

# City of Miami

THEODORE P. GUBA, CPA, CIA, CFE  
INDEPENDENT AUDITOR GENERAL



Telephone (305) 416-2044  
E-Mail: tguba@miamigov.com

June 22, 2015

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 2014  
Audit No. 15-011

## Executive Summary

We have completed an 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, primarily for the period October 1, 2013 through September 30, 2014. 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 three of the thirteen Financial Integrity Principles (FIP) as follows:

- Requests for grant reimbursements were not made in a timely manner (FIP3 – Interfund Borrowing)
- The Multi-Year Capital Improvement Plan did not include critical components (FIP8 – Multi-Year Capital Improvement Plan)
- Reporting and oversight requirements were not met (FIP10 – Financial Oversight and Reporting)

These and other findings are included on pages three through nine of the report.

It should be noted that the results of this audit demonstrate a trend toward sustained improvement since the previous two audits of "Compliance with the Financial Integrity Principles". In both fiscal years 2012 and 2013, the City did not comply with five of the Financial Integrity Principles.

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

cc: The Honorable Mayor Tomas Regalado  
Daniel Alfonso, City Manager  
Victoria Mendez, City Attorney  
Todd Hannon, City Clerk  
Alice Bravo, Deputy City Manager/Chief of Infrastructure  
Fernando Casamayor, Assistant City Manager/Chief Financial Officer  
Nzeribe Ihekwebaba, Assistant City Manager/Chief of Operations  
Rodolfo Llanes, Police Chief, Police Department  
Maurice Kemp, Fire Chief, Fire-Rescue Department  
Christopher Rose, Director, Office of Management and Budget  
Jose M. Fernandez, Director, Finance Department  
Kevin Burns, Chief Information Officer, Director, Information Technology Department  
Jeovanny Rodriguez, Director, Capital Improvements Program  
Annie Perez, Director, Purchasing Department  
Joseph Zahralban, Deputy Fire Chief, Fire-Rescue Department  
Members of the Audit Advisory Committee  
Audit Documentation File

Audit conducted by: Scarlette Barrios, Staff Auditor  
Audit reviewed by: Lewis Blake, CPA, CIA, Audit Manager

**AUDIT OF COMPLIANCE WITH THE FINANCIAL INTEGRITY  
PRINCIPLES – FISCAL YEAR 2014  
OCTOBER 1, 2013 THROUGH SEPTEMBER 30, 2014  
Audit No. 15-011**

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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 primarily covered the period October 1, 2013 through September 30, 2014, and focused on the following objectives:

- To determine whether the City complied with the thirteen 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 for best business practices.

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 in the City Code, which is periodically reviewed and updated, as needed. Each year, the Office of the Independent Auditor General (OIAG) is responsible for preparing and transmitting a written report to the Mayor and City Commissioners regarding the City's compliance with the FIP.

Currently, the City is required to comply with the following thirteen FIP included in the City Code:

- 1) Structurally Balanced Budget
- 2) Estimating Conference Process
- 3) Interfund Borrowing
- 4) Citywide Surplus/Strategic Rollover Funds
- 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

## **AUDIT FINDINGS AND RECOMMENDATIONS**

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

Details of our findings and recommendations follow:

### **FINDING 1: REQUESTS FOR GRANT REIMBURSEMENTS WERE NOT MADE IN A TIMELY MANNER (FIP3 – Interfund Borrowing)**

Financial Integrity Principle 3 (FIP3) of the City Code states, “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...”

The timely and accurate filing of reimbursement requests that are in compliance with grant requirements minimizes the period that City funds are used to pay for expenditures that should be covered by grant awards. In addition, filing delays due to non-compliance with grant provisions cause the City to forgo interest revenue it could be earning.

#### **MIAMI FIRE-RESCUE DEPARTMENT (MFR)**

##### ***a) Safer Grant 2012 – Award #1955***

During fiscal year 2014 (FY14), the MFR incurred Safer 2012 grant-related expenditures totaling \$1,887,723. The number of days that elapsed between the dates the expenditures posted in Oracle and the dates that the respective reimbursement requests were submitted ranged from 6 days to 175 days (or an average of 73 days).

##### ***b) Urban Area Security Initiative (UASI) – Award #1911***

During FY14, MFR incurred Urban Area Security Initiative (UASI) grant-related expenditures totaling \$8,348,308. We noted, that this amount included \$68,876 of expenditures incurred in FY15, as well as journal entries totaling \$62,942 which were applicable to incorrectly recorded FY13 expenditures.

MFR requested a total of \$8,432,891 in reimbursements, which included expenditures for FY13 and FY15. 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 5 days to 193 days (or an average of 47 days). Additionally, as indicated in last year's findings, MFR has worked with the City's Information Technology Department (ITD) to implement ways to facilitate assigning the correct payroll elements when grant awards are initially set up in the Oracle Programs and Grants module (PnG). As a result, we noted an improvement in processing payroll related reimbursement requests.

The cause of the untimely UASI and Safer grant reimbursement request submittals appears to be the lack of a formal policy that would require MFR staff to prepare and submit reimbursement requests along with the quarterly financial reports described above. However, we noted that there has been a continual improvement in submitting the reimbursements over the last few years.

