

City of Miami

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INDEPENDENT AUDITOR GENERAL



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June 29, 2018

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 2017
Report No. 18-06

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, 2016 through September 30, 2017. 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 five of the 13 Financial Integrity Principles (FIP) as follows:

- FIP 3 – Capital Improvements Program grant reimbursements were not made in a timely manner.
- FIP 5 - The assigned reserve requirement was not in compliance with principles.
- FIP 8 - The Multi-Year Capital Improvement Plan does not fully comply with the requirements of FIP 8 and best practices for capital planning.
- FIP 11 - Cash Receipts policies and procedures are outdated.
- FIP 12 - Evaluation Committees did not comply with the requirement for a majority of non-City employees.

Details of these findings are included on pages three through 9 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

cc: The Honorable Mayor Francis Suarez
Emilio T. Gonzalez, City Manager
Victoria Mendez, City Attorney
Todd Hannon, City Clerk
Joseph Napoli, Deputy City Manager
Sandra Bridgeman, Assistant City Manager/Chief Financial Officer
Nzeribe Ihekweba, Assistant City Manager/Chief of Operations
Fernando Casamayor, Assistant City Manager
Jorge R. Colina, Police Chief, Police Department
Joseph Zahralban, Fire Chief, Fire-Rescue Department
Christopher Rose, Director, Office of Management and Budget
Erica T. Paschal, Director, Finance Department
Michael Sarasti, Chief Information Officer, Director, Innovation and Technology Department
Steven Williamson, Director, Office of Capital Improvements
Annie Perez, Director, Procurement Department
Members of the Finance Committee
Members of the Audit Advisory Committee
Audit Documentation File

Audit conducted by: Mala Khilnani, CPA, CISA, Assistant to the Auditor General

Audit reviewed by: Deming Zhang, CPA, Senior Auditor

**AUDIT OF COMPLIANCE WITH THE FINANCIAL INTEGRITY
PRINCIPLES – FISCAL YEAR 2017**

**OCTOBER 1, 2016 THROUGH SEPTEMBER 30, 2017
Report No. 18-06**

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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, 2016 through September 30, 2017, 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 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 13 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 five of the 13 Financial Integrity Principles (FIP) resulting in five findings.

Details of our findings and recommendations follow:

FINDING 1 (FIP3): CAPITAL IMPROVEMENTS PROGRAM GRANT REIMBURSEMENTS WERE NOT MADE IN A TIMELY MANNER

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 may cause the City to forgo interest revenue it could be earning.

During the audit period the Office of Capital Improvements (OCI) incurred/processed grant-related expenditures totaling approximately \$5.2 million related to various grant awards and other programs funded on a reimbursement basis. We tested four OCI awards which together represent \$4.2 million (or 80%) of the total population to test compliance with FIP3. The following exceptions were noted:

(PnG Award #2111) Miami-Dade County (MDC) – NE 2nd Avenue:

During fiscal year 2017 (FY17), the City incurred NE 2nd Avenue Roadway Improvements (PnG Award #2111) grant-related expenditures totaling \$412,207 of which \$391,597 was currently eligible for reimbursement due to retainage withheld from the contractor. According to the grant agreement, reimbursement requests were required to be submitted to Miami-Dade County (grantor) on a quarterly basis. We noted that 100% of the expenditures have been reimbursed to the City; however, 100% (or \$391,597) of the expenditures were not submitted for reimbursement in a timely manner. The number of days these expenditures were requested untimely ranged from 27 to 117 days (or an average of 87 days untimely). The average time that City funds were used as float (i.e., the time between the check date and cash receipt date) for the total \$391,597 of grant-related expenditures was 390 days.

(PnG Award #2132) General Obligation Bond (GOB) – Antonio Maceo Park:

During FY17, the City incurred Antonio Maceo Park Multi-Purpose Facilities (PnG Award #2132) grant-related expenditures totaling \$608,796 of which \$524,565 was currently eligible for reimbursement due to retainage withheld from the contractor and by the County. According to the grant agreement, reimbursement requests were required to be submitted to Miami-Dade County (grantor) on a quarterly basis. We noted that 100% of the expenditures have been reimbursed to the City; however, 31% (or \$160,640) of the expenditures were not submitted for reimbursement in a timely manner. The number of days these expenditures were requested untimely ranged from eight to 81 days (or an average of 39 days untimely). The average time that City funds were used as float (i.e., the time between the check date and cash receipt date) for the total \$524,565 of grant-related expenditures was 90 days.

