CITY OF MIAMI

OFFICE OF AUDITOR GENERAL

REVIEW OF COMPLIANCE WITH THE FINANCIAL INTEGRITY PRINCIPLES

AUDIT NO. 04-018

Prepared By

Office of Auditor General

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July 1, 2004

The Honorable Mayor and Members of the
City Commission
3500 Pan American Drive
Miami, FL 33133

Re: The Review of Compliance with the Financial Integrity Principles
Audit No. 04-018

We have examined the applicable records to determine 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. Section 18-541 of the City Code, provides that, "The City's Internal Auditor shall be responsible for the preparation of a written report to be transmitted to the Mayor and the Members of the City Commission by July 1 of each year as to compliance with the principles and policies set forth in this Division." The proper implementation of the 14 sets of the Financial Integrity Principles would assure maximum protection of public funds.

This report provides the result of our review of compliance with the Financial Integrity Principles for the period of October 1, 2002, through September 30, 2003.

Sincerely,

Victor Igwe

Victor I. Igwe, CPA, CIA
Auditor General
Office of Independent Auditor General

C: Joe Arriola, Chief Administrator/City Manager
Members of the Audit Advisory Committee
Linda M. Haskins, CPA, Deputy City Manager/Chief Financial Officer
Larry Spring, Chief of Strategic Planning, Budgeting and Performance
Peter Korinis, Chief Information Officer
Alicia Cuervo Schreiber, Chief of Operations
Maria Chiaro, Interim City Attorney
Glenn Marcos, Director, Purchasing department
John F. Timoney, Police Chief
Mary Conway, Director of Capital Improvement Programs and Transportation
Ernest Burkeen, Director, Parks and Recreation department
Ricardo E. Gonzalez, Director, NET Program
J. Scott Simpson, CPA, Director, Finance department
Pete Chircut, Treasurer, Finance department
Donald Riedel, Director, Office of Citistat
Priscilla A. Thompson, City Clerk
Audit Documentation File

CITY OF MIAMI
THE REVIEW OF COMPLIANCE WITH THE
FINANCIAL INTEGRITY PRINCIPLES
FOR THE PERIOD OCTOBER 1, 2002, THROUGH SEPTEMBER 30, 2003

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INTRODUCTION

The Office of Independent Auditor General is responsible for preparing and transmitting a written report to the Mayor and the City Commissioners in connection with compliance with the following 14 sets of Financial Integrity Principles:

1. Structurally Balanced Budget.
2. Estimating Conference Process.
3. Interfund Borrowing.
4. Citywide Surplus.
5. Reserve Policies.
6. Proprietary Funds.
7. Multi-year Financial Plan.
8. Multi-year Capital Improvement Plan.
9. Debt Management.
10. Financial Oversight and Reporting.
11. Basic Financial Policies.
12. Evaluation Committees.
13. Full Cost of Service.
14. Promoting Operating Efficiencies.

The above principles would require the City to maintain structurally balanced budget, develop/adopt short and long term financial and capital improvement plans, establish and maintain adequate internal control systems, and follow best business practices.

SCOPE AND OBJECTIVES

As part of our oversight responsibilities, the Office of the Independent Auditor General (OIAG) performs financial and operational audits to determine the extent of compliance with provisions of Contracts, Programs, Resolutions/Ordinances, City Codes and Charter. The scope of this audit focused primarily on whether the City complied with the provisions of the financial integrity principles as codified and amended in Chapter 18, Article IX, Sections 18-541 and 18-542 of the City Code. The examination covered the period October 1, 2002, through September 30, 2003. In general, the audit focused on the following three broad objectives:

- To determine whether the City complied with the 14 sets of financial integrity principles as noted on page 1.
- To recommend additional policies or actions to be considered.
- Other procedures as deemed necessary.

METHODOLOGY

We conducted our audit in accordance with generally accepted government auditing standards. To obtain an understanding of the internal controls, we interviewed appropriate personnel, reviewed applicable written policies and procedures, and made observations to determine whether prescribed controls had been placed in operation. The audit methodology included the following:

- Obtained sufficient understanding of the internal control policies and procedures and determined the nature, timing and extent of substantive tests necessary and performed the required substantive tests.

- Determined compliance with all the financial integrity principles noted on page 1.

- Performed other audit procedures as deemed appropriate.

SUMMARY OF AUDIT FINDINGS

FINANCE AND STRATEGIC PLANNING, BUDGETING, AND PERFORMANCE DEPARTMENTS

***STRUCTURALLY BALANCED BUDGET - FINANCIAL INTEGRITY PRINCIPLE NUMBER 1*.**

Our audit disclosed that the City Commission adopted a balanced budget, as required during the audit period. Recurring revenues funded recurring expenditures. However, Section J of the Notes to the Financial Statements, page 32 of the audited Comprehensive Annual Financial Statements (CAFR), disclosed nine expenditure line items that exceeded budget.

The said Notes to the CAFR indicated that the negative variances occurred as result of unanticipated expenditures and refunding of bonds that were not budgeted for. The Notes also stated that over expenditures for all funds were funded by available fund equity. In a written explanation relative to the said variances, the Finance Director stated that only 3 of the 9 variances were true negative variances. He explained that the additional six variances, when presented under the same basis of accounting, do not result in negative variances. He plans to mitigate this confusion in the future by preparing and issuing the "Popular Report".

Additionally, Section K (page 32) of the Notes to the Comprehensive Annual Financial Statements disclosed that the Gusman and Olympia Special Revenue Fund's total expenditures exceeded total revenues, thereby resulting in total deficit fund equity of $336,809 as of September 30, 2003. The Notes to CAFR indicated that said deficit is expected to be liquidated in fiscal year 2004 with appropriation from other governmental funds. However, the City's Anti-deficiency Act as codified in Section 18-500 through 18-503 of the City Code prohibits actual expenditures from exceeding budgeted expenditures for all departments. In response to our audit inquiry, the Finance Director stated that the deficit fund equity of $336,809 will be funded with appropriation from other governmental funds.

Demonstrating compliance with adopted or amended budget is a critical component of governments' accountability to the public. The annual budget is a financial operations plan, which estimates proposed expenditures and the proposed means of financing them during a fiscal year. Absent procedures requiring timely amendment of adopted budget and adherence thereto, the effectiveness of the budget as a means of controlling expenditures would be limited.

STRATEGIC PLANNING, BUDGETING, AND PERFORMANCE DEPARTMENT

***ESTIMATING CONFERENCE PROCESS - FINANCIAL INTEGRITY PRINCIPLE NUMBER 2*.**

Our audit disclosed that an Estimating Conference Committee (Committee) met on August 29, 2003, and examined the underlying assumptions supporting the City's proposed budget for the fiscal year 2004. The long term financial and capital improvement plans were not addressed and the relative recommendations were not made. In a memorandum to the Mayor, the Commission and the Manager, dated September 20, 2001, the Committee concluded that the Fiscal year 2004 budget was balanced and its revenue and expenditure projections appeared to be sound and, in most cases conservative. The memorandum also provided several recommendations.

FINANCE AND STRATEGIC PLANNING, BUDGETING, AND PERFORMANCE DEPARTMENTS

***INTERFUND BORROWING - FINANCIAL INTEGRITY PRINCIPLE NUMBER 3*.**

The total transfers from/to other funds as reported on the "Statement of Revenues, Expenditures and Changes in Fund Balances", was approximately $162 million for the fiscal year ended September 30, 2003. Our review of approximately $127 million or 78% of the $162 million disclosed that the operating transfers were for transactions such as transfers from Public Service Tax and Public Facilities accounted for as Special Revenue Funds to other governmental funds for the repayment of debts and salaries/benefits; and transfers from Stormwater Utility Trust and Local Option Gas Tax sub-funds accounted for as Special Revenue Funds to the General and other Governmental funds, for capital project/capital improvement program funding. These operating fund transfers as noted above are typical and consistent with the activities of governmental fund types and operation of the City.

FINANCE, POLICE, PARKS/RECREATION, MIAMI HOMELESS ASSISTANCE PROGRAM, AND FIRE RESCUE DEPARTMENTS

***REQUEST FOR REIMBURSEMENTS WERE NOT FILED ON A TIMELY BASIS - FINANCIAL INTEGRITY PRINCIPLE NUMBER 3*.**

Our review to determine whether reimbursements were filed on a timely manner disclosed the following:

***POLICE DEPARTMENT*.**

- Our test of 32 monthly/quarterly reimbursement packages relative to 7 different grants, disclosed that 7 reimbursement packages were filed late. The total amount due from the 7 reimbursement packages (22%) that were filed late was $77,789.27. The number of days that reimbursement packages were filed late ranged from 2 to 81 days. A similar finding was noted in the last three prior audits of the Police department. As was the case in those prior audits, we were informed that insufficient personnel resources was responsible for the untimely filing of the reimbursement requests.

- Also, we noted that the Distressed Neighborhood grant (Project number 142024) had a negative fund equity balance of $326,857.88 and the COPS MORE 1996 (Project number 142016) had a negative fund equity balance of $26,052 as of September 30, 2003. According to the Police Chief, the said deficits resulted from the payments of unallowable personnel benefit costs (such as overtime, tuition reimbursement and severance pay) to employees hired under said grants. He noted that the unallowable grant costs were budgeted in the general fund.

  However, we noted that the amount budgeted for overtime events in the general fund for the Police department was insufficient to cover the overtime totaling $237,331 incurred in the Distressed Neighborhood grant (Project number 142024) and the COPS MORE 1996 (Project number 142016). Also, the amount budgeted for in the citywide non-departmental account was insufficient to cover tuition reimbursements totaling $1,652 incurred in the Distressed Neighborhood (Project number 142024) and the COPS MORE 96 (Project number 142016).

***PARKS AND RECREATION DEPARTMENT*.**

- Our test of 30 monthly/quarterly reimbursement packages relative to 8 different projects, disclosed that 4 reimbursement packages were filed late. The total amount due from the 4 reimbursement packages (13%) that were filed late was $631,831.82. The number of days that reimbursement packages were filed late ranged from 7 to 829 days.

***MIAMI HOMELESS ASSISTANCE PROGRAM*.**

- Our test of 16 monthly reimbursement packages relative to 2 different projects, disclosed that 7 reimbursement packages were filed late. The total amount due from the 7 reimbursement packages (44%) that were filed late was $85,558.94. The number of days that reimbursement packages were filed late ranged from 2 to 16 days.

FIRE RESCUE DEPARTMENT

- Our test of 3 quarterly reimbursement packages relative to two projects, disclosed that 2 reimbursement packages were filed late. The total amount due from the 2 reimbursement packages (67%) that were filed late was $11,592.09. The number of days that reimbursement packages were filed late ranged from 4 to 48 days.

***FINANCE DEPARTMENT*.**

- The Financial Integrity Principles number 3 requires the Finance department to make a quarterly determination of the amount of expenses incurred that may not be reimbursable for all applicable programs. Upon determination, the department should prepare a quarterly report of expenses incurred but not reimbursable and present to the City Commission, together with the actions needed to avoid project deficits. We were not provided with any document to evidence any quarterly presentation of un-reimbursable grant expenditures, together with the actions needed to avoid project deficits to the City Commission, as required. Upon audit inquiry, the Finance Director stated that a listing of un-reimbursable grant expenditures would be included in future monthly financial reports.

FINANCE AND STRATEGIC PLANNING, BUDGETING, AND PERFORMANCE DEPARTMENTS

<u>CITYWIDE SURPLUS OR DEFICIT - FINANCIAL INTEGRITY PRINCIPLE NUMBER 4</u>.

Our review of the Comprehensive Annual Financial Report (CAFR) disclosed that unreserved fund balances in the general and special revenue funds were not designated nor disclosed in the notes to the CAFR. Upon audit inquiry, the Finance Director provided us with a manually prepared worksheet itemizing fund balance designations. The designated reserve for the fiscal year 2002 totaled $104,111,676 as compared to the $100,026,466 for fiscal year 2003. There was a decrease of $4,085,210 in designated reserve. Therefore, no portion of the citywide budget surplus (approximately $22 million) was added to the designated reserved for the fiscal year 2003.

