attached to the memorandum dated October 15, 2009 were Detailed Revenue and Expenditures reports (Report 10) generated from the City’s accounting system that evidenced GF contributions of $31.03 million and $5.05 million made to 31000 and 39000 respectively during FY06 (Please see pages 111 and 112). However, we pointed out to SPBP that “there were no “unused” amounts of GF contributions available to be transferred back to the GF in 2008 since the respective Report 10’s indicate that the said contributions were entirely expended during FY06.” SPBP responded by stating that “the City Manager approved to replace eligible CIP projects funded with GF contributions with the amounts remaining in Fund 31100… Although the GF
contributions in the applicable CIP projects were expended, this does not prohibit replacing these GF contributions with Impact Fees.”

November 12, 2009, 4:51 PM – We sent the SPBP Director an excerpt of the draft audit report which included findings pertaining to the $26.4 million operating transfers, as well as the impairments to the audit. We requested a response by 5PM on November 13, 2009.

November 12, 2009 5:34 PM – The SPBP Director e-mailed a response indicating total disagreement with the findings contained in the excerpted draft report as described above. Said response indicated that we lacked an understanding of how the City accounts for its Capital Plan (CIP) including equipment and construction expenditures. The response also asserted that contributions from the general fund GF) were only for equipment expenditures. Please see the entire written response on page 60.

November 13, 2009, 7:58 AM – We responded to the November 12th e-mail by stating that SPBP’s insinuation that our lack of understanding of the CIP seemed to be a ploy used to obscure the over-arching theme of the finding – the $26.4 million operating transfer caused the depletion of funds that are sorely needed to commence/complete projects listed in the CIP. The City’s accounting records indicated that the general fund made contributions totaling $6.7 million to the Storm Water Utility and $400,000 to the Streets and Sidewalks during the audit period, and therefore, contradicts SPBP’s assertion that contributions from the GF were only for equipment expenditures.

November 13, 2009, 8:05 AM – SPBP responded to our November 13th 7:58 AM e-mail response by requesting that we provide “evidence of what capital project and/or equipment purchase the $26.4m was removed from?” (Note: A similar request was made at the end of SPBP’s November 12th 5:34 PM response described above).

November 13, 2009, 11:07:54 AM – We responded to SPBP’s request above by stating that SPBP misinterpreted the finding: Returning the $26.4 million to the GF depleted funding needs totaling $906 million according to the FY08-09 CIP. We requested that SPBP note the title on the schedule indicating the said funding needs on page 91 of the CIP: “Cost Estimates versus
Available Funding.” We also scheduled a final exit conference on November 16, 2009 and requested that he provide records/documents supporting his assertions. He agreed to attend said meeting and indicated that he would provide a detailed written response.

November 13, 2009, 12:29 PM – SPBP replied to our November 13th 11:07:54 AM e-mail by stating that, “It appears the direction of this audit continues to focus on the transfers made in the CIP Funds. I will address this issue in a detailed response and provide to you this Monday.”

November 16, 2009, 8:15 AM – He sent an email indicating he could not attend the pre-arranged meeting. Please page 62.
CITY OF MIAMI, FLORIDA

INTER-OFFICE MEMORANDUM

TO: Diana Gomez
Finance Director

DATE: October 15, 2009

SUBJECT: FY'09 Correction Entry

FROM: Michael Bozic, Director
Management and Budget

On March 13, 2009, a memo was provided from this office to the Finance Department requesting to return unused General Fund contributions in the Capital Improvement Fund back to the General Fund at the end of fiscal year 2008. (See Attachment)

This memo included the transfer of funds from Fund 31101, which was later corrected to Fund 31100 – Impact Fees Fund in the amount of $8,200,183. This requested transfer was subsequently made after approval by the City Commission under Resolution No. R-09-0115.

However, as a result of this memo, Fund 31100 –Impact Fees Fund was incorrectly adjusted and the following correction entries and adjustment are requested:

A. Adjustment to Oracle -General Ledger:

<table>
<thead>
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<th>Fund</th>
<th>Org</th>
<th>Object</th>
<th>Fut1</th>
<th>Fut2</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>31100</td>
<td>367001</td>
<td>891000</td>
<td>0000</td>
<td>0000</td>
<td>$4,000,000</td>
<td>$8,200,183</td>
</tr>
<tr>
<td>39000</td>
<td>212000</td>
<td>891000</td>
<td>0000</td>
<td>0000</td>
<td>$4,200,183</td>
<td></td>
</tr>
</tbody>
</table>

Requested entry to correct memo dated March 13, 2009

B. Adjustment to Oracle –Projects and Grants (PnG):

<table>
<thead>
<tr>
<th>Project</th>
<th>Award</th>
<th>Task</th>
<th>Expenditure Type</th>
<th>Org</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>40-B73205</td>
<td>1108</td>
<td>04</td>
<td>Operating Transfer</td>
<td>212000 – Solid Waste</td>
<td>$4,000,000</td>
</tr>
<tr>
<td>Solid Waste Capital Improvements FY 2000-2005 (Previously GEMS Project No. 353018)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Project</th>
<th>Award</th>
<th>Task</th>
<th>Expenditure Type</th>
<th>Org</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>40-B742000</td>
<td>1422</td>
<td>04</td>
<td>Operating Transfer</td>
<td>241000-GSA</td>
<td>$2,513,536</td>
</tr>
<tr>
<td>40-B742000</td>
<td>1108</td>
<td>04</td>
<td>Operating Transfer</td>
<td>241000-GSA</td>
<td>$1,113,772</td>
</tr>
<tr>
<td>40-B742000</td>
<td>1110</td>
<td>04</td>
<td>Operating Transfer</td>
<td>241000-GSA</td>
<td>$572,875</td>
</tr>
</tbody>
</table>

