

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2018-038
November 2017

CITY OF NORTH MIAMI



Sherrill F. Norman, CPA
Auditor General

Mayor, Council Members, and City Manager

During the period October 2012 through March 2015, the following individuals served as City of North Miami Mayor, Council Member, or City Manager:

Dr. Smith Joseph, Mayor from 11-11-14
Philippe Bien-Aime, Acting Mayor from 5-21-14 to 11-10-14;
Council Member from 6-11-13
Lucie Tondreau, Mayor from 6-11-13 to 5-20-14
Andre D. Pierre, Mayor to 6-10-13
Michael R. Blynn, Council Member to 6-10-13
Carol Keyes, Council Member from 6-11-13
Scott Galvin, Council Member
Jean R. Marcellus, Council Member to 6-10-13
Marie E. Steril, Council Member
Aleem A. Ghany, Interim City Manager^a from 4-22-14 to 5-26-14;
City Manager from 5-27-14
Stephen Johnson, City Manager^a to 4-11-14

^a City Manager position vacant 4-12-14 through 4-21-14.

The team leader was Ramon L. Bover, CPA, and the audit was supervised by Derek H. Noonan, CPA.

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CITY OF NORTH MIAMI

SUMMARY

This operational audit of the City of North Miami (City) focused on selected City processes and administrative activities. Our operational audit disclosed the following:

Administration and Management

Finding 1: During the period November 2013 through April 2017, the City experienced significant turnover in key management positions, which may have contributed to the numerous control deficiencies and instances of noncompliance disclosed in this report.

Finding 2: The City had not established an internal audit function to assist management in maintaining a comprehensive framework of internal controls.

Finding 3: Budget-to-actual comparison reports for all budgeted funds were not always prepared and timely presented to the City Council for the 2014-15 and 2015-16 fiscal years.

Finding 4: The City needs to establish policies and procedures to ensure that City elected officials and employees required to file statements of financial interests are advised of the filing requirements and that the names of these individuals are communicated to the Florida Commission on Ethics.

Finding 5: Although City ordinances and a Civil Service rule provided information related to ethical conduct and behavior, the City had not established policies and procedures addressing the mitigation, detection, and reporting of suspected or known fraud.

Cash Controls

Finding 6: City bank account reconciliation procedures had not been established to effectively provide for documentation of who prepared the reconciliations, supervisory review and approval of the reconciliations, or when these procedures were performed; the prompt and thorough investigation of all reconciling items; or the timely adjustment of general ledger cash account balances.

Finding 7: City electronic funds transfer (EFT) procedures need enhancement to ensure an appropriate separation of duties, documented authorization for EFT initiation and approvals, timely updates for changes in authorized personnel, and prompt revocation of EFT authorization privileges when employees separate from City employment.

Payroll and Personnel Administration

Finding 8: City records did not always evidence that employees met the education and experience requirements for their positions or that required employee evaluations were timely performed.

Finding 9: The City did not always ensure that required background screenings for applicable employees, vendor workers, and volunteers were obtained.

Finding 10: Severance pay provisions in City employment agreements did not always comply with State law and documentation for severance payments authorized by the City Council did not always demonstrate the public purpose for the payment or the basis for the amount authorized.

Finding 11: City records did not evidence the public purpose served by allowing two employees to obtain larger pension and other benefits by remaining employed for substantial periods beyond their last work day. Additionally, City policies and procedures need to be revised to require City Council approval of employee separation agreements before such agreements are executed.

Finding 12: Although the City Council contracted with an actuary to prepare a financial impact statement for use in evaluating the fiscal viability of implementing an early retirement incentive program (ERIP), the parameters specified to the actuary differed from those in the ERIP adopted by the City. Consequently, the usefulness of the financial impact statement was diminished and City records did not clearly demonstrate the basis upon which the City Council assessed the fiscal viability of the City-adopted ERIP or how implementation of the ERIP was in the City's best interests.

Procurement of Goods and Services

Finding 13: Based on our comparison of the purchasing thresholds at comparably sized municipalities, the City Manager's purchasing threshold of \$100,000 appeared excessive. Additionally, City ordinances need to be amended to clarify the specific percentage and dollar amount limits for the individual and cumulative change orders and contract modifications the City Manager and Purchasing Director are authorized to approve.

Finding 14: The City's housing program policies and procedures did not require, before initiation of the contracting process, documented consideration of City code requirements and any efforts needed to remedy code violations and other concerns associated with housing program projects. Consequently, some project costs increased due to contract changes to remedy City code violations and other concerns associated with housing program projects.

Finding 15: City expenditures were not always supported by fully executed purchase orders or contracts prior to payment and documentation was not always available to demonstrate the public purpose for the expenditures.

Finding 16: Although not authorized by City ordinances, the City outsourced the tested backflow prevention devices inventory function to a private company. Additionally, because the City did not properly monitor the contract, the City did not detect that the company underpaid the City by \$1,740 and the City paid the company a \$2,500 contract termination fee that was not required.

Finding 17: The City did not effectively manage the solid waste and recycling collection services contract or appropriately monitor the contractor's performance and compliance with the contract terms and conditions.

Finding 18: City procedures associated with the request for proposal (RFP) and contracting processes for building inspection and permitting services were not sufficient to demonstrate a fair and equitable competitive selection process.

Finding 19: City records were not sufficient to demonstrate that procurement activities for property management services were appropriately authorized or to evidence the basis for contract amendments and that such amendments were in the best interests of the City. In addition, the City did not appropriately monitor the Property Manager's performance or compliance with the contract terms and conditions.

Finding 20: The City entered into an adult education tuition program agreement with the Miami-Dade District School Board (District); however, the agreement did not specify that program participants were to be economically challenged City residents. In addition, neither the agreement nor other City records established the criteria for evaluating the economic eligibility of program participants, specified the acceptable documentation for establishing program participants' residency, established fee schedules for the adult education classes, or required the District to provide supporting documentation in sufficient detail to demonstrate compliance with the terms of the program agreement.

Finding 21: City auditor selection procedures and the audit services contract process need improvement to effectively promote independence and compliance with State law.

Purchasing Cards

Finding 22: The City's controls over purchasing card (P-card) authorization and issuance, purchasing limits and related usage, and cancellations need enhancement to improve accountability.

Expenditures

Finding 23: P-card expenditures were not always properly approved, adequately supported, or for allowable amounts and allowable purposes.

Finding 24: Travel cost reimbursement expenditures did not always comply with City policies and procedures or serve a documented public purpose.

Revenue and Cash Collection

Finding 25: City procedures did not always effectively separate the incompatible duties for utility service cash collections.

Finding 26: City utility services billing and collection processes did not promote the timely collection of account balances.

Finding 27: City controls for the assessment and collection of business tax receipt (BTR) fees did not identify all the businesses within the City. In addition, City records did not identify the businesses participating in the City's BTR amnesty program or the amounts forgiven, or evidence the City Council's consideration of the economic impact of the program.

Information Technology

Finding 28: Access privileges to the City network and enterprise resource planning system were not always timely deactivated upon an employee's separation from City employment.

Finding 29: The City had not established an information technology (IT) disaster recovery plan detailing the procedures to be followed to recover and restore financial records and other critical City applications in the event of a major hardware or software failure.

Finding 30: The City had not established an IT security incident response plan.

BACKGROUND

In 1926, the City of North Miami (City) was incorporated as a municipality. The City is located in the northeastern region of Miami-Dade County, comprises 9.5 square miles of land, and has a population of approximately 64,000 residents.¹ The City is governed by the City Council composed of four elected Council members and an elected Mayor and operates under a Council-Manager form of government. The City Council is responsible for enacting ordinances, resolutions, and regulations governing the City, as well as appointing the City Manager, City Attorney, and members of the various advisory boards. The City Manager is the Chief Executive Officer and, as such, is responsible for the daily operations of the City and implementation of policies adopted by the City Council. The City Manager is also charged with preparing and submitting the annual budget and capital improvement plan to the City Council.

The City provides citizens with municipal services for general government, public safety, streets and public works, housing, economic and community development, education through its library, and recreation and cultural services. Additionally, the City operates water, sewer, and stormwater utilities as enterprise activities.

This operational audit of the City focused on selected City processes and administrative activities.

FINDINGS AND RECOMMENDATIONS

ADMINISTRATION AND MANAGEMENT

Given the statutory² and ordinance requirements the City must follow, it is important that the City establish administrative management policies and procedures. Such policies and procedures should be designed to effectively promote and monitor compliance with the statutory and ordinance requirements and to demonstrate accountability for the use of public resources.

Finding 1: Management Turnover

The City manager, department head, and other key management positions in the City are responsible for designing and implementing effective internal controls and ensuring consistent application of City policies and procedures. The implementation and consistent application of policies and procedures can be particularly challenging when significant turnover in key management positions is experienced.

Our examination of City records and discussions with City personnel disclosed, as shown in Table 1, that the City experienced significant turnover in certain key management positions during the period November 2013 through April 2017. During that period, individuals only briefly filled several positions. For example, two Purchasing Directors, two Purchasing Managers, three Finance Directors, an interim City Attorney, and an interim City Manager were only employed in those positions for 5 to 10 months.

¹ *Florida Population Estimates for Counties and Municipalities, April 2016*; Florida Office of Economics and Demographic Research.

² Chapter 166, Florida Statutes.

**Table 1
Summary of Turnover in Certain Key Management Positions**

Position	Start Date	End Date
City Manager		
City Manager - 1	3/23/16	Not Applicable
City Manager - 2 (Interim)	10/17/15	3/22/16
City Manager - 3 (Interim for a portion)	4/22/14	10/16/15
Vacant	4/12/14	4/21/14
City Manager - 4	11/9/11	4/11/14
City Attorney		
City Attorney - 1	4/18/16	Not Applicable
City Attorney - 2 (Interim)	7/9/15	4/17/16
Vacant	7/1/15	7/8/15
City Attorney - 3	3/12/12	6/30/15
Finance Director		
Finance Director - 1	4/18/16	Not Applicable
Vacant	3/23/16	4/17/16
Finance Director - 2	7/27/15	3/22/16
Finance Director - 3 (Interim)	9/8/14	7/26/15
Finance Director - 4	11/24/13	9/5/14
Vacant	11/15/13	11/23/13
Finance Director - 5 (Interim)	1/15/12	11/14/13
Personnel Administration Director/Manager ^a		
Personnel Administration Director - 1	3/2/15	Not Applicable
Vacant	1/1/15	3/1/15
Personnel Administration Manager - 1	11/16/13	12/31/14
Personnel Administration Director - 2	7/9/01	11/15/13
Purchasing Director/Manager ^a		
Purchasing Director - 1	10/19/15	Not Applicable
Purchasing Manager - 1	1/5/15	10/16/15
Vacant	8/7/14	1/4/15
Purchasing Manager - 2	1/6/14	8/6/14
Vacant	12/28/13	1/5/14
Purchasing Director - 2	5/4/09	12/27/13

^a The Director and Manager job titles in the Personnel Administration and Purchasing Departments were used interchangeably during the period October 2012 through March 2015.

Source: City records.

Our examination of City records and with discussions City personnel also disclosed significant turnover associated with implementation of the Early Retirement Incentive Program (ERIP)³ adopted by the City Council in November 2013. The City adopted the ERIP based, in part, on favorable financial results projected in an actuarial financial impact statement. However, as discussed in Finding 12, the parameters of the adopted ERIP did not always align with the parameters the City specified to the actuary for the

³ City Ordinance No. 1361.

preparation of the actuarial financial impact statement and the City did not obtain a revised financial impact statement to assess the fiscal viability of the ERIP as adopted.

By January 1, 2014, the ERIP had provided the opportunity for early retirement to 112 of the 263 City employees and 48 employees had elected to participate in the ERIP. The 48 employees included key managers such as the Personnel Administration Director/Manager (as shown in Table 1), Personnel Administration Assistant Manager, Payroll Coordinator, Assistant Finance Director, Deputy City Clerk, Parks Superintendent, and Building Official. The interim Finance Director expressed concerns in his November 2013 resignation letter and e-mail communications to the City Manager regarding the replacement of key personnel and the ERIP's adverse effect on City services.

Significant turnover in key management positions results in the loss of institutional knowledge and impacts the oversight and consistent application of established policies and procedures and may lead to inefficient operations and reduced service quality. Accordingly, any actions that may increase management turnover require careful consideration, including documented assessments of the effects of such actions and strategies to limit any negative effects. In response to our inquiries, City personnel acknowledged that management turnover may have contributed to several of the control deficiencies and instances of noncompliance cited in this report.

Recommendation: To promote efficient operations, high quality services, and the consistent application of City policies and procedures, the City should strive to provide stability in key management positions. Such efforts should include documented consideration of any City actions that may increase turnover in key management positions and strategies to limit the negative effects of such turnover.

Finding 2: Internal Audit Function

An internal audit function can provide additional assurance that internal controls are designed properly and operating effectively, and can promote compliance with applicable laws, contracts, grant agreements, and City ordinances, policies, and procedures. The Government Finance Officers Association (GFOA) recommends that governments consider the feasibility of establishing a formal internal audit function because such a function can play an important role in helping management to maintain a comprehensive framework of internal controls.⁴ A formal internal audit function is particularly valuable for those activities involving a high degree of risk (e.g., complex accounting systems, contracts with parties, and a rapidly changing environment). The GFOA also recommends that, if it is not feasible to establish a separate internal audit function, a government consider either assigning internal audit responsibilities to its regular employees or obtaining the services of an accounting firm (other than the independent external auditor engaged to audit the financial statements) for this purpose.

Our examination of City organization charts and other records and discussions with City personnel disclosed that the City had not, as of April 2017, established an internal audit function, assigned internal audit responsibilities to City employees, or obtained the services of an accounting firm for this purpose. In February 2017, the City Manager indicated that the City would contract with an audit firm to perform the internal audit function.

⁴ GFOA publication titled *Establishing an Internal Audit Function*.

The number and significance of the findings disclosed in this report illustrates the City's need for an internal audit function. An established internal audit function would assist City management in the maintenance of a comprehensive framework of internal controls by providing additional assurance that controls are designed properly, operating effectively, and promoting compliance with applicable laws, contracts, grant agreements, and City ordinances, policies, and procedures.

Recommendation: The City should continue efforts to establish an internal audit function that will assist management in maintaining a comprehensive framework of internal controls.

Finding 3: Budgetary and Financial Monitoring

State law⁵ requires the governing body of each municipality to adopt a budget each fiscal year to regulate the municipality's expenditures. According to GFOA's *Recommended Budget Practices of the National Advisory Council on State and Local Budgeting* (1998), regular monitoring of budgetary performance provides an early warning of potential problems, gives decision makers time to consider actions that may be needed if major deviations in budget-to-actual comparison results become evident, and is essential to demonstrating accountability. Accordingly, good business practices prescribe that City personnel present, at a minimum, quarterly budget-to-actual comparison reports to the City Council for approval by the end of the month after the respective quarter ended.

In the City's 2012-13 fiscal year financial audit report, the City's external auditor noted that the City Council was not provided periodic budget-to-actual comparison reports. Subsequently, City personnel prepared several budget-to-actual comparison reports for the 2014-15 and 2015-16 fiscal years. However, as shown in Table 2, quarterly budget-to-actual comparison reports for the 2014-15 and 2015-16 fiscal years were not always prepared and timely presented to the City Council.

⁵ Section 166.241(2), Florida Statutes.

Table 2
Quarterly Budget-to-Actual Comparison Reports
2014-15 and 2015-16 Fiscal Years

Quarterly Reporting Period	Date Comparison Report Presented to City Council	Number of Days Report Presented After Quarter Ended
2014-15 Fiscal Year		
First quarter: 10/1/14 – 12/31/14	2/10/15	41
Second quarter: 1/1/15 – 3/31/15	6/23/15	84
Third quarter: 4/1/15 – 6/30/15	Not prepared ^a	N/A
Fourth quarter: 7/1/15 – 9/30/15	Not prepared ^a	N/A
2015-16 Fiscal Year		
First quarter: 10/1/15 – 12/31/15	1/26/16	26
Second quarter: 1/1/16 – 3/31/16	6/28/16	89
Third quarter: 4/1/16 – 6/30/16	Not prepared ^a	N/A
Fourth quarter: 7/1/16 – 9/30/16	Not prepared ^a	N/A

^a Although third and fourth quarter budget-to-actual comparison reports were not prepared, General Fund surplus/deficit reports were prepared and presented to the City Council during the budget workshop meetings for the 2015-16 and 2016-17 fiscal years.