Additionally, we noted the following:

a. Our audit disclosed that the total budget surplus that was rolled-over to the departmental accounts for the elected officials exceeded the actual amount that should have been rolled-over by $32,607. The Chief of Strategic Planning, Budgeting and Performance (CSPBP) stated that a future budget amendment will be processed to address the variance caused by post closing entries.

b. Our audit disclosed that budget surplus totaling $12,492 was correctly rolled-over to a Special Revenue fund for the Parks and Recreation Department, as required. We noted that the amount rolled-over was not disbursed during the audit period.

c. Our audit disclosed that the total budget surplus that was rolled-over to the Special Revenue Fund for the Conferences, Conventions, and Public Facilities Department was less than the actual amount that should have been rolled-over by $1,303. The CSPBP stated that a future budget amendment will be processed to address the variance caused by the post closing entries. We noted that the amount rolled-over was not disbursed during the audit period.

d. Our audit disclosed that the total budget surplus that was rolled-over to the Special Revenue Fund for the Information Technology Department was less than the actual amount that should have been rolled-over by $38,286. The CSPBP stated that a future budget amendment will be processed to address the variance caused by the post closing entries. We noted that the amount rolled-over was not disbursed during the audit period.

FINANCE AND STRATEGIC PLANNING, BUDGETING, AND PERFORMANCE DEPARTMENTS

***<u>RESERVE POLICIES - FINANCIAL INTEGRITY PRINCIPLE NUMBER 5</u>*.**

The following three reserve policies categories are established for the general operating fund of the City:

<u>CURRENT FISCAL YEAR CONTINGENCY</u> - Our review of the City's fiscal year 2003 budget for non-departmental accounts (authorized by Ordinance number 12279), disclosed that $5 million was budgeted for contingency reserve as required. Pursuant to Ordinance number 12325, which was passed/adopted by the Commission on February 27, 2003, $1,781,559 of the $5 million was appropriated for several municipal operations relating to pension costs. Ordinance number 12382, which was passed/adopted by the Commission on June 24, 2003, appropriated additional $1,087,431 for several municipal operations relating to activities in the City Attorney's Office, Building, Fire Rescue, and Police departments.

<u>GENERAL FUND UNDESIGNATED RESERVE</u> – The undesignated reserve balance of $36,878,676 for fiscal year 2003 exceeded the ten percent of the prior three years (fiscal years 2000 through 2002) average of general revenues in the general fund (modified accrual basis of accounting), which totaled $30,657,274.

<u>DESIGNATED RESERVE</u> – The ten percent of the prior three years (fiscal years 2000 through 2002) average of general revenues in the general fund totaled $30,657,274 and the total designated fund balance in the general fund for fiscal year 2003 was $100,026,466.

We noted that fund balance was neither designated nor disclosed in the notes to the City's Comprehensive Annual Financial Report (CAFR). The Finance Director provided us with a manually prepared worksheet, which itemized fund balance designations. GASB

34 makes it optional and it is not mandatory to report and/or disclose/designated unreserved fund balance in the appropriate exhibit or notes to the City's audited CAFR. However, we believe that the reporting and/or disclosure of unreserved fund balance in the City's audited CAFR would provide users with additional vital information pertaining to management's intended use (actual plans approved by senior management) of current available resources. The said designations reflect government's self-imposed limitations on the use of otherwise available current resources. The said information is readily available and we recommend its inclusion in the appropriate exhibit or disclosed in the notes to the audited CAFR.

FINANCE DEPARTMENT

PROPRIETARY FUNDS - NUMBER 6.

Chapter 18, Article IX, Section 18-542(6) of the City Code provides that: "The City shall establish proprietary funds only if the costs to provide the service are fully funded from the charges for the service." In accordance with the National Council of Governmental Accounting Standard (NCGAS) number 1, which established the various types of Funds, an enterprise fund should be used to account for any services provided to the public that was fully funded from the fees derived from said services. The only services provided to residents that could be accounted for using proprietary fund is solid waste services. However, the fees charged for said service are lower than the cost of providing such services.

STRATEGIC PLANNING, BUDGETING, AND PERFORMANCE DEPARTMENT

***MULTI-YEAR FINANCIAL PLAN - FINANCIAL INTEGRITY PRINCIPLE NUMBER 7*.**

The City Commission passed Ordinance number 12420, which adopted an annual budget (Financial Plan) for the fiscal year ending September 30, 2004, during its meeting of September 25, 2003. The multi-year financial plan for the fiscal year 2004 is not required to be finalized and adopted until 30 days after the completion of labor negotiation. As of the date of this report, we were informed that said multi-year financial plan is in progress and would be finalized and adopted no later than 30 days after the conclusion of the union and management labor agreement.

STRATEGIC PLANNING, BUDGETING/PERFORMANCE AND CAPITAL IMPROVEMENT PROGRAM DEPARTMENTS

MULTI-YEAR CAPITAL IMPROVEMENT PLAN - FINANCIAL INTEGRITY PRINCIPLE NUMBER 8.

Our audit disclosed that a capital improvement plan (CIP) for the fiscal year 2003/2004 along with a multi-plan (fiscal years 2004/2005 through 2008/2009) was approved/adopted (Resolution 03-1200) by the City Commission on November 25, 2003. The major sections of the CIP are as follows:

- Section 1 of the CIP Report describes the CIP process including but not limited to purpose of the plan, legal authority, capital budget process, capital improvement priorities, capital improvement programming process, and sections of the plan.

- Section 2(c) of the CIP Report disclosed all the strategic program areas and the corresponding City departments responsible for said program areas.

- Section 3 of CIP Report described all aspects of the $255 Homeland Defense Neighborhood Improvement Bond Program.

- Section 4 of the CIP Report provided funding sources, which includes federal grants, state grants, Miami-Dade county grants, other grants, City bond moneys, CIP fees/revenues, and others.

- Section 5 of the CIP Report provided capital improvement projects in all the five districts in the City.

FINANCE DEPARTMENT

DEBT MANAGEMENT – FINANCIAL INTEGRITY PRINCIPLE 9.

Chapter 18, Article IX, Section 18-542(9) of the City Code provides that, the City shall manage its debt in a manner consistent with the following principles:

- (a) Capital projects financed through the issuance of bonded debt shall be financed for a period not to exceed the estimated useful life of the project.
  - The City did not issue any new bonded debt that financed new capital projects during the audit period.
- (b) The net direct general obligation debt (GOB) shall not exceed five percent and the net direct and overlapping GOB shall not exceed ten percent of the taxable assessed valuation of property in the City.
  - Based on the information/data provided in the Comprehensive Annual Financial Report for fiscal year 2003, the net taxable property is assessed at $19,427,608,574 and the general obligation debt was $236,549,956. Therefore, the GOB is 1.22% ($236,549,956/$19,427,608,574 x 100) of the taxable assessed valuation of property in the City, which is less than 5%. The total net direct and overlapping GOB is $479,046,553 ($236,549,956 + 242,496,597). The net direct and overlapping GOB is 2.47% ($479,046,553/$19,427,608,574 x 100) of the taxable assessed valuation of property in the City, which is less than 10%. Therefore, the City is in compliance.
- (c) The weighted average general obligation bond maturity shall be maintained at 15 years or less.

- The weighted average GOB maturity is 11.16 years ($2,640,945,466/ 236,549,955), which is less than 15 years. The City is in compliance.

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

  - The special obligation debt service is 8.7% ($21,807,281/250,581,519 x 100), which is less than 20% of non-ad valorem general fund revenue. The City is in compliance.

- (e) Revenue based debt shall only be issued if the revenue so pledged will fully fund the debt service after operational costs plus a margin based on the volatility of the revenues pledged.
  - According to the City's Treasurer, revenue based debt was not issued during the audit period.

FINANCE DEPARTMENT

***FINANCIAL OVERSIGHT AND REPORTING - FINANCIAL INTEGRITY PRINCIPLE NUMBER 10*.**

The following reports shall be prepared:

- (a) The annual external audit of the City shall be prepared and presented to the Mayor and City Commission within 120 days of the close of each fiscal year. The City Commission shall convene a workshop meeting with the external auditors to review the findings and recommendations of the audit.

    - Pursuant to past practice, the Comprehensive Annual Financial Report for the fiscal year ended September 30, 2003, dated February 27, 2004, and the related Management Letter also dated February 27, 2004, were both presented and made part of the record of a workshop conducted as part of the City Commission meeting of May 6, 2004, by the City's external auditor (KPMG LLP). The audit observations/recommendations pertinent to the Single Audit, pursuant to the requirements of Office of Management and Budget (OMB) Circular A-133, was not presented and discussed at this workshop, as has been the case in prior year's workshop. The City disbursed approximately $43 million of various Federal and State grant monies. Therefore, we recommend that the audit findings and recommendations relative to the single audit, if completed subsequent to the City's workshop relating to the Comprehensive Annual Financial Report and Management Letter, be presented to the City Commission in a subsequent workshop or City Commission meeting.

- (b) The City shall prepare an annual report to provide information to bondholders and the secondary marketplace.

- The information/data included in the Financial and Statistical Sections of the CAFR provides adequate information to bondholders and secondary marketplace.

- (c) Financial reports, offering statements and other financial related documents issued to the public, shall provide full and complete disclosure of all material financial matters.
  - Our test disclosed that 10 of the 12 monthly financial reports were issued late. The number of days reports were issued late ranged from 2 to 43 days. See the timeliness schedule on page 70.

FINANCE, STRATEGIC PLANNING, BUDGETING, AND PERFORMANCE, AND PURCHASING DEPARTMENTS

BASIC FINANCIAL POLICIES - FINANCIAL INTEGRITY PRINCIPLE NUMBER 11.

Our audit disclosed that the City has implemented policies, which reflect “best practices” in the areas of debt management, cash management and investments, budget development and adjustments, revenue collection, and purchasing policy, as discussed on pages 73 through 75.

PURCHASING AND EMPLOYEE RELATIONS DEPARTMENTS

***EVALUATION COMMITTEES - FINANCIAL INTEGRITY PRINCIPLE NUMBER 12*.**

The City processed approximately 128 bids and 18 RFP/RFQ/RFLI transactions during the audit period. Our test of the 18 RFP/RFQ/RFLI transactions disclosed that citizens and/or business appointees from outside City employment did not participate in the evaluation process for 1 (or 6%) of the 18 transactions tested. Given the constraints imposed by the “Cone of Silence”, the intent of this Financial Integrity Principle would be met, if recommendations obtained from the Evaluation Committees and the industry are considered in all material bid, RFP, RFLI, and/or RFQ solicitations.

The constraints imposed by Chapter 447 of the Florida Statutes limits the use of citizens and/or business appointees from outside City employment during labor union Agreement negotiation between management and the union. However, there was no such negotiation during the audit period.

STRATEGIC PLANNING, BUDGETING, AND PERFORMANCE DEPARTMENT

<u>FULL COST OF SERVICE - FINANCIAL INTEGRITY PRINCIPLE NUMBER 13</u>.

The core services provided by the City include public safety (police and fire-rescue services), parks/recreation, solid waste, public works, and planning/zoning. A financial/budget system, which accumulates the full cost of delivering these core services, on an annual basis, has been implemented. The annual budget document prepared by the Strategic Planning, Budgeting and Performance department shows the full (direct and indirect) costs of providing said core services. The City engaged a consultant (DMG Maximus) who developed an indirect cost allocation plan. The resulting indirect costs as calculated by the consultant allocate indirect costs to core service costs.

INFORMATION TECHNOLOGY DEPARTMENT

***PROMOTING OPERATING EFFICIENCIES - FINANCIAL INTEGRITY PRINCIPLE NUMBER 14*.**

In a written response to our audit inquiry, the Chief Information Officer (CIO) of the Information Technology (IT) department stated that his department has implemented projects conducive to operating efficiencies as approved by the information Technology Steering Committee. Upon audit inquiry, the CIO provided us with a list of 15 Strategic Initiatives (projects) as defined in the City's IT strategic plan and prioritized by the IT Steering Committee. The listing provided indicated the status of the 15 Strategic Initiatives and other projects.

There are costs and benefits associated with every operation or activity that is outsourced. The various departments outsource functions when the total benefits out-weigh the total costs and also when the department does not have the in-house resources required to perform such services. For example, the Public Works department utilizes the services of private engineering firms to perform certain road repair/maintenance projects. The Neighborhood Enhancement Team (NET) outsourced the clearing of vacant lots to private companies. The Solid Waste department outsourced the collection of commercial waste to private firms.

FINANCE DEPARTMENT

REVIEW OF THE ANNUAL AUDIT AND MANAGEMENT LETTER FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003.

