

City of Miami

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



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

June 27, 2016

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

Re: Review of Selected Expenditures, Revenue Reporting and Other Activities at the Little Haiti Cultural Center
Report No. 16-04

Executive Summary

We have completed a review of selected expenditures, revenue reporting and other activities at the Little Haiti Cultural Center (LHCC). The review was performed as a result of a request to provide accounting assistance by the Office of the State Attorney Public Corruption Task Force (SAO) regarding allegations that they are investigating at the LHCC. These allegations, which concern mismanagement at the LHCC, were brought to SAO's attention by the City's Department of Real Estate and Asset Management (DREAM), which was overseeing the LHCC at the time of our fieldwork. However, on May 22, 2016, the Parks and Recreation Department was assigned responsibility for overseeing LHCC.

Our review procedures included examining judgmentally selected expenditures that were generated by LHCC and recorded in the City's Oracle Enterprise Resource Planning system (Oracle) primarily from October 2013 through July 2015. We also performed a budget versus actual analysis, reviewed personnel files and DREAM policies and procedures; conducted interviews with various City employees outside of the LHCC and performed other procedures as deemed necessary.

Based on our review, we noted the following:

- LHCC revenue budgeting processes and internal controls over revenue recording and cash handling need improvement;
- LHCC used an outside vendor in lieu of using the City's Department of Grants Administration to procure grant funding; and,
- Vendors that listed the LHCC as their primary place of business did not have a current use/lease agreement with the City.

In addition, we verified that a LHCC employee was affiliated with one of its vendors. However, after examining the vendor's federal tax return, we were unable to verify whether or not the employee economically benefitted from the vendor. Applicable information will be provided to the State Attorney's Office for any further action.

We appreciate the cooperation extended to us by all personnel contacted during the review.

Sincerely,



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

C: The Honorable Mayor Tomas Regalado
Daniel J. Alfonso, City Manager
Victoria Mendez, City Attorney
Todd Hannon, City Clerk
Alberto Parjus, Assistant City Manager
Fernando Casamayor, Assistant City Manager/Chief Financial Officer
Nzeribe Ihekweba, Assistant City Manager
Jose M. Fernandez, Director, Finance Department
Christopher Rose, Director, Office of Management and Budget
Daniel Rotenberg, Director, Department of Real Estate and Asset Management
Kevin M. Kirwin, Director, Parks and Recreation Department
Lara De Souza, Deputy Director, Parks and Recreation Department
Amy Klose, Director, Human Resources Department
Lillian Blondet, Director, Office of Grants Administration
Aldo Bustamante, Assistant Director, Department of Real Estate and Asset Management
Gabriel Brito, Senior Staff Analyst, Department of Real Estate and Asset Management
Katherine Fernandez Rundle, Office of the State Attorney
Trent Reichling, Office of the State Attorney
Sergio Diez, Office of the State Attorney
Members of the Audit Advisory Committee
Audit Documentation File

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

Review reviewed by: Robyn Sachs, CPA, CIA, CISA, Senior Information Systems Auditor

**REVIEW OF SELECTED EXPENDITURES, REVENUE REPORTING
AND OTHER ACTIVITIES AT THE LITTLE HAITI CULTURAL CENTER**

Report No. 16-04

TABLE OF CONTENTS

SCOPE, OBJECTIVES, AND METHODOLOGY 1

BACKGROUND 2

FINDINGS AND RECOMMENDATIONS 3

 FINDING 1: IMPROVE REVENUE BUDGETING PROCESSES AND INTERNAL CONTROLS OVER
 REVENUE RECORDING AND CASH HANDLING.....3

 FINDING 2: THE LHCC INAPPROPRIATELY USED A VENDOR TO OBTAIN GRANT FUNDING.....4

 FINDING 3: VENDORS LISTING THE LHCC AS THEIR PRIMARY PLACE OF BUSINESS SHOULD
 EXECUTE A USE/LEASE AGREEMENT WITH THE CITY.....5

 OTHER OBSERVATIONS: AN LHCC EMPLOYEE WAS AFFILIATED WITH AN LHCC VENDOR6

SCOPE, OBJECTIVES, AND METHODOLOGY

This review was performed as a result of a request to provide accounting assistance by the Office of the State Attorney Public Corruption Task Force (SAO) regarding allegations that they are investigating at the LHCC. These allegations involved questionable payments and inappropriate employee affiliations with certain City vendors that were rendering services at the facility.

Our review procedures included examining all City vendors that rendered “Professional Services” and “Other Contractual Services” to the LHCC as recorded in Oracle. It should be noted that LHCC expenditures incurred during the scope period (October 2013 through July 2015) totaled \$682,847 (excluding payroll and fringe benefit costs); and, professional and other contractual services expenditures were judgmentally selected for examination because they represented a material amount (47%) of this total.

