CITY OF MIAMI
OFFICE OF INDEPENDENT AUDITOR GENERAL

AUDIT OF COMPLIANCE WITH THE FINANCIAL INTEGRITY PRINCIPLES – FISCAL YEAR 2011
OCTOBER 30, 2012

AUDIT NO. 13-005

Prepared By
Office of Independent Auditor General
Theodore Guba, CPA, CIA, CFE
Independent Auditor General
October 30, 2012

Honorable Members of the City Commission
City of Miami
3500 Pan American Drive
Coconut Grove, FL 33133-5504

Re: Audit of Compliance with the Financial Integrity Principles – Fiscal Year 2011
Audit No. 13-005

Executive Summary

We have completed an audit of the City’s compliance with the Financial Integrity Principles which are part of the City Code, primarily for the period from October 1, 2010 through September 30, 2011. The audit was performed to determine if the City maintained a structurally balanced budget, developed and adopted short and long term financial and capital improvement plans, established and maintained adequate internal control systems, and followed best business practices.

Overall, we found that the City did not comply with eight of the thirteen Financial Integrity Principles as follows:

- Estimating Conference Committee meeting minutes were not recorded
- Requests for grant reimbursements were not made in a timely manner
- Non-Compliance with unassigned and assigned reserve requirements
- The Multi-Year Financial Plan did not include required components
- The Multi-Year Capital Improvement Plan was not timely approved or adopted; did not include critical components
- Loan terms exceeded the useful lives of debt funded assets
- Reporting and oversight requirements were not met
- Full cost of core services was not presented as part of the annual budget and financial plan

These and other findings are included on pages three through thirteen of the report.
We wish to express our appreciation for the cooperation and courtesies extended to us by the City management and staff while conducting the audit.

Sincerely,

Theodore P. Guba, CPA, CIA, CFE
Independent Auditor General
Office of the Independent Auditor General

C: The Honorable Mayor Tomas Regalado
Johnny Martinez, City Manager
Julie O. Bru, City Attorney
Dwight S. Danie, City Clerk
Alice Bravo, Assistant City Manager/Chief of Infrastructure
Luis Cabrera, Assistant City Manager/Chief Operations
Janice Larned, Assistant City Manager/Chief Financial Officer
Manuel Orosa, Police Chief, Police Department
Maurice Kemp, Fire Chief, Fire Rescue Department
Stephen Petty, Director, Finance Department
Cindy Torres, Acting Chief Information Officer
Daniel J. Alfonso, Director, Management and Budget Department
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Juan Pascual, Interim Director, Parks and Recreation Department
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SCOPE, OBJECTIVES AND METHODOLOGY

The scope of the audit was to assess and report on whether the City of Miami (City) implemented and complied with policies, procedures and the City Code to maintain a structurally balanced budget, short and long-term financial and capital improvement plans, and adequate internal control systems. The audit covered the period primarily from October 1, 2010 through September 30, 2011, and focused on the following objectives:

- To determine whether the City complied with the 13 Financial Integrity Principles 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 and 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:

- Interviews and inquiries of appropriate personnel
- Reviews of written policies and procedures in order to gain an understanding of the internal controls
- Observations of current practices and processing techniques
- Tests of applicable transactions and records
- Other audit procedures as deemed necessary
BACKGROUND

In response to notifying the Governor of the State of Florida of a financial emergency in the City of Miami in 1996, the State established a five member Financial Oversight Board (FOB). The City, Governor and FOB entered into an agreement to take corrective action, which resulted in the development of a set of Financial Integrity Principles (FIP) to protect public funds. In 2000, the City Commissioners approved and adopted an ordinance to include the FIP and the City Code was amended accordingly. The FIP are to be periodically reviewed and updated in the City Code. The office of the Independent Auditor General is responsible for preparing and transmitting a written report to the Mayor and City Commissioners regarding City compliance with the FIP.

Currently, the City should comply with the following 13 FIP included in the City Code:

1) Structurally Balanced Budget
2) Estimating Conference Process
3) Interfund Borrowing
4) Citywide Surplus
5) Reserve Policies
6) Proprietary Funds
7) Multi-Year Financial Plan
8) Multi-Year Capital Improvement Plan
9) Debt Management
10) Financial Oversight and Reporting
11) Basic Financial Policies
12) Evaluation Committees
13) Full Cost of Services
FINDINGS AND RECOMMENDATIONS

Based on the results of our audit, we have concluded that the City of Miami did not comply with eight of the thirteen Financial Integrity Principles.