COMPREHENSIVE ANNUAL FINANCIAL REPORT **–** KPMG LLP partnering with Sanson, Kline, Jacomino and Company, Sharpton, Brunson and Company, P.A., Watson and Company, P.A., and Briele and Echeverria, P.A. audited the City's Comprehensive Annual Financial Report (CAFR) for the period ended September 30, 2003 and issued an unqualified opinion on the City's CAFR in an audit report dated February 27, 2004.

MANAGEMENT LETTER **-** The Rules of the State of Florida's Office of Auditor General (OAG), Section 10.554(1)(g)1.a, require an external auditor to issue a Management Letter, which states whether or not inaccuracies, shortages, defalcations, fraud and/or violations of laws, rules, regulations, and contractual provisions reported in the Management Letter issued in connection with its preceding annual financial audit report have been corrected. KPMG had no such issues in the preceding year audit to report on. Additionally, pursuant to Rules of the State of Florida's OAG, Section 10.554(1)(g)6.a) and Section 218.503(1), Florida Statutes, KPMG determined that the City was not in a state of financial emergency.

However, the management letter noted other matters pertaining to internal controls over financial reporting that was reported in a Management Letter issued to the City on February 27, 2004. The Rule of the OAG (Section 10.554(1)(g) 3.) requires that a Management Letter shall include recommendations to improve the local government entity's present financial management, accounting procedures and internal accounting controls. Appendix A of the Management Letter disclosed three observations, recommendations, and management's responses for the current year's audit, as itemized on page 83. Management concurred with said findings and expressed the willingness to resolve the issues in a timely manner.

The recommendations that were made in the prior years' observations were addressed in the section titled "Status of Prior Year's Observations, Recommendations and Management's Responses" (Appendix B) of the current Management Letter. The recommendations included in Appendix B were for audit findings relative to the periods ended September 30, 1997, through September 30, 2002. The Appendix has a total of 18 observations/recommendations and a total of 7 of the 18 observations/recommendations have been addressed and are no longer relevant. The 11 outstanding observations/recommendations yet to be resolved were made in the following fiscal years:

- Two (2) for the fiscal year ended 2002.
- Four (4) for the fiscal year ended 2001.
- Three (3) for the fiscal year ended 2000.
- One (1) for the fiscal year ended 1999.
- One (1) for the fiscal year ended 1997.

SINGLE AUDIT REPORT IN ACCORDANCE WITH THE FEDERAL OFFICE OF MANAGEMENT AND BUDGET (OMB) CIRCULAR A-133.

KPMG's engagement contract also included the audit of Federal Awards and the State of Florida Financial Assistance received by the City for the fiscal year ended September 30, 2003. Federal Awards and State of Florida Financial Assistance are financial assistance and cost-reimbursement monies that non-Federal/State entities receive directly from Federal/State awarding agencies or indirectly from pass-through entities. Federal OMB Circular A-133 and the Florida Single Audit Act require a single audit when the total Federal Award/State Financial Assistance disbursed to non-Federal/State entity equals or exceeds $300,000. The auditors' report issued on compliance with Circular A-133 relative to major Federal Programs for the fiscal year ended September 30, 2003, was qualified. Reportable conditions as shown page 84 were noted. Management concurred with said findings and expressed the willingness to resolve the issues in a timely manner.

AUDIT FINDINGS AND RECOMMENDATIONS

FINANCE AND STRATEGIC PLANNING, BUDGETING, AND PERFORMANCE DEPARTMENTS

***STRUCTURALLY BALANCED BUDGET - FINANCIAL INTEGRITY PRINCIPLE NUMBER 1*.**

Chapter 18, Article IX, Section 18-542(1) of the City Code, provides that, "The City shall maintain a structurally balanced budget. Recurring revenues will fund recurring expenditures.

Our audit disclosed that the City Commission adopted a balanced budget, as required during the audit period. Recurring revenues funded recurring expenditures.

However, Section J of the Notes to the Financial Statements, page 32 of the audited Comprehensive Annual Financial Statements (CAFR), disclosed the following excess actual expenditures over final budgeted expenditures:

Charges to Appropriation Line Item	Fund Type	Final Budgeted Amount	Actual Amount (Budgetary Basis)	Variance (Negative)
Parks and Recreation	General Fund	$ 12,589,188	$ 12,601,390	$ (12,202)
Community Develop. Transfer to Other Fds	Special Revenue	3,136,331	3,385,477	(249,146)
General Govt. (Gusman & Olympia)	Special Revenue	827,511	2,568,359	(1,740,848)
Parks and Recreation	Special Revenue	2,336,593	2,740,772	(404,179)
General Govt. (Transportation & Transit)	Special Revenue	-	3,820	(3,820)
Payment to Escrow Agent (Gen Oblig. Bond)	Debt Service	-	18,202,593	(18,202,593)
Payment to Escrow Agent (Spec. Oblig. Bond)	Debt Service	-	28,390,000	(28,390,000)
Transfer to Other Funds (Spec. Oblig. Bond)	Debt Service	-	1,583,828	(1,583,828)
Interest & Other Charges (CRA Other Spe Obli Bds.)	Debt Service	235,303	326,742	(91,439)

The said Notes to the CAFR indicated that the above negative variances occurred as result of unanticipated expenditures and refunding of bonds that were not budgeted for. The Notes also stated that over expenditures for all funds were funded by available fund equity. In a written explanation for the above variances, the Finance Director stated that only 3 of the 9 variances were true negative variances. The said true variances include Community Development Transfer to Other Funds, General Government Gusman and

Olympia, and General Transportation/Transit. He explained that the additional six variances, when presented under the same basis of accounting, do not result in negative variances. He plans to mitigate this confusion in the future by preparing and issuing the “Popular Report”.

Additionally, Section K (page 32) of the Notes to the Comprehensive Annual Financial Statements disclosed that the Gusman and Olympia Special Revenue Fund’s total expenditures exceeded total revenues, thereby resulting in total deficit fund equity of $336,809 as of September 30, 2003. The Notes to CAFR indicated that said deficit is expected to be liquidated in fiscal year 2004 with appropriation from other governmental funds. However, the City’s Anti-deficiency Act as codified in Section 18-500 through 18-503 of the City Code prohibits actual expenditures from exceeding budgeted expenditures for all departments. In response to our audit inquiry, the Finance Director stated that the deficit fund equity of $336,809 will be funded with appropriation from other governmental funds.

Demonstrating compliance with adopted or amended budget is a critical component of governments’ accountability to the public. The annual budget is a financial operations plan, which estimates proposed expenditures and the proposed means of financing them during a fiscal year. Absent procedures requiring timely amendment of adopted budget and adherence thereto, the effectiveness of the budget as a means of controlling expenditures would be limited.

Recommendation.

We recommend that budget forecasting procedures be enhanced to ensure that all expenditures are properly budgeted for. All budget amendments should be recorded in the accounting system to preclude incurring expenditures in excess of approved budgetary authority and available resources for all functional categories and departments.

Additionally, we recommend that the Finance department follow through with its plan of mitigating any confusion relative to the presentation of financial statements and/or the corresponding note disclosures.

Auditee's Response and Action Plan.

See written response on pages 31 and 32.

CITY OF MIAMI, FLORIDA
INTER-OFFICE MEMORANDUM

TO: Victor Igwe, Auditor General

DATE: June 11 2004

FILE:

SUBJECT: Financial Integrity Principle
Audit #04-018

FROM: Scott Simpson, Finance Director

REFERENCES: Budget Presentation

ENCLOSURES:

I have consulted with the Larry Spring, Chief of Strategic Planning, Budgeting, and Performance Department who concurs with my conclusion that a comparison of Budgeted Amounts (under Modified Accrual Basis) to Actual Amounts (under Budgetary Basis) is not an accurate comparison and will result in variances because of the different basis of accounting used between the two. In order to obtain a more accurate comparison is to check the variance between actual results of operation under modified accrual to the Budgeted Amounts under the same basis of accounting.

The note to the financial statements which state that over expenditures were funded by available fund equity is a true statement. Of the nine (9) variances presented in your audit, only three (3) items are truly over expenditures: Community Development Transfer to Other Funds ($249,146), General Government Gusman & Olympia ($1,740,848) and General Government Transportation & Transit ($3,820) actually were over spent and funded by available fund equity. The additional six (6) variances, when presented under the same basis of accounting, do not result in such over expenditures. The rules of GAAP compel us to present the information under the two different basis of accounting which unfortunately can be misleading.

In order to mitigate this confusion for future CAFRs, it is the Finance Department's intent to prepare and issue the "Popular Report" in which the financial statements included do not have to conform to GAAP. This flexibility in reporting will allow us to present the above referenced reports in a more management useful style that will be a better indicator of any violations of the anti-deficiency ordinance. This report uses the same basis of accounting that the budget is adopted under therefore providing for a more accurate comparison with actual expenditures.

After normalizing the comparison using the comparable basis of accounting, we have found that the majority of the variances were due reporting requirements of GASB 34 and the basis of accounting required for presentation in the CAFR. A summary of these results are as follows:

<u>Parks & Recreation ($12,202)</u> – Variance created as a result of GASB 34 allocation issues and basis of accounting used for external financial reporting; line item not truly over budget.

<u>CD transfer to other funds ($249,146)</u> – After review of line item under comparable basis of accounting, line item is over budget. We will closely monitor line item and incorporate any changes to budget in the year end clean-up ordinance in order to avoid any further negative variances.

<u>General Government Gusman & Olympia ($1,740,848)</u> – Variance in current year was created as a result of capital grants received which were not budgeted for. The City has communicated with the Department of Off-Street Parking, who will in the future, incorporate in its budget planning any anticipated grants as well as modify the existing budgets to include any grants received during the year in order to avoid any further negative variances.

<u>Parks & Recreation ($404,179)</u> – Variance created as a result of GASB 34 allocation issues and basis of accounting used for external financial reporting; line item not truly over budget.

General Government Transportation & Transit ($3,820) – Variance in current year was created as a result of not establishing a proper budget. The City will be sure to create the proper budget in order to avoid any further negative variances.

Payment to Escrow Agent GO Bonds ($18,202,593) – Variance created as a result of GASB 34 allocation issues and basis of accounting used for external financial reporting; line item not truly over budget.

Payment to Escrow Agent SO Bonds ($28,390,000) – Variance created as a result of GASB 34 allocation issues and basis of accounting used for external financial reporting; line item not truly over budget.

Transfer to Other Funds SO Bonds ($1,583,828) – Variance created as a result of GASB 34 allocation issues and basis of accounting used for external financial reporting; line item not truly over budget.

Interest & Other Charges ($91,439) – Variance created as a result of GASB 34 allocation issues and basis of accounting used for external financial reporting; line item not truly over budget.

As to the secondary point related to the Gusman & Olympia Special Revenue Fund's deficit fund equity of $336,809, the City will cure the situation in accordance with the Financial Integrity Ordinance by funding the deficit with an appropriation from other governmental funds. In addition, other structural deficiencies in the budget were discussed with the Department of Off-Street Parking and will be addressed in the new fiscal year's budget so as to prevent a future deficiency.

Going forward, the Finance Department requests that in a joint effort with the Office of Strategic Planning, Budgeting & Performance and the Auditor General, we sponsor changing the current Financial Integrity Ordinance in order to clear up the ambiguity of the referenced sections that did not contemplate the implementation of GASB 34 and the changes to the accounting basis of reporting. By amending the Ordinance to include the effects of GASB 34, the basis for which the comparison should be made can be clearly identified therefore eliminating those variances solely created due to the method of accounting. In the meantime, please note that there is no specification in the Financial Integrity Ordinance that mandates the use of the CAFR for this analysis. The CAFR is only one type of annual financial report. Since there are no GASB 34 reporting requirements that affect internal reporting, internal GEMS reports could therefore be used in the analysis and would give a more accurate comparison of Budgeted to Actual Amounts.

STRATEGIC PLANNING, BUDGETING, AND PERFORMANCE DEPARTMENT

***<u>ESTIMATING CONFERENCE PROCESS - FINANCIAL INTEGRITY PRINCIPLE NUMBER 2</u>*.**

Chapter 18, Article IX, Section 18-542(2) of the City Code provides that, "The City shall adopt budgets and develop its long and short term financial and capital improvement plans containing estimates developed utilizing a professional estimating conference process. Conference principals shall include, but not limited to: one principal from the Budget Office, one principal from the Finance Department and two non-staff principals with public finance expertise."