#### **MIAMI POLICE DEPARTMENT (MPD)**

**a) COPS Hiring FY2009 – Award #1622**

During FY14, the MPD incurred COPS grant-related expenditures totaling \$403,380. 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 7 days to 188 days (or an average of 29 days late). However, all reimbursements were received without exception.

**b) Edward Bryne Memorial JAG – Award #1970**

During FY14, the MPD incurred JAG grant-related expenditures totaling \$280,780. 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 0 days to 70 days (or an average of 21 days late). However, all reimbursements were received.

**CAPITAL IMPROVEMENTS & TRANSPORTATION PROGRAM (CITP)**

**a) Miami River Greenway – Award #1857**

We were informed by CITP staff that a reimbursement request was prepared and submitted to the Florida Department of Transportation (FDOT) for the Miami River Greenway Project (Award #1857), however, FDOT noted various compliance issues and put the project on hold. CITP has now corrected the issues and has informed us that the previous reimbursement request will be withdrawn and replaced with a new/revised reimbursement request package. Grant program related expenditures for FY14, net of a 10% retainage amount of \$29,459, totaled \$265,033 and the reimbursement for the same amount is still outstanding. The number of days that elapsed between the dates that the reimbursements were due and the date of testing (5/7/15) ranged from 514 days to 579 days (or an average of 547 days late).

**RECOMMENDATION 1.1: MIAMI FIRE-RESCUE DEPARTMENT**

We recommend that the MFR continuously improve internal control procedures that would ensure reimbursement requests are submitted simultaneously with required quarterly financial reports (when applicable) to facilitate timeliness. Also, such procedures should ensure that reimbursement packets contain accurate supporting documentation which is in accordance with grantor requirements. Lastly, MFR should continue to work with ITD to ensure that applicable payroll elements are assigned in Oracle PnG.

***This is a recurring audit finding.***

- **Auditee Response: Safer Grant 2012 – Award #1955:** The Fire-Rescue Department works diligently to ensure that the reimbursable expenditures processed in the City's financial system are recovered in the timely manner. From its inception in the City's financial system to the day the reimbursement request is submitted to the grantor, the average timespan for these SAFER Grant expenditures is 73 days. Because these payroll expenditure requests can expand over several pay periods, the pay periods towards the beginning of the requested time-frame will show a longer duration than the pay periods closer to the end date of the time-frame being requested. The average of these dates yields a 73 day reimbursement request duration, which includes the processing of the expenditures on day one through the closing of the accounting period for the respective payroll entries, as well as the adjusting entries to ensure accuracy. In essence, if the City incurs an expenditure under the SAFER Grant today, it will recuperate its funds (via

reimbursement request) on average 73 days after the day the expenditure is first entered in the Oracle system, which is well below the three months average.

- **Implementation Date:** Immediately
- **Auditee Response: Urban Area Security Initiative (UASI) – Award #1911:** The Miami UASI is committed to ensuring that reimbursement requests are submitted in a timely manner and contain accurate supporting documentation.
  - I. **Time elapsed between quarterly reports and reimbursement request submittals:**  
The primary reason for the delay in reimbursement requests was that the State of Florida held those reimbursement packets due to their review of the Fire department's collective bargaining agreement. Their decision on the matter resulted in requiring the Miami UASI staff to reduce previously submitted reimbursement requests of overtime expenditures and resubmit them with the revised dollar amounts.
  - II. **ITD's Payroll Customization function:**  
The ITD payroll customization function went live beginning on Oct. 1, 2013. Unfortunately, there were a series of errors with this function until Mar. 31, 2014. ITD asked that no payroll was to be touched because of a proposed solution for the first quarter of the fiscal year. But in Jan. 2014, we were informed that all (6) of the payrolls which occurred during that period of time had to be manually corrected. This also had an effect of delaying reimbursement requests because of the volume of correcting entries that needed to be submitted to the Finance Department to post before they could be submitted to the State of Florida.
  - III. **Lack of formal policy on grant reimbursement request submittals:**  
The Miami UASI disagrees with the statement of lacking a formal policy concerning reimbursement requests. There is a UASI Administrative Procedures document.
- **Implementation Date:** Immediately

## **RECOMMENDATION 1.2: MIAMI POLICE DEPARTMENT**

We recommend that the MPD implement internal control procedures that would ensure reimbursement requests are submitted simultaneously with required quarterly financial reports (when applicable) to facilitate timeliness. Also, such procedures should ensure that reimbursement packets contain accurate supporting documentation which is in accordance with grantor requirements.

***This is a recurring audit finding.***

- **Auditee Response:** We concur with the recommendations.
- **Implementation Date:** Recommendations were implemented effective July 1, 2014.

## **RECOMMENDATION 1.3: CAPITAL IMPROVEMENTS & TRANSPORTATION PROGRAM (CITP)**

In order for the City to receive timely reimbursements of grant-related expenditures, we recommend that the CITP implement internal control procedures that would ensure reimbursement requests are submitted simultaneously with required quarterly financial reports (when applicable) and/or according to Local Agency Program guidelines. Also, such procedures

should ensure that reimbursement packets contain accurate supporting documentation which is in accordance with grantor requirements.