Source: City records

Additionally, our examination of the City quarterly budget-to-actual comparison reports for the 2014-15 and 2015-16 fiscal years disclosed that the reports only included the General Fund budget-to-actual comparisons at the department level and excluded other budgeted funds (i.e., the special revenue, debt service, capital projects, internal service, and enterprise funds) in the City Council-adopted budgets for the 2014-15 and 2015-16 fiscal years. Consequently, the City Council did not always receive complete or timely financial information necessary to properly monitor the City's financial position.

In response to our inquiries, City personnel indicated that, in lieu of quarterly budget-to-actual comparison reports and presentations for the last two quarters of the 2014-15 and 2015-16 fiscal years, data for the third and fourth quarters was presented to the City Council during the budget workshops for the 2015-16 and 2016-17 fiscal year budgets. However, we noted that the data presented to the City Council during the budget workshops compared budgeted amounts to estimated amounts rather than to actual amounts and did not disclose current anticipated ending fund equity amounts. City personnel also indicated that only the General Fund was included in the budget-to-actual comparison reports because the General Fund is the major fund used for City operations and that the General Fund required more attention than the other budgeted funds due to the Fund's utilization, flexibility, and volatility.

Absent budget-to-actual comparison reports for all budgeted funds timely presented to the City Council, Council members lack the information necessary to gain an appropriate understanding of the City's financial status. As a result, critical budget shortfalls may not be identified and timely remedied, purchases may be authorized when funds are not available, and expenditures may be denied when funds are available. Further, periodic financial reports that provide practical and understandable statements of

summary financial information, such as total revenues and expenditures by fund, comparisons to approved budgets, and current anticipated ending fund equity amounts, would allow the City Council to more closely monitor the City's financial position and provide information needed for financial decision-making.

Recommendation: To demonstrate accountability and provide the City Council information needed for financial decision-making, budget-to-actual comparison reports, which include current anticipated ending fund equity amounts, for all budgeted funds should be prepared and timely presented to the City Council.

Finding 4: Statements of Financial Interests

State law⁶ requires applicable local officers to file a statement of financial interests with the supervisor of elections no later than July 1 of each year. Local officers include, among others:

- Elected officials.
- The chief administrative employee of a municipality.
- The municipal attorney.
- The municipal finance director.
- The chief municipal building code inspector.
- Appointed members of municipal boards having the power to enforce local code provisions.
- Appointed members of the planning and zoning board or other boards having the power to recommend, create, or modify land planning or zoning within a political subdivision.
- Purchasing agents having the authority to make any purchase exceeding \$20,000 on behalf of a municipality.

Statements of financial interests are important in that they provide a public record, pursuant to State law,⁷ that discloses the financial interests, activities, and associations of local officers, as well as, potential conflicts of interest.

Each year, pursuant to State law,⁸ the Commission on Ethics (Ethics Commission) prepares and provides each supervisor of elections with a list of the names and addresses of local officers required to file statements of financial interests for the previous year. To assist the Ethics Commission, governmental entities, such as the City, are required to provide the names and addresses of local officers required to file statements of financial interests. In response to our inquiries, City personnel indicated that the City Clerk has historically maintained and submitted a list of City officers required to submit statements of financial interests to the Miami-Dade County Supervisor of Elections; however, the City had not established policies or procedures for maintaining the list and, although we requested, City personnel could not provide such a list.

Our examination of City records and discussions with City personnel identified 19 individuals who held local officer positions during the period October 2012 through March 2015. We contacted the

⁶ Section 112.3145(1) and (2), Florida Statutes.

⁷ Section 112.31445, Florida Statutes.

⁸ Section 112.3145(7)(a), Florida Statutes.

Miami-Dade County Supervisor of Elections to determine whether the 19 individuals filed the required statement of financial interests for the 2014 calendar year and found that, as of July 2015, 6 of the 19 individuals had not filed the required statement. The 6 individuals include a former Mayor, two building code inspectors, two former finance directors, and a former purchasing manager with the authority to purchase goods and services in excess of \$20,000. On June 24, 2014, the City Clerk records management supervisor sent an e-mail to three City employees asking them to forward statement of financial interests forms to employees who needed to file on or before July 1, 2014. However, although we requested, we were not provided documentation evidencing that the forms were actually provided to the applicable employees.

Local officers who do not timely file the required statements of financial interests fail to comply with State law and may be subject to fines. Also, absent the required statements of financial interests, there is an increased risk that the City may be unaware of potential conflicts of interest when entering into contracts and other agreements.

Recommendation: The City should establish policies and procedures that designate the employee responsible for periodically providing to the Ethics Commission the names and addresses of local officers required to file statements of financial interests. The policies and procedures should also require that the designated employee contact the Miami-Dade Supervisor of Elections to verify that the local officers timely filed the statements as required.

Finding 5: Anti-Fraud Policies and Procedures

Appropriate policies and procedures for communicating, investigating, and reporting known or suspected fraud are essential to aid in the mitigation, detection, and prevention of fraud. Such policies and procedures serve to establish the responsibilities for investigating potential incidents of fraud and taking appropriate action, reporting evidence of such investigations and actions to the appropriate authorities, and protecting the reputation of persons suspected but not determined guilty of fraud.

City ordinances⁹ establish a standard of ethical conduct and behavior for all City personnel. The ordinances provide detailed information relating to ethical violations that may constitute a conflict of interest and requires public officials and employees to protect the City against fraud. The ordinances also require supervisors to counsel and encourage employees to report fraud. In addition, a City Civil Service rule¹⁰ specifies certain conditions that constitute cause for a City employee's demotion, dismissal, removal, and fines or suspension without pay.

Our audit procedures found that, while the City ordinances and Civil Service rule have many positive features essential to aid in the mitigation, detection, and prevention of fraud, they do not:

- Define fraud or provide examples of actions constituting fraud and the consequences for such actions.
- Assign responsibility for investigating potential incidents of fraud and taking appropriate action.
- Provide guidance for investigating potential and actual incidents of fraud; reporting evidence obtained by the investigation to the appropriate authorities, which may be the City Council

⁹ Sections 2-316 and 2-318, City of North Miami Code of Ordinances.

¹⁰ City of North Miami Civil Service Rule XIII, Sections B.11, B.13, and B.24 (February 2011).

members or City legal counsel if an incident involves City management; or protecting the reputations of persons suspected but not determined guilty of fraud.

Our audit procedures also found that, as of April 2017, the City had not established any anti-fraud policies or procedures. Policies and procedures that define fraud and provide examples of actions constituting fraud, along with the consequences for such actions; assign responsibility for investigating potential incidents of fraud and for taking appropriate action; and provide guidance for conducting investigations, reporting the evidence obtained to appropriate authorities, and protecting the reputations of persons suspected but not determined guilty of fraud promote the communication of potential or actual incidents of fraud and help ensure the performance of consistent, timely, and appropriate actions to investigate the incidents reported. Additionally, policies and procedures that require accurate recordkeeping of reported instances and investigations promote the accurate and appropriate reporting of evidence obtained by the investigations to the appropriate authorities. The absence of such policies and procedures increases the risk that a known or suspected fraud may be identified but not communicated, investigated, or reported to the appropriate authority for resolution.

Recommendation: The City should establish policies and procedures for communicating, investigating, and reporting known or suspected fraud. Such policies and procedures should:

- **Define fraud and provide examples of actions constituting fraud, along with the consequences for such actions.**
- **Assign responsibility for investigating potential incidents of fraud and for taking appropriate action.**
- **Provide guidance for investigating potential and actual incidents of fraud, reporting evidence obtained by the investigation to the appropriate authorities, and protecting the reputations of persons suspected but not determined guilty of fraud.**

CASH CONTROLS

Effective cash controls include the performance of timely, routine reconciliations of bank account balances to the accounting records. Such reconciliations are necessary to provide reasonable assurance that cash assets agree with recorded amounts, permit prompt detection and correction of unrecorded and improperly recorded cash transactions or bank errors, and facilitate the efficient and economic management of cash resources. In addition, State law¹¹ requires the City to adopt and implement control processes and procedures to ensure adequate integrity, security, confidentiality, and auditability of business transactions conducted using electronic commerce, including electronic funds transfers.

Finding 6: Bank Account Reconciliations

Our examination of City records disclosed that a checklist was available to assist staff in performing bank account reconciliations and, according to City personnel, reconciliations were considered timely if completed by the end of month following the bank statement date. However, we noted that neither the checklist nor other City records:

¹¹ Section 668.006, Florida Statutes.

- Identified the employees responsible for performing the reconciliations or the employees responsible for the review and approval of the reconciliations. Identification of the reconciliation preparer and reviewer properly affixes responsibility and demonstrates the appropriate separation of the reconciliation, cash handling, and journal entry responsibilities.
- Required that reconciling items be promptly and thoroughly investigated, explained, and documented.
- Established the timeframes for completing reconciliations or for recording any necessary adjustments to the general ledger cash account balances.

Established bank account reconciliation procedures could help the City consistently communicate reconciliation procedures, especially during periods of employee turnover, and require that responsibility for the performance and review of the reconciliations be appropriately separated from the cash handling, and journal entry responsibilities.

As of March 2015, the City maintained 9 bank accounts and 3 certificates of deposit, and primarily used the General Fund's daily investment account as the main operating account. The total cash amount on deposit in these accounts in March 2015 was \$58 million, including \$43.4 million in the main operating account and \$14.6 million in the other accounts. From the population of 360 monthly bank account reconciliations that should have been prepared for the 12 accounts during the period October 2012 through March 2015, we requested for examination the 30 monthly bank account reconciliations for the main operating account. We found that:

- For the main operating account, City personnel prepared a total of 21 monthly bank account reconciliations during the period October 2012 through March 2015 and an annual bank account reconciliation for the 2012-13 fiscal year. However, City personnel did not prepare bank account reconciliations for 9 months, January through September 2013.
- The 21 monthly bank account reconciliations and the annual bank account reconciliation did not identify the individual who prepared the reconciliation.
- There was no evidence of supervisory review and approval for 11 of the 21 monthly bank account reconciliations.
- Although 10 of the 21 monthly bank account reconciliations and the annual bank account reconciliation documented supervisory review and approval, the supervisory review and approval was untimely for 5 monthly bank account reconciliations, as the approvals were dated 58 to 300 days after the bank statement dates.
- City records did not document the preparation date for 19 of the 21 monthly bank account reconciliations or the annual bank account reconciliation.
- Although 2 of the 21 monthly bank account reconciliations included the preparation date, the reconciliations were prepared 293 and 277 days, respectively, after the bank statement dates.
- The 21 monthly bank account reconciliations identified certain items (deposits and withdrawals) that, based on a thorough investigation, required adjustments to the general ledger cash account balances; however, the adjustments were not promptly recorded. Consequently, the items were brought forward to subsequent months' reconciliations. The cumulative effect of these items ranged from a net understated general ledger cash balance of \$358,105 in July 2014 to a net overstated general ledger cash balance of \$230,401 in November 2012, and resulted in an average monthly net understated general ledger cash balance of \$41,982 for the period October 2012 through March 2015.

- The 21 monthly bank account reconciliations listed certain other items that had not been thoroughly investigated and explained. Since Finance Department personnel waited to adjust the general ledger until explanations for reconciling items could be researched and identified, the total amount of these items identified on the monthly bank account reconciliations accumulated each month. The cumulative effect of these reconciling items ranged from a general ledger net cash balance increase of \$215,525 in May 2014 to a general ledger net cash balance decrease of \$172,277 in December 2014, and resulted in an average monthly net increase of \$65,970 for the period October 2012 through March 2015.

City personnel indicated that, due to personnel turnover, bank account reconciliation procedures were not consistently communicated to new staff, and attributed delays in the preparation of bank account reconciliations, in part, to the lack of personnel available to perform the reconciliations.

Unrecorded cash transactions for extended periods and untimely bank account reconciliation adjustments to the general ledger reduce the reliability of cash account balances in the general ledger. Absent effective procedures for the proper and timely preparation, review, and approval of bank account reconciliations and adjustments to the general ledger cash account balances as a result of the reconciliations, there is an elevated risk that the reconciliations may contain errors or intentionally misrepresent facts to conceal theft.

Recommendation: The City should establish bank account reconciliation procedures that effectively provide for:

- **An appropriate separation of the reconciliation, cash handling, and journal entry responsibilities.**
- **The timely performance of reconciliations, including supervisory review and approval, with all reconciling items promptly and thoroughly investigated, explained, and documented.**
- **Documentation evidencing who prepared the reconciliations, appropriate supervisory review and approval of the reconciliations, and when these procedures were performed.**
- **Timely adjustments to the general ledger cash account balances, if required as a result of the reconciliations.**

Finding 7: Electronic Funds Transfers

The City uses electronic funds transfers (EFTs) to, for example, make transfers between City bank accounts, vendor payments, lease payments, direct deposits of employee pay, and transfers associated with other payroll-related activity such as insurance premium deductions. During the period October 2012 through March 2015, the City recorded a total of 2,271 outgoing EFTs totaling approximately \$105 million.

To ensure the privacy of customer and employee information, prevent unauthorized use of City funds, and protect electronic bank account information from internal and external threats, it is important that appropriate policies and procedures be established to govern the use of EFTs. Effective accountability for the EFT process typically requires established EFT procedures that:

- Provide for an appropriate separation of the responsibilities of initiating EFTs and reviewing and approving EFTs.

- Require banking agreements to identify, by name, the employees authorized to initiate EFTs and those authorized to review and approve EFTs.
- Require banking agreements to be timely updated for personnel changes and the EFT authorization privileges of employees who separate from City employment be promptly revoked.

In response to our inquiries, City personnel indicated that the City maintained banking agreements with three banks that authorized EFTs. City personnel also indicated that the City had established procedures that only authorized the Chief Accountant and Finance Director to initiate EFTs and the Finance Director to review and approve the EFTs based on supporting documentation. Additionally, the Finance Director was the only City representative to be called to verify EFTs. However, as the Finance Director was authorized to initiate, review and approve, and verify EFTs, the procedures did not provide for an appropriate separation of duties.

Our discussions with City personnel and examination of City records, including the banking agreement with a bank where the City had three accounts, disclosed that the City's established procedures also did not:

- Require that the banking agreement identify the specific personnel authorized to initiate EFTs and to review and approve EFTs, establish employee EFT dollar limits, or provide for authorized client contact lists that identify the authorized destination accounts for transactions. Our examination of the banking agreement disclosed that:
 - The delegation of authority section of the banking agreement listed position titles instead of identifying, by name, the employees authorized to initiate EFTs and those authorized to review and approve EFTs. Consequently, City records did not demonstrate that the bank was notified of record about changes in City personnel with EFT authority.
 - According to City personnel, the City provides banks with employee profiles that identify the names and position titles of employees authorized to initiate EFTs along with the respective EFT dollar limits. However, although we requested, copies of the employee profiles provided to the bank were not available for our review. Consequently, City records did not demonstrate that the City had established an understanding with the bank regarding the City employees' authorization to initiate EFTs and employee EFT dollar limits.
 - The Automated Clearing House (ACH) is a banking service used to process large volumes of EFTs, such as direct deposit, payroll, and vendor payments. According to City personnel, the City provides banks with authorized client contact lists that identify authorized destination accounts for EFTs processed by the ACH. However, although we requested, we were not provided the authorized client contact lists identifying authorized destination accounts for the period October 2012 to August 2013.
 - The banking agreement was outdated as the agreement listed the former finance director who separated from City employment in September 2014 as the only City representative to be called to verify EFTs.
- Require the banking agreement to be timely updated for personnel changes and online banking authorization privileges be promptly revoked upon an employee's separation from City employment. To determine whether the City promptly revoked online banking authorization privileges, we examined City records supporting the privileges of seven employees who separated from City employment. City personnel provided, for three of the seven employees, wire transfer profiles, which showed that online banking authorization privileges were not revoked until November 2013, or 753, 657, and 15 days after the respective individuals separated from City employment. Although we requested, City personnel did not provide wire transfer profiles

indicating the dates the online banking authorization privileges were revoked for the other four employees.