Details of our findings and recommendations follow:

1) Financial Integrity Principle Number 2 – Estimating Conference Process

Estimating Conference Committee Meeting Minutes were not Recorded; Non-Staff Principals Lacked Public Finance Expertise.

Financial Integrity Principle 2 (FIP2) of the City Code provides that, "The city shall adopt budgets and develop its long and short term financial plans utilizing a professional estimating conference process. The principal responsibilities of the conference will include review of the assumptions and estimates prepared by the City and making recommendation for changes. Any recommendations made should be summarized and reported to the City Manager, Mayor, and City Commission. Conference principals shall include, but not be limited to: one principal from the budget office, one principal from the finance department and two non-staff principals with public finance expertise."

We were able to obtain a sign-in sheet which evidenced that an Estimating Conference Committee (Committee) meeting was held and attended by required principals. We noted that the members of the Committee presented their recommendations to the Mayor and the City Commission (Commission) in writing on August 31, 2010. However, we were unable to obtain the minutes for the meeting to ensure that all recommendations discussed were presented. Additionally, there is no evidence that the two non-staff principals have public finance expertise.

One of the Commission’s critical responsibilities is to approve annual budgets that would fund core services/programs; therefore, it is important that any assistance/input/recommendation provided by the Committee as part of the annual budget process be properly summarized and reported to the Commission so that they can make informed decisions. When sufficient and relevant budget information is not provided to them, there is an increased risk that the Commission will not be able to make decisions that improve City operations. When recommendations are not recorded and archived there is no assurance that the recommendations made by the Committee will be the same recommendations communicated to the Commission. Additionally, if non-staff principals appointed to the committee lack public finance expertise there is an increased risk that recommendations made by them will not be relevant and useful.

Recommendation:

Management and Budget Department

1. Any assistance/input/recommendation provided by Committee principals for the annual budget process should be properly documented and maintained as part of the public record. Accordingly, controls should be implemented to ensure that Estimating Conference meeting minutes are prepared and recommendations communicated to the Commission agree with those discussed in the minutes.

2. Proof of public finance expertise for the non-staff principals should be obtained and maintained on file.
Auditee Response:

1. We concur with the recommendations. From August of 2011 and forward, these recommendations are being followed.

   Implementation date: Implemented

2. We concur with the recommendations. From August of 2011 and forward, these recommendations are being followed.

   Implementation Date: Implemented

2) Financial Integrity Principle Number 3 – Interfund Borrowing

Requests for Grant Reimbursements Were Not Made In a Timely Manner

Financial Integrity Principle 3 (FIP3) 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..."

Urban Search and Rescue (US&R)–Award #1659

During fiscal year 2011 (FY11), the Miami Fire Rescue Department (MFR) incurred US&R grant-related expenditures totaling $288,824. However, MFR requested a total of $295,464 in reimbursements that included $6,013 of expenditures incurred in FY12 and $940 incurred in FY10 ($313 could not be accounted for). The number of days that elapsed between the dates that the quarterly reports were due and the dates that respective reimbursement requests were submitted ranged from 24 days to 355 days (or an average of 168 days late). Two reimbursement requests were denied (totaling $1,854), and reimbursements for $15,504 remain outstanding. However, $278,107 in reimbursements was received.

Urban Area Security Initiative (UASI)–Award #1731

During fiscal year 2011 (FY11), the MFR incurred UASI grant-related expenditures totaling $237,380. MFR requested and received reimbursements totaling $137,030. However, we noted that reimbursement requests for expenditures totaling $100,345 have not been submitted and are still outstanding. The number of days that elapsed between the dates that the quarterly reports were due and the dates that respective reimbursement requests were submitted ranged from 22 days to 528 days (or an average of 84 days late).

The cause of the untimely reimbursement request submittals described above appears to be due to inadequate internal control policies and procedures that would require MFR staff to prepare and submit reimbursement requests along with the quarterly financial reports described above. The untimely filing of reimbursement requests prevents the City from optimizing the interest it could be earning on reimbursable funds.
Recommendation:

Miami Fire Rescue Department

The MFR should implement internal control procedures that would ensure that reimbursement requests are submitted timely along with required quarterly financial reports (when applicable). Also, such procedures should ensure that reimbursement packets contain accurate supporting documentation which is in accordance with grantor requirements.

Auditee Response:

US&R

The City of Miami Department of Fire Rescue concurs with your findings whereby in certain cases reimbursements could be made within the quarter in which the expense occurred. In large part the delay is caused by Instructors overlooking one or more elements of a reimbursement package.

Additionally, when personnel costs are related to the execution of long term exercise, the State of Florida will not accept reimbursement requests until the entire exercise is completed and paperwork is submitted as one comprehensive package.