Our audit disclosed that an Estimating Conference Committee (Committee), made up of the following principals, provided assistance in developing the City's short term financial plan:

- Chief of Strategic Planning, Budgeting, and Performance department.
- Director of the Finance department.
- Budget Coordinator, Strategic Planning, Budgeting, and Performance department.
- Senior Management Analyst, Strategic Planning, Budgeting, and Performance department.
- Two non-staff principals (Deputy County Administrator for Broward County and the Director of Financial Legislative Analysis for the Miami-Dade Community College).

The Committee's principals met on August 29, 2003, and examined the underlying schedules and assumptions supporting the proposed budget for the fiscal year 2004. In a memorandum to the Mayor, the Commission, and the Manager, the Committee concluded that the Fiscal Year 2004 budget appears to be sound and, in most cases, conservative. The memorandum made the following recommendations:

1. City needs to embark on an educational campaign to secure the existence of the parking surcharge revenue in the upcoming referendum. It is important that the residents understand the underlying purpose of the surcharge. As discussed by the committee, residents and commuters alike should be informed of the services (police, fire, street maintenance, etc.) provided to commuters as the City's population nearly double Monday through Friday. Further, the residents should understand how its taxes would be impacted should this revenue source be eliminated and the inequities thereto.

2. City should be vigilant of any developments that could affect the estimates of state shared and communication service tax revenues. Potential state level revenue shortfalls and changes in the telecommunication industry could have serious effects on these revenue sources.

3. City needs to focus more attention on boosting revenues and reducing expenses generated from the City's relationship with the County, particularly the bed tax income, property appraiser's administrative fees, and local government payment in lieu of taxes.

4. Storm-water utility revenue should be classified and accounted for in a special revenue fund.

5. City should embark upon a thorough review of its pension costs with its actuary. Labor management taskforce should be convened to negotiate changes that would provide stability to the program. Particularly, it would be important to develop a means of providing a consistent budget appropriation that allows the City to take full advantage of a smoothing technique that allows any proceeds in excess of actual projections to build the fund in lean times. Further, labor management teams should look at the efficacy of having what amounts to three administrative programs (police/fire, general employees and the city) for the management of the two programs. These costs are expensive and duplicative in nature.

6. City should be concerned that salaries and other personnel related cost, especially healthcare, are rising at a rate faster than the City's growth in revenue and significantly faster than inflation. Efforts should be made to address this issue during the upcoming labor contract negotiation to find the ways to reduce expenses gradually before radical changes are required.

The above issues were communicated to the Mayor and the City Commission in a written memorandum dated September 24, 2003. However, we noted that long term financial and capital improvement plans were never addressed by the Conference Principals and relative recommendations were not made.

Recommendation.

We concur with the recommendations made by the Estimating Conference Committee as discussed above. Also, we recommend that long term financial and capital improvement plans be addressed by the Conference Principals in all future meetings.

Auditee's Response and Action Plan.

The Director of the Strategic Planning, Budgeting, and Performance department stated that the long term financial and capital improvement plans were not addressed because the City commission extended the due dates for both plans.

FINANCE AND STRATEGIC PLANNING, BUDGETING AND PERFORMANCE DEPARTMENTS

***INTERFUND BORROWING - FINANCIAL INTEGRITY PRINCIPLE NUMBER 3*.**

Chapter 18, Article IX, Section 18-542(3) of the City Code, provides that, "The City shall not borrow or use internal fund transfers to obtain cash from one fund type or reserve to fund activities of another fund type or reserve unless such use is deemed lawful, and unless the estimating conference has determined that (a) the funds to be loaned will not be needed during the lending period, and (b) the funds for repayment will be available within a two-year period. Any actions taken to borrow funds under these conditions must be separately presented to and approved by the city commission and the term of such borrowing shall not extend beyond the last day of the subsequent fiscal year."

The total transfers from/to other funds as reported on the "Statement of Revenues, Expenditures and Changes in Fund Balances", was approximately $162 million for the fiscal year ended September 30, 2003. Our review of approximately $127 million or 78% of the $162 million disclosed that the operating transfers were for transactions such as transfers from Fire Rescue fees and Public Facilities revenues accounted for as Special Revenue Funds to other governmental funds for the repayment of debts and salaries/benefits; and transfers from Law Enforcement Trust Fund and Local Option Gas Tax sub-funds accounted for as Special Revenue Funds to the General and other Governmental funds for salaries/benefits, and capital project/capital improvement program funding. These operating fund transfers as noted above are typical and consistent with the activities of governmental fund types and operation of the City.

Recommendation.

None.

Auditee’s Response and Action Plan.

None.

FINANCE, POLICE, PARKS/RECREATION, MIAMI HOMELESS ASSISTANCE PROGRAM, AND FIRE RESCUE DEPARTMENTS

<u>REQUEST FOR REIMBURSEMENTS WERE NOT FILED ON A TIMELY BASIS - FINANCIAL INTEGRITY PRINCIPLE NUMBER 3</u>.

Chapter 18, Article IX, Section 18-542(3) of the City Code, provides that, "Recognizing that some programs are funded by grants or other entities on a reimbursement basis, the City shall apply for such reimbursements on a timely basis to minimize the period that City funds are used as float. In the event loans/float for these reimbursements extend beyond the end of a fiscal year, such reimbursements shall be reflected as receivables in the annual financial statements to the extent allowed under generally accepted accounting principles. The department of Finance shall make a quarterly determination of the amount of expenses incurred which may not be reimbursable under these programs. A quarterly report of expenses incurred but not reimbursable shall be presented to the City Commission, together with the actions needed to avoid project deficits."

We noted that the City disbursed approximately $43 million of various Federal and State grant monies during the audit period. A portion of these grants were funded on reimbursement basis. By filing for reimbursements on a timely basis, the period for which City funds are used as float would be minimized. Our audit disclosed that the Police and Parks/Recreation departments received the most reimbursable grant monies during the audit period. Therefore, to determine whether reimbursements were filed on a timely manner, we selected and reviewed a sample of grants from each of the aforementioned departments and also included reimbursements filed by the Fire Rescue department and the Miami Homeless Assistance Program. Our review disclosed the following:

POLICE DEPARTMENT.

- Our test of 32 monthly/quarterly reimbursement packages relative to 7 different grants, disclosed that 7 reimbursement packages were filed late. The total amount due from the 7 reimbursement packages (22%) that were filed late was $77,789.27. The number of days that reimbursement packages were filed late ranged from 2 to 81 days. A similar finding was noted in the last three prior audits of the Police department. As was the case in those prior audits, we were informed that insufficient personnel resources was responsible for the untimely filing of the reimbursement requests.

- Also, we noted that the Distressed Neighborhood grant (Project number 142024) had a negative fund equity balance of $326,857.88 and the COPS MORE 1996 (Project number 142016) had a negative fund equity balance of $26,052 as of September 30, 2003. These federal reimbursable grants were administered and managed in the Police department. According to the Police Chief, the said deficits resulted from the payments of unallowable personnel benefit costs (such as overtime, tuition reimbursement and severance pay) to employees hired under said grants. He noted that the employees whose salaries were funded through these grants received the same full benefits as other City employees. The Police Chief further stated that the employees hired under said grants fall under the auspices of American Federation of State, County and Municipal Employees (AFSCME) or the Fraternal Order of Police (FOP); and that the unallowable grant costs were budgeted in the general fund.

  However, we noted that the amount budgeted for overtime events in the general fund for the Police department was insufficient to cover the overtime totaling $237,331 incurred in the Distressed Neighborhood grant (Project number 142024) and the COPS MORE 1996 (Project number 142016). Also, the amount budgeted for in the citywide non-departmental account was insufficient to cover tuition reimbursements totaling $1,652 incurred in the Distressed Neighborhood (Project number 142024) and the COPS MORE 96 (Project number 142016). The City Commission considers and approves all fringe benefits for all city employees during the annual budget process. The annual budget is a financial operations plan, which estimates proposed expenditures and the proposed means of financing them during a fiscal year. Absent procedures requiring timely amendment of adopted budget and adherence thereto, the effectiveness of the budget as a means of controlling expenditures would be limited.

***PARKS AND RECREATION DEPARTMENT*.**

- Our test of 30 monthly/quarterly reimbursement packages relative to 8 different projects, disclosed that 4 reimbursement packages were filed late. The total amount due from the 4 reimbursement packages (13%) that were filed late was $631,831.82. The number of days that reimbursement packages were filed late ranged from 7 to 829 days.

***MIAMI HOMELESS ASSISTANCE PROGRAM*.**

- Our test of 16 monthly reimbursement packages relative to 2 different projects, disclosed that 7 reimbursement packages were filed late. The total amount due from the 7 reimbursement packages (44%) that were filed late was $85,558.94. The number of days that reimbursement packages were filed late ranged from 2 to 16 days.

FIRE RESCUE DEPARTMENT

- Our test of 3 quarterly reimbursement packages relative to two projects, disclosed that 2 reimbursement packages were filed late. The total amount due from the 2 reimbursement packages (67%) that were filed late was $11,592.09. The number of days that reimbursement packages were filed late ranged from 4 to 48 days.

***FINANCE DEPARTMENT*.**

- The Financial Integrity Principles number 3 requires the Finance department to make a quarterly determination of the amount of expenses incurred that may not be reimbursable for all applicable programs. Upon determination, the department should prepare a quarterly report of expenses incurred but not reimbursable and present to the City Commission, together with the actions needed to avoid project deficits. We were not provided with any document to evidence any quarterly presentation of un-reimbursable grant expenditures, together with the actions needed to avoid project deficits to the City Commission, as required. Upon audit inquiry, the Finance Director stated that a listing of un-reimbursable grant expenditures would be included in future monthly financial reports.

A grant that is properly administered would typically generate adequate revenues to offset all grant expenditures incurred, without any unbudgeted financial burden on the City's general fund resources. The general fund monies and/or other resources that are used to fund these grant expenditure are resources that could be available for investment or for other purposes. Therefore, when reimbursements are filed late and/or when un-reimbursable expenditures are incurred; the City forgoes investment return opportunities and uses general fund reserve to fund unauthorized (un-reimbursable) expenditures.

Recommendation.

Again, we recommend that adequate internal control policies and procedures be established and implemented to ensure that grant monies/accounts are properly reconciled and reimbursements requests filed on a timely manner. Also, all fringe benefit disbursements should be included in the annual budget and authorized by the City Commission. Furthermore, the list of un-reimbursable grant expenditures, to be presented to the City Commission should include actions necessary to avoid project deficits.

Auditee's Response and Action Plan.

See auditee's written responses on pages 43 through 49.

CITY OF MIAMI, FLORIDA

INTER-OFFICE MEMORANDUM

TO: Marie Severe
Senior Staff Auditor
Office of Auditor General

DATE: JUN 08 2004

FILE:

SUBJECT: Financial Integrity Audit #04-018

FROM: John F. Timoney
Chief of Police

REFERENCES: Overtime, Tuition Reimbursement & Severance Payment

ENCLOSURES:

We received your audit findings as stated in your May 25, 2004 memorandum. The following information is provided in response to the request for clarification pertaining to the authorization of salary benefit payments for new sworn police hires under the Distressed Neighborhood Program (DNP) and COPS MORE 1996 grants:

The purpose of these grants is to augment police hiring where we would pay from the General Fund for the employees, once they came off the grant, for one full fiscal year. The City, during its recruitment and hiring phases, made no distinction of grant funded versus non-grant funded. Employees hired under the grants, due to their classification, fall under the auspices of their respective bargaining unit contracts, i.e. American Federation of State, County and Municipal Employees (AFSCME) or Fraternal Order of Police (FOP). Each contract contains provisions for the payment of overtime, tuition reimbursement and severance pay. Not only is the City obligated to comply with the provisions of these contracts, but also applicable federal regulations require certain payment as outlined below:

1. _Overtime_
   "The Fair Labor Standard Act (FLSA) requires that all covered, non-exempt employees be paid time and one-half their regular rates of pay for all hours worked in excess of 40 in a workweek (U.S. Department of Labor, Employment Standards Administration Wage and Hour Division, Fact Sheet #8)."
2. _Tuition Reimbursement_
   "Any full-time, permanent City employee shall be eligible to participate in the Tuition Reimbursement Program (AFSME agreement, Article 30.2)," and;
   "Any full-time sworn, permanent bargaining unit member shall be eligible to participate in the Tuition Reimbursement Program. Tuition reimbursement provided under this Article shall not be subject to budgetary constraints (FOP agreement, Article 42.2)."
3. _Severance Pay_
   "Upon an employee's retirement or separation from City service, the employee will be paid for those vacation hours credited and earned through the employee's separation date (AFSCME agreement, Article 36.1)," and;
   "Upon separation of the bargaining unit member from City service the bargaining unit member shall be paid for all earned vacation at the bargaining unit members hourly rate (FOP agreement, Article 31.5)."