Additionally, we examined City records supporting 30 selected EFT transactions totaling \$33.7 million and noted that:

- 1 EFT was initiated by an Assistant Finance Director, contrary to City-established EFT procedures that only authorize the Chief Accountant or Finance Director to initiate EFTs.
- There was no documented supervisory review and approval for 5 EFTs totaling \$11.3 million. Four of these EFTs were initiated by an individual in the Finance Director position and the other EFT was the one initiated by an Assistant Finance Director.
- For 6 EFTs totaling \$1.8 million, although we requested, we were not provided documentation indicating who initiated the EFTs or who reviewed and approved the EFTs.

While our tests did not disclose any EFTs for unauthorized purposes, such tests cannot substitute for management's responsibility to establish effective controls. Timely bank account reconciliations performed by an employee independent of the EFT initiation and EFT review and approval functions could compensate, in part, for the lack of sufficient EFT controls; however, as reported in Finding 6, City records did not always identify the bank account reconciliation preparers, document the supervisory review and approval, or demonstrate that reconciliations were timely prepared. Absent effective EFT controls, there is an increased risk that unauthorized EFTs could occur and not be timely detected and resolved.

Recommendation: The City should enhance established EFT procedures to require:

- **An appropriate separation of duties for initiating EFTs and for reviewing and approving EFTs.**
- **Banking agreements identify, by name, the employees authorized to initiate EFTs and those authorized to review and approve EFTs and that employee EFT dollar limits be established.**
- **Authorized client contact lists and banking agreements be timely updated for personnel changes and that the EFT authorization privileges of employees who separate from City employment be promptly revoked.**
- **The identity of the persons initiating EFTs and reviewing and approving EFTs be documented in City records.**

PAYROLL AND PERSONNEL ADMINISTRATION

Effective payroll policies and procedures establish controls to ensure payroll transactions are handled accurately and consistently in accordance with applicable laws and the directives of the City Council and City management. Effective personnel administration policies and procedures communicate management's expectations, employment guidelines, and benefit information to employees and promote the uniform treatment and administration of personnel employed by the City. Such policies and procedures should address, among other things, hiring guidelines, including verification of education credentials and prior work experience; the maintenance of personnel records; periodic screenings of employees' backgrounds; controls over salary payments, including severance payments to terminated employees; and the administration of retirement programs.

Finding 8: Employment Practices and Personnel Records

Effective personnel administration necessitates the implementation of various controls including controls related to duties and requirements for positions, hiring, and employee records. Such controls include, for example:

- Established position descriptions that specify minimum education and experience requirements.
- Verification of employment history and educational experience prior to offering employment.
- Personnel files that include completed employment applications, letters of reference, college transcripts (if applicable), and documentation evidencing authorized personnel actions.

The City Council-adopted Civil Service rules¹² govern City employment practices and require applicants to meet the minimum experience and educational requirements of the position for which they apply.¹³ However, neither the City *Employee Manual* nor other City records include procedures for verifying and documenting that applicants met their respective position requirements before hire.

As part of our audit, we assessed City controls over the hiring of employees and evaluations for new employees. Specifically, from the population of 121 individuals hired during the period October 2012 through March 2015, we examined City personnel records for 30 selected new hires and found that:

- Personnel records did not include copies of college transcripts or a high school diploma to demonstrate that 21 new hires met the respective position's education requirements. Additionally, the employment application for 1 of these new hires, employed as a building official, indicated that the individual did not have a bachelor's degree in engineering, architecture, or a related field as required for the position. Also, neither the employment application nor other personnel records indicated that another of these new hires, employed as a purchasing manager, had the 2 years of supervisory work experience required for the position.

Documented verifications of education credentials and prior work experience provide critical information for making personnel decisions and provide assurance that new employees meet the minimum requirements for the position. Subsequent to our inquiry, the Personnel Administration Department Director indicated that, as of August 2016, the City was documenting education and work experience requirements for new hires prospectively.

- Although, after hire, new City employees have a probationary period of 1 year and must be evaluated within 6 and 12 months of hire and annually thereafter, 7 new hires did not receive the required 6-month and 12-month employee evaluations. Subsequent to our inquiries, City personnel performed 6-month or 12-month evaluations in January and March 2016 for 3 of the 7 employees; however, the City no longer employed the other 4 employees. The Personnel Administration Department Director indicated that, although he did not know why evaluations had not been conducted, City personnel will be timely performing employee evaluations going forward. Timely conducted performance evaluations are an important management tool when prepared objectively and used to inform employees of their accomplishments, training needs, and areas for improvement, and also assist management in making and supporting personnel decisions.

¹² City of North Miami Civil Service Rules, adopted February 2011, provide for the government, supervision, and control of all City-classified employees in accordance with Article I, Section 15-8, of the City Charter adopted December 11, 2012 (formerly, Article XI, Section 145).

¹³ City of North Miami Civil Service Rule II, Section A (February 2011), provides that the Personnel Director is to prepare, install, and maintain a classification plan based on the duties and responsibilities of City positions. City of North Miami Civil Service Rule V, Section D(4) requires applicants to meet all established minimum experience and educational requirements for the class for which the application is made.

Recommendation: The City should establish procedures for verifying and documenting in the personnel records that, prior to hire, applicants met the minimum experience and educational requirements of the applicable positions. Additionally, the City should continue efforts to ensure that employee evaluations are performed as required.

Finding 9: Background Screenings

State law¹⁴ allows for governmental entities to perform level 2 background screenings¹⁵ of certain individuals. In August 2014, the City Manager issued an administrative regulation¹⁶ requiring certain individuals to undergo an initial level 2 background screening and that department directors and managers ensure that screenings of these individuals' backgrounds are also obtained at least once every 5 years. The individuals specified in the administrative regulation include those in:

- Executive-level positions.
- Positions of trust with responsibilities for handling or safeguarding cash in excess of \$300.
- Positions in the Parks and Recreation Department, Library, and Museum of Contemporary Art, including City personnel, interns, volunteers, and vendors who are considered to work with vulnerable populations, as well as anyone working with populations enumerated in State law.

The administrative regulation further provides that the Personnel Administration Department is responsible for the administration and implementation of background screenings for employees and for assessing whether job applicants possess appropriate backgrounds for City employment.

As part of our audit we interviewed City personnel and examined City records to determine whether the required screenings had been obtained. We found that required background screenings were not always obtained for City employees, vendor workers, and volunteers. Specifically:

- In response to our inquiries, City personnel identified 206 employees who were employed as of March 2015 and were required to obtain a level 2 background screening, including 72 City employees employed for more than 5 years.¹⁷ In June 2016, we examined City records supporting background screenings for the 72 employees and found that, while City records evidenced initial background screenings were generally obtained, the City had not obtained background screenings for 31 of the 72 employees in the past 5 years. As of June 2016, the periods that had elapsed since the 31 employees' previous background screenings ranged from 5 years and 1 month to 26 years and averaged 11 years. In response to our inquiry, City management agreed that background screenings were required for the 31 employees and that the City was working toward obtaining background screenings for all applicable employees.
- Although we requested, City records were not provided to demonstrate that vendor workers and volunteers associated with the Parks and Recreation Department, Library, and Museum of Contemporary Art who worked with vulnerable populations had undergone the required background screenings. Although, in response to our inquiry, City personnel asserted that the administrative regulation does not apply to vendor workers, the administrative regulation clearly specifies vendors who work with vulnerable populations as individuals requiring background

¹⁴ Section 435.04, Florida Statutes.

¹⁵ A level 2 background screening includes fingerprinting for Statewide criminal history records checks through the Florida Department of Law Enforcement and national criminal history records checks through the Federal Bureau of Investigation and may include local criminal records checks through local law enforcement agencies.

¹⁶ City of North Miami Administrative Regulation 00-99.

¹⁷ The remaining 134 employees had been employed less than 5 years.

screenings. Additionally, although we requested, City records were not readily available to quantify the number of vendor workers and volunteers who were required to obtain background screenings pursuant to the administrative regulation.

Absent effective controls to obtain required background screenings of applicable employees and vendor workers, the risk increases that individuals with unsuitable backgrounds may be employed or contracted to perform City services.

Recommendation: The City should continue efforts to ensure that background screenings of applicable individuals are promptly obtained and evaluated and that appropriate decisions are made based on evaluations of the screening results. We also recommend that, in the future, the District ensure that required background screenings are timely performed at least once every 5 years for City employees in executive-level positions and positions of trust, as well as, employees, vendor workers, and volunteers who work with vulnerable populations.

Finding 10: Severance Pay

State law¹⁸ provides that on or after July 1, 2011, a city that enters into an employment agreement, or renewal or renegotiation of an existing employment agreement, that contains a provision for severance pay must include a provision that precludes the severance pay from exceeding 20 weeks of compensation and a provision prohibiting severance pay when the employee has been fired for misconduct.

Our audit procedures disclosed that neither the City Charter nor City policies and procedures provided for severance pay to employees upon voluntary separation from City employment or prohibited severance pay when an employee was fired for misconduct. However, we also noted that the City Charter¹⁹ provides the process by which the City Council may remove the City Manager. Specifically:

- The City Council shall by majority vote of its members adopt a preliminary resolution stating the reason for the City Manager's removal at least 30 days before removal.
- The City Manager may then request a public hearing to be held 20 to 30 days after filing the request.
- If the City Manager requests a public hearing, the Council by majority vote may adopt a final resolution of removal.

Following the adoption of a preliminary resolution, the Council may suspend the City Manager from duty and the City must pay the City Manager's salary for the next 3 months.

During the period October 2014 through March 2016 the City had several employment agreements, including agreements with two City Managers and a City Attorney. Our examination of City records and discussions with City personnel disclosed that the City Council approved the severance pay provision in the contract for one City Manager and that the provision complied with statutory limits. However, we also found that the City did not always comply with requirements applicable to severance pay for the other City Manager and City Attorney's contracts. Specifically, we noted that:

- The November 2011 employment agreement with a City Manager included a severance pay provision stating that State law and the City Charter would govern the terms and conditions of

¹⁸ Section 215.425(4)(a), Florida Statutes.

¹⁹ Article IV, Section 18 of the City Charter adopted December 11, 2012 (formerly, Article II, Section 11).

severance. At the April 8, 2014, City Council meeting, the City Manager announced his resignation and requested severance pay. The City Council approved a \$50,835 severance payment to the City Manager for 12 weeks of salary. The City Council meeting minutes indicated that the severance pay was approved by a 3-2 vote with the Mayor requesting that the severance be approved based on the years of service the City Manager had provided to the City.

The City made the \$50,835 severance payment to the City Manager in April 2014. However, documentation was not available to evidence the public purpose served by the severance payment when the employment separation was voluntary, or how it was in the City's best interests to pay for severance based on prior service.

- On February 29, 2012, the City entered into an employment agreement with a City Attorney. The agreement was for the 3-year period March 12, 2012, through March 11, 2015, and provided that the terms of the agreement would automatically renew unless the City Council terminated the agreement. In addition, the agreement provided that the City Council could terminate the services of the City Attorney at any time, with or without cause, upon 90-days written notice to the City Attorney. The agreement also contained a severance provision that stated that any termination without cause entitled the City Attorney to 5 months of severance pay if less than 5 months remained in the term of the agreement. If more than 5 months remained, the City Attorney was entitled to the remaining amount specified in the agreement.

Regarding the City Attorney's employment agreement, the December 9, 2014, City Council meeting minutes indicated that:

- The City Council voted to amend the agreement to remove the automatic renewal provision.
- The City intended to renegotiate a new agreement with the City Attorney.
- The City Attorney orally agreed to the agreement amendment.

Although the agreement was not renewed in writing after March 11, 2015, the City Attorney continued to work for the City. At its June 23, 2015, meeting, the City Council voted to no longer employ the City Attorney.

In October 2016, the former City Attorney filed a complaint with the Miami-Dade County Clerk of the Courts for breach of contract, alleging that "deletion of the automatic renewal provision was not in writing," that the "purported reason given by the Council for its action on December 9, 2014, was that it wanted to renegotiate the terms of the contract," and "the City did not make a good faith effort to renegotiate the terms of the contract."

In February 2017, the current City Attorney advised the City Council that it was in the City's best economic interests to authorize settlement of the former City Attorney's claims, and the City Council approved paying up to \$150,000 to the former City Attorney. However, although we requested, the City provided no documentation to demonstrate the basis for the \$150,000 maximum approved settlement amount. As of April 2017, the City had not yet settled with, or paid claim settlement amounts to, the former City Attorney.

Recommendation: The City should establish policies and procedures for severance pay that ensure compliance with State law regarding severance pay provisions in employment agreements and require appropriate documentation, including documentation demonstrating the basis for the severance payment amount and the necessity for and public purpose served by the payments.

Finding 11: Employee Separation Agreements

The City maintains a defined benefit pension plan²⁰ to provide full time employees with retirement benefits. The benefits are financed with employer and employee contributions and plan investment earnings and are based upon years of service and final compensation. Employees are vested when they reach 5 years of credited service and, upon retirement, employees may elect to receive a lump-sum payment equal to the present value actuarial equivalent of benefits that would normally be paid over time. In addition, the plan provides for a monthly retirement benefit for life for employees age 55 or older with 10 years of credited service,

A City Civil Service rule included in the *Employee Manual*²¹ specifies that, upon retirement or separation from service, employees with fewer than 10 years of employment are to receive a lump-sum payment for 25 percent, and those with 10 to 19 years of employment are to receive a lump-sum payment for 50 percent, of their total accrued sick leave hours up to 1,000 hours. For employees hired before October 1, 2010, accumulated annual leave up to a maximum of 1,500 hours is to be paid to employees with 1 or more years of credited service. The rule also allows employees to be placed on administrative leave with or without pay at the sole discretion of the City Manager.

Our examination of City records and discussions with a former City Manager disclosed that, during the period October 2012 through March 2015, the City Manager signed separation agreements with two employees that provided that the employees would not take future employment-related legal action against the City. Our examination of these two employees' City personnel records and analyses of the circumstances associated with the employment separation disclosed that:

- One of the employees was hired in April 2004, her resignation was effective on her last work day in May 2015, and as of her resignation effective date she had not reached age 55 but had 11 years of service. The separation agreement allowed the employee to remain on the City payroll until February 2016 after she had reached age 55. From her May 2015 resignation date through February 2016, the employee was compensated for 761 hours of accumulated annual leave, 469 hours of accrued sick leave, 80 hours of administrative leave, and an additional 240 hours of leave with pay.²² Although we requested, City records were not provided to demonstrate the public purpose served for the payment for the 80 hours of administrative leave and the 240 additional leave hours. Also, based on our analysis:
 - Had the employee retired on her last work day in May 2015, she would not have been eligible for the monthly pension benefit for life because of her age, but she would have been entitled to a lump-sum retirement benefit payment of \$261,262. By allowing her to remain on the payroll until February 2016, the employee attained the age that entitled her to either a monthly pension benefit of \$2,937 for life or a lump-sum retirement benefit of \$403,670. She opted to receive the \$2,937 monthly pension benefit for life.
 - As the employee remained on the City payroll after her last work day in May 2015 and, pursuant to the agreement, received full compensation for use of her accumulated sick leave (instead of receiving payment for 50 percent of her accrued sick leave as allowed by the *Employee Manual*), the employee received \$37,058 more for sick, administrative, and

²⁰ Clair T. Singerman Employees' Retirement System; City Ordinance No. 691.

²¹ City of North Miami Civil Service Rule XII, Sections B and K (effective February 2011).