Corrective Action Plan:

The Department of Fire Rescue will strive to submit reimbursements within the quarter that the expenses are incurred. We have developed a Program Directive outlining specific requirements to be included by the instructors upon course completion. The US&R Training Coordinator shall maintain responsibility to ensure this occurs. Our ultimate goal will be to submit more timely reimbursement request to the Grantor.

UASI

i. We agree with the finding.

ii. We acknowledge that our reimbursement submissions have not been submitted in optimal time based on the selections reviewed. In large part the delay was due to journal entries that needed to be done in order to move services and warranties to future grant years due to grant requirements. The additional paperwork, requirements and approvals associated with journal entries caused the delays. Additionally, over the past 12 months we have had a number of competing priorities. Such as addressing significant issues related to Environmental Historical Preservation applications.

Corrective Action Plan:

i. Regarding the recommendation, we will submit more timely reimbursements to the Grantor. As soon as the reimbursement packages contain accurate supporting documentation, in accordance with Grantor requirements, they will be forwarded to the Grantor.

ii. We now have in place adequate staffing, policies and procedures to comply with the Grant requirements and demands. We are currently packaging invoices at a much more rapid rate than in previous fiscal years and we are constantly evaluating our procedures to ensure that we are operating as efficiently as possible.
3) **Financial Integrity Principle Number 5 – Reserve Policies**

**Non-Compliance with Unassigned and Assigned Reserve Requirements**

**Unassigned Reserve**

The requirements for unassigned fund balance reserves, pursuant to the City Code provides that, "The city shall retain unassigned fund balance reserves equal to a threshold ten percent of the prior three years average of general revenues (excluding transfers). Amounts designated as "contingency" reserve in subsection 5a shall be included in the calculation of meeting the ten percent of the prior three years average of general revenues for the unassigned fund balance category. 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 and the city manager shall present an oral report at the second commission meeting of every month, except during the month of September, regarding: i) the status of the current fiscal year budget and ii) the proposed budget for the subsequent fiscal year. Such oral report shall appear on the city commission agenda as a discussion item under the agenda category titled "Budget". Amounts in excess of the ten percent threshold may be used for capital improvements, unanticipated expenditures necessary to assure compliance with legal commitments, and for expenditures that will result in the reduction of recurring costs or the increase in recurring revenues of the city."

The City's FY11 Comprehensive Annual Financial Report (CAFR) indicated that there was no Unassigned Reserve. Our calculation indicates that since the annual average general revenue for the prior three fiscal year totaled $465,332,347, the reserve balance should have been at least $46,533,235.

**Assigned Reserve**

The requirements for assigned fund balance reserves of the City Code provides that, "The city shall retain reserves equal to ten percent of the prior three years average of general revenues (excluding transfers). 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. Anticipated adjustments in pension plan payment resulting from market losses in plan assets and other unanticipated payments necessary to maintain compliance with contractual obligations.

Payment for compensated absences and other employee benefit liabilities and self-insurance plan deficits may be drawn from this reserve during the fiscal year and shall be replenished each year until fifty percent (50%) of such liabilities are funded. Other designated reserves may be drawn upon without the need for replenishment."
Our calculation indicated that the assigned reserve balance should have been $46,533,235. Since the assigned balance totaled $16,494,676 per the FY11 CAFR, it was deficient by $30,038,559.

As such, the total "Assigned" and "Unassigned" general fund balance reserve for FY 2011 was $16,494,676, since there was no unassigned balance as discussed above. The required "Assigned" and "Unassigned" general fund reserve balance should have been $93,066,470.

Recommendation:

Management and Budget Department

City management should create means by which recurring revenues will increase and recurring expenditures decrease so that required Assigned and Unassigned amounts can be created and maintained in accordance with FIP5.

Auditee Response:

The City’s administration is closely monitoring revenue and expenses and has turned the tide of expenses exceeding revenue. FY2010-11 was the first in five years to have surplus in the General Fund. FY2011-12 is also projected to have surplus revenue and the fund balance is expected to grow to about $27.5 million. The Administration is looking at long term approach to rebuild reserves slowly while minimizing service impact to the residents and maintaining taxes flat.

4) Financial Integrity Principle Number 7 – Multi-Year Financial Plan

Multi-Year Financial Plan did not Include All Critical Components

Financial Integrity Principle 7 (FIP7) of the City Code 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....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.”