It is understood that the City Administration and the City Commission's ratification of these contracts and compliance with federal laws serve as authorization for payment. Thus, the Police Department budgeted these unallowable grant costs in the General Fund.

Financial Integrity Audit
#04-018
Overtime, Tuition Reimbursement
& Severance Payment

The City's payroll system is set-up to only allow the posting of benefits to the same cost center the employee's salary was charged. Therefore, to process the transfer of these non-allowable costs to the City's General Fund, the Police Department is submitting, since the inception of the grants, requests to the Department of Finance, for expenditures reclassified from the incurred grant cost center to the corresponding expenditure code under the Police Department's General Fund budget's cost center.

The Department of Justice (DOJ) Office of Community Policing (COPS) grants require a cash match; however, the City qualified for a full waiver. In the letter dated January 3, 1997, the DOJ stated, "the COPS Office agrees that the City of Miami currently is in severe fiscal distress and that a waiver of the nonfederal matching share is justified." The City, had it not qualified for waivers, would have provided two general fund contributions of $6,418,126 and $2,469,484 to the DNP and COPS MORE 1996 grants, respectively, based on the initial grant awards. The matching dollars would have provided sufficient funding to cover the non-allowable costs.

Should you have any questions do not hesitate to contact me.

JFT/LAV/HM/MCS/oz

C: Victor Igwe, C.P.A., C.I.A. - Director, Office of Auditor General

Attachments
1- U.S. Department of Justice letter, January 3, 1997
2- DNP award letter, September 21, 1998

CITY OF MIAMI, FLORIDA

INTER-OFFICE MEMORANDUM

TO: Marie Severe
Senior Staff Auditor
Office of Auditor General

DATE: APR 30 2004

FILE:

SUBJECT: Financial Integrity Audit #04-018

FROM: John F. Timoney
Chief of Police

REFERENCES:

ENCLOSURES:

RECEIVED
MAY 05 2004

The Police Department reviewed your memorandum regarding the Financial Integrity Audit, #04-018, with the findings that 7 of the 32 (22%) reimbursement packages tested in the Police Department were not timely filed, and that the Distressed Neighborhood Program (DNP) grant reflected a deficit of $500,476.73. The following information is provided:

- In July 2002, an Administrative Assistant was hired serving as the Grants Financial Administrator. This personnel resource, which the department previously lacked, enabled the department to significantly improve the timely filing of reimbursements. As documented in previous audit findings, there was a decrease in the untimely reimbursements filed, from 83% in FY'00 to 22% in FY'03. In addition, corrective measures were developed to bring about greater efficiencies.

- A $200,104 reimbursement payment received since the audit, for the quarter ending March 31, 2004, reduced the deficit. The deficit remaining was created due to City personnel benefit costs paid to employees hired under the grant that did not qualify for reimbursement from the granting agency. The department initiated action, prior to the audit, requesting a General Fund contribution of $304,219, from the Office of Strategic Planning, Budgeting & Performance, to cover non-allowable payroll expenditures (See attached memorandum dated March 5, 2004). The requested General Fund contribution, along with the reimbursement payment, will clear the grant deficit.

Should you have any questions do not hesitate to contact me.

JFT/LAV/HM/MCS/oz

C: Victor Igwe, C.P.A., C.I.A. - Director, Office of Auditor General

Attachment
1 - March 5, 2004 Memorandum

CITY OF MIAMI, FLORIDA

INTER-OFFICE MEMORANDUM

TO:	Marie B. Severe, CPA, CIA Senior Staff Auditor Auditor General's Office	DATE:	May 7, 2004 FILE:
		SUBJECT:	Audit of FY 03 Grant Reimbursement Submittal
FROM:	Javier Fernandez, Acting Director Parks and Recreation Department	REFERENCES:	Financial Integrity Principles
		ENCLOSURES:	

As requested in your memorandum dated April 22, 2004, the Parks and Recreation Department agrees with the findings of the above referenced audit.

It is important to note that the Parks and Recreation Department is responsible at any given time, for the management of numerous grants totaling millions of dollars that originate from local, State and Federal agencies. Other Departments such as Capital Improvements, Economic Development, and The Virginia Key Beach Trust handle the implementation of the major portion of improvements funded by these grants. Although, we make an effort to obtain from the Departments all expenditures posted to the project on a monthly basis, we find on occasion in their files old invoices that have not been submitted with previous reimbursements. Such was the circumstance for those outstanding invoices from the Virrick Park Project returned in the audit findings. Thus, regardless of an invoices age, the Parks Department routinely submits these in an attempt to recuperate for the City all eligible grant expenses. To minimize delays in filing reimbursement requests the Parks Department has the following procedure in place:

- E-mail reminders to project managers in all departments involved to submit paid invoices to the Parks Department on a timely basis.
- Review posting of expenditures in financial reports on a monthly basis to identify new expenditures and determine if they are eligible for grant reimbursement.

Overall, your audit tested 30 monthly/quarterly reimbursement packages from 8 different grants. Only 4 reimbursement packages or 13% of the sample were found not filed on a timely manner.

As you can see, the Parks and Recreation Department is committed to seek reimbursements of all grant eligible expenses on a timely basis to minimize the period that City funds are used as float on projects.

JF/sb

CITY OF MIAMI, FLORIDA

INTER-OFFICE MEMORANDUM

TO :	Marie B. Severe Senior Staff Auditor Auditor General's Office	DATE :	May 3, 2004	FILE :
		SUBJECT :	Financial Integrity Principles	
FROM :	Bradley Simon Director Homeless Assistance Program	REFERENCES :		
		ENCLOSURES :		

I am in receipt of your memo of April 22, 2004, and acknowledge your findings that seven of the reimbursement packages that you inspected were not filed in a timely manner. Please be aware that six of the test packages were before my tenure as Acting Director, but I am prepared to explain delays in our reimbursement process.

As you became aware, the majority of our reimbursement requests are for payroll expenses. Additionally, our payroll is outsourced to the Downtown Development Authority (DDA). As such, the payroll journals are not sent directly to MHAP, but go to the DDA. They in turn, send them to us via US mail. After the reimbursement package is completed (usually by the 10th of the month), it is then sent to the City Manager for his signature. The turnaround time for this is anywhere from five to ten days. Many times brings us past the deadline as specified in our contracts. In an effort to better facilitate this, the contract for this year's Super NOFA Supportive Services Grant will reflect that I will be designated as an authorized signatory for reimbursement purposes only. Additionally, many times we experience delays in the initial grant cycles because of contract negotiations between the City and County Attorneys. This is usually due to minor changes in wording between the two municipalities. This issue has been addressed with the county and they are attempting to streamline the process.

We are taking these measures to ensure that the Homeless Programs Reimbursements in the future are collected in a timely manner and that loans/floats are kept to a minimum.

If you require additional information, please advice.

c: Ricardo González, NET Director

RECEIVED

MAY 24 2004

CITY OF MIAMI, FLORIDA

INTER-OFFICE MEMORANDUM

TO:	Marie B. Severe, CPA, CIA Senior Staff Auditor Auditor General's Office	DATE:	May 20, 2004	FILE:	
		SUBJECT:	Response to Financial Integrity Principles		
FROM:	For Chief William W. Bryson, Director Department of Fire-Rescue	REFERENCES:			
		ENCLOSURES:			

We are in receipt of your memorandum regarding the above subject matter and have reviewed the documentation you provided.

As indicated in your audit of three (3) reimbursement packages, two (2) packages were not filed in a timely manner. Staff advised me that at the time, this was a brand new grant and manpower was a problem in completing the reimbursement package. Since then, the department has distributed these duties and hope that this will not occur in the future.

If you have any further questions, please advise.

WWB/MLK/mgr

FM.028

Severe, Marie B.

From: Simpson, James Scott
Sent: Tuesday, April 27, 2004 1:51 PM
To: Severe, Marie B.
Subject: Financial Integrity Principles - Grant Reporting - FY 2003

The Department of Finance reviews all programs funded by grants on a monthly basis to ensure timely reimbursements of funds. All reimbursements collectible within sixty days of the fiscal year end are reflected as receivables in the annual financial statements as allowed under accounting principles generally accepted in the United States of America.

The Department of Finance also monitors project deficits on a monthly basis. Deficit amounts are reviewed to ensure reimbursable amounts are filed with the grantor, and if unallowable, funded from other sources. Constant communication with departments receiving grant awards helps to ensure proper reimbursements of expenditures and minimizes amounts which are not reimbursable.

The Department of Finance has started requesting a listing of amounts that are determined to be not reimbursable from all City departments that receive grants. These amounts will be reported on a monthly basis in the Monthly Financial Report issued by the Department of Finance. The Monthly Financial Report is distributed to all members of the City Commission as well as the Manager, Mayor and Department Directors, therefore complying with Chapter 18, Article IX, Section 18-542 (3) of the City Code.

Scott Simpson, CPA, CGFO, CPFO, CGFM
Director of Finance
444 SW 2nd Avenue, 6th Floor Finance
Miami, Florida 33130
P 305.416.1377
F 305.400.5275
E ssimpson@ci.miami.fl.us

FINANCE AND STRATEGIC PLANNING, BUDGETING, AND PERFORMANCE DEPARTMENTS

CITYWIDE SURPLUS OR DEFICIT - FINANCIAL INTEGRITY PRINCIPLE NUMBER 4.

Chapter 18, Article IX, Section 18-542(4) of the City Code as amended, provides: "For purpose of this section, City-wide surplus for any fiscal year is defined as the increase in unreserved general fund balance as reflected in the City's annual financial statements. City-wide deficit for any fiscal year is defined as the decrease in unreserved general fund balance as reflected in the City's annual financial statement. Budget surplus of any office, department or elected official is defined as the excess of budgeted expenses over actual expenses in any fiscal year."

"Notwithstanding anything to the contrary in this section, the total amount of budget surplus to be added to designated reserves and special revenue funds pursuant to this section (together, the "rollover amounts") is limited to Citywide surplus for any fiscal year. In the event the rollover amounts would result in a Citywide deficit, then each budget surplus within the rollover amounts shall be reduced proportionately so the City's annual financial statements will reflect no change in undesignated, unreserved general fund balance. In the event that a citywide deficit would result before effecting the rollover amounts in any fiscal year, then no rollover amounts shall be available."

Our review of the Comprehensive Annual Financial Report (CAFR) disclosed that unreserved fund balances in the general and special revenue funds were not designated nor disclosed in the notes to the CAFR. Upon audit inquiry, the Finance Director provided us with a manually prepared worksheet, which indicated the following itemized fund balance designations:

Description		Amount
Designated Reserve		
Long term Reserves	$	93,890,312
Management Initiatives		3,836,154
Strategic Initiatives		2,300,000
Total	$	100,026,466
Undesignated Reserve		36,878,676
Total Reserves	$	136,905,142
Others		
Encumbrances		4,358,882
Prepaids		598,312
Total		4,957,194
Grand Total	$	141,862,336

The designated reserve for the fiscal year 2002 totaled $104,111,676 as compared to the $100,026,466 for fiscal year 2003. There was a decrease of $4,085,210 in designated reserve. Therefore, no portion of the citywide budget surplus (approximately $22 million) was added to the designated reserved for the fiscal year 2003.

Chapter 18, Article IX, Section 18-542(4) of the City Code as amended, provides:

a. "Budget surpluses in an elected official's budget in any fiscal year shall be reflected as designated reserves at the end of the fiscal year in which such surplus arose and added to the budget of such elected official for the following fiscal year."

   Our audit disclosed that the total budget surplus that was rolled-over to the departmental accounts exceeded the actual amount that should have been rolled-over by $32,607. The Chief of Strategic Planning, Budgeting and Performance (CSPBP) stated that a future budget amendment will be processed to address the variance caused by post closing entries.

b. "Budget surpluses of the parks and recreation department shall be allocated, as of the end of the fiscal year in which such surplus arose, to a parks special revenue fund. Allowed expenditures from the parks special revenue fund shall be limited to the purchase of parks recreational and maintenance equipment and the direct operations of recreational programs in and for the City's parks, subject to appropriation by the City commission."