The review methodology also included the following:

- Analyzed LHCC budgeted and actual revenues and expenditures
- Reviewed personnel files and DREAM policies and procedures
- Conducted interviews and inquiries of appropriate personnel outside of the LHCC (at the request of DREAM)
- Other review procedures as deemed necessary

BACKGROUND

The LHCC, which opened in 2008, conducts and hosts visual and performing arts programs such as art exhibits and dance/musical performances. It also provides the community with an after-school program, visual/performing arts classes, and martial arts and yoga classes. The facility, which is currently staffed by five (5) City employees, was originally overseen by the City's Parks and Recreation Department, and as of fiscal year 2013 (FY 2013) was overseen by DREAM along with the Caribbean Market Place (CMP), which is a 9,500 square foot facility located adjacent to the LHCC and is staffed by two (2) City employees. On May 22, 2016, responsibility for the LHCC and the CMP was transferred back to the Parks and Recreation Department (Parks).

The LHCC/CMP generates revenue via rental/lease of facility space (e.g., theatre, museum, kiosk booth space), and other non-space rental revenue. Such non-space revenues consist of lease/rental of sound/microphone equipment, video projectors, LCD screens, etc. Additionally, the LHCC/CMP should be collecting and remitting "Ticket Surcharge" revenues from outside promoters that produce/sponsor events held at the facilities. This surcharge is mandated pursuant to City ordinance. Also, "Vendor Surcharge" fees should be collected from vendors who conduct classes and who use space at the LHCC/CMP to display and sell their goods/services (e.g., art-crafts, hand-made jewelry, food, etc.). Lastly, grant monies are also considered a source of revenue which can be used to fund LHCC activities and programs via the City's Office of Grants Administration.

FINDINGS AND RECOMMENDATIONS

CONCLUSION:

Based on our review, we noted the following:

- LHCC revenue budgeting processes and internal controls over revenue recording and cash handling need improvement;
- LHCC used an outside vendor in lieu of using the City's Office of Grants Administration to procure grant funding; and,
- Vendors that listed the LHCC as their primary place of business did not have a current use/lease agreement with the City.

In addition, we verified that a LHCC employee was affiliated with one of its vendors. However, after examining the vendor's federal tax return, we were unable to verify that the employee economically benefitted from the vendor. Applicable information will be provided to the State Attorney's Office for any further action.

Details of these results are described below:

FINDING 1: IMPROVE REVENUE BUDGETING PROCESSES AND INTERNAL CONTROLS OVER REVENUE RECORDING AND CASH HANDLING

The LHCC site also includes "The Caribbean Market Place" (CMP) which is located adjacent to the LHCC. It is a venue where vendors can rent kiosks in order to display/sell arts and crafts, fruits and vegetables, clothing and other items. Special events and community events are also held at the facility.

Vendors must pay kiosk rent and a vendor fee for the privilege of operating in the CMP. As with the LHCC, event promoters must pay the City's ticket surcharge on all ticket sales. CMP revenues should be recorded using a separate Oracle accounting code so that they can be distinguished from the revenues generated at the LHCC. However, the CMP revenues are being commingled with those of the LHCC. As such, there is currently no way to ascertain how much revenue is being generated by each facility.

In order to effectively manage the operations of both facilities, revenues for each facility should be budgeted and compared to actual performance. We noted that there was no fiscal year 2016 revenue budget for the CMP; and, the fiscal year 2016 LHCC budget was inadequate because it only projected \$20,000 in revenues, but during fiscal year 2015 there were approximately \$85,000 in actual revenues. Also, equipment and space rentals should be recorded in the "Rents & Royalties" account; however, they are being inappropriately recorded in the "Special Recreation Facilities" account which should only reflect ticket surcharge and vendor fee revenues.

Best practices require that monies generated from fees and rents should not be collected and deposited by the same LHCC employee so as to ensure adequate control over cash collections and reporting; and, fees/rents should be sufficiently supported by documentation that agrees with fees/rent reported (e.g. box office receipts/ticket manifests; use/lease agreements; class attendance rolls, etc.). Currently, contrary to best practices which require the separation of cash

handling and recording duties, we were informed that the same LHCC employee not only collects cash, but also completes bank deposit receipts and makes bank deposits.

It should also be noted that during the course of our review, DREAM management prepared a "Procedures and Guidelines" manual for LHCC operations that has not yet been implemented.

RECOMMENDATION 1: PARKS AND RECREATION DEPARTMENT

We recommend that revenues generated by both the LHCC and the CMP be recorded, budgeted and monitored separately. Also, in order to protect cash, we recommend that cash collections and deposit duties be performed by separate LHCC/CMP employees. All cash collected should be deposited within 24 hours and be adequately supported by applicable source documents such as "box office" receipts/ticket manifests, lease/use agreements, class attendance rolls, etc.

