

City of Miami

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



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

June 28, 2019

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 2018
Report No. 19-11

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, 2017 through September 30, 2018. 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 13 Financial Integrity Principles (FIP) as follows:

- FIP 3 - Requests for grant and other reimbursements were not made in a timely manner.
- FIP 8 - The Multi-Year Capital Improvement Plan did not fully comply with the requirements of FIP 8.
- FIP 11 - Cash Receipts policy does not fully comply with requirements of FIP 11; Investment policy should be revised.

Details of these findings are included on pages three through nine 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 Infrastructure
Fernando Casamayor, Assistant City Manager/Chief of Operations
Jorge R. Colina, Chief of Police, Police Department
Christopher Rose, Director, Office of Management and Budget
Erica T. Paschal, Director, Finance Department
Steven Williamson, Director, Capital Improvements Program
Members of the Finance Committee
Members of the Audit Advisory Committee
Audit Documentation File

Audit conducted by: Wesley Laurent, MBA, CPA, CIA, Senior Auditor
Raymond Ishmael, CPA, CFE, Senior Auditor

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

**AUDIT OF COMPLIANCE WITH THE FINANCIAL INTEGRITY
PRINCIPLES – FISCAL YEAR 2018**

**OCTOBER 1, 2017 THROUGH SEPTEMBER 30, 2018
Report No. 19-11**

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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, 2017 through September 30, 2018, 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, appropriate evidence 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 three of the 13 Financial Integrity Principles (FIP) resulting in four findings.

Details of our findings and recommendations follow:

FIP 3: GRANT AND OTHER REIMBURSEMENTS

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.

It should be noted, that City Management has stated that the grant management system (eCivis) will be fully utilized to standardize data collection and reporting processes citywide later this year. This will help produce more timely and accurate reporting and comply with grantor requirements and city policies.

FINDING 1 (FIP3): MIAMI POLICE DEPARTMENT REQUESTS FOR GRANT REIMBURSEMENTS WERE NOT MADE IN A TIMELY MANNER

During the audit period the Miami Police Department (MPD) incurred/processed grant-related expenditures totaling approximately \$4.3 million related to various grant awards and other programs funded on a reimbursement basis. We tested two MPD awards which together represent \$1.6 million (or 37%) of the total population to test compliance with FIP3. The results of our testing, for which there were exceptions, are as follows:

FY 2016 COPS Hiring Program (PnG Award #2286):

During FY18, the MPD incurred 2016 COPS Hiring Program (PnG Award #2286) grant-related expenditures totaling \$730,196. According to the grant agreement, reimbursement requests were required to be submitted to U.S. Department of Justice on a quarterly basis. We noted that 100% of the expenditures have been reimbursed to the City; however, 45% (or \$322,169) of the expenditures were not submitted for reimbursement in a timely manner. The number of days these expenditures were requested untimely ranged from 7 to 83 days or an average of 39 days. 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 \$730,196 of grant-related expenditures was 71 days.

FY 2016 Body-Worn Camera (PnG Award #2305):

During FY18, the MPD incurred 2016 Body-Worn Camera (PnG Award #2305) expenditures totaling \$842,400. According to the grant agreement, reimbursement requests were required to be submitted to U.S. Department of Justice on a quarterly basis. We noted that 100% of the expenditures have been reimbursed to the City; however, 69% (or \$578,818) of the expenditures were not submitted for reimbursement in a timely manner (80 days late). 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 \$842,400 of grant-related expenditures was 123 days.

RECOMMENDATION 1 (FIP 3): MIAMI POLICE DEPARTMENT

We recommend that the MPD continuously improve internal control procedures in order to ensure grant reimbursement requests are submitted in a timely manner so as to minimize 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.