Our audit disclosed that budget surplus totaling $12,492 was correctly rolled-over to a Special Revenue fund, as required. We noted that the amount rolled-over was not disbursed during the audit period.

c. "Budgeted surpluses of the Department of Conferences, Conventions and Public Facilities shall be allocated, as of the end of the fiscal year in which such surplus arose, to a Public Facilities Special Revenue Fund. Allowed expenditures of the Public Facilities Special Revenue Fund shall be limited to capital improvements for the City's public facilities, subject to appropriation by the City commission."

   Our audit disclosed that the total budget surplus that was rolled-over to the Special Revenue fund was less than the actual amount that should have been rolled-over by $1,303. The CSPBP stated that a future budget amendment will be processed to address the variance caused by the post closing entries. We noted that the amount rolled-over was not disbursed during the audit period.

d. "Budgeted surpluses of the Department of Information Technology shall be allocated, as of the end of the fiscal year in which such surplus arose, to an IT Strategic Plan special revenue fund. Allowed expenditures of the IT strategic plan Special Revenue Fund shall be limited to expenditures, excluding those related to permanent City staff, necessary for the implementation of the City's Information Technology Strategic Plan, subject to appropriation by the city commission."

Our audit disclosed that the total budget surplus that was rolled-over to the Special Revenue fund was less than the actual amount that should have been rolled-over by $38,286. The CSPBP stated that a future budget amendment will be processed to address the variance caused by the post closing entries. We noted that the amount rolled-over was not disbursed during the audit period.

Recommendation.

We recommend that appropriate budget amendments be processed in a timely manner to address the above variances.

Auditee's Response and Action Plan.

The auditee concurs with this finding and recommendation. See written response on page 54.

Pannu, Gurinderjit

From: Spring, Larry
Sent: Tuesday, June 29, 2004 9:36 AM
To: Pannu, Gurinderjit
Subject: RE: Principle #4 - Budget Surplus Roll-Over (Revised)

I response to the rollover differences noted in your fieldwork please see explanation below:

Public Facilities ($1,303) – Following the approval of our last budget amendment including rollovers, a post closing adjustment was processed by finance. A future budget amendment will be presented to Commission for approval before the financial close of the fiscal year.

IT ($38,286) – similar to the explanation above post closing adjustment processed effected the amount of rollover available. A future budget amendment will be presented to Commission for approval before the financial close of the fiscal year.

Commission $32,607 – This difference is comprised of two components, first ($2,393) variance caused by post closing adjusting entries similar to the differences described above. The second was the re-appropriation of Commission rollover from previous fiscal year in the amount of $35,000. This rollover had to be re-appropriated as the purchase order encumbering these funds was incorrectly deleted during year end closing. A future budget amendment will be processed to address the variance caused by the post closing entries.

Larry M. Spring, Jr.
CSPBP

FINANCE DEPARTMENT AND STRATEGIC PLANNING, BUDGETING, AND PERFORMANCE DEPARTMENTS

***RESERVE POLICIES - FINANCIAL INTEGRITY PRINCIPLE NUMBER 5*.**

The following three reserve policies categories are established for the general operating fund of the city:

CURRENT FISCAL YEAR CONTINGENCY **–** (a) Chapter 18, Article IX, Section 18-542(5)(a) of the City Code as amended provides that, “A ‘contingency’ reserve level of $5,000,000 shall be budgeted annually. Such contingency reserve shall be available for use, with City Commission approval, during the fiscal year, to fund unanticipated budget issues, which arise or potential expenditures overruns, which cannot be offset through other sources or actions. The unused portion of the budgeted contingency reserve in any fiscal year shall be reflected as designated reserves until such time as the City has funded 50 percent of the liabilities in its general long-term debt account group. Amounts not needed to satisfy the 50 percent requirement shall be considered general fund undesignated reserve and be treated in accordance with paragraph 5(b) of this section.”

Our review of the City’s fiscal year 2003 budget for non-departmental accounts (authorized by Ordinance number 12279), disclosed that $5 million was budgeted for contingency reserve as required. Pursuant to Ordinance number 12325, which was passed/adopted by the Commission on February 27, 2003, $1,781,559 of the $5 million was appropriated for several municipal operations relating to pension costs. Ordinance number 12382, which was passed/adopted by the Commission on June 24, 2003, appropriated additional $1,087,431 for several municipal operations relating to activities in the City Attorney’s Office, Building, Fire Rescue, and Police departments.

GENERAL FUND UNDESIGNATED RESERVE **–** (b) Chapter 18, Article IX, Section 18-542(5)(b) of the City Code as amended provides that, “The City shall retain undesignated reserves equal to a threshold ten percent of the prior three years average of general revenues. Such reserves may only be used for offsetting an unexpected mid-year revenue shortfall or for funding an emergency such as a natural or man-made disaster, which threatens the health, safety and welfare of the City's residents, businesses or visitors. Any time these reserve funds fall below the ten percent threshold, the City Commission shall adopt a plan to achieve the threshold within two fiscal years. Amounts in excess of the ten percent threshold may be used for capital improvements, unanticipated expenditures necessary to assure compliance with legal commitments, and for expenditures that will result in the reduction of recurring costs or the increase in recurring revenues of the City."

The City implemented Governmental Accounting Standard Board (GASB) Statement number 34 during the fiscal year ended September 30, 2002. The new model of financial reporting resulted in two basic financial statements, namely government-wide statement of net assets (full accrual economic resource basis of accounting) and the governmental major fund financial statements (modified accrual basis of accounting). The basis of accounting determines when revenues, expenditures and related assets and liabilities would be recognized. During the fiscal years ended September 30, 2000, and September 30, 2001, the basis of accounting for all Governmental Funds was the modified accrual basis. As noted above, the new model of financial reporting (modified accrual basis of accounting) was used to account for financial transactions in the governmental major fund financial statements during the fiscal years ended September 30, 2002, and September 2003.

The undesignated reserve balance of $36,878,676 for fiscal year 2003 (as indicated on page 52) exceeded the ten percent of the prior three years (fiscal years 2000 through 2002) average of general revenues in the general fund (modified accrual basis of accounting), which totaled $30,657,274.

<u>DESIGNATED RESERVE</u> **–** (c) Chapter 18, Article IX, Section 18-542(5)(c) of the City Code as amended, provides that, "The City shall retain reserves equal to ten percent of the prior three years average of general revenues. Such reserves shall be used for funding long-term liabilities and commitments of the City such as:

1. Compensated absences and other employee benefit liabilities, including liabilities related to post-retirement benefits;

2. Self-Insurance Plan deficits (including workers compensation, liability claims and health insurance);

3. Infrastructure to be funded on a cash basis;
4. Strategic Initiatives (until completed);
5. Blue Ribbon Commission Initiatives (until completed);
6. Anticipated adjustments in pension plan payment resulting from market losses in plan assets and other unanticipated payments necessary to maintain compliance with contractual obligations.

Payment for compensated absences and other employee benefit liabilities and self-insurance plan deficits may be drawn from this reserve during the fiscal year and shall be replenished each year until fifty percent (50%) of such liabilities are funded. Other designated reserves may be drawn upon without the need for replenishment."

The ten percent of the prior three years (fiscal years 2000 through 2002) average of general revenues in the general fund totaled $30,657,274 and the total designated fund balance in the general fund for fiscal year 2003 was $100,026,466.

In response to our audit inquiry pertaining to the lack of reporting and/or disclosure of the designated unreserved fund balance in the appropriate exhibit or notes to the City's audited Comprehensive Annual Financial Report (CAFR), the Finance Director in a written memorandum (see page 71) stated that he chose not to report/disclose said designated balances because GASB Statement number 34 makes it optional and also because it would not provide any value to the external users. We agree that GASB 34 makes it optional and it is not mandatory to make such disclosure in CAFR pursuant to this financial integrity principle. However, we believe that the reporting and/or disclosure of unreserved fund balance in the City's audited CAFR would provide users with additional vital information pertaining to the management's intended use (actual plans approved by senior management) of current available resources. The said designations reflect government's self-imposed limitations on the use of otherwise available current resources. The Finance Director provided us with a manually prepared worksheet, which itemized fund balance designations, upon audit inquiry. The said information is readily available and we recommend its inclusion in the appropriate exhibit or disclosed in the notes to the audited CAFR.

Recommendation.

We recommend that fund balances (reserves) be designated in the appropriate exhibit or disclosed in the notes to the CAFR in the future.

Auditee's Response and Action Plan.

The Director concurs with this recommendation. See the written response on page 71.

FINANCE DEPARTMENT

PROPRIETARY FUNDS - NUMBER 6.

Chapter 18, Article IX, Section 18-542(6) of the City Code provides that: "The City shall establish proprietary funds only if the costs to provide the service are fully funded from the charges for the service." In accordance with the National Council of Governmental Accounting Standard (NCGAS) number 1, which established the various types of Funds, an enterprise fund should be used to account for any services provided to the public that was fully funded from the fees derived from said services. The only services provided to residents that could be accounted for using proprietary fund is solid waste services. However, the fees charged for said service are lower than the cost of providing such services.

Recommendation.

None.

Auditee's Response and Action Plan.

None.

STRATEGIC PLANNING, BUDGETING, AND PERFORMANCE DEPARTMENT

<u>MULTI-YEAR FINANCIAL PLAN - FINANCIAL INTEGRITY PRINCIPLE NUMBER 7</u>.

Chapter 18, Article IX, Section 18-542(7) of the City Code as amended by Ordinance number 12518 provides that: "The City Commission shall annually adopt a Financial Plan by September 30 of each year, reflecting as the base, the current year's budget. Pursuant to Ordinance number 12518 (passed/adopted on March 25, 2004) the fiscal year 2004 multi-year financial plan will be adopted no later than 30 days after the completion of labor negotiation. Such plan will include cost estimates of all current City operations and pension obligations, anticipated increases in operations, debt service payments, reserves to maintain the City's officially adopted levels and estimated recurring and non-recurring revenues. This plan will be prepared by fund and reflect forecasted surpluses or deficits and potential budget balancing initiative, where appropriate."

The City Commission passed Ordinance number 12420, which adopted an annual budget (Financial Plan) for the fiscal year ending September 30, 2004, during its meeting of September 25, 2003. As noted on the first paragraph, the multi-year financial plan for the fiscal year 2004 is not required to be finalized and adopted until 30 days after the completion of labor negotiation. As of the date of this report, we were informed that said multi-year financial plan is in progress and would be finalized and adopted no later than 30 days after the conclusion of the union and management labor agreement.

Recommendation.

We recommend that a multiple-year financial plan for all funds, be finalized and adopted as planned.

Auditee's Response and Action Plan.

The auditee concurred with the audit finding and recommendation.

STRATEGIC PLANNING, BUDGETING/PERFORMANCE AND CAPITAL IMPROVEMENT PROGRAM DEPARTMENTS

MULTI-YEAR CAPITAL IMPROVEMENT PLAN - FINANCIAL INTEGRITY PRINCIPLE NUMBER 8.

Chapter 18, Article IX, Section 18-542(8) of the City Code provides that, "The City Commission shall annually adopt a capital improvement plan ("CIP") by November 30 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 ongoing 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."

Our audit disclosed that a capital improvement plan (CIP) for the fiscal year 2003/2004 along with a multi-plan (fiscal years 2004/2005 through 2008/2009) was approved/adopted (Resolution 03-1200) by the City Commission on November 25, 2003. The major sections of the CIP are as follows:

- Section 1 of the CIP Report describes the CIP process including but not limited to purpose of the plan, legal authority, capital budget process, capital improvement priorities, capital improvement programming process, and sections of the plan.

- Section 2(c) of the CIP Report disclosed all the strategic program areas and the corresponding City departments responsible for said program areas. The said programs/departments are Public Safety (Fire Rescue and Police) with a total project value of $69 million; Recreation and Culture (Parks/Recreation and Conferences, Conventions and Public Facilities) with a total project value of $144 million; Infrastructure and Environment (Transportation and Solid Waste) with a total value of $263 million; Community and Economic Development (Planning and Economic Development) with a total value of $195 million; and General Government/Services (Information Technology and General Services Administration) with a total value of $94 million. Each of the strategic program areas includes a brief summary of the program strategy, completed projects during fiscal year 2002/2003, highlights of fiscal year 2003/2004 capital program and multi-year plan, and a summary of fully funded, partially funded and unfunded projects.
- Section 3 of CIP Report described all aspects of the $255 Homeland and Defense Neighborhood Improvement Bond Program, including but not limited to program allocations (area projects, total bond authorization, total authorization from first series, and balance for future issue), project status (planning, design, bidding, land acquisition, and construction), summary sheet of appropriations/expenditures by project, park projects/neighborhood park improvement project timeline, and quality of life projects.
- Section 4 of the CIP Report provided funding sources, which includes federal grants, state grants, Miami-Dade county grants, other grants, City bond moneys, CIP fees/revenues, and others.
- Section 5 of the CIP Report provided capital improvement projects in all the five districts in the City.