RECOMMENDATION 1 (FIP3): FINANCE DEPARTMENT

We recommend that the Finance Department (FD) continuously improve internal control procedures to ensure that grant reimbursement requests are submitted in a timely manner, minimizing the time that City funds are used as float. Also, such procedures should ensure that reimbursement packets contain accurate supporting documentation which is in accordance with grantor requirements.

Lastly, we recommend that the Finance Department (FD), Office of Capital Improvements (OCI), and Office of Management and Budget (OMB) continue to improve the collaborative effort necessary to ensure timeliness of OCI grant reimbursements, including consideration of systems improvements which could better facilitate the process.

- **Overall Auditee Response:** The Finance Department agrees that internal control procedures need to be continuously improved. The Finance Department will continue to coordinate efforts with the Office of Capital Improvements and the Office of Management and Budget to improve the collaborative effort necessary to ensure timeliness of OCI grant reimbursements
- **Auditee Response: NE 2nd Avenue (PnG Award #2111):** The Finance Department received all required documentation from the vendor on May 24, 2017. The reimbursement request was submitted to the County on May 27, 2017. The Finance Department along with the Office of Capital Improvement followed up with the County on August 18, 2017, October 11, 2017, November 1st and November 22, 2017. The Solid Waste Department of the County copied us on their internal efforts on November 22, 2017, December 19, 2017, January 4, 2018 and January 18, 2018. Funds were received February 2, 2018
- **Auditee Response: GOB – Antonio Maceo Park (PnG Award #2132):** During FY 2017, the City's Finance Department submitted reimbursement requests on a quarterly basis per the agreement with the County. All requests were to include invoices on vendor company letterhead, copies of the cancelled checks or bank statements, monthly reports and pictures of the respective projects. The lack of timeliness (31%) of expenditures were due to the delay in receiving compliance documentation from the respective vendors and the clarification of the eligibility on some project management items. As a result of this clarification, several items were billed that were previously thought to be ineligible.
- **Implementation Date:** Finance has initiated a bi-weekly review of all CIP Grant expenditures as of FY18 and ensuring a full understanding of eligible expenditures per contract. The practice of requiring vendors to submit the required documentation at the initial request for payment commenced during FY17 and efforts are continuously being improved.

FINDING 2 (FIP5c): THE ASSIGNED RESERVE REQUIREMENT WAS NOT IN COMPLIANCE WITH PRINCIPLES

Section 18-542 (5c) of the City Code (Financial Integrity Principle 5c) states: "The city shall retain assigned fund balance reserves equal to 10% 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". Government accounting standards define an **assigned** fund balance as that which represents amounts that are constrained by the City's intent to use the amounts for specific purposes. Therefore,

according to Financial Integrity Principle (FIP) 5c, assigned reserves should be restrictively used to fund long-term liabilities and commitments 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 payments 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 should be replenished each year until 50 percent of such liabilities are funded. Other designated reserves may be drawn upon without the need for replenishment.

As indicated in the schedule below, the average three years of revenues for fiscal years 2014, 2015, and 2016 was approximately \$598.4 million. Accordingly, the City is required to retain an assigned fund balance of approximately \$59.8 million.

SCHEDULE 1. Assigned Reserve Requirement Shortage		
	Fiscal Year	General Revenue
	2014	\$556,731,000
	2015	\$599,480,966
	2016	\$638,894,245
Total revenue for the prior three years:		\$1,795,106,211
Divide by number of years:		÷ 3
Average annual general revenue, prior three years:		\$598,368,737
Multiply by 10 percent:		x 0.10
Fiscal year 2017 Assigned Reserve Requirement:		\$59,836,874
Less: Actual Assigned Reserves, per 2017 CAFR:		(\$25,386,647)
Shortage of Required Reserves:		\$34,450,227

However, based on the testing conducted, we noted that the 10% of the three-year revenue average for the assigned fund balance required pursuant to FIP 5c, was not met. According to the City's fiscal year 2017 Comprehensive Annual Financial Report (CAFR), the assigned balance was \$25.4 million, or \$34.4 million (58%) less than the required \$59.8 million balance.

RECOMMENDATION 2 (FIP5c): OFFICE OF MANAGEMENT AND BUDGET

We recommend that City administration comply with the revised ordinance to ensure that the designated fund balance reserves are met at the end of Fiscal Year 2018.