²² The additional 240 hours of leave with pay, referred to as the severance period in the separation agreement, represented payment for time not worked and was not authorized by the *Employee Manual*.

additional leave than the employee would have received as a lump-sum payment for unused leave had her retirement been effective on her last work day.

- By remaining on the payroll through February 2016, the employee received 5 additional months of health insurance benefits at a cost to the City of \$4,474.
- The other employee was hired in February 2004 and, as of her last work day in September 2013, had achieved 9 years of service. The separation agreement allowed the employee to remain on the City payroll through February 2014 when she had depleted her 402 hours of accumulated annual leave and 365 accrued sick leave hours and had achieved 10 years of service. Also, based on our analysis:
 - As the employee remained on the City payroll after her last work day in September 2015, pursuant to the agreement, she received full compensation for her accrued sick leave (instead of receiving payment for 25 percent of her accrued sick leave as allowed by the *Employee Manual*), which was \$14,054 more than she should have received as a lump-sum payment.
 - By allowing the employee to remain on the payroll through February 2014, she received a lump-sum retirement benefit payment totaling \$35,515 more than she would have received had the payment been based on her last work day in September 2013.
 - By remaining on the payroll, the employee received 5 additional months of health insurance benefits at a cost to the City of \$3,353.

At an October 2015 City Council meeting, the City Attorney indicated that the City Manager had the authority to enter into these employee separation agreements. However, although we requested, we were not provided documentation evidencing that the City Manager had specific authority to keep these former employees on the City payroll after the dates of their resignations so that the employees could obtain increased retirement and other employment benefits, or the public purpose served by doing so. Additionally, the City Manager did not solicit prior input from, or provide advance notice to, the City Council regarding these agreements. Consequently, the City Council did not become aware of these agreements until an October 2015 City Council meeting, which was subsequent to the execution of the agreements. When the City Council is not apprised of such agreements, there is an increased risk that the concessions provided to employees separating from City employment may differ from City Council intent.

Recommendation: The City should document the authority for, and the public purpose served by, the costs associated with employment separation agreements. Additionally, we recommend that City policies and procedures be revised to require employment separation agreements be submitted for City Council input and approval prior to executing such agreements.

Finding 12: Early Retirement Incentive Program

To assess the fiscal viability of implementing an early retirement incentive program (ERIP), the City Council contracted with an actuary to prepare a financial impact statement and specified various parameters to assist the actuary with making projections. The City-specified parameters included, for example, plans to replace 60 percent of the ERIP participants who retired with employees hired at age 33 with salaries that would be 30 percent less than the salaries of the ERIP participants they replaced. The City-specified parameters excluded, however, any mention of additional employee benefits (e.g., severance pay and health insurance) for ERIP participants.

Based on the City-specified parameters, the actuary's financial impact statement, dated October 17, 2013, projected there would be 112 eligible participants and that the City's payroll savings for the first year of the ERIP would be \$3.3 million. These projected payroll savings were based on projections that all the eligible participants would retire instead of remaining on the payroll and that the City's required pension contribution would increase by \$2.1 million annually for 5 years. The financial impact statement indicated that the actuarial estimates would need to be revised if the City provided benefit enhancements in addition to the parameters the City had specified to the actuary. The impact statement also indicated that, if the assumed pay for replacement employees was understated or the percentage of program participants who were replaced was higher, the projected program costs would be greater and the projected payroll savings would be less.

Based on the information presented in the financial impact statement, the City Council approved an ordinance²³ that modified the existing employee pension plan ordinance²⁴ and established the ERIP for the period November 15, 2013, through January 1, 2014. According to the ERIP, eligible employees electing to participate in the ERIP were to submit a retirement letter to the City no later than November 15, 2013, and designate as their last work day any day on or before January 1, 2014. However, some of the parameters included in the City Council-adopted ERIP differed from those specified to the actuary and used to assess the fiscal viability of the ERIP. For example, although not specified to the actuary, the City Council-adopted ERIP provided:

- A lump-sum payment to ERIP participants equal to 1 week of base salary up to a maximum of 6 weeks for every full week the employee retired prior to January 1, 2014.
- Full payment of employee health insurance premiums through September 30, 2014.

Notwithstanding the differences, the City made no efforts to obtain a revised financial impact statement based on the provisions the City Council ultimately included in the adopted ERIP.

Our examination of City records and discussions with City personnel disclosed that only 48 (including the 2 employees discussed in Finding 11) of the 112 eligible employees elected to participate in the ERIP, and the City hired 30 new employees during the period November 2013 through September 2015 to fill the positions vacated by the ERIP participants. We also found that:

- For the 48 ERIP participants, the City made severance payments totaling \$287,317 (for 1 to 6 weeks of full salary) and paid health insurance premiums totaling \$188,324 over a 9-month period.
- Only 4 of the 30 new employees hired to replace ERIP participants received salaries that were 30 percent or less than the ERIP participants' salaries. The salaries for 25 of the new employees ranged from 26 percent lower than to the equivalent of the ERIP participants' final salaries and 1 new employee received a salary that was 24 percent greater than the ERIP participants' final salary.
- The City rehired 25 ERIP participants as temporary employees, including 6 ERIP participants who were rehired at hourly rates ranging from 2.24 to 35.5 percent higher than their previous hourly rates and 19 ERIP participants who were rehired at the same rate of pay. The City Manager indicated that the City had to rehire the ERIP participants as temporary employees because, as

²³ City Ordinance No. 1361 adopted November 2013.

²⁴ City Ordinance No. 691- Clair T. Singerman Employees' Retirement System, Section 15-80.

a result of the ERIP implementation, the City lost qualified personnel and was unable to quickly rehire and train enough qualified replacements to provide an acceptable level of services.

- 6 of the positions vacated by ERIP participants were occupied concurrently by the rehired ERIP participants and the new employees for periods ranging from 25 to 348 days, increasing the payroll costs associated with the positions.

Because the City Council-adopted ERIP provided for additional severance payments and employer-paid health insurance, the City hired new employees and rehired ERIP participants at pay rates greater than the parameters included in the actuarially prepared financial impact statement, and significantly fewer eligible City employees participated in the ERIP than projected, the usefulness of the financial impact statement was limited and City records did not clearly demonstrate that projected payroll savings were realized. Additionally, since the adopted ERIP provisions differed from the parameters used for the financial impact statement, City records did not clearly demonstrate the basis upon which the City Council assessed the fiscal viability of the ERIP or how implementation of the ERIP was in the City's best interests. Further, as the ERIP participants included key managers such as the Personnel Administration Manager, Personnel Administration Assistant Manager, Payroll Coordinator, Assistant Finance Director, Deputy City Clerk, Parks Superintendent, and Building Official, implementation of the ERIP contributed to significant turnover in these management positions (as discussed in Finding 1) and negatively impacted the efficiency of City operations and services.

Recommendation: When considering the implementation of policies and programs, such as ERIPs, that significantly impact City finances, operations, and services, the City Council and City management should ensure that fiscal viability studies, such as actuarially prepared financial impact statements, are performed utilizing the same parameters as those that will be included in the adopted policy or program. Should the parameters change, the City should obtain revised studies based on the revised information and document, before adoption, an assessment of whether the policy or program would be in the City's best interests.

PROCUREMENT OF GOODS AND SERVICES

Included in the City Council's stewardship and fiduciary responsibilities associated with managing public resources is the responsibility to ensure that City controls provide for the effective and efficient use of resources in accordance with applicable laws, contracts, grant agreements, and City ordinances, policies, and procedures. To promote responsible spending and improved accountability, it is important that City records demonstrate that public funds are properly utilized in fulfilling the City's legally established responsibilities.

Finding 13: Purchasing Thresholds and Limits

The City is responsible for establishing controls that provide assurance that the process of acquiring goods or services is effectively and consistently administered and goods and services are procured in a fair, competitive, and reasonable manner. Our review of City ordinances²⁵ disclosed that the City Manager was authorized to approve purchases and awards up to \$100,000, except purchases of motor vehicles; approve all purchase orders under \$100,000; and approve change orders and contract modifications for supplies and services "which exceed 15 percent of the original contract amount."

²⁵ Section 7-129, City of North Miami Code of Ordinances.

However, based on the plain language of the ordinance, the City Manager's authority for approving contract revisions has no upper limit in either the contract dollar amount or percentage. As such, the City Council's intent regarding the City Manager's authority to approve change orders and contract modifications is not apparent of record.

To determine whether City purchasing thresholds assigned to the City Manager during the audit period were reasonable, in April 2015, we compared City purchasing thresholds to those of ten municipalities with comparable populations and taxable property values. Our comparison disclosed that the purchasing authority of the City Manager exceeded the authority for this position at the ten selected municipalities. For example, the City Manager at:

- Six of the ten municipalities could approve expenditures of \$25,000 or less without authorization by the governing body.
- One municipality could make purchases of \$25,000 or less, as of October 1, 1995, adjusted upward annually by the amount of inflation.
- One municipality could make purchases of \$35,000 or less.
- One municipality could make purchases of \$50,000 or less.
- One municipality could make purchases up to the \$65,000 purchasing threshold amount specified in State law.²⁶

We also noted that City ordinances authorized the Purchasing Director to approve all purchases and awards up to \$50,000, recommend to the City Manager all contract awards in excess of \$50,000, and approve change orders and contract modifications for supplies and services "which do not exceed 15 percent of the original contract amount." However, the ordinances do not specify whether the 15 percent limitation applies to each individual revision or to the cumulative amount of all revisions associated with a contract. While our tests did not disclose that the Purchasing Director approved change orders or made contract modifications that, in total, exceeded 15 percent of the original contract prices, there is an increased risk that the Purchasing Director could approve multiple individual revisions that are each less than 15 percent but collectively exceed 15 percent of the original contract amount.

Elevated thresholds for City Manager and Purchasing Director purchasing authority increase the risk for City resources to be used contrary to City Council intent. Subsequent to our inquiry, the City Council passed an ordinance²⁷ in September 2015 that reduced the City Manager's purchasing authority from \$100,000 to \$25,000 and Purchasing Director's purchasing authority from \$50,000 to \$5,000.

Recommendation: The City should continue efforts to ensure the reasonableness of the City Manager and Purchasing Director's purchasing thresholds. Additionally, City ordinances should be amended to clarify the specific percentage and dollar amount limits for individual and cumulative change orders and contract modifications that the City Manager and Purchasing Director are authorized to approve.

²⁶ Section 287.017, Florida Statutes.

²⁷ City Ordinance No. 1391.

Finding 14: Housing Program Contracting Process

City ordinances²⁸ establish the contracting process for selecting vendors for construction services, including soliciting quotes from prospective vendors, selecting vendors with appropriate qualifications and experience for the services, and establishing contracts with selected vendors. However, City ordinances do not require that City personnel, before initiation of the contracting process, document consideration of the City code requirements and efforts to remedy code violations or other concerns associated with construction projects. Additionally, the ordinances do not require City personnel to include in the original project contracts the provisions necessary to remedy any City code violations or other concerns associated with the projects.

The City has established a housing program to renovate existing housing stock and create new housing units. The housing program's Housing Manager and Housing Inspector visit properties potentially eligible for renovation to identify property needs. The Housing Inspector is responsible for preparing a detailed work write-up and construction specification to document the property needs and recommend projects to the Community Planning and Development Director for review and approval.²⁹

Our examination of City records and discussions with City personnel disclosed that the City spent \$3.2 million on 179 housing projects during the period October 2012 through March 2015. To evaluate the housing program contracting process, we examined supporting documentation for 25 selected housing projects totaling \$1.5 million and noted that 4 projects totaling \$326,926 received one or more changes to the original contract. Table 3 shows, for each of the 4 projects, the original contract amounts, contract changes and related amounts, and the total contract change amounts as a percentage of the original contract amounts.

Table 3
Project Change Orders and Addendum
October 2012 Through March 2015

	Project 1		Project 2		Project 3	Project 4
	Vendor 1	Vendor 2	Vendor 1	Vendor 2	Vendor 1	Vendor 1
Original Contract Amount	\$146,386	\$39,350	\$58,600	\$6,580	\$58,790	\$17,220
Contract Changes:						
Change Order 1	\$ 7,520	\$ 1,700	\$18,686	\$4,000	\$5,500	\$780
Change Order 2	8,510	8,500		-	-	-
Addendum			11,740			
Total Contract Changes	<u>\$16,030</u>	<u>\$10,200</u>	<u>\$30,426</u>	<u>\$4,000</u>	<u>\$5,500</u>	<u>\$780</u>
% of Original Contract	<u>10.95%</u>	<u>25.92%</u>	<u>51.92%</u>	<u>60.79%</u>	<u>9.36%</u>	<u>4.53%</u>

Source: City records

The 4 projects contained a total of eight change orders and an addendum totaling \$66,936, which collectively represent a 20 percent increase over the original contract amounts. However, changes totaling \$58,956, including the addendum and five change orders (i.e., the two Vendor 1 change orders

²⁸ Sections 7-129 and 7-137, City of North Miami Code of Ordinances.

²⁹ *Housing Program Guidelines*, March 2010.

for Project 1, Vendor 2 change order 2 for Project 1, and the two Project 2 change orders), were for corrective actions to remedy City code violations and other concerns that existed before the project contracting process. For example, for Project 2:

- Changes totaling \$30,426 were made to the original Vendor 1 contract for installation of a water line required by the City building code and to remedy other concerns with the project that existed before the project's contracting process.
- A \$4,000 change order was made to the original Vendor 2 contract for a sidewalk required by the City building code before the project's contracting process.

In response to our inquiries, City personnel indicated that the Community Planning and Development Director must approve all projects and, although the Housing Inspector may have foreseen the additional efforts needed to comply with the City code requirements and remedy the other concerns, the additional efforts may not have been approved at the time the contracts were executed. Notwithstanding this response, City records did not demonstrate why the City did not document consideration of the City code requirements and the other concerns that existed before the contracting process or ensure that the original contracts for the 4 projects addressed the services necessary to comply with City code requirements and remedy other concerns.

Absent documented consideration of the City code requirements and efforts to remediate concerns before initiation of the contracting process, the City cannot demonstrate that the service providers best suited for the project were selected and management's assurance that the costs of contract changes will be minimized is limited. Additionally, appropriate consideration and accurate documentation of the estimated scope and costs of repairs and capital improvements, including verification that the initial scope of work conforms to City code requirements and remedies code violations and any other faulty conditions, provides assurance that sufficient resources will be available to fund the projects.

Recommendation: The City should establish housing program policies and procedures that require, before initiation of the contracting process, documented consideration of City code requirements and any efforts needed to remedy code violations and other concerns associated with housing program projects. We also recommend that the original project contracts include provisions necessary to remedy City code violations and any other concerns associated with the projects.

Finding 15: Purchasing and Payment Processing

Authority for City officials to expend moneys is set forth in various provisions of general or special law and in ordinances enacted by the City Council. For example, City ordinances³⁰ provide that a purchase order:

- Is the City's official document to formalize and authorize a purchase transaction with a contractor.
- Should contain information such as a description of supplies or services ordered, applicable terms for payment, discounts, date of delivery or performance, and other factors or conditions relating to the transaction.
- If accepted by a contractor, constitutes a contract.

³⁰ Section 7-118, City of North Miami Code of Ordinances.

Additionally, to qualify as authorized expenditures, expenditures of public funds must be authorized by applicable law or ordinance, reasonable in the circumstances and necessary to the accomplishment of the governmental entity's authorized purposes, and in pursuit of a public, rather than a private, purpose.

The Florida Attorney General has opined on numerous occasions³¹ that documentation of an expenditure in sufficient detail to establish the authorized public purpose served, and how that particular expenditure serves to further the identified public purpose, should be present at the point in time when the voucher is presented for payment of funds. The Attorney General has further opined that, unless such documentation is present, the request for payment should be denied.