Recommendation.

None

Auditee's Response and Action Plan

None

FINANCE DEPARTMENT

DEBT MANAGEMENT – FINANCIAL INTEGRITY PRINCIPLE 9.

DEBT MANAGEMENT - Chapter 18, Article IX, Section 18-542(9) of the City Code provides that, the City shall manage its debt in a manner consistent with the following principles:

- (a) Capital projects financed through the issuance of bonded debt shall be financed for a period not to exceed the estimated useful life of the project.

    - The City did not issue any new bonded debt that financed new capital projects during the audit period. However, the City refunded the following two bonded debts: (1) General Obligation Refunding Bond, Series 2003, which refunded on current basis a portion of the City outstanding $31 million General Obligation Bonds, Series 1993; and (2) Special Obligation Non-Ad Valorem Revenue Refunding Bonds Series 2002C, which retired the 1994 Sunshine State Governmental Financing Commission Tax-Exempt Commercial Paper Revenue Notes.

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

    - Based on the information/data provided in the Comprehensive Annual Financial Report for fiscal year 2003, the net taxable property is assessed at $19,427,608,574 and the general obligation debt was $236,549,956. Therefore, the GOB is 1.22% ($236,549,956/$19,427,608,574 x 100) of the taxable assessed valuation of property in the City, which is less than 5%. The total net direct and overlapping GOB is $479,046,553

($236,549,956 + 242,496,597). The net direct and overlapping GOB is 2.47% ($479,046,553/$19,427,608,574 x 100) of the taxable assessed valuation of property in the City, which is less than 10%. Therefore, the City is in compliance.

- (c) The weighted average general obligation bond maturity shall be maintained at 15 years or less.
  - The weighted average GOB maturity is 11.16 years ($2,640,945,466/ 236,549,955), which is less than 15 years. The City is in compliance.

- (d) The special obligation debt service shall not exceed 20 percent of non-ad valorem general fund revenue.
  - The special obligation debt service is 8.7% ($21,807,281/250,581,519 x 100), which is less than 20% of non-ad valorem general fund revenue. The City is in compliance.

- (e) Revenue based debt shall only be issued if the revenue so pledged will fully fund the debt service after operational costs plus a margin based on the volatility of the revenues pledged.
  - According to the City's Treasurer, revenue based debt was not issued during the audit period.

Recommendation.

None

Auditee's Response and Action Plan.

None.

FINANCE DEPARTMENT

***FINANCIAL OVERSIGHT AND REPORTING - FINANCIAL INTEGRITY PRINCIPLE NUMBER 10*.**

Chapter 18, Article IX, Section 18-542(10) of the City Code as amended, states 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." The following reports shall be prepared:

- (a) The annual external audit of the City shall be prepared and presented to the Mayor and City Commission within 120 days of the close of each fiscal year. The City Commission shall convene a workshop meeting with the external auditors to review the findings and recommendations of the audit.
  - Pursuant to past practice, the Comprehensive Annual Financial Report for the fiscal year ended September 30, 2003, dated February 27, 2004, and the related Management Letter also dated February 27, 2004, were both presented and made part of the record of a workshop conducted as part of the City Commission meeting of May 6, 2004, by the City's external auditor (KPMG LLP). The audit observations/recommendations pertinent to the Single Audit, pursuant to the requirements of Office of Management and Budget (OMB) Circular A-133, was not presented and discussed at this workshop, as has been the case in prior year's workshop. In response to audit inquiry, the Finance Director stated (see page 71) that there is no requirement in the Ordinance to present Single Audit report to the

Commission in a workshop and/or complete the said report by any specific date.

However, during the audit period, the City disbursed approximately $43 million of various Federal and State grant monies. A single audit report, as mandated by the U.S. Office of Management and Budget (OMB) Circular A-133 opines on whether any noncompliance had a direct and material effect on a major federal program. For example, any quantifiable noncompliance (questioned cost) could be disallowed and would have to be funded with general fund monies. Also, the Agreement between the City and its external auditor mandates completion of the Single Audit report by the March 30, 2004. Therefore, we strongly believe that the audit findings and recommendations relative to the single audit, if completed subsequent to the City's workshop relative to the Comprehensive Annual Financial Report and Management Letter, be presented to the City Commission in a subsequent workshop or City Commission meeting.

- (b) The City shall prepare an annual report to provide information to bondholders and the secondary marketplace.

    - During the audit period, the Finance department prepared a Comprehensive Annual Financial Report (CAFR), which included two major Sections, namely, Financial and Statistical Sections. The Financial Section included Basic Financial Statements, Notes to the Financial Statements, Required Supplementary Information (unaudited), and Combining and Individual Fund Statements and Schedules. The Statistical Section (unaudited) of the CAFR included various statistical analysis and ratios, such as Property Tax Levies and Collections, Assessed Value of All Taxable Property, Schedule of Legal Debt Margin, Current Debt Ratios, Schedule of Direct and Overlapping General Obligation Debt, Demographic and General Statistical Data. The information/data included in the Financial and Statistical Sections of the CAFR provides adequate information to bondholders and secondary marketplace.

- (c) Financial reports, offering statements and other financial related documents issued to the public, shall provide full and complete disclosure of all material financial matters.
  - Our test disclosed that 10 of the 12 monthly financial reports were issued late. The number of days reports were issued late ranged from 2 to 43 days. See the timeliness schedule below:

City of Miami Financial Oversight and Reporting Fiscal Year 2003				
Reporting Month	**Closing Date**	**Report Due Date**	**Report Mailed**	**Comments**
10/31/02	11/21/02	12/21/02	01/13/03	**23 Days Late**
11/30/02	12/20/02	01/19/03	02/12/03	**24 Days Late**
12/31/02	01/17/03	02/16/03	02/19/03	**3 Days Late**
01/31/03	02/14/03	03/16/03	03/26/03	**10 Days Late**
02/28/03	03/14/03	04/13/03	04/22/03	**9 Days Late**
03/31/03	04/18/03	05/18/03	06/30/03	**43 Days Late**
04/30/03	05/16/03	06/15/03	07/11/03	**26 Days Late**
05/31/03	06/20/03	07/20/03	07/22/03	**2 Days Late**
06/30/03	07/18/03	08/17/03	08/07/03	**(10) Days Early**
07/31/03	08/15/03	09/14/03	10/14/03	**30 Days Late**
08/31/03	09/19/03	10/19/03	11/30/03	**42 Days Late**
CAFR/Mgt. Letter FY 2003	11/21/03	03/20/04	02/27/04	**(22) Days Early**
Single Audit Report FY 2003	11/21/03	*3/20/2004	06/23/04	
- Per contract between the City and external Auditor				

Timeliness of financial reporting would ensure that relevant revenue trends, budget/actual comparisons of revenues and expenditures, and cash-flow analysis data would be promptly communicated to the Commission for legislative action, if necessary. The prompt communication of such information and/or data would enhance/facilitate the decision making process.

Recommendation.

We recommend that the Finance department continue to enhance its procedures to ensure the timeliness of monthly financial and other reports. Also, we recommend that the audit findings and recommendations relative to the single audit be presented at a workshop and made part of the public record.

Auditee's Response and Action Plan.

The auditee concurred with the findings and recommendations. See written response on page 71.

CITY OF MIAMI, FLORIDA
INTER-OFFICE MEMORANDUM

TO: Victor Igwe, Auditor General

DATE: June 10, 2004

FILE:

SUBJECT: Financial Integrity Principle
Audit #04-018

FROM: Scott Simpson, Finance Director

REFERENCES:
ENCLOSURES:

Finance Department Response and Action Plan:

The Finance Department notes that the Financial Integrity Principles 4 and 5c mandates designation of unreserved fund balances, however, it does not mandate that the designation be presented in the external financial report, i.e., the Comprehensive Annual Financial Report (CAFR). Governmental Accounting Standards Board Statement No. 34 (GASB 34) makes said footnote disclosure optional; in consideration of your recommendation, the Finance Department will include said disclosure in future CAFRs. We have, however, provided to your staff, subsidiary schedules that reconcile fund balances by type of designation that in total, agrees to the fund balances reported on the CAFR at the fund level. Should you require an additional copy of the subsidiary schedule, I will be happy to provide it to you.

Additionally, the Finance Department will be very willing to work with the Office of the Auditor General in co-sponsoring changes to the current Financial Integrity Principles in order to modify the requirements of the principles referenced above so as to clear up the ambiguity of the Ordinance that did not contemplate the reporting requirements of GASB 34.

In reference to the presentation of the Single Audit at the workshop conducted as part of the City Commission meeting of May 6, 2004, by the City's external auditor (KPMG LLP), there is no requirement in the Ordinance that the Single Audit specifically be included in that workshop. Additionally, there is no requirement in the Ordinance that the Single Audit be completed by any specific date. Federal guidelines require that the City's Single Audit be completed by June 30th of the subsequent year. The City of Miami will meet that deadline.

The Finance Department recognizes the importance of presenting the Single Audit Report to the City Commission and will therefore strive to have the report completed and presented during the financial statement presentation workshop. In the event that the Single Audit Report is not completed by the workshop date, the Finance Department proposes a subsequent workshop to discuss its findings.

FINANCE, STRATEGIC PLANNING, BUDGETING, AND PERFORMANCE, AND PURCHASING DEPARTMENTS

***BASIC FINANCIAL POLICIES - FINANCIAL INTEGRITY PRINCIPLE NUMBER 11*.**

Chapter 18, Article IX, Section 18-542(11) of the City Code, provides that, "The City shall endeavor to maintain formal policies, which reflect "best practices" in the areas of:

- (a) **Debt –** Such policy shall address affordability, capacity, strategies for re-entering the bond market in the future, debt issuance and management.

    - Our audit disclosed that the "Debt Management Policy", which describes the purpose, policy statement, the finance committee, general debt governing polices, specific debt policies, ratios and measurement, has been implemented. The "Debt Management procedures manual" covered issue such as capital budget review, establishment of schedule for the issuance of debt obligation, method of sale, financing team, selection of bond counsel and disclosure counsel, selection of financial advisor, selection of bond underwriters, review of financing team and other processes and procedures. If the "Debt Management Policy and Procedures Manual" as articulated are properly implemented, issues relating to affordability, capacity to issue and manage debt would be enhanced. The City has already re-entered the bond market.

- (b**) Cash Management and Investments –** Such policy shall require twenty-four (24) months gross and net cash-flow projections by fund and address adequacy, risk, liquidity and asset allocation issues.

    - Our audit disclosed that an "Investment Policy" has been implemented. The issues covered includes but not limited to investment objectives, delegation of authority, standards of prudence, ethics and conflict of interests, internal controls and investment procedures, competitive selection of investment instrument, derivatives and reverse repurchase agreements, performance measurements, and reporting. The Treasury Division of the Finance department is responsible for managing cash and investment transactions for all the funds held by or for the benefit of the City. We obtained and reviewed the monthly cash flow statements for the fiscal years 2003, 2004, and 2005. The statements reviewed included beginning balances, projected revenues, projected expenditures, and ending balances. All the projected ending balances had positive balances.

- (c) **Budget Development and Adjustments –** Such policy shall establish proper budgetary preparation procedures and guidelines, calendar of events, planning models by fund, budget adjustment procedures, establishment of rates and fees, indirect costs/interest income and the estimating conference process. The proposed budget should be scheduled to allow sufficient review by the Mayor and City Commission while allowing for sufficient citizen input. The city budget document reflecting all final actions as adopted by the city commission on or before September 30 of each year, shall be printed and made available within 30 days of such adoption.