Although properly adopted and approved, we noted that the multi-year financial plan did not include the following critical components:

- The plan did not include anticipated increases in operations, debt service payments, reserves to maintain the City’s officially adopted levels and estimated recurring and non-recurring revenues.
- The plan did not agree with respective appropriation and revenue amounts indicated in the FY 2011 adopted budget resolution.
- The plan was not prepared by fund.
- The plan did not reflect forecasted surpluses or deficits and potential budget balancing initiatives.
Not including critical components in the multi-year financial plan deprives City Commissioners and senior management of critical information needed to: derive cost estimates of all current City operations and pension obligations, anticipate increases in operations, debt service payments and reserves to maintain the City's officially adopted levels, and, estimate recurring and non-recurring revenues.

Recommendation:

Management and Budget Department

City management should implement internal controls that would ensure that annual multi-year financial plans are created to include all critical components as stated in FIP7.

Auditee Response:

We concur with the recommendations. For FY2011-12, a five year plan meeting the above requirements was included in the proposed budget of July 2012 and adopted by the City Commission during September of 2012. Going forward, the plan will be revised every year.

Implementation Date: Implemented

5) Financial Integrity Principle Number 8 – Multi-Year Capital Improvement Plan

Multi-Year Capital Improvement Plan was not Timely Approved or Adopted; did not Include Critical Components

Financial Integrity Principle 8 (FIP8) 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."

Based on the testing conducted, we noted that the City Commission did not adopt a CIP by November 30th as required. The report was 86 days late (issued on 2/24/2011). Additionally, it did not contain the following critical components:

- R&R component for infrastructure improvements needed to support City services.
• Listing of active projects which includes: 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.

Not creating and adopting a CIP in a timely manner increases the risk that the progress and funding needs of City capital projects will not be determined on a timely basis; furthermore, the absence of an R&R component increases the risk that funding needed to maintain completed projects (i.e. fixed asset additions) will be inadequate. In addition, if the CIP does not provide the required information about each project (e.g. the start date, amount budgeted, amount spent since start date, remaining budget, estimated completion date, etc.), Commissioners and other stakeholders will be unable to monitor the progress of projects and to determine the effectiveness/efficiency of project management.

Recommendation:

Capital Improvements Program

We recommend that the CIP be prepared by November 30th of each year as required by the Financial Integrity Principle. In addition, the CIP should include an R & R component and a listing of active projects with the required detailed information.

Auditee Response:

We concur with the recommendation. The Capital Improvements Department will continue its efforts to meet the November 30th deadline for a complete Capital Plan submittal and approval.

Implementation Date: Next Reporting Date

6) Financial Integrity Principle Number 9 – Debt Management

Loan Terms Exceeded Useful Lives of Debt-Funded Assets

Financial Integrity Principle 9 (FIP9) 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.

(b) The net direct general obligation debt shall not exceed five percent (5%) and the net direct and overlapping general obligation debt (GOB) shall not exceed ten percent (10%) of the taxable assessed valuation of property in the City.

(c) The weighted average general obligation bond maturity shall be maintained at 15 years or less.

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

The City is not in compliance with FIP9(a) because the capital projects that were refunded with
special obligation non-ad valorem revenue refunding bonds (series 2011-A bonds) did not have
useful lives that were greater than the loans' terms. We noted that the 10-year estimated useful
life of the park equipment acquired via the "Citywide Park Equipment Project" (40-B30541) was
less than the 22 and 23 year terms of the series 2011-A bonds, respectively (cost of $2.6
million). In addition, the 5 and 7-year useful lives of Information Technology (IT) System project
assets (40-B74609, 40-B74610 and 40-B74614) were less than the 22 year term of the bonds
(cost of $18.6 million).

It should be noted that not ensuring that useful lives of acquired assets exceed loan terms
increases the risk that the City will incur excessive debt-service costs that will not be matched
with the benefits generated by debt-funded assets.

Recommendation:

Finance Department

City management should inventory and inspect prospective debt-funded assets to ensure that
their useful lives meet or exceed loan terms.

Auditee Response:

Although we are in compliance with IRS rules that allow averaging of asset useful lives, FIP9
has stricter standards. In 2011, the Sunshine State Governmental Financing Commission
(SSGFC) notified the City that SSGFC was redeeming bonds, the proceeds of which funded the
City's loans, because the letter of credit on the bonds was expiring, therefore, SSFGC was
requiring repayment of all outstanding debts under that program, including the City's share of
those Sunshine State loans. We were unable to obtain other commercial/bank loans to repay
the $60+ millions loans. It was decided the City would issue refunding bonds to repay the
principal and interest of the various loans to the State. Prior to the refunding, the capitalized
useful lives were in compliance with the loans terms. However, the refunding bonds effectively
extended the City's debt service payment obligation to 2031 (the Sunshine State loans term
would have ended in 2016). Consequently, the new bond terms exceeded the useful lives of
debt-funded assets. This was a practical and operationally sound decision to repay the debt
burden of the City's finances, and was noted by the Financial Advisor in a recommendation to
the City as the best alternative. Finance is aware of the exception and will ensure debt funded
assets meet or exceed loan or bond requirements.