During the period October 2012 through March 2015, the City recorded 21,111 expenditures totaling \$160,811,713. To determine whether the City had adequate controls over vendor selection, purchase order or contract execution, and payment processing, we examined City records supporting 50 selected expenditures totaling \$811,292. We noted that:

- The City made a \$15,000 payment in February 2013 for beautification projects pursuant to a \$70,000 contract that was not accepted of record by the City and the contractor. Specifically, although the vendor provided an invoice for the services to the City, and the City Manager and Purchasing Manager signed approving the invoice, the April 2012 contract between the City and the vendor provided for our examination was not signed by the vendor or any City official or employee.³²

In response to our inquiry, City personnel indicated that either there was not an executed contract or a contract was executed but subsequently misplaced due to employee turnover. Notwithstanding this response, a fully executed and properly retained purchase order or contract is necessary to clearly define the rights and responsibilities of contracting parties in the event of a contractual dispute.

- In February 2013, the City paid an engineering firm \$8,000 based on an invoice for traffic studies and a site and master plans review. However, the payment was made 559 days before the City and the firm entered into a \$120,000 contract in November 2014 for the services. In response to our inquiry, City personnel indicated that services were rendered in February 2013 before payment was made and that the traffic studies were time sensitive and had to be completed before the contract could be executed. Notwithstanding this assertion, payment for services rendered before a purchase order or contract is fully executed increases the risk of misunderstandings between the contracting parties, overpayments, and services inconsistent with City Council expectations.
- In November 2014, the City paid \$5,000 for catering services. Although we requested, we were not provided documentation, such as an executed purchase order or contract, invoice, canceled check, or other record, to demonstrate the propriety of the payment and its public purpose. City personnel indicated that the lack of supporting documentation was caused by employee turnover and inadequate records maintenance practices.

We also examined City records supporting two other payments which were made to nonprofit organizations. One of the payments was a \$5,000 payment made in July 2012 to a nonprofit organization to publish a magazine to be distributed in Haiti describing the effects of hurricanes and earthquakes and how to prepare for such events. The other payment was a \$500 payment made to another nonprofit

³¹ For example, Florida Attorney General Opinion Nos. 68-12 (dated January 25, 1968), 75-07 (dated January 24, 1975), 79-14 (dated February 16, 1979), and 94-89 (dated October 25, 1994).

³² Section 7-129, City of North Miami Code of Ordinances, requires City Manager authorization for purchases between \$50,000 and \$100,000.

organization in March 2015. Our examination of City records supporting these two payments disclosed that:

- The City Council authorized the \$5,000 payment for the magazine at a July 2012 City Council meeting. However, although we requested, we were not provided a copy of a purchase order, contract, or other record that established a mutual understanding with the nonprofit organization. Although City records included a copy of an invoice to support the \$5,000 payment, the invoice was not in sufficient detail to specify the scope of work the vendor performed and was not signed by a City official to demonstrate receipt of the services and authorization for the payment. Additionally, City records did not include a copy of the magazine or other evidence that the nonprofit organization published the magazine.

In response to our inquiry, City personnel indicated that a purchase order or contract to authorize the payment was unnecessary because the City Council authorized the payment during the meeting. Additionally, City personnel considered the payment to be a donation and, as such, there were no deliverables or contract or other document evidencing the deliverables. Notwithstanding these explanations, City records did not indicate that the payment was intended to be a donation.

Subsequent to our inquiry, City personnel contacted the nonprofit organization to obtain a copy of the magazine and support for the publication date; however, as of December 2016, the nonprofit organization had not provided evidence of the publication. Additionally, although the City Council approved the payment, how the donation was necessary to the accomplishment of the City's authorized purposes and the public purpose served by distributing such a publication in Haiti was not documented as a matter of public record.

- The City Manager authorized the \$500 payment to another nonprofit corporation in March 2015 for a City sponsorship of an annual fund-raising event. However, although we requested, we were not provided documentation evidencing the public purpose for the sponsorship.

Without appropriate purchasing and payment processing controls, the City has limited assurance that purchases of goods and services are effectively and consistently executed in accordance with City ordinances and that the related expenditures are reasonable in the circumstances, necessary to the accomplishment of the City's authorized purposes, and serve an authorized public purpose.

Recommendation: The City should ensure that written purchase orders or contracts are appropriately executed and used to authorize purchase transactions before payments are made. Additionally, the City should retain records to evidence the receipt and approval of goods and services and the authorized public purpose for the related expenditures.

Finding 16: Backflow Prevention Device Contract

City ordinances³³ require the City Public Works Department (PWD) to certify and inspect all backflow prevention devices. Such devices are designed to prevent the undesirable reversal of flow of a liquid, gas, or suspended solid into the potable water supply. Once inspected, the PWD is required to record the backflow prevention devices on an inventory list and maintain the list.

Although City ordinances make no provision for outsourcing this function to an independent contractor, in August 2012, the PWD Director signed a contract with a company to maintain the required list of tested backflow prevention devices. The company was not responsible for testing the backflow prevention

³³ City Ordinance No. 1331, Section 1.

devices. Each water and sewer customer was required to separately acquire and pay for their backflow prevention device tests and pay \$19.95 to the company to maintain the list of devices tested. Pursuant to the contract, the company was required to remit \$10 of each \$19.95 payment to the City.

Our examination of City records and discussions with City personnel disclosed that:

- The PWD Director signed the contract without approval of the Purchasing Director or the City Manager, or subsequent approval of the City Council. According to City records, the City notified the company that it had approximately 2,400 backflow prevention devices. Since the contract provided that the City would receive \$10 for each backflow prevention device on the list of tested devices, the approximate revenue generated by the contract would be \$24,000. According to the City Manager, who was employed in the PWD at the time of the contract, a City Council member directed him to execute the contract. The City Manager provided an April 2012 e-mail from the City Council member to the company indicating that the company should make a presentation to City personnel because “they’re the ones empowered with the decision-making ability in this matter.” The e-mail further informed the company that the City Manager and PWD Director were being copied on the e-mail “so that they might follow up.” The PWD Director interpreted the e-mail as indicating the City Council’s intent to enter into the contract and empowering him to contract with the company. Notwithstanding the PWD Director’s interpretation of the e-mail, the PWD Director was not an authorized contracting agent for the City.
- City ordinances do not specifically provide that the PWD may delegate responsibility for testing backflow prevention devices and maintaining the list of tested devices. In July 2013, an ordinance was presented to the City Council that would have amended existing City ordinances to accommodate the contract; however, the City Council did not pass the ordinance. Consequently, the contract to outsource the backflow prevention device inventory function was not authorized by City ordinances.
- From July 2013 through November 2013, the company paid the City a total of \$5,690 for the backflow prevention devices on the list of tested devices. However, the list of tested devices the company sent to the City indicated that 743 devices were tested, the company should have remitted a total of \$7,430 to the City, or \$1,740 more than what they paid. In response to our inquiry, City personnel indicated that a reconciliation of the tested devices to company payments received was performed; however, although we requested, we were not provided evidence of the reconciliation. Subsequent to our inquiry, City personnel contacted the company and collected the \$1,740 due from the company.
- In December 2013, the City paid the company a termination fee of \$2,500. The contract was entered into in August 2012 and provided for a termination fee if the contract was terminated within the first year; however, the contract did not specify a contract ending date. A 30-day notice of termination was provided to the company in October 2013, 2 months after the end of the contract’s first year. City records indicated that the company requested payment of the termination fee because, while the contract was signed in August 2012, the company had not implemented the backflow prevention device listing program until April 2013. Therefore, the company and City personnel asserted that the contract’s first year started in April 2013 rather than when the contract was signed in August 2012. However, insofar as the contract included a provision that the \$2,500 termination fee was only due if the contract was terminated within the first year, the City’s termination payment to the company was contrary to the terms of the contract.

Absent properly authorized contracts, there is an increased risk that contracted services will be contrary to City Council intent and, absent effective contract monitoring controls, the City has limited assurance that contractors will provide deliverables in accordance with contract terms and conditions.

Recommendation: City personnel should take appropriate action to ensure that contracted services are authorized by City ordinances and that only authorized personnel sign and establish contracts. Additionally, for revenue-generating contracts, City personnel should document reconciliation procedures to verify the accuracy of the amounts collected. The City should also take appropriate action to recover the \$2,500 contract termination fee paid to the company.

Finding 17: Solid Waste and Recycling Collection Services Contract

In March 2011, the City entered into a franchise agreement with a contractor to collect solid waste and recycling for the period March 2012 through April 2017 and, during that period, the City paid the contractor \$4.6 million for the services. According to the contract, the City was generally responsible for collecting solid waste and recycling payments from residential and commercial customers and remitting them to the contractor, and the contractor was required to remit franchise fees to the City.

Our examination of City records related to the solid waste and recycling collection services contract and discussions with City personnel disclosed that:

- During the period October 2012 through August 2016, the City had not assigned anyone responsibility for monitoring the contractor's compliance with the terms and conditions of the contract. Subsequent to our inquiries, in September 2016 the City hired two contract compliance managers to be responsible for monitoring the solid waste and recycling collection services and other City contracts.
- Section 5.9 of the contract provided, in part, that upon the commencement of the 4th year of the contract, or at any time the contractor performs more than 75 percent of the City's commercial solid waste collection services, the contractor is to pay the City \$120,000 per year to fund a contract manager position at the City. The contract manager provision was effective for the contract term, including any extensions and renewal options. However, although the commencement of the 4th year of the contract was March 2015, as of December 2016, the contractor still had not paid the City for the contract manager services.
- Section 14 of the contract required the contractor to maintain certain types of insurance and to convey certificates of insurance to the City evidencing that such insurance coverage remained in effect. Although City records contained certificates of insurance provided by the contractor, the certificates did not evidence that the required coverage was maintained. Based on the certificates of insurance available at the time of our initial review, there were periods of up to a year during which the required insurance coverages had lapsed. Subsequent to our inquiries, in August 2015 the City obtained copies of additional certificates of insurance from the contractor and provided those certificates for our review.
- Although certificates of insurance provided by the contractor evidenced that the contractor maintained liability insurance during the contract period, the insurance coverage limits were not always in accordance with the contract terms and conditions. Specifically, although the contract required:
 - A deductible of \$25,000 for pollution liability insurance, the coverage obtained by the contractor for the period January 2015 through January 2016 included a deductible of \$250,000.
 - Excess liability insurance of \$25 million per occurrence and in the aggregate, the coverage obtained by the contractor for the period November 2013 through November 2014 included coverage of \$5 million per occurrence and \$20 million in the aggregate. The contractor correctly increased the excess liability insurance coverage in the aggregate to \$25 million for

the period November 2014 through November 2015; however, the per occurrence coverage remained at \$5 million.

The lack of insurance coverage in the required amounts reduces the City's assurances that identified risks have been appropriately managed and that any potential losses will be sufficiently mitigated.

- Section 21 of the contract required the contractor to annually provide the City with certified financial statements within 6 months of the close of the contractor's fiscal year throughout the term of the contract and any extension thereto. However, although we requested, as of April 2017 we had not been provided documentation evidencing that the contractor had provided the City with the required annual certified financial statements since the inception of the contract in March 2012. Obtaining and reviewing the contractor's annual financial statements would provide the City with additional assurance that the contractor was financially capable of fulfilling the contractual obligations.
- Section 32.1 of the contract provided that the contractor would purchase vehicles from the City's fleet of solid waste and recycling collection vehicles. The vehicles to be purchased by the contractor were to be identified on a schedule provided by the City as soon as practical following execution of the contract and, the amount paid was to be the fair value of the vehicles and related equipment as determined by a City-selected third-party appraiser. In May 2012, the City identified seven City-owned vehicles on a schedule provided to the contractor and sold the vehicles to the contractor for \$485,000; however, the City did not engage a third-party appraiser to determine the fair value of the vehicles. Consequently, it is not apparent of record that the City was properly compensated for the full fair value of the conveyed vehicles.
- Section 32.3 of the contract required the City to lease its motor pool property to the contractor pursuant to a separately negotiated lease agreement, and specified a monthly rent of \$5,500. However, the City and the contractor did not execute a lease agreement for contractor use of the motor pool property. City personnel indicated that, at the inception of the contract, the contractor occupied the motor pool property for several months at no cost to the contractor but that the contractor no longer occupied the property. Also, the City had not amended the contract to remove the motor pool property lease requirement and, according to City personnel, no records were maintained to document the actual period the contractor occupied the property. Absent such records, the City's cannot demonstrate the number of months the contractor occupied the motor pool property. Therefore, the City's ability to collect rental payments from the contractor is limited. Also, by not executing the lease agreement provided for in the contract, City records did not demonstrate compliance with the contract provisions and the City forewent the opportunity for rental revenue throughout the contract term.

Effective contract management includes monitoring contractor performance, verifying timely receipt of services, certifying the quality of the services, validating and verifying contract pricing and payment, and managing and memorializing changes to the contract. Effective contract monitoring is an ongoing process that involves the conduct of various monitoring activities throughout the term of the contract and helps obtain the information and documentation necessary to provide reasonable assurance that the contractor complies and performs in accordance with the contract terms and conditions. The City's lack of effective contract management and contract monitoring throughout the life of the solid waste and recycling collection services contract may have contributed to, or resulted in the untimely detection and resolution of, the deficiencies we noted.

According to City personnel, in April 2017 the City renewed the contract for solid waste and recycling collection services for 4 additional months.

Recommendation: To ensure that contractors comply and perform in accordance with the terms and conditions of their contracts with the City, the City should continue efforts to effectively perform and document appropriate contract management, including the conduct of contract monitoring activities and the execution of appropriate contract amendments. Also, the City should take immediate action to obtain funding from the solid waste and recycling collection contractor for contract manager services.

Finding 18: Building Inspection and Permitting Services

City ordinances³⁴ for the procurement of professional services exceeding \$50,000 require the use of a request for proposal (RFP) and provide that an award shall be made to the responsible offeror whose proposal conforms to the solicitation and is determined in writing to be the most advantageous to the City taking into consideration price and the evaluation factors set forth in the RFP. When evaluating RFP responses, the City awards local business preference points to those respondents with at least 10 percent of their total workforce residing in the City or that subcontract at least 10 percent of their work to businesses in the City.³⁵

In December 2011, the City issued an RFP for building inspection and permitting services. The RFP required respondents to submit by January 10, 2012, written proposals for inspecting and approving building projects or other building services that require a building permit (e.g., new roof, building addition, or other significant structural improvements) and to include in the proposals a revenue-sharing formula whereby the City and the successful respondent would each get a percentage of the Building Department and Public Works Department gross monthly permit fees collected. Additionally, the RFP indicated that proposals, once opened, could not be withdrawn or modified except to the extent agreed to by the City Council during the subsequent contract negotiation.

In accordance with City ordinances,³⁶ the Purchasing Director appointed an evaluation committee to open and review proposals and rank the respondents based on established criteria. Three respondents submitted proposals and, on January 20, 2012, the evaluation committee scored Respondent A's proposal the highest based on the criteria. Table 4 shows the criteria and scores awarded to the three respondents, as well as the proposed revenue-sharing formula for both private and City projects.

³⁴ Sections 7-137 and 7-138(b) and (h), City of North Miami Code of Ordinances.

³⁵ Section 7-151, City of North Miami Code of Ordinances.

³⁶ Section 7-138(g), City of North Miami Code of Ordinances.

Table 4
Evaluation Committee Criteria and Original Scores
For Building Inspection and Permitting Service Proposals

Respondent	Evaluation Criteria and Available Points					Proposed Revenue Sharing (City/Contractor)	
	Firms/Staff Overall Experience (0-90 Points)	Methodology, Transition, and Approach (0-75 Points)	Price Proposal (0-105 Points)	Local Business Preference (30 Points)	Total Score (0-300 Points)	Private Projects	City Projects
A	80	70	85	30	265	35/65	40/60
B	53	59	60	-	172	26/74	26/74
C	68	61	104	30	263	50/50	60/40

Source: City records

According to City personnel, subsequent to the evaluation committee's scoring of the three proposals, the Purchasing Director requested that Respondent A amend its proposed price. Our examination of City records disclosed that Respondent A provided an amended proposal to the Purchasing Director on March 2, 2012, and that the amended proposal increased the City's revenue-sharing percentage to 50 percent for all types of permits and included a \$500 monthly administrative fee payable to the City.