    - We noted that every department was provided with a "Budget Preparation Toolkit", which included detailed budgetary preparation procedures, guidelines, and calendar of events for the City's annual budget. The Anti-Deficiency Ordinance sets forth a policy that would ensure that expenditures do not exceed budgeted amounts and that budget adjustments be documented on a "Transfer of Funds" form. The City Commission in accordance with applicable State Statutes determines the millage rates and also set the fire/solid-waste fees. The estimates for interest income are provided to the Strategic Planning, Budgeting and Performance department by the Finance department in accordance with the Finance department's investment policy. We noted that the Estimating Conference principals provided input and assistance in connection with the 2003/2004 fiscal year budget process. The annual budget for the audit period was adopted on September 25, 2003.

- (d) **Revenue Collection –** Such policy shall provide for maximum collection and enforcement of existing revenues, monitoring procedures, and the adequacy level of subsidy for user fees.

  - We noted that "Collection Accounts Policies and Procedures" and "Billings and Collections Manual" have been implemented. The policies/procedures and manual described the procedures to be followed during revenue collection. Additionally, it described the process of monitoring accounts receivable and determining which accounts would be placed with the collection agencies. The City signed contracts with Penn Credit and Financial Recovery, Inc., debt collection agencies during the audit period. All Payments received from the debt collection agencies are processed and monitored through two separate lockboxes set up for this purpose. The agencies are paid 15% of the amount collected.

- (e) **Purchasing Policy –** Such policy shall establish departmental policies and procedures and provide appropriate checks and balances to ensure the City departments adhere to the City's purchasing policies.

  - The City Charter Sections 28 through 30 and Chapter 18, Article III, Sections 71 through 146 of the City Code governs the acquisition of goods/services utilized in the operation of the City. Additionally, we noted that the Purchasing department has implemented a *Procurement Procedure Manual*, which describes procurement functions, the bidding process, the buying process, and the preparation of applicable forms. The applicable Sections of the City Charter/Code and the *Procurement*

Procedure Manual as noted above provide detailed policies and procedures. The policies and procedures if properly implemented would provide appropriate checks and balances as it relates to the acquisition of good/services.

Recommendation.

None

Auditee's Response and Action Plan.

None

PURCHASING AND EMPLOYEE RELATIONS DEPARTMENTS

***EVALUATION COMMITTEES - FINANCIAL INTEGRITY PRINCIPLE NUMBER 12*.**

Chapter 18, Article IX, Section 18-542(12) of the City Code, provides that, “Such Committees shall be created to the extent feasible, and contain a majority of citizen and/or business appointees from outside City employment to review City solicitations (bids, ‘requests for proposals’, etc.), contracts or contract amendments over $10,000 and all collective bargaining contract issues. The recommendations of the Evaluation Committee shall be provided to the Mayor and City Commission on all such contracts prior to presentation for official action.”

Our review disclosed that Miami-Dade County Code, Section 2-11.1, titled “*Conflict of interest and Code of Ethics Ordinance”*, a.k.a “Cone of Silence” prohibits any verbal communication regarding bids, requests for proposals (RFP), request for qualifications (RFQ), or request for letter of interest (RFLI) with an outside body. We noted that the City issued approximately 128 bids and 18 RFP/RFQ/RFLI transactions during the audit period. Our test of the 18 RFP/RFQ/RFLI transactions disclosed that citizens and/or business appointees from outside City employment did not participate in the evaluation process for 1 (or 6%) of the 18 transactions tested. Additionally, we noted that evaluation committees are not being used for bids. According to the Director of the Purchasing department, an evaluation committee is not feasible for bids because the award process is based on the lowest responsive bidder and the City is unable to formulate the specifications, scope of work, and/or services needed. Given the constraints imposed by the “Cone of Silence”, the intent of this principle would be met, if recommendations obtained from the evaluation committees and the industry are considered in all material bid, RFP, RFLI. and/or RFQ solicitations.

The constraints imposed by Chapter 447 of the Florida Statutes limits the use of citizens and/or business appointees from outside City employment during labor union Agreement negotiation between management and the union. However, there was no such negotiation during the audit period.

Recommendation.

We recommend that citizens and/or business appointees from outside City employment be invited to participate, to the extent allowed by the Cone of Silence provisions, in the evaluation process of all material bid, RFP, RFLS, and/or RFQ solicitations.

Auditee's Response and Action Plan.

In connection with the evaluation of one Request for Qualification (RFQ) that did not include any citizens and/or business appointees from outside City employment, the Director of the Purchasing department stated: "On RFQ #02-140, State Lobbying Services, the evaluation committee did consist of only City employees. However, pursuant to the Financial Integrity Principles Ordinance, such committees shall be created to the 'extent feasible'. In this case, the state lobbying services are specialized professional services unique to the City. Thus, the City had a difficult time identifying individuals outside the organization that had the time, commitment, and understanding of the City of Miami, local (County level), regional, and state issues which would serve them well when evaluating the RFQ for state lobbying services. For the reasons stated, it was not feasible on having outside individuals to sit on the evaluation committee."

STRATEGIC PLANNING, BUDGETING AND PERFORMANCE DEPARTMENT

***FULL COST OF SERVICE - FINANCIAL INTEGRITY PRINCIPLE NUMBER 13*.**

Chapter 18, Article IX, Section 18-542(13) of the City Code, provides that, "The City shall define its core services and develop financial systems that will determine on an annual basis the full cost of delivering those services. This information shall be presented as part of the annual budget and financial plan."

The core services provided by the City include public safety (police and fire-rescue services), parks/recreation, solid waste, public works, and planning/zoning. A financial/budget system, which accumulates the full cost of delivering these core services, on an annual basis, has been implemented. The annual budget document prepared by the Strategic Planning, Budgeting and Performance department shows the full (direct and indirect) costs of providing said core services. The City engaged a consultant (DMG Maximus) who developed an indirect cost allocation plan. The resulting indirect costs as calculated by the consultant allocate indirect costs to core service costs.

Recommendation.

Not applicable.

Auditee's Response and Action Plan.

Not applicable.

INFORMATION TECHNOLOGY DEPARTMENT

<u>PROMOTING OPERATING EFFICIENCIES - FINANCIAL INTEGRITY PRINCIPLE NUMBER 14</u>.

Chapter 18, Article IX, Section 18-542(14) of the City Code, provides that, "The City shall develop programs and incentives to encourage operating efficiencies through the use of technology, outsourcing, or any other curriculum."

In a written response to our audit inquiry, the Chief Information Officer (CIO) of the Information Technology (IT) department stated that his department has implemented projects conducive to operating efficiencies as approved by the information Technology Steering Committee. Upon audit inquiry, the CIO provided us with a list of 15 Strategic Initiatives (projects) as defined in the City's IT strategic plan and prioritized by the IT Steering Committee. The projects include but not limited to: replacement of Police and Fire emergency dispatch and reporting systems; acquisition and implementation of an integrated Enterprise Resources Planning system (finance, budget, purchasing, personnel and payroll); replacement of the building permitting/inspection systems; web based permitting and procurement systems; migration to a higher bandwidth technology that will provide much faster communications; disaster recovery services; and communication infrastructure improvement. The listing provided indicated the status of the 15 Strategic Initiatives and other projects.

There are costs and benefits associated with every operation or activity that is outsourced. The various departments outsource functions when the total benefits out-weigh the total costs and also when the department does not have the in-house resources required to perform such services. For example, the Public Works department utilizes the services of private engineering firms to perform certain road repair/maintenance projects. The Neighborhood Enhancement Team (NET) outsourced the clearing of vacant lots to private companies. The Solid Waste department outsourced the collection of commercial waste to private firms.

Recommendation.

Not applicable.

Auditee’s Response and Action Plan.

Not applicable.

FINANCE DEPARTMENT

***REVIEW OF THE ANNUAL AUDIT AND MANAGEMENT LETTER FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003*.**

Chapter 18, Article IX, Section 18-541 of the City Code, provides that, "The City's Internal Auditor shall be responsible for preparation of a written report to be transmitted to the Mayor and the members of the City Commission as to compliance with the principles and policies set forth in this Division. The report shall include recommendations for additional policies or actions, to be considered for action after reviewing the latest annual audit and management letter comments."

COMPREHENSIVE ANNUAL FINANCIAL REPORT **–** KPMG LLP partnering with Sanson, Kline, Jacomino and Company, Sharpton, Brunson and Company, P.A., Watson and Company, P.A., and Briele and Echeverria, P.A. audited the City's Comprehensive Annual Financial Report (CAFR) for the period ended September 30, 2003 and issued an unqualified opinion on the City's CAFR in an audit report dated February 27, 2004. An "unqualified opinion" implies that the City's CAFR presented fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining funds of the City as of September 30, 2003, and the respective changes in financial position.

MANAGEMENT LETTER - The Rules of the State of Florida's Office of Auditor General (OAG), Section 10.554(1)(g)1.a, require an external auditor to issue a Management Letter, which states whether or not inaccuracies, shortages, defalcations, fraud and/or violations of laws, rules, regulations, and contractual provisions reported in the Management Letter issued in connection with its preceding annual financial audit report have been corrected. KPMG had no such issues in the preceding year audit to report on. Additionally, pursuant to Rules of the State of Florida's OAG, Section

10.554(1)(g)6.a) and Section 218.503(1), Florida Statutes, KPMG determined that the City was not in a state of financial emergency.

However, the management letter noted other matters pertaining to internal controls over financial reporting that was reported in a Management Letter issued to the City on February 27, 2004. The Rules of the OAG (Section 10.554(1)(g) 3.) requires that a Management Letter shall include recommendations to improve the local government entity's present financial management, accounting procedures and internal accounting controls. Appendix A of the Management Letter disclosed three observations, recommendations, and management's responses for the current year's audit. The three observations are as follows:

- The City does not have an adequate accounting system for the capital assets subsidiary ledger and accounting information system to help ensure that capital assets balances are accurately recorded, properly labeled, and monitored.

- The complete payroll audit trail reports are not reviewed each pay period to help ensure that no unauthorized changes were made to employee records.

- The City currently has no written formal policies and guidelines for employee training specifically related to fraud.

Management concurred with said findings and expressed the willingness to resolve the issues in a timely manner.

The recommendations that were made in the prior years' observations were addressed in the section titled "Status of Prior Year's Observations, Recommendations and Management's Responses" (Appendix B) of the current Management Letter. The recommendations included in Appendix B were for audit findings relative to the periods ended September 30, 1997, through September 30, 2002. The Appendix has a total of 18 observations/recommendations and a total of 7 of the 18 observations/recommendations have been addressed and are no longer relevant. The 11 outstanding observations/recommendations yet to be resolved were made in the following fiscal years:

- Two (2) for the fiscal year ended 2002.
- Four (4) for the fiscal year ended 2001.
- Three (3) for the fiscal year ended 2000.
- One (1) for the fiscal year ended 1999.
- One (1) for the fiscal year ended 1997.

SINGLE AUDIT REPORT IN ACCORDANCE WITH THE FEDERAL OFFICE OF MANAGEMENT AND BUDGET (OMB) CIRCULAR A-133.

KPMG's engagement contract also included the audit of Federal Awards and the State of Florida Financial Assistance received by the City for the fiscal year ended September 30, 2003. Federal Awards and State of Florida Financial Assistance are financial assistance and cost-reimbursement monies that non-Federal/State entities receive directly from Federal/State awarding agencies or indirectly from pass-through entities. Federal OMB Circular A-133 and the Florida Single Audit Act require a single audit when the total Federal Award/State Financial Assistance disbursed to non-Federal/State entity equals or exceeds $300,000. The auditors' report issued on compliance with Circular A-133 relative to major Federal Programs for the fiscal year ended September 30, 2003, was qualified. The following reportable conditions were noted:

- Equipment purchased with federal funds were not adequately tagged and accounted for in a manner to allow for proper inventory tracking purposes and the ability to identify assets purchased with federal program funds.

- The auditors' noted differences in the amounts of expenditures reported on the IDIS system reported to the granting agency when compared to the amounts recorded in the general ledger.

- The required reports for the fiscal 2003 were neither prepared nor submitted to the agency within the required timeframe.

Recommendation.

Those departments responsible should continue to work towards the resolution of all audit findings/recommendations, particularly those Prior Year's Observations, and Recommendations that were issued as far back as 1997 through 2001. Additionally, we recommend that the City Commission consider a policy initiative that would require the periodic rotation of external auditors.

Auditee's Response and Action Plan.

In connection with the recommendation relative to the rotation of external auditors, the Finance Director proposed that the City's Audit Advisory Committee review the pros and cons of implementing a policy that would require the periodic rotation of external auditors prior to any formal action by the City Commission. This independent review will assist the City in making the best policy decision.