- **Auditee Response:** The Office of Management and Budget (OMB) agrees that the 10% of the three-year revenue average for the assigned fund balance required pursuant to FIP 5c was not met. OMB will work to ensure that the designated amount (now the requirement) is met at the end of FY 2017-18. Because the audit is completed with a lag of more than nine months after the current fiscal year budget is adopted, it may be difficult to comply within the current fiscal year.
- **Implementation Date:** October 1, 2018

FINDING 3 (FIP8): MULTI-YEAR CAPITAL IMPROVEMENT PLAN DOES NOT FULLY COMPLY WITH THE REQUIREMENTS OF FIP 8 AND BEST PRACTICES FOR CAPITAL PLANNING

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 adopted a CIP by November 30th as required. However, upon reviewing the City’s Fiscal Year 2016-2017 Adopted Capital Budget and Multi-Year Capital Plan, we noted the following exceptions:

- The plan does not address the fiscal impact of known changes to financial assumptions underlying the projects (e.g., the curtailment of federal or state funding for certain types of projects). Also, the plan does not address approved projects which require a change of funding

requirements due to unforeseen circumstances (e.g., a utility line relocation that necessitates a material change order and therefore, the incurrence of a material unforeseen expenditure).

- We noted that the plan has a narrative description of "Prioritization Criteria", including examples as to how such criteria can be applied (e.g., Life/Safety: Projects related to structural issues at City facilities that demand immediate attention). However, there is no indication that individual projects within the plan are assigned a prioritization criteria even though departments submit capital project requests in prioritized order.

RECOMMENDATION 3 (FIP8): OFFICE OF MANAGEMENT AND BUDGET

We recommend that the capital plan include the fiscal impact of known changes to financial assumptions underlying the projects (e.g., the curtailment of federal or state funding for certain types of projects). Also, the plan should address approved projects which require a change of funding requirements due to unforeseen circumstances (e.g., a utility line relocation that necessitates a material change order and therefore, the incurrence of a material unforeseen expenditure).

The capital plan should include project prioritization rankings including a structured process for prioritizing need and allocating limited resources.

- **Auditee Response:** The Office of Management and Budget (OMB) agrees that Adopted FY 2017-18 Capital Improvement Plan does not include the fiscal impact of known changes to financial assumptions underlying the projects, nor does it include project prioritization rankings including a structured process for prioritizing need and allocating limited resources. OMB will work with the Office of Capital Improvements (OCI) to include such information in the Adopted FY 2018-19 Capital Improvement Plan.

Reporting on this information on a project-by-project basis will be difficult until the City completes procurement and implementation of a technology solution to track the administration of the City's capital program.

The OCI has completed a draft Project Prioritization Matrix (with input from OMB) that, once implemented, will assist in clarifying this FIP requirement.

- **Implementation Date:** When the Adopted Capital Plan is released – before November 30, 2018.

FINDING 4 (FIP11): CASH RECEIPTS POLICIES AND PROCEDURES ARE OUTDATED

In accordance with Financial Integrity Principle 11 (FIP11) of the City Code, "Basic financial policies. The city shall endeavor to maintain formal policies, which reflect "best practices"" in such areas as debt, cash management and investments, and revenue collection.

Our review of the City's basic financial polices disclosed that the City's Debt and Investment Policies were updated on May 26, 2016 and February 26, 2015, respectively; however, the Cash Receipts Policies and Procedures Manual appears to have been last updated in 2005. As a result, the cash receipts manual does not reflect current best practices and Finance Department (FD) procedures. Furthermore, the FD implemented a new Point of Sale (POS) system during FY 2016, city-wide, in order to streamline the cash receipts procedures across the City's off-site cash handling locations including City parks, NET and Police.

As stated in the City's Cash Receipts Policy, "Good controls are designed to safeguard assets and ensure the accuracy and reliability of accounting data. Good controls also promote operational efficiency and ensure adherence to city, state, and federal statutes." Therefore, it is imperative that the policy is updated to ensure proper receipt, handling, money transfer, and documentation of City funds

RECOMMENDATION 4 (FIP11): FINANCE DEPARTMENT

We recommend that the City's Cash Receipts Policies and Procedures Manual be updated to reflect current best practices as well as procedures relative to implementation of the new POS system. Upon completion of the updated manual, we recommend that all employees involved with the cash receipts process receive a copy of the manual (and sign for its receipt) along with periodic training to ensure compliance.