On April 10, 2012, the City Council was presented an agenda packet consisting of the evaluation committee members' scoring sheets, which were not revised for Respondent A's amended proposal, and Respondent A's amended proposal, and the City Council approved the selection of, and authorized the City Manager to negotiate and execute an agreement with, Respondent A. On May 1, 2012, the City Manager executed an agreement with Respondent A (contractor) for building inspection and permitting services and, for the period October 2012 through March 2015, the City paid the contractor \$884,763 for these services.

Our discussions with City personnel and examination of City records, including the RFP documents and building inspection and permitting services agreement and related amendments, disclosed that:

- The City requires applicable respondents to submit a local preference form³⁷ to document and award local business preference points. Respondent A's form indicated that 10 percent of the work would be subcontracted to two local businesses and Respondent C's form indicated that 10 percent of the work would be subcontracted to another local business. However, our examination of the City business license database disclosed that one of the two businesses referenced on Respondent A's local preference form and the business referenced on Respondent C's local preference form were not listed as City-licensed businesses. Additionally, our examination of the Department of State Web site disclosed that the business referenced on Respondent A's form that was not listed as a City-licensed business was administratively dissolved in September 2012. Further, City records did not demonstrate that City personnel contacted the local businesses to confirm whether the anticipated services would be provided, verified the subcontracts, or made other efforts to substantiate the assertions of local business participation in providing the contracted services.
- Neither Respondent A's original proposal nor a revised evaluation score based on the evaluation committee members consideration of the amended proposal were presented to the City Council. While Respondent A's amended proposal was advantageous to the City, the RFP explicitly

³⁷ Local Preference Form A-3. Local preference points may be applied to businesses that subcontract at least 10 percent of a City project contract amount to subcontractors whose businesses are physically located within the City.

prohibited any proposal modifications prior to contract negotiations and the other respondents were not given the same opportunity to amend their proposals. In response to our inquiry, City personnel indicated that they were not sure why Respondent A's original proposal was not submitted to the City Council for consideration or why Respondent A was allowed to amend its original proposal after the proposal due date and before contract negotiations began.

- On May 1, 2012, the City Manager entered into an agreement with Respondent A for the period May 14, 2012, through September 30, 2012, and during this period, the City made 3 payments totaling \$25,408 to the contractor. However, the agreement provisions did not agree with those specified in the City Council-approved proposal. Specifically, the agreement did not provide for the City to share 50 percent of the revenues collected for all types of permits or the \$500 monthly administrative fee payable to the City. Instead, under the terms and conditions of the agreement, the City paid the contractor at an hourly rate. City records did not demonstrate how the best interests of the City were served by the agreement terms and conditions which differed significantly from the City Council-approved proposal.

On December 1, 2012, the City Manager and the contractor retroactively amended the agreement for the period October 1, 2012, through September 30, 2015, changing the compensation for the contractor-inspected and approved projects to the 50-percent revenue-sharing formula in the proposal; however, the \$500 monthly administrative fee payable to the City was still excluded. Additionally, the amended agreement provided that the contractor was to retain 30 percent of the building permit revenues for inspection services on permits that were open between October 2011 and September 2012.

In response to our inquiries, City personnel indicated that they were not sure why the City Manager authorized compensation terms that differed from those in the City Council-approved proposal, or why, given those significant differences, City Council approval was not obtained for the May 1, 2012, agreement or the December 1, 2012, amendments to the agreement. We noted that City records did not demonstrate the public purpose served by the agreement amendments.

Although we requested, City records were not provided to demonstrate the total amount of permit fees collected during the period May 14, 2012, through September 30, 2015. Therefore, it was not practical for us to determine the amount the contractor would have been compensated had the compensation payments been made consistent with the proposal approved by the City Council.

- In June 2013, the City Manager and the contractor further amended the agreement to provide that the contractor would collect 70 percent of all building permit revenue for plan reviews and inspection services on permits reviewed and inspected by the contractor retroactive to April 2013. The amended agreement made no mention of the \$500 monthly administrative fee included in the City Council-approved proposal but provided that the contractor would reimburse the City a total of \$7,500 per month for the salaries of two City-employed permit clerks. However, as similarly noted above, City Council approval was not obtained for this amendment and City records did not demonstrate the public purpose served by the amendment.

We analyzed the effect of the amended agreement on City revenues for the period April 2013 through December 2014, and determined that the City received \$82,930 less than it would have without the amendment. Specifically, the City would have received \$582,325 based on the 50-percent revenue-sharing formula approved by the City Council; however, based on the amended agreement terms allowing the contractor to retain 70 percent of the fee permit revenue, the City only received \$499,395.

Effective competitive selection processes reduce the appearance and opportunity for favoritism and inspire public confidence that service providers are selected in a fair, equitable, and economical manner. It is essential to the effective and ethical procurement of services that detailed justification of decisions in the procurement of services be maintained. Absent City records:

- Justifying the basis for points assigned during the proposal evaluation process, the City's ability to demonstrate the reasonableness of the points assigned to RFP respondents may be limited.
- Evidencing that any proposal modifications were limited to those authorized by the City Council during subsequent contract negotiations, there is an elevated risk for the procurement process to be legally challenged and the City to experience associated litigation costs.
- Confirming the validity of proposals that request local business preference, there is an increased risk that such preference will be afforded to respondents that do not qualify, resulting in inequities in the proposal evaluation and contracting processes.
- Documenting, for all contract modifications, how the amendments benefitted the City's interests, the City cannot demonstrate the public purpose served by the amendments.
- Demonstrating City Council approval for contract modifications that result in significant differences from what was previously presented to and approved by the City Council, the risk increases for contract modifications to be made that are not consistent with City Council intent.

Recommendation: The City should enhance City contracting procedures to demonstrate that contracts are awarded and modified in a fair, equitable, and economical manner. We recommend that the enhanced procedures ensure that City records include justification of the basis for points assigned during the proposal evaluation process, evidence of actions taken to verify the proposal information provided by respondents, City Council authorization for any proposal revisions, the public purpose served by the contract and all modifications thereto, and, when appropriate, City Council approval of contract modifications.

Finding 19: Property Management Services – Biscayne Landing

As previously mentioned, City ordinances³⁸ for the procurement of professional services exceeding \$50,000 require the use of an RFP. On May 2, 2011, the City issued an RFP to obtain property management services at Biscayne Landing, a City-owned residential community. Two respondents submitted proposals and the Purchasing Director established a three-member evaluation committee to review and score the proposals. The evaluation committee scored the two proposals based on four evaluation criteria: qualifications, site knowledge, local preference, and fee compensation. One respondent's proposal received a total score of 246 points and the total score for the other respondent's proposal was 234 points.

On May 17, 2011, the City Council awarded a contract for an initial 4-month period that changed, after the initial period, to a month-to-month basis to the respondent with the lower-scored proposal. For the period July 2011 through the termination of the contract on February 10, 2015,³⁹ the City paid \$1,106,000 to the successful respondent. Our discussions with City personnel and examination of City records related to the Biscayne Landing property management services contract disclosed that:

- Although the unsuccessful respondent's proposal received a higher total score based on the four evaluation criteria, primarily due to qualifications and site knowledge scores, the proposed monthly fee of \$23,250 was significantly higher than the \$19,500 monthly fee proposed by the successful respondent. The successful respondent was a business owned by a former City Mayor and, pursuant to the May 2011 contract, was to be paid a \$19,500 monthly fee as the Biscayne Landing Property Manager. Other than the lower proposed monthly fee, City records did not

³⁸ Sections 7-137 and 7-138(b) and (h), City of North Miami Code of Ordinances.

³⁹ The City Council amended the contract on October 9, 2012, and October 12, 2013; and, effective February 10, 2015, the City Council terminated the contract.

demonstrate that selection of the respondent as Property Manager was in the City's best interests given that the respondent received a lower total score than the unsuccessful respondent.

- In January 2012, approximately 7 months after the City Council awarded the contract, the City Council approved an increase in the Property Manager's monthly fee from \$19,500 to \$25,000, or \$1,750 more than the monthly fee proposed by the unsuccessful respondent. According to City personnel, the increase was necessary because of certain environmental concerns related to compliance with Department of Environmental Protection (DEP) requirements. However, neither the City Council meeting minutes nor other City records made mention of environmental concerns on the City-owned land in Biscayne Landing. Additionally, although we requested, City records were not provided to support either the Property Manager's costs for ensuring compliance with the DEP requirements or the reasonableness of the monthly fee increase which resulted in additional City expenditures totaling \$209,000 during the period February 2012 through March 2015. On October 9, 2012, the City Manager amended the contract to a 1-year term, renewable in writing, on an annual basis.
- On October 12, 2013, the City Manager amended the contract to continue on a month-by-month basis until the contract was terminated by either party with or without cause. That same month, the City Manager issued an RFP for property management services. Then, at the October 22, 2013, City Council meeting, the City Manager asserted that the RFP was not necessary, although several qualified respondents had already provided proposals in response to the RFP. The City Manager also asserted to the City Council that an RFP had been issued in the 2012 year, resulting in a 3-year contract with the existing Property Manager. The City Council voted to cancel all the related proposal openings and retroactively approved the October 12, 2013, contract amendment. However, contrary to the City Manager's assertions, an RFP had not been issued in the 2012 year, and the Property Manager's original contract was not a 3-year contract but a 1-year contract, renewable in writing on a year-to-year basis. In response to our inquiry, City personnel indicated that they did not know why the City Manager provided incorrect information to the City Council or why he issued the RFP in October 2013 without City Council authorization. Absent accurate and reliable information provided by City personnel, the City Council is at risk of making misguided or uninformed decisions that may negatively impact the City and its residents.
- Article 12 of the contract required the Property Manager and any subcontractors to maintain certain types of insurance at specified levels, including workers' compensation, general liability, automobile liability, property management liability, and umbrella insurance.⁴⁰ Additionally, the City was to be included as an additional insurer for all insurance categories except property management insurance and workers' compensation insurance. However, although we requested, City records were not provided to evidence that:
 - The Property Manager had workers' compensation, automobile liability, property management liability, or umbrella insurance coverages in effect for the period May 20, 2011, through June 30, 2012.
 - A subcontractor had the required insurance coverages for the period July 2, 2011, through June 30, 2012.
 - The City was named as an additional insurer for workers' compensation, general liability, automobile liability, property management liability, and umbrella insurance (except for the Property Manager's automotive liability insurance) in effect from February 5, 2015, through the February 10, 2015, contract termination date.

⁴⁰ Umbrella insurance is liability insurance that is in excess of that specified in other policies and also potentially primary insurance for losses not covered by other policies.

While no actual claims were paid by the City, without adequate procedures to verify that the contractor maintained the required insurance coverages, the City may be subjected to potential losses.

- The May 2011 RFP, which was incorporated into the contract by reference, required the Property Manager to staff an onsite sales center a minimum of 5 days per week 8 hours per day and to provide written reports and updates to City personnel detailing the status of issues and suggested action plans. However, we noted that:
 - The RFP and contract did not specify the level of detail required for invoices. Each Property Manager invoice indicated that the invoice was for 1 month of site management, maintenance, and equipment; however, the invoices did not specify the dates and times the sales office was staffed, and City personnel did not request such information prior to paying the invoices. Also, City records did not indicate that City personnel physically observed that the sales office was staffed as required by the RFP.
 - According to City personnel, the contractor did not submit any written reports or updates to the City detailing the status of issues and suggested action plans. Without such information, the City Council may not be adequately informed about issues related to the City-owned property.

During the period October 2012 through March 2015, the City had not assigned anyone responsibility for monitoring the Property Manager's compliance with the terms and conditions of the contract. Absent effective contract monitoring, contractor noncompliance with contract terms and conditions, such as the instances of noncompliance we noted, may not be timely detected and the City has limited assurance that contractor performance meets expectations.

Recommendation: The City should enhance property management services contracting and related monitoring procedures to ensure that:

- **Prior to the issuance of an RFP for such services, the City Council approve the RFP.**
- **City records demonstrate the basis for contract changes and how such changes are in the best interests of the City.**
- **Written reports are periodically submitted, as required, to update the City on the status of applicable property management service issues and related action plans.**
- **A designated individual monitors contractor compliance. Such monitoring should include documented determinations that the contractor met the terms and conditions of the contract, including those related to required insurance coverages and onsite sales center staffing.**

Finding 20: Adult Education Tuition Program

In January 2013, the City adopted a resolution⁴¹ authorizing the City Manager to execute an agreement between the City and the Miami-Dade County District School Board (District). One stated purpose of the agreement was to fund, at a cost not to exceed \$50,000, and implement the adult education tuition program for economically challenged City residents attending the North Miami Adult Education Center at the North Miami Senior High School during the 2012-13 school year. Another stated purpose of the

⁴¹ Resolution No. R-2013-3.

agreement was to “offset a decrease in State adult education funding, which decreased adult school enrollment, despite the need and increasing demand for adult education courses within the City.”

The City and District entered into the program agreement and subsequently, in February 2014 and February 2015, executed additional agreements to extend the program to the 2013-14 and the 2014-15 fiscal years, with additional funding of \$100,000 and \$50,000, respectively. Our examination of the program agreements for the 2012-13, 2013-14, and 2014-15 fiscal years and discussions with City personnel disclosed that:

- Although, according to the resolution, program funds were to be used to assist economically challenged City residents, the agreements did not specify that program participants were to be economically challenged City residents and did not include criteria for evaluating the economic eligibility of participants. In response to our inquiry, City personnel indicated that they did not know why the agreement did not include language consistent with the resolution’s intent to assist economically challenged City residents. When agreement terms and conditions do not reflect the intent of the authorizing resolution or include the criteria for evaluating the economic eligibility of program participants, the risk increases that program funds may not be used pursuant to City Council intents.
- The agreements required the District to submit invoices with supporting documentation to the City. However, the agreements did not include fee schedules for adult education classes or specify the supporting documentation required. For the period July 2013 through June 2014, the City paid a total of \$136,339 to the District based on 12 invoices; however, our examination disclosed that documentation supporting the District’s compliance with the agreement terms was not submitted with the invoices. Without sufficiently detailed invoices along with other records to demonstrate compliance with the terms of the agreement, the risk increases that program funds may be expended for other than authorized program purposes.
- The agreements required the District to collect documentation from program participants (students) to enable the City to verify the students’ residency; however, the agreements did not specify the types of documentation needed to establish residency. In addition, our examination disclosed that, although the District provided student registration forms to the City, City personnel did not routinely verify and document, of record, that the student addresses were valid and located in the City.

Pursuant to a request by a City Council member, City personnel prepared an exception report of payments for program students during the period December 2013 through May 2014. The exception report indicated that, of 692 program students, 67 resided in addresses outside the City, and 16 reported addresses that were not valid. The City paid the District \$7,323 associated with these 83 students. Absent specification of acceptable documentation to establish residency and routine verification of the program students’ residency, program funds may be used for students who are not City residents.

- Although the agreements required the District to provide monthly reports to the City regarding student participation, student enrollment, and expenditure of program funds, City personnel indicated that the District did not provide such reports. Without student participation and enrollment data and program expenditure information, the City’s ability to verify that program funds were used for authorized purposes is limited.
- The agreements required the District to report program-level academic performance data biannually to the City. However, City personnel indicated that the District only provided two such reports, one in November 2013 and one in February 2015, during the 2012-13, 2013-14, and 2014-15 fiscal years. Academic performance data is necessary for the City Council to evaluate the program’s success.

In October 2015, due to a law enforcement investigation at the North Miami Adult Education Center, the Interim City Manager temporarily suspended the City's participation in the program to determine whether the investigation involved City funds and to review the City's policies, procedures, and guidelines. Subsequently, in January 2016, the City reinstated the program.

During the first 3 years of the program, the City had not assigned anyone responsibility for monitoring the District's compliance with the terms and conditions of the adult education tuition program agreements. Effective monitoring would have ensured that the required data and documentation was obtained from the District, promoted compliance with the terms and conditions of the agreements, and ensured program funds were expended for eligible participants and authorized program purposes.