- **Auditee Response:** FY 2016 COPS Hiring Program (PnG Award #2286) and FY 2016 Body-Worn Camera (PnG Award #2305). As noted these grants are managed by the U.S Department of Justice, as per the reporting requirements we completed the Financial Report submission on time. However, due to a change in personnel the reimbursement was not able to be completed by the expected date. The delay was as a result of having to setup a new employee as the Finance Point of Contact in the Grants Payment Request System which is managed by The Department of Justice. As noted by the Auditor at this time all funds have been reimbursed. Going forward we will ensure that the Financial Point of Contact in GPRS is set up as soon as possible as to mitigate a delay in applying for the reimbursement.
- **Implementation Date:** June 1, 2019.

FINDING 2 (FIP 3): CAPITAL IMPROVEMENTS PROGRAM GRANT REIMBURSEMENTS WERE NOT MADE IN A TIMELY MANNER

During the audit period the Office of Capital Improvements (OCI) incurred/processed grant-related expenditures totaling approximately \$6.2 million related to various grant awards and other programs funded on a reimbursement basis. We tested three OCI awards which together represent \$2.7 million (or 44%) of the total population to test compliance with FIP3. The following exceptions were noted:

(PnG Award #2038) MDC – Coconut Grove Business:

According to the Oracle PnG module, during FY18, the City incurred Coconut Grove Sidewalk Improvement Project (PnG Award #2038) grant-related expenditures totaling \$826,992; however, upon examination of the supporting invoices we determined that the actual amount of grant-related allowable expenditures (reimbursable expenses) during the audit period was \$637,359 (\$826,992 less county disallowed expenses of \$189,633).

According to the joint participation agreement between Miami-Dade County (County) and the City, reimbursement requests were required to be submitted to the County on a quarterly basis. Of the grant-related allowable expenditures totaling \$637,359, we noted \$573,624 was eligible for reimbursement due to 10% retainage withheld from the contractor. To date, 100% of the \$573,624 total expenditures have not been reimbursed to the City, while 27% (\$153,413) of the unreimbursed amount was not requested for reimbursement from the County and has been outstanding for 241 days. In addition, we noted that 100% of the remaining expenditures of \$420,211 were not submitted for reimbursement in a timely manner. The number of days these expenditures were requested untimely ranged from 28 to 119 days (or an average of 89 days untimely). The average time that City funds were used as float (i.e., the time between the check date and end of fieldwork date) for the total \$573,624 of grant-related expenditures is 365 days.

(PnG Award #2179) FIND-Wagner Creek/Seybold:

During FY18, the City incurred Seybold Canal & Wagner Creek Dredging Phase E (PnG Award #2179) grant-related expenditures totaling \$700,000. According to the grant agreement, reimbursement requests were required to be submitted to Florida Inland Navigation District (grantor) on a quarterly basis. We noted that 100% of the expenditures have been reimbursed to the City; however, 100% (or \$700,000) of the expenditures were not submitted for reimbursement in a timely manner (61 days late). 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 \$700,000 of grant-related expenditures was 180 days

(PnG Award #2272) FIND-Seybold:

During FY18, the City incurred Seybold Canal & Wagner Creek Dredging (PnG Award #2272) grant-related expenditures totaling \$1,200,000. According to the grant agreement, reimbursement requests were required to be submitted to Florida Inland Navigation District (grantor) on a quarterly basis. We noted that 100% of the expenditures have been reimbursed to the City; however, 100% (or \$1,200,000) of the expenditures were not submitted for reimbursement in a timely manner (124 days late). 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 \$1,200,000 of grant-related expenditures was 201 days.

RECOMMENDATION 2 (FIP 3): FINANCE DEPARTMENT

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

Lastly, we recommend that the Finance Department, 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.

- **Auditee Response:**

(PnG Award #2038) MDC – Coconut Grove Business: The Finance Department initially billed Miami Dade County (County) on January 23, 2018 for a total of \$81,775.99. Correspondence was received from the County dated March 1, 2018 requesting compliance documentation. On March 6, Finance requested the documentation from OCI, which then forwarded the request for documentation to the contractor on March 7, 2018. There was follow-up by Finance with OCI on June 28, July 2, and July 13, 2018. The documents were received from the contractor on August 24, 2018 and a revised reimbursement package for a total of \$638,202.66 was submitted to Miami Dade County on August 27, 2018. The County disallowed a total of \$189,633 and those expenditures will be transferred to another funding source at the request of OCI to the Office of Management and Budget.