Note: Requires award and project set-up before adjustment in Oracle PnG can be applied

C. Adjustment to Oracle -General Ledger:

<table>
<thead>
<tr>
<th>Fund</th>
<th>Org</th>
<th>Object</th>
<th>Fut1</th>
<th>Fut2</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>39000</td>
<td>212000</td>
<td>481000</td>
<td>0000</td>
<td>0000</td>
<td>$4,000,000</td>
<td>$4,200,183</td>
</tr>
<tr>
<td>31100</td>
<td>241000</td>
<td>481000</td>
<td>0000</td>
<td>0000</td>
<td>$4,200,183</td>
<td></td>
</tr>
<tr>
<td>31100</td>
<td>367001</td>
<td>891000</td>
<td>0000</td>
<td>0000</td>
<td>$8,200,183</td>
<td></td>
</tr>
</tbody>
</table>
Requested entry to replace capital projects funded with General Fund contributions with Impact Fees as approved by the City Manager on 3/4/09. (See Attachment)

Please distribute the operating transfers-in to the applicable award and projects as listed under Part B of this memo to reflect the appropriate installments. Additionally, please see the attached Report 10 from the previous GEMS financial system, which will indicate GEMS Project No. 311850 and No. 353018 were previously funded by contributions from the General Fund and are also eligible to receive Impact Fees based on their prior year collections from this source.

Should you have any questions, please contact me @ ext. 1585.

MB/jam
Encl.
CITY OF MIAMI, FLORIDA

INTER-OFFICE MEMORANDUM

DATE: March 13, 2009
FILE:

SUBJECT: FY'08 Journal Entry

FROM: Michael Boudreaux, Director
Management & Budget

REFERENCES:

ENCLOSURES:

Per resolution, the following journal entry is requested to return unused General Fund contributions in the Capital Improvement Fund back to the General Fund at the end of fiscal year 2008. (See Attachment)

<table>
<thead>
<tr>
<th>Fund</th>
<th>Org</th>
<th>Object</th>
<th>Fut1</th>
<th>Fut2</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>00001</td>
<td>162000</td>
<td>481000</td>
<td>0000</td>
<td>0000</td>
<td>$6,200,183.00</td>
<td>$13,265,085.00</td>
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<tr>
<td>31101</td>
<td>367001</td>
<td>891000</td>
<td>0000</td>
<td>0000</td>
<td>2,901,628.00</td>
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<tr>
<td>38000</td>
<td>401000</td>
<td>891000</td>
<td>0000</td>
<td>0000</td>
<td>1,840,552.00</td>
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<td>201000</td>
<td>881000</td>
<td>0000</td>
<td>0000</td>
<td>322,732.00</td>
<td></td>
</tr>
</tbody>
</table>

Should you have any question, please contact Mirtha Dziedzic @ ext. 1503.

MB/MD/djam
Encl.
### FY '08 Capital Improvement – Proposed Adjustments

<table>
<thead>
<tr>
<th>Adjustment</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Move unused General Fund contributions from fund 31400 to fund 00001</td>
<td>$6,839,829</td>
</tr>
<tr>
<td>Replace eligible capital projects funded with General Fund contributions with impact fees in fund 31100</td>
<td>$8,200,183</td>
</tr>
<tr>
<td>Replace General Fund contributions provided to Project #40-850705, Kinloch Storm Sewer Improvement Project, with remaining balance in Storm-water Utility Fund</td>
<td>$2,901,628</td>
</tr>
<tr>
<td>Replace General Fund contributions provided to Project #40-850672A, Belle Meade Storm Sewer Project, Phase II Additional Services, with remaining balance in Storm-water Utility Fund</td>
<td>$1,840,552</td>
</tr>
<tr>
<td>Replace General Fund contributions provided to Project #40-830155, Storm Sewer Equipment Acquisition, with remaining balance in Storm-water Utility Fund</td>
<td>$322,732</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$30,404,815</strong></td>
</tr>
<tr>
<td></td>
<td><strong>$13,785,095</strong></td>
</tr>
</tbody>
</table>

Approved by: Pedro G. Hernandez  
City Manager  
8/4/04

110

OFFICE OF INDEPENDENT AUDITOR GENERAL/444 S.W. 2ND AVENUE, SUITE 711/MIAMI, FLORIDA 33130-1910
<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Description</td>
<td>Amount</td>
<td>Amount</td>
</tr>
</tbody>
</table>

**-footnotes:**
- Footnote A
- Footnote B
- Footnote C

**Table:**
<table>
<thead>
<tr>
<th>Category</th>
<th>Detail</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Category 1</td>
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</tr>
<tr>
<td>Category 2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Category 3</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Graph:**
- Graph 1
- Graph 2

**Notes:**
- Note 1
- Note 2
- Note 3