Recommendation: The City should establish adequate monitoring procedures to verify and ensure compliance with the adult education tuition program agreements terms and conditions, including the District's provision of required student participation, student enrollment, expenditure, and biannual academic performance data. Additionally, the City should:

- **Establish criteria to be used to identify economically challenged City residents eligible for program participation and ensure that agreements include such criteria.**
- **Amend the agreement to include fee schedules for adult education classes and specify the supporting documentation needed to demonstrate District compliance with the agreement terms. Prior to payment, City personnel should verify that the amounts billed by the District agree with the fee schedules and that the documentation provided is adequate.**
- **Amend the agreement to specify the acceptable documentation to establish program student residency, implement procedures for routinely verifying that program student addresses are valid and located in the City, and attempt to recover from the District the \$7,323 associated with the 83 ineligible students.**

Finding 21: Auditor Selection and Audit Services Contract

Pursuant to State law,⁴² the City is required to provide for annual financial audits. Financial audits performed by an independent certified public accountant (CPA) give assurance as to the reliability and completeness of the City's financial statements; provide a means for evaluating the effectiveness of the City's internal control over financial reporting; and include a determination of the extent to which the City complied with applicable laws, contracts, grant agreements, and City ordinances, policies, and procedures, noncompliance with which could have a direct and material effect on the City's financial statement amounts. Consequently, it is important for entities to use an auditor procurement process that provides for a quality audit.

State law⁴³ requires each local government, prior to entering into a written contract for audit services, to establish an audit committee, assign to the audit committee responsibilities for evaluating and recommending an auditor, and use specified auditor selection procedures. State law⁴⁴ also requires a written audit services contract that includes, at a minimum, provisions specifying the services to be provided and fees or other compensation for such services, requiring that invoices for fees or other

⁴² Section 218.39, Florida Statutes.

⁴³ Section 218.391, Florida Statutes.

⁴⁴ Section 218.391(7), Florida Statutes.

compensation be submitted in sufficient detail to demonstrate compliance with the terms of the contract, and specifying the contract period, including renewals, and conditions under which the contract may be terminated or renewed.

In the GFOA's 2006 *Audit Committees – An Elected Official's Guide (Guide)*, the GFOA recommends that no individuals who exercise managerial responsibilities that fall within the scope of the audit should serve as a member of the audit committee. In addition, the *Guide* points out that one of the key duties of an audit committee is to provide a forum in which independent auditors can candidly discuss audit-related matters with members of the governing body apart from management.

On October 26, 2010, the Mayor and City Council authorized the City Manager to establish an Audit Committee (Committee) to assist the City Council in selecting an auditor to conduct the City's annual financial audit. The Committee was composed of the Deputy City Manager, Finance Director, and Budget Manager, individuals who exercised managerial responsibilities. As the Committee was composed entirely of City management, the Committee's ability to act in an independent and effective manner was diminished.

On October 27, 2010, the City advertised an RFP for the conduct of the City's annual financial audit by qualified CPA firms. In January 2011, the City Council selected the CPA firm recommended by the Committee and the City entered into a contract with the firm. The contract provided that the firm would conduct the financial audit for 3 fiscal years and the City would have the option to renew the contract for an additional 3 fiscal years. The City paid the CPA firm \$115,845, \$126,656, and \$122,600, to conduct the City's 2011-12, 2012-13, and 2013-14 fiscal year financial audits, respectively. However, contrary to State law, the contract did not include a provision requiring that invoices for fees or other compensation be submitted in sufficient detail to demonstrate compliance with the terms of the contract. City personnel indicated that they did not know why required contract language was omitted and the City Manager, Purchasing Director, and Committee members at the time of the auditor selection and contract execution were no longer employed by the City. We examined the invoices submitted to the City by the CPA firm and noted that the invoices did not identify the staff assigned to the audit, staff hours charged, or staff billing rates. Therefore, the invoices were not in sufficient detail to demonstrate compliance with the terms of the contract and, consequently, City records did not adequately support the amounts paid for audit services.

Recommendation: The City should revise the Auditor Selection Committee membership to ensure that no members exercise City managerial responsibilities. In addition, the City should ensure that contracts for audit services include all the provisions required by State law. We also recommend that, prior to payment, City personnel verify that invoices for audit services sufficiently detail the information necessary to demonstrate compliance with the terms of the audit services contract.

PURCHASING CARDS

The City uses purchasing cards (P-cards) to expedite the purchase of selected goods and services. P-cards provide employees the convenience of purchasing items without using the standard purchase order process and are designed to provide a cost effective, convenient, and decentralized method for individuals to make certain business purchases on behalf of the City. However, as P-cards are vulnerable

to fraud and misuse, it is essential that City policies and procedures provide effective controls over the accountability and use of P-cards.

Finding 22: P-Card Authorization and Issuance, Purchasing Limits, and Cancellations

The City's *Purchasing Card Policy and Procedures Manual (P-Card Manual)* provides that P-cards may be used for small dollar purchases, emergencies, Internet orders, travel, and for vendors that do not accept purchase orders. The *P-Card Manual* requires that:

- Department heads submit a memo to the P-Card Administrator and complete the P-card request/certification/receipt form (Form A) to request P-cards for new cardholders or to request changes to cardholder assignments. Form A requires both the approval of the applicable department head and the P-Card Administrator to authorize issuance of a P-card to a cardholder. Additionally, department heads are to request cardholder purchasing limit changes by submitting a completed Form A to the Purchasing Director.
- When the City's P-Card Administrator receives the P-card for a cardholder, the cardholder is to personally take receipt of the card, complete P-card training, and sign the P-card agreement form (Form B). In addition to documenting that the cardholder physically took receipt of the card, Form B establishes acceptable and unacceptable P-card usage and, by signing the form, the cardholder agrees to abide by those terms.
- Dollar amounts of single transaction, daily, and monthly purchases be limited to \$500, \$2,500, and \$5,000, respectively. Department heads may increase monthly limits for special projects and a purchase can consist of multiple items if the invoice does not exceed the lesser of \$1,000 or the cardholder's limit.
- The P-Card Administrator is required to close an account if a cardholder transfers to a different department, transfers to a new position within a department for which the P-card is not required, or separates from City employment. Prior to employment separation, the cardholder must submit the P-card to the P-Card Administrator, reconcile receipts with monthly card statements, and sign-off on all transactions.

As part of our audit, we examined City P-card policies and procedures and records and inquired of City personnel. Our audit procedures disclosed that City policies and procedures associated with P-card authorization and issuance, purchasing limits and related usage, and cancellations could be enhanced to better promote P-card accountability.

P-Card Authorization and Issuance

The City had a total of 115 P-card accounts during the period October 2012 through March 2015, and 52 P-card accounts were active as of March 31, 2015. To determine whether P-cards, and the associated purchasing limits, were authorized and issued in compliance with the *P-Card Manual*, we examined City records supporting 30 selected cardholder accounts. We found that:

- City records did not include a Form A to demonstrate that the applicable department head and P-Card Administrator approved the issuance of a P-card for 13 of the 30 cardholders. In response to our inquiry, City personnel indicated that the forms were lost. Absent such documentation, P-cards may be issued without appropriate authorization, increasing the risk that the P-cards may be misused.
- Although we requested, we were not provided documentation evidencing that 13 (including 2 cardholders who did not have a Form A in City records) of the 30 cardholders attended the required P-card training. City personnel indicated that the P-card training attendance records for

these employees were lost. Without such records, management’s assurance that the cardholders understand the necessary procedures to comply with the *P-Card Manual* is reduced.

- 4 (including 1 cardholder who did not, of record, attend required P-card training) of the 13 cardholders who did not have a Form A in City records also did not have a Form B on file to demonstrate that the cardholder received the P-card and agreed to follow the P-card terms of use. According to City personnel, the 4 cardholders’ Form Bs were lost. Absent such documentation, the City’s ability to demonstrate that the employees took possession of the P-cards and agreed to comply with the P-card terms of use is limited.
- For 3 cardholders, Forms A or B lacked information such as the P-card number, approval and issuance dates, or authorized signatures by either the department head or cardholder. Without such information, accountability for the P-cards is diminished and the ability to establish authorization for the P-card is limited.
- For 3 cardholders, the purchasing limits approved on Form A differed from the purchasing limits issued by the bank as shown on the bank’s online profiles. Table 5 shows the monthly purchasing limits authorized on Form A that differed from those issued by the bank for these 3 cardholders.

Table 5
P-Card Limits That Differed From Authorized Amounts

Cardholder	Purchasing Limit	Form A	Bank	Difference
1 ^a	Monthly	5,000	15,000	10,000
2	Monthly	10,000	15,000	5,000
3	Monthly	2,500	5,000	2,500

^a City records did not evidence that cardholder attended required P-card training.

- 1 of the 13 cardholders without a Form A in City records had not received the P-card, although the bank’s online profile indicated that the P-card was active. In response to our inquiry, the cardholder indicated that a P-card had been requested by the cardholder’s department head; however, the employee never received the P-card and had not signed Forms A or B. According to City personnel, the P-card had been maintained in a locked box in the Purchasing Department since May 2011. While our tests did not disclose that the P-card had been used, the necessity for the P-card was not apparent and, because the bank profile indicated the P-card was active, there is an elevated risk that the P-card account could be used to make unauthorized purchases.
- Although the *P-Card Manual* requires department heads to request cardholder purchasing limit changes by submitting a completed Form A to the P-Card Administrator, City personnel indicated that cardholders submit purchasing limit increase requests via e-mail to the Purchasing Department. These purchasing limit requests were not documented in the cardholder’s files and, although we requested, we were not provided the e-mails. City personnel further indicated that, since August 2015, all cardholders have been required to submit purchasing limit changes using a newly developed purchasing limit increase request form approved by both the department head and the City Manager. Without documentation authorizing changes to cardholder purchasing limits, the City cannot demonstrate that the purchasing limits were appropriate for the cardholder’s position and responsibilities.

P-Card Purchasing Limits

We inquired of City personnel and examined and analyzed City records, such as P-card bank statements, supporting cardholder purchasing limits and usage for the 52 P-card accounts for the period October 2012 through March 2015. During that period, there were 3,525 P-card expenditures totaling \$797,015 related to these accounts. Our audit procedures disclosed that City P-card procedures and the

agreement with the bank responsible for processing P-card transactions need improvement, charges that exceeded authorized limits, monthly purchasing limits that appeared excessive, and P-cards that appeared to be unnecessary due to limited usage. Specifically, we found that:

- The *P-Card Manual* did not require, nor had the City implemented procedures to perform, periodic reviews and evaluations of the reasonableness of cardholder purchasing limits and P-card usage.
- The single transaction limit of \$500 established in the *P-Card Manual* was exceeded for 416 P-card expenditures, ranging from \$501 to \$4,955 and totaling \$428,091. Additionally, of the 416 expenditures, 124 expenditures totaling \$220,278 exceeded the invoice limit of \$1,000 established in the *P-Card Manual* and 19 of these expenditures totaling \$63,639 exceeded the daily limit of \$2,500. Although the *P-Card Manual* provides that purchasing limits may be increased for special projects, in these instances, City records did not evidence any special projects that justified the increased purchasing limits.
- The monthly limits for 4 cardholders with monthly limits ranging from \$2,500 to \$5,000, were exceeded a total of five times by amounts ranging from \$263 to \$9,505. Subsequent to our inquiry, the City provided a P-card profile audit log generated from the bank showing that the monthly limits had been temporarily increased for these 4 cardholders. However, although we requested, we were not provided documentation to evidence department head approval of the purchasing limit increases or the purposes for the temporary purchasing limit increases.
- Although issued P-cards with monthly purchasing limits ranging from \$500 to \$10,000, 19 cardholders did not use a P-card during the period October 2012 through March 2015.
- Purchases made in 1 month by 2 cardholders exceeded the cardholders' monthly purchasing limits of \$15,000 and \$5,000, by \$3,531 and \$129, respectively. Subsequent to our inquiry, City personnel contacted bank personnel who indicated that merchants may request and retain approval on a purchase for a billing cycle and not process it until the following billing cycle, which may result in P-card purchases exceeding the monthly purchasing limit. However, although we requested, City records were not provided to demonstrate that the bank's explanation adequately justified the processing of these 2 cardholders' purchases in excess of established purchasing limits.

We also found that, contrary to the *P-Card Manual*, 41 of the 52 P-card accounts lacked single transaction and daily purchasing limits. During the period October 2012 through July 2015, 38 of the 41 P-cards were used at least once; however, the other 3 were not used.

Without periodic reviews and evaluations of P-card purchasing limits and usage, appropriate actions based on evaluation results, and bank enforcement of the P-card purchasing limits, there is an increased risk that P-card errors, fraud, or misuse could occur and not be timely detected and resolved.

P-Card Cancellations

We examined City records for the 23 cardholders who separated from City employment during the period October 2012 through March 2015 to determine whether the cardholders' P-cards were timely canceled. We found that 9 of the 23 cardholders' P-cards were not canceled until 17 to 610 days after the employees' separation dates and that City records did not always evidence that the cardholders submitted the P-cards to the P-Card Administrator as required by the *P-Card Manual*. While our tests disclosed that the individuals did not use the P-cards after separating from City employment, without prompt cancellation and collection of assigned P-cards, there is an increased risk that unauthorized P-card usage may occur.

Recommendation: The City should enhance controls over P-cards by:

- Ensuring that City records demonstrate that all P-cards and cardholder purchasing limits (including temporary increases) are properly authorized and that cardholders took possession of the P-cards and agreed to the terms of use.
- Revising the City agreement with the bank to require the bank to enforce City-established cardholder purchasing limits.
- Requiring periodic reviews and evaluations of cardholder purchasing limits and usage and, based on evaluation results, that appropriate actions, such as adjustments to purchasing limits be timely taken.
- Ensuring prompt cancellation and collection of P-cards upon cardholders' separation from City employment.

EXPENDITURES

City management is responsible for establishing adequate controls to ensure that expenditures are reasonable; adequately documented; appropriately approved; accurately recorded in City accounting records; authorized by and comply with applicable laws and City ordinances, regulations, policies, and procedures; and serve a valid public purpose. During the period October 2012 through March 2015, the City recorded expenditures totaling \$160.8 million.

Finding 23: P-Card Expenditures

The City *P-Card Manual* provides guidelines for P-card expenditures, including documentation and approval requirements for P-card transactions. The *P-Card Manual* also identifies unallowable P-card charges, including:

- Personal purchases.
- Entertainment expenses.
- Alcoholic beverages.
- Meals.
- Donations and charitable contributions.
- Furniture, fixtures, and equipment with costs greater than \$1,000.
- Payments of fines and penalties.
- Any additional goods or services specifically restricted by the Purchasing Department or the department head who assigned the P-card.

The *P-Card Manual* requires the use of a payment request and authorization form (Form C) to document all P-card transactions, including those related to travel. Form C is to include the cardholder's name and P-card number; relevant bank statement closing date; a description, including quantity and price, of the goods and services acquired; information regarding any disputed transactions; and the signature and date of both the cardholder and the department head approving the transactions. The bank submits one monthly billing statement to the City listing all P-card accounts, cardholder names, and transactions per cardholder processed during the billing cycle. Each cardholder is required to review the bank statement for their charges, note any errors, and attach all receipts to Form C. The department head is required to

review and approve the Form C, bank statement, and attachments, and submit them to the Finance Department within 5 days of receiving the bank statement.

For travel-related transactions, the City administrative regulations⁴⁵ provide that overnight travel on official business is to be approved in advance by the City Manager and that employees and officials traveling on City business will be reimbursed for transportation, lodging, and meals at rates established for Federal employee travel.⁴⁶ In addition, the regulations established specific travel guidelines for City employees and others, including reimbursement rates and the requirements that travel be preapproved by the department head and transportation be incurred at the lowest practical common carrier rate. Among other things, the travel guidelines provide that certain City officials “will be reimbursed the expense for one guest when they represent the City in local functions.”