- **Auditee Response:** In July 2016 the City implemented the new CORE iPayment Revenue Portal (POS System). Simultaneously, the Finance Department in conjunction with CORE Technologies created a POS User Manual (Main Cashiering Procedures) tailored to the City's customization of the POS System. The Manual was shared with all POS users, who were then trained by CORE and Finance's POS Administrator. All POS users must be trained prior to utilizing the POS system; therefore, training occurs when access is granted to new employees and on an as needed basis.

In 2017 the City drafted an updated "Cash Receipts Policies and Procedures Manual" which is currently being tested and revised, as necessary. Furthermore, Finance has ordered the Association of Public Treasurers of the United States and Canada, "Cash Handling Training Manual" as a guide for strengthening these procedures and policies, to ensure they are current and aligned with industry best practices for cash management.

- **Implementation Date:** In progress

FINDING 5 (FIP12): COMPOSITION OF EVALUATION COMMITTEES DID NOT COMPLY WITH REQUIREMENT FOR A MAJORITY OF NON-CITY EMPLOYEES

Financial Integrity Principle 12 (FIP12) of the City Code provides that,

An evaluation committee, consisting of a majority of citizen and/or business appointees from outside city employment, shall be created, to the extent feasible, to review City solicitations ("requests for proposals" (RFPs), "requests for qualifications" (RFQs), etc.). The recommendation(s) of the evaluation committee shall be provided to the Mayor and City Commission on all such solicitations prior to presentation to the City Commission for official action.

During the audit period the Procurement Department (PD) evaluated and/or awarded contracts for ten Capital Improvement Department (CIP) solicitations and nine general solicitations. We tested a sample of eight solicitations to determine whether City solicitations complied with the requirements of FIP12. Based on our review we noted the findings detailed below.

For one solicitation, an evaluation committee was formed; however, it did not consist of a majority of citizens and/or business appointees from outside City employment. See Exhibit I below.

Exhibit I

RFP/RFQ#	Solicitation Title	Solicitation Type (CIP/General)	Total # Evaluation Committee Members	# of City Employees	# of Outside (Citizen / Business Appointees)
616390	Group Legal Services and Identity Theft	General	5	3	2

RECOMMENDATION 5 (FIP12): PROCUREMENT DEPARTMENT

We recommend that the Procurement Department (PD) implement internal control policies and procedures to ensure that for city solicitations, evaluation committees are formed which consist of a majority of citizen and/or business appointees from outside City employment. In those cases where the PD has exhausted attempts to obtain a majority of outside appointees, we recommend that PD retain documentation of the steps taken and any correspondence which demonstrates PD’s attempt to comply with the requirements of FIP12.

- **Auditee Response:** PD strives to comply with FIP12, to attain Evaluation Committee (“Committee”) members from outside agencies. With the volume of solicitations that PD has, it has become increasingly difficult to get technical experts from outside agencies. Pursuant to a conversation with the City Attorney’s Office, FIP12 states, “an evaluation committee, consisting of a majority of citizen and/or business appointees from outside city employment, shall be created, to the extent feasible, to review City solicitations (“requests for proposals” (RFPs), “requests for qualifications” (RFQs), etc.)” To the extent feasible means that the City will strive to get the majority of the Committee members; however, it is not reasonable for PD to delay the RFP process because outside Committee members could not be secured. Procurement has implemented an initiative geared towards the creation of a database of outside agency technical experts that can serve on Evaluation Committees. In essence, PD will continue to reach out to South Florida government agencies and to the Miami Chapter of the NIGP, a national procurement organization, asking for a list of employees, their specific expertise, and contact information, for the creation of the database.

For the Group Legal Services and Identify Theft Evaluation Committee (“Committee’), PD did secure the majority of the Committee members from outside agencies; however, the day of the Committee meeting, one of the external Committee members notified PD that they were unable to attend. The City decided to proceed with the Committee meeting without this external Committee member, as PD did not have sufficient time to secure a replacement external Committee member. In addition, in the event PD cannot secure the required number of outside Committee members, PD will include this in the appointment memo to the City Manager. Additionally, PD will document when an external Committee member is unable to attend the meeting, in the Committee Report memo under the section titled “Other”.

- **Implementation Date:** Effective July 2, 2018.