(PnG Award #2179) FIND-Wagner Creek/Seybold: The reimbursement request for this award is managed by a firm contracted by the Office of Capital Improvements, Angie Brewer and Associates. Finance has consistently provided all payment documentation to the Office of Capital Improvements in a timely manner. In the future, we will take appropriate action if there are delays.

(PnG Award #2272) FIND-Seybold: The reimbursement request for this award is managed by a firm contracted by the Office of Capital Improvements, Angie Brewer and Associates. Finance has consistently provided all payment documentation to the Office of Capital Improvements in a timely manner. In the future, we will take appropriate action if there are delays.

- **Overall Auditee Response:** The Finance Department will continue to coordinate efforts with the Office of Capital Improvements and the Office of Management and Budget to continuously improve internal control procedures and the collaborative effort necessary to ensure timeliness of OCI grant reimbursements.
- **Implementation Date:** Finance has initiated a bi-weekly review of all CIP Grant expenditures as of FY'18 and ensuring a full understanding of eligible expenditures per contract. Continued efforts are being made to improve the process of obtaining critical documentation from contractors and vendors.

FINDING 3 (FIP8): MULTI-YEAR CAPITAL IMPROVEMENT PLAN DID NOT FULLY COMPLY WITH THE REQUIREMENTS OF FIP 8

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 2017-2018 Adopted Capital Budget and Multi-Year Capital Plan, we noted the following exceptions:

- The plan does not include a component reflecting the funding date of capital improvement projects.
- 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 criterion even though departments submit capital project requests in prioritization order.

RECOMMENDATION 3 (FIP8): OFFICE OF MANAGEMENT AND BUDGET

We recommend that the capital plan include the date of funding for each capital project and 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). Additionally, 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).

Finally, we recommend the capital plan include recommended project prioritization rankings, in order to address needs and to allocate resources efficiently.

- **Auditee Response:** The Office of Management and Budget (OMB) agrees that Adopted FY 2017-18 Capital Improvement Plan does not include a component reflecting the funding date of capital improvement projects, that the plan does not address the fiscal impact of known changes to financial assumptions underlying the projects, and that the plan does not address approved projects which require a change of funding requirements due to unforeseen circumstances.

OMB continues to maintain that individual projects were included or not included in the plan according to the prioritization criterion and the department prioritizations.

It should further be noted that improvements to Section 8 of the Financial Integrity Principles have been recommended to the City Commission and have passed first reading. These improvements would, in part, remove some of the above requirements for following fiscal years.

Additionally, some of the above findings will be addressed with the implementation of the new E-Builder system that will replace the current TRACS system.

- **Implementation Date:** The E-Builder system will be fully implemented in November 2020.

FINDING 4 (FIP11): CASH RECEIPTS POLICY DOES NOT COMPLY WITH REQUIREMENTS OF FIP 11; INVESTMENT POLICY SHOULD BE REVISED

Section 18-542(11) of the City Code provides that the City shall endeavor to maintain formal policies, which reflect “best business practices” in the areas of cash management and investments and revenue collection. The Code states that the Cash Management and Investment Policy “shall require a 24-month gross and net cash-flow projections by fund and address adequacy, risk, liquidity and asset allocation issues.” The Code further states that the Revenue Collection Policy “shall provide for maximum collection and enforcement of existing revenues, monitoring procedures, and the adequacy level of subsidy for user fees.”

We reviewed the City’s Cash Receipts Policy. As noted in our prior audit, the City’s Cash Receipts Policy appears to have been last updated in 2005. As a result, the cash receipts manual does not reflect current best practices and does not address procedures relative to implementation of the POS system. The City’s Cash Receipts Policy states that, “Good controls are designed to safeguard assets and insure the accuracy and reliability of accounting data. Good controls also promote operational efficiency and ensure adherence to city, state, and federal statutes.” Therefore, the policy should be updated to ensure proper receipt, handling, money transfer, and documentation of City funds.