Implementation Date: October 1, 2012

7) Financial Integrity Principle Number 10 — Financial Oversight and Reporting

Reporting and Oversight Requirements were not Met

Financial Integrity Principle 10 (FIP10) of the City Code 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.

Also, the external auditor shall prepare the city’s comprehensive annual financial report (CAFR) by March 31 of each year. The single audit and management letter of the city shall be prepared by the external auditor by April 30 of each year. Finally, the external auditor shall present the findings and recommendations of the audit, single audit and management letter, to the mayor and city commission at a scheduled commission meeting prior to July 30 of each year.”

Our review to determine whether the required reports were issued in a timely manner disclosed the following:

- Monthly reports were not issued by the Finance Department within 30 days after the close of each month, as required, for five of the 11 months tested. The number of days late ranged from two to 263 days as noted below:

<table>
<thead>
<tr>
<th>#</th>
<th>Reporting Month</th>
<th>Date Books Closed</th>
<th>Date Reports Due</th>
<th>Report Issued</th>
<th>Days Late</th>
</tr>
</thead>
</table>

- The CAFR was not issued by March 31, 2012 as required by FIP10, or 48 days late (issued on 5/18/2012).

- The single audit and management letter were not issued by April 30, 2011 as prescribed by FIP10. The Single Audit was issued 51 days late (on 6/20/2012) and the Management letter was issued 18 days late (on 5/18/2012).

There is an apparent lack of internal controls in place to ensure that the monthly financial reports, CAFR, Single Audit Report, and management letter are prepared and issued in a timely manner. Transmitting financial reports late diminishes their relevance and usefulness.

**Recommendation:**

**Finance Department**

City management should develop policies and procedures that ensure that financial reports (monthly financial reports, the CAFR, single audit report, and management letter) will be issued in a timely manner. Such policies/procedures may include cross-training qualified/appropriate FD staff to perform timely account balance reconciliations, reviews and approvals.
Auditee Response:

We concur with the recommendations. The CAFR, Single Audit report and management letter were delayed due to SEC investigations, and an IRS survey redirected resources otherwise used for CAFR preparation and audit coordination. The Oracle R-12 update caused delays and redirected resources, and the GASB 54 implementation was not pre-planned and caused major resource consumption in time and energy. All of these are in addition to the personnel changes and adjustments caused by a different audit firm in their first year engagement. Finance is committed to producing monthly and annual reports accurately and within the required reporting timeframes. Additional staff has been trained on the monthly reporting process and additional level of review has been created to provide additional resources for production and accuracy.

Implementation Date: October 1, 2012

8) Financial Integrity Principle Number 13 – Full Cost of Services

**Full Cost of Core Services Was Not Presented as Part of the Annual Budget and Financial Plan**

Financial Integrity Principle 13 (FIP13) 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 City’s core services include public safety, solid waste, parks & recreation, public works, building, community development, and NET (Neighborhood Enhancement Team) Offices. In prior years, the full costs of these services were defined and listed in a “Cost Allocation Plan” which was included in the annual budget book.

Based on our review of the City’s FY11 Budget Book, there was no evidence that the full cost of services was presented as part of the annual budget and financial plan. Therefore, the City is not in compliance with FIP13. The latest cost allocation plan that defined and listed the full costs of the City’s core services was completed during fiscal year 2009 (FY09).

According to the Budget Director, producing a cost allocation plan on a yearly basis is not cost efficient; however, the Director stated that the Budget Department’s goal is “to complete a full cost analysis every two years at an estimated cost of $25,000 each time the analysis is done.”

If a Cost Allocation Plan is not included in the annual budget and financial plan, the City will not be able to ascertain the cost of providing these services, nor the revenues and other funding sources required to fund them.

**Recommendation:**

Management and Budget Department

Even though annually creating a Cost Allocation Plan is costly, we recommend that either FIP13 be amended to stipulate that the plan be included in the budget and financial plan every two years, or management include the full cost of delivering core City services in its annual budget and financial plan as required.
**Auditee Response:**

We concur with the recommendations. A Full Cost allocation report based on the FY2010-11 Audited numbers was just completed in September of 2012 and will be presented with the next Budget Cycle.

Implementation Date: Implemented