Also, the "Procedures and Guidelines" manual should be introduced and implemented at the LHCC/CMP immediately.

- **Management Response:** DREAM has developed a comprehensive set of policies and procedures which details common rules of accountability (e.g. cash handling, revenue reporting, and deposits) and installs interdepartmental transparency measures. Parks will review the policies and procedures developed by DREAM and implement them.
- **Implementation Date:** October 2016

FINDING 2: THE LHCC INAPPROPRIATELY USED A VENDOR TO OBTAIN GRANT FUNDING

City policy number APM 8-78 states that the Office of Grants Administration (OGA) is the designated office that City departments must contact for assistance in grant proposal writing, project planning, and grant application preparation. The APM requires City department heads to designate a grant project manager for each grant-funded project who will be responsible for monitoring grant-related expenditures and for submitting applicable project-related reports to the grant funding agency (grantor), OGA, Finance Department, and Office of Management and Budget (Budget). As such, project managers should work with Finance and Budget to ensure that grant monies are budgeted and properly recorded using the applicable accounting codes. In addition, project managers should monitor grant expenditures and program deliverables by completing and submitting a monthly "Grant Tracking Form" to OGA.

However, when we examined LHCC vendor invoices, we noted that there was one invoice for \$3,000 that included "Grant Writing"; and, when we analyzed budgeted versus actual LHCC revenue, we noted that there was no grant revenue budgeted or earned during fiscal years 2014 and 2015. In addition, in e-mails between the LHCC manager and OGA, we noted that an LHCC program was awarded a \$50,000 Knight Foundation grant; however, OGA stated that it had no record of applying for the grant.

RECOMMENDATION 2: PARKS AND RECREATION DEPARTMENT

We recommend that Parks create and implement internal control procedures that facilitate adherence to the City's written policies regarding the procurement and management of grant funding as outlined in APM 8-78. In addition, in order to sufficiently determine all potential revenue streams for the LHCC, Parks should work with the Office of Grants Administration in order to determine all potential sources and total projected amounts of grant funding.

- **Management Response:** As per Management's Response to "Recommendation 1" DREAM has developed a comprehensive set of policies and procedures aimed at establishing a base set of rules and guidelines that emphasize areas of regular departmental operations (including: procurement and management of grant funding). In accordance with "Recommendation 2", policies will be designed to work in conjunction with similar policies and procedures emplaced by the City's Office of Grants Administration (OGA). Parks will review the policies and procedures with DREAM and implement them.
- **Implementation Date:** October 2016

FINDING 3: VENDORS LISTING THE LHCC AS THEIR PRIMARY PLACE OF BUSINESS SHOULD EXECUTE A USE/LEASE AGREEMENT WITH THE CITY

Section 29-B of the City Charter states that the "city commission is prohibited from favorably considering any...lease of property owned by the city unless there is a return to the city of fair market value under such proposed ...lease." In addition, according to the Charter, written proposals must be solicited via newspaper advertising; and, the City must be allowed to receive such proposals for 90 days.

However, we noted that a "Professional Services" vendor and an "Other Contractual Services" vendor both listed the LHCC address as their principal place of business. According to DREAM, even though these vendors are deemed to be providing "in-kind" services to the LHCC, they do not have a current use/lease agreement with the City, which potentially exposes the City to insurance-related and other unforeseen liabilities.

RECOMMENDATION 3: PARKS AND RECREATION DEPARTMENT

A legal opinion from the City's Office of the City Attorney (OCA) should be obtained in order to determine whether provisions of the Charter are applicable to the vendors currently using the LHCC as a primary place of business; and, whether executing a use/lease agreement with the vendors would facilitate compliance with the City Charter.

- **Management Response:** DREAM had previously requested a legal opinion from OCA to determine whether provisions of the Charter are applicable to the vendors currently using the LHCC as a primary place of business; and, whether executing a use/lease agreement with the vendors would facilitate compliance with the City Charter. They will provide it to us when it is finalized.
- **Implementation Date:** July 2016

OTHER OBSERVATIONS: AN LHCC EMPLOYEE WAS AFFILIATED WITH AN LHCC VENDOR

According to City policy, “Employees who are named as officers or directors of a corporation and are compensated for services as officers or directors...” must complete an “outside employment request” form. However, we noted that an LHCC employee was affiliated as an “executive director” with one of the 26 professional services vendors we examined; and, according to the City’s Department of Human Resources (HR), the employee has not completed this form.

It should be noted that after examining the vendor’s federal tax return, we were unable to verify whether or not the employee economically benefitted from the vendor. Applicable information will be provided to the State Attorney’s Office for any further action.