We also reviewed the City’s Investment Policy which includes cash management, to determine whether the City has established policy which requires a 24-month gross and net cash-flow projections by fund and addresses adequacy, risk, liquidity, and asset allocation in accordance with Section 18-542(11)(b). While the City’s Investment Policy addresses adequacy, risk, liquidity, and asset allocation issues, it does not require a 24-month gross and net cash-flow projection by fund.

RECOMMENDATION 4 (FIP11): FINANCE DEPARTMENT

As recommended in our prior audit, the City’s Cash Receipts Policies and Procedures Manual should be updated to reflect current best practices as well as procedures relative to implementation of the 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.

We also recommend that the Cash Management and Investments Policy be revised to require a 24-month cash flow projection in accordance with Section 18-542(11)(b) and utilize the projection to ensure adequate amounts of liquidity, investment diversification, and portfolio management to control risks and manage reasonably anticipated cash flow requirements.

- **Auditee Response:**

Cash Receipts Policies and Procedures Manual

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.

The Finance Department is currently in the process of updating the Cash Receipts Policies and Procedures Manual to reflect best practices as recommended in the prior audit. The Finance Department purchased 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.

Cash Management and Investment Policy

Section III of the City's investment policy articulates the objective related to "Maintenance of Liquidity" that the City's "portfolios shall be managed in such a manner that funds are available to meet reasonably anticipated cash flow requirements in an orderly manner. Periodical cash flow analyses shall be completed in order to ensure that the portfolios are capable of providing sufficient liquidity, including if the value of the portfolio investments should fall." Furthermore, Section X of the Investment Policy, "Maturity and Liquidity Requirements" specifies that, "The maximum effective duration of the aggregate portfolio shall be three (3) years." And with respect to liquidity, "In order to meet the day-to-day expenditure needs of the City, \$3,000,000 shall be the targeted cash balance in the City's depository bank."

To adhere to the guidelines outlined in the Investment Policy, the Finance Department has established a system of internal controls and operational procedures to ensure the best practice of having a 24-month cash-flow projection by fund - that addresses adequacy, risk, liquidity, and asset allocation issues - is adhered to as part of our normal business practice. Specifically, the Finance Department, Investment/Debt Section, Daily and Yearly Activity Procedures outline the following processes for monitoring and projecting cash flow:

- Manage cash flow daily to show when investments are maturing and what our projected cash balance would be over the span of our investment activity. Our current investment activity extends over a 21-month span. Due to current market conditions, we are usually short term with about a year or less for maturity.
- Prepare a cash position analysis of all funds showing changes in total pooled cash, restricted cash (in Special Revenue, Debt Service, Capital Projects, and Trust & Agency funds), and total General Fund cash available for operation net of obligations reported in the City's Monthly Financial Statements.
- Annually prepare a cash flow analysis that is split into the General Fund, Internal Service, Special Revenue, Debt Service, and Capital Projects funds and is projected month by month for a 24-month period.

Although the Finance Department's procedures meet the Financial Integrity Principle's requirement to perform a 24-month cash flow projection and to utilize the projection to ensure adequate amounts of liquidity, investment diversification, and portfolio management to control risks and manage reasonably anticipated cash flow requirements, we are in the process of revising the Investment Policy to articulate the 24-month cash flow projection in accordance with FIP Section 18-542(11)(b).

Implementation Date: The updated Cash Receipts Policies and Procedures Manual should be completed by September 30, 2019. Subsequently, the policy will be reviewed by the Office of the City Attorney and then presented to Finance Committee and City Commission for approval.

The revision to the Investment Policy should be completed by September 30, 2019. Subsequently, the policy will be reviewed by the Office of the City Attorney and then presented to Finance Committee and City Commission for approval.