***This is a recurring audit finding.***

- **Auditee Response:** As indicated in management's response to the FY 2014 Management Letter finding relating to grant reimbursements (i.e. ML 2014-02), the City will take corrective action by centralizing the grant reimbursement function in the Finance Department. The process of centralization has commenced with the establishment of two Grant Financial Analyst positions, whose primary function will be to coordinate the reimbursement process with respective departments to help ensure timely reimbursements of funds to the City.
- **Implementation Date:** Immediately

**FINDING 2: MULTI-YEAR CAPITAL IMPROVEMENT PLAN DID NOT INCLUDE CRITICAL COMPONENTS (FIP8 – Multi-Year Capital Improvement Plan)**

Financial Integrity Principle 8 (FIP8) of the City Code provides that,

“The City commission shall annually adopt a capital improvements plan (“CIP”) by November 30<sup>th</sup> 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 adopt a CIP by November 30<sup>th</sup> as required. Upon reviewing the "Cost Estimate vs. Available Funding" report, the "Capital Improvements Program Current Projects Cost to Date" report, and other reports in the CIP, we noted the following exceptions:

- The above-mentioned reports, as well as other reports in the CIP, included project budget amounts and amounts spent-to-date, but these items, along with other critical components required by FIP8, are not combined in one report. Additionally, these reports do not include the "date funded", "remaining budget", "estimated completion date", and "estimated expenditures by fiscal year of project", which should be combined with budget and spent-to-date amounts so that

City Commissioners and other stakeholders can readily ascertain the true status/progress of individual City projects.

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.), and does not address approved projects with unforeseen circumstances which change the funding requirements of the projects. As a result, Commissioners and other stakeholders will be unable to monitor the progress of projects, especially information technology projects which tend to have short useful lives, and determine the effectiveness/efficiency of project management.

## **RECOMMENDATION 2: OFFICE OF MANAGEMENT & BUDGET**

Best practices require monthly reporting of capital project expenditures (CAPEX) with information described in the FIP including: project description and number, date funded, amount budgeted, amount spent since the start date (including current period expenditures), and remaining budget. This information should be separated by Commission District and reported to Commissioners and senior management.

The financial data for construction and other capital projects requires usage of the City's accounting system, and since such information should be accurately and timely reported in the City's Comprehensive Annual Financial Report (CAFR), the City's Finance Department (FD) should work collaboratively with the City's Capital Improvements & Transportation Program (CITP) in compiling the information described above. Also, both departments should collaborate in monitoring actual amounts spent on projects (since their start dates) and comparing them to budgeted amounts. As a result of such monitoring, the FD would have the ability to ascertain which projects are near completion so as to ensure they are added to the City's fixed assets system in a timely manner.

Lastly, the FD and the CITP should work together in order to report the following as required by the FIP: Fiscal impact of known changes to financial assumptions underlying the project, estimated expenditures by fiscal year of the project, estimated completion date, and approved projects with unforeseen circumstances which change their funding requirements.

### ***This is a recurring audit finding.***

**Auditee Response:** The FIP 8 does not require the "Cost Estimate vs Available Funding" report, the "Capital Improvements Program Current Projects Cost to Date" report, and other CIP reports and data to be combined into one report.

The financial data for construction and other capital projects Information is reported accurately and timely in the CAFR, in as such per Single Audit Reports for year ended September 30, 2014, the prior year's findings related to the Material Weakness- Capital Assets has been corrected. The finding is on page 26 of the Single Audit Report.

The Office of Management and Budget, along with Capital Improvements and Transportation Program, are working together to implement a new computer system that will allow full compliance with FIP8. The anticipated date of implementation is September 30, 2016.

- **Implementation Date:** September 30, 2016

**FINDING 3: REPORTING AND OVERSIGHT REQUIREMENTS WERE NOT MET (FIP 10 – Financial Oversight and Reporting)**

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 that the single audit report and management letter were not issued by April 30, 2015 as prescribed by FIP10. Instead, they were issued on June 5, 2015 (36 days late).

However, it should be noted that the remaining financial report requirements (CAFR, and monthly financials) were met.

**RECOMMENDATION 3: FINANCE DEPARTMENT**

We recommend that City management develop policies and procedures to ensure that financial reports (Single Audit & Management Letter) are 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:** The Finance Department agrees that the Single Audit and Management Letter were not issued by April 30, 2015. However, it should be noted that in accordance with OMB Circular A-133--*Audits of States, Local Governments and Non-Profit Organizations* and 215.97 *Single Audit Act* the City has until June 30, 2015 to submit the Single Audit Report. Consequently, the City will be in compliance with both the Federal and State of Florida requirements. The issuance of the Single Audit and the Management Letter requires considerable coordination and collaboration from multiple City departments. With an entity the size of the City this often times causes delays. The Finance Department will work closely with its external auditors and all departments to issue the reports by the respective due date.

- **Implementation Date:** April 30, 2016