During the period October 2012 through March 2015, the City reported 52 active P-card accounts with 3,525 P-card expenditure transactions totaling \$797,015. We evaluated the City’s P-card processes and examined City records supporting selected P-card travel and other P-card expenditures and found that City records did not always demonstrate compliance with City-established guidelines and requirements. Specifically, we requested for our examination City records supporting 73 selected P-card expenditures totaling \$89,882. Our examination of available City records found that:

- 18 of the 73 P-card expenditures were made by City employees who staffed the North Miami Museum of Contemporary Art (Museum) and related to travel for an art exhibition event during November and December 2015. For this event, the Museum invited and received a southeast Nigerian royal leader, his wife, and the leader’s private advisor as guests. These 18 P-card expenditures totaled \$25,465 and were incurred for the Museum’s guests’ travel. Our examination of City records supporting these 18 travel-related P-card expenditures disclosed that:
 - The City Manager did not approve the travel-related P-card charges in advance since the cardholder (the Museum Assistant Director) did not provide the request to the City Manager. In response to our inquiry, the Museum Assistant Director indicated that he did not request advance authorization for the travel because the charges were incurred for the Museum and that Museum procedures do not require travel request approval. However, insofar as the Museum is staffed by City employees, and travel expenditures were reimbursed with City funds, it is not apparent why Museum P-card expenditures were considered exempt from City-established travel and P-card guidelines and requirements.
 - 11 expenditures included 31 itemized hotel charges totaling \$12,542 incurred at a hotel outside the City limits in November and December 2015. However, City records did not document the public purpose for the hotel charges or demonstrate that the charges complied with the *P-Card Manual* and City administrative regulations as:
 - 1 charge for \$2,100 was supported by a hotel bill that included the name of the former Museum Director in the description field of the bill, but lacked information regarding the nature of the charge. Although we requested, City personnel could not explain or provide other documentation to demonstrate the public purpose for this charge.
 - 7 charges totaling \$6,825 were for 1 hotel room costing \$975 per night for 7 nights, and the United States General Services Administration rate for the Miami-Dade area was \$152 per night. These 7 charges resulted in expenditures totaling \$5,761 more than the lodging and per diem amounts allowed by City-established travel guidelines.

⁴⁵ City of North Miami Administrative Regulation 1-12, *Establishment of Policy for Travel on City Business*, enacted May 3, 2000.

⁴⁶ Title 41, Code of Federal Regulations, Chapter 301-11.

- Although meals are specifically unallowed by the *P-Card Manual*, 23 charges totaling \$3,617 were restaurant charges for a private bar and in-room dining, including 3 restaurant charges for \$514, \$509, and \$338. Additionally, the 23 meal charges exceeded the maximum Federal rate of \$66 per person per day for meals and incidentals and resulted in expenditures totaling \$3,099 more than the daily meal amounts allowed by City-established travel guidelines. Further, although we requested, City records were not provided to evidence the individual itemized charges for the restaurant dining, in-room dining, and private bar services; rather, City personnel provided a copy of the hotel's invoice with summary descriptions of the daily charges.
- Although City administrative regulations require that transportation be incurred at the lowest practical common carrier rate, the City incurred six P-card expenditures totaling \$5,880 for limousine services at rates of \$55 to \$95 per hour for 10 and 15 hours per day to escort the Museum's guests during their visit to South Florida. Although we requested, City records were not provided to justify the reason for, or demonstrate the public purpose served by, renting a limousine rather than using a more economical alternative means of transportation.
- The City incurred a \$7,043 charge for round trip airfare from Lagos, Nigeria, to the City of Miami for a private advisor to the royal leader. The original airfare was \$2,320 for business class; however, the former Museum Director upgraded the airfare to first class at the additional costs of \$4,598 for the upgrade and \$125 for an exchange booking fee. City records did not evidence the public purpose served by upgrading the private advisor's airfare to first class or how the expenditure complied with the City regulation that transportation be incurred at the lowest practical common carrier rate.
- 1 of the 73 P-card expenditures related to hotel charges totaling \$669 incurred in June 2013 by a City employee attending a conference in Las Vegas. However, the employee's travel to the conference was not preapproved by the department head as required by the City's administrative regulations.
- Form Cs were not always prepared, submitted, and reviewed and approved as required by the *P-Card Manual*. Specifically, although we requested for review the Form Cs associated with 55 of the 73 P-card expenditures, the forms were not provided.
- For 27 P-card expenditures totaling \$31,357, a P-card was used for charges identified as unallowed by the *P-Card Manual*. Specifically:
 - The City routinely used P-cards to make purchases for entertainment events related to the Museum, including:
 - 10 purchases with related P-card expenditures totaling \$9,441 for hotel rooms used by a performing band at a music event, food catering services, equipment rentals, and soft drinks for events hosted by the Museum. The food catering services expenditure of \$495 was not supported in City records by a receipt or justification for the charge.
 - 2 purchases with related P-card expenditures totaling \$1,717 for wine served at an event hosted by the Museum.
 - A \$2,500 pedestal purchased for a Museum event. In addition, the cost of the pedestal exceeded the \$1,000 furniture, fixtures, and equipment threshold set by the *P-Card Manual*.
 - 5 P-card expenditures totaling \$4,217 were for other entertainment events and included charges for holiday decorations, candy for holiday events, and Halloween costumes.
 - 5 P-card expenditures totaling \$9,903 were for the support of a police officer fundraising event, turkey and toy giveaways for City residents, and 100 store gift certificates of \$20 each. Although City personnel provided the names of the 164 City residents who had registered for

the gift certificates giveaway, the City could not provide the names of the City residents who actually received the 100 gift certificates.

- 4 P-Card expenditures included sales tax totaling \$301. The *P-Card Manual*⁴⁷ requires cardholders to provide vendors with the City's sales tax exemption certificate so that the vendor does not collect sales tax as State law⁴⁸ provides an exemption from sales tax to governmental entities when payments are made directly to the vendor by the governmental entity.

According to City personnel, since August 2015, a cardholder activity report form for each P-card account, has been reviewed and signed by the department heads and employees designated by the department heads to reconcile the Form Cs to the monthly billing statement; and these forms, along with receipts and supporting documentation, have been submitted to the Purchasing Department for approval and payment authorization. Appropriate use of these reports should reduce the occurrence of P-card errors and unallowable charges.

When travel-related P-card charges are not preapproved and properly documented as to the public purpose in accordance with City-established travel guidelines and requirements, there is an increased risk of unauthorized travel and that travel expenditures will exceed allowable amounts. Also, when P-card charges are not properly reviewed and approved, there is an increased risk that unallowable charges, fraud, or misuse may occur and not be timely detected and resolved.

Recommendation: The City should continue efforts to enhance controls over P-card expenditures to ensure that P-card expenditures are properly approved, adequately supported, and only for allowable amounts and allowable purposes in accordance with City-established guidelines and requirements.

Finding 24: Travel Cost Reimbursement Expenditures

State law⁴⁹ provides travel guidelines for public officers, employees, and other authorized persons, and establishes requirements for travel voucher forms and mileage and subsistence rates. Notwithstanding these requirements, the governing body of a city may also provide for a per diem and travel expense policy for its travelers which varies from these provisions.⁵⁰ City administrative regulations⁵¹ established specific travel guidelines for City employees, including travel reimbursement rates.

During the period October 2012 through March 2015, the City recorded 2,764 travel expenditures totaling \$840,308. As part of our audit, we evaluated the adequacy of City controls over the payment of travel expenditures. In addition to our tests of travel-related P-card charges discussed in Finding 23, we requested for examination City records supporting 45 selected travel cost reimbursement expenditures totaling \$41,260. Our examination of the records provided disclosed that:

- City accounting records classified 11 expenditures totaling \$7,675 as travel-related and City administrative regulations require the use of reimbursement and expense reports to document the types and purposes of such expenditures. However, although we requested, City records

⁴⁷ Section 4.9, Purchasing Card Manual.

⁴⁸ Section 212.08(6), Florida Statutes.

⁴⁹ Section 112.061, Florida Statutes.

⁵⁰ Section 166.021(9)(b), Florida Statutes.

⁵¹ City of North Miami Administrative Regulation 1-12, *Establishment of Policy for Travel on City Business*, enacted May 3, 2000.

such as travel reimbursement forms, travel expense reports, or other documentation were not available to demonstrate the type of expenditure incurred or the public purpose for the expenditure.

- 10 expenditures totaling \$14,253 were for airline tickets, lodging, transportation, and per diem meal reimbursements incurred by the Mayor, Councilwoman, Chief of Police, Deputy City Manager, and a Constituent Services Coordinator's travel to Haiti. These expenditures did not exceed the allowable reimbursement rates; however, although we requested, City records were not provided to evidence the City Manager's authorization of, or the public purpose served by, these travel expenditures.
- The City Clerk incurred a \$3,100 travel expenditure for attendance at a conference in California for the City Clerks Association of California and the California Clerk of the Board of Supervisors Association. While the City Manager approved the travel in advance in accordance with the administrative regulations, City records did not evidence the public purpose served by sending the City Clerk to California for training rather than obtaining City Clerk training relevant to Florida. In response to our inquiry, City personnel indicated that they were unaware why the City Manager approved the trip.

The absence of properly completed and approved travel reimbursement forms and related supporting records, reduces management's assurance that travel expenditures were reasonable, allowable, and served a public purpose.

Recommendation: The City should enhance controls over expenditures to ensure that travel expenditures are always preapproved and supported by City records in accordance with City administrative regulations. We also recommend that City administrative regulations be amended to require that records be maintained to document the public purpose for all travel expenditures.

REVENUES AND CASH COLLECTIONS

City management is responsible for establishing effective revenue and cash collection controls including controls over assessments, collections, deposits, and revenue collection records. For the 2015-16 fiscal year, the City reported revenues totaling \$117.6 million, including \$34.8 million from utility (water, sewer, and stormwater) operations, \$25.1 million from governmental activity charges for services, \$24.3 million from ad valorem and other taxes, \$9.2 million from intergovernmental services (e.g., State revenue-sharing and grants), and \$24.2 million from other miscellaneous revenues such as franchise fees, fines and forfeitures, and business tax receipts.

Finding 25: Utility Service Collections - Separation of Duties

Governmental organizations, to the extent possible with existing personnel, should separate duties so that no one employee has access to both physical assets and the related accounting records, or to all phases of a transaction. If, because of the limited number of staff, the separation of incompatible duties is not practical, compensating controls, such as documented comparisons of historical and current billings and related collections and evaluations of the reasonableness of the differences performed by supervisory personnel, should be implemented. Failure to adequately separate duties or provide adequate compensating controls increases the risk that errors or fraud could occur without timely detection.

Our examination of City utility service collection records and processes disclosed an inadequate separation of duties as the Junior Accountant responsible for recording the collection of utility payments in City accounting records also collected cash payments when the Central Cashier was unavailable. Under these circumstances, the Junior Accountant could remove utility payment collections and conceal the theft by not recording the collections in the accounting records. Additionally, although we requested, City personnel could not identify controls that compensated for this inappropriate separation of duties.

Although our audit procedures did not disclose any errors or fraud associated with this control deficiency, given the inappropriate separation of duties and lack of compensating controls, there is an increased risk that errors or fraud could occur and not be timely detected and resolved.

Recommendation: To ensure adequate separation of duties, the City should assign someone other than the Junior Accountant to collect cash when the Central Cashier is unavailable. If, because of the limited number of staff, the separation of incompatible duties is not practical, compensating controls should be implemented.

Finding 26: Utility Service Billing and Collection Processes

The City provides water and sewer services to customers connected to the City water and sewer utility system. While City ordinances, regulations, and policies and procedures do not establish when customers are to be billed, City personnel indicated that customers are to be billed as close to the meter read date as possible and that bills are typically sent quarterly to residential customers and businesses and monthly to apartment buildings. The water and sewer charges billed include a monthly base charge plus actual usage charges based on meter readings.

For the 2013-14 and 2014-15 fiscal years, the City reported approximately \$33 million and \$37.1 million, respectively, for water, sewer, and stormwater management services. At September 30, 2014, and September 30, 2015, accounts receivable related to these services totaled \$12.4 million and \$17 million, respectively, which included \$89,597 and \$1,153,286, respectively, for uncollectible accounts receivable. City ordinances⁵² provide that water services are to be discontinued without further notice on all accounts not paid within 45 days of billing and require the issuance of property liens on delinquent accounts. However, good business practices suggest that the City should also enter into payment arrangements, as circumstances dictate, to collect utility service billings and that City personnel should analyze delinquent accounts that have been outstanding for an extended period (e.g., more than 24 months) and write off accounts determined to be uncollectible.

As part of our audit, we examined City records supporting 134 selected billings for 30 of the 19,433 accounts active during the period April 2014 through March 2015. We found that the City did not timely provide the bills to customers as close to the meter read date as possible since the bills were mailed from 31 to 86 days (an average of 56 days) after the meter read and billing period ending date. A similar finding regarding untimely billing of utility customers was reported in the City's 2014-15 fiscal year annual financial audit report.

We also examined City accounts receivable records, including the accounts receivable aging report for March 2015, and noted 10,194 accounts totaling \$3.3 million that were outstanding more than 90 days.

⁵² Sections 19-55 and 19-56, City of North Miami Code of Ordinances.

To further evaluate the City's collection efforts, we selected 6 multi-family dwelling and 4 residential accounts with the largest accounts receivable balances as of March 2015. The receivable balances for these 10 accounts totaled \$778,741, and represented 24 percent of the total City accounts receivable balance outstanding over 90 days. Our examination of City records related to these 10 accounts disclosed that:

- As of July 2016, the City had not complied with City ordinances by issuing property liens for any of the 10 accounts.
- The City had not terminated water service for 1 residential account with a delinquent balance of \$7,248 as of March 2015. Although the City issued a service order to terminate service for this account in October 2013, according to City personnel, the service was not terminated because a new account for another occupant was created in February 2014. As of August 2017, the past due balances for the residential and new occupant accounts were \$7,248 and \$490, respectively.
- The City had not terminated water service for 2 multi-family dwelling accounts with delinquent balances totaling \$237,943 as of March 2015. City personnel indicated that the City had not historically terminated water services for multi-family dwellings with delinquent payments due to potential displacement issues of tenants and owners; therefore, the City allowed the customers to make partial payments without issuing property liens or interrupting service. Additionally, State law⁵³ may prohibit termination of water service for multi-family dwellings if such termination would render a water-based fire suppression system inoperable.
- The City provides sewer-only service to certain customers outside the City limits. Because sewer service cannot be terminated independent of water service, and the City does not provide water service outside the City limits, the City was unable to terminate services for 3 multi-family dwelling accounts outside the City limits with delinquent balances totaling \$495,384 as of March 2015.
- For 3 accounts (2 residential and 1 multi-family) with delinquent balances totaling \$31,361 as of March 2015, the City terminated water service; however, the service terminations were untimely as:
 - The City did not terminate water service for 1 residential account with a delinquent balance of \$10,506 until 489 days after the account went past due. According to City collection procedures, service is to be terminated for nonpayment 45 days after the date the bill is mailed to the customer, and customers are to be billed as close to the meter read date as possible.
 - 2 accounts, 1 multi-family account with a delinquent balance of \$14,425 and 1 residential account with a delinquent balance of \$6,430, went past due before October 2012. However, the City did not terminate water services for these 2 accounts until January 2014 and November 2014, respectively. The actual number of days that elapsed between the date of delinquency and the termination of water services could not be calculated as, according to City personnel, the dates the accounts became delinquent did not carry forward to the City's new utility billing software implemented in October 2012. Although charges were incurred for the period March 2015 through the residential account's termination date in November 2015, the balance of \$10,937 had not been written off as of December 2015.
- As of January 2016, the City had not entered into a payment arrangement for 8 of the 10 accounts. Although the City entered into such arrangements for the other 2 accounts, those arrangements were ineffective in collecting the balances due as:
 - The payment arrangement for 1 multi-family account with a delinquent balance of \$14,425 as of March 2015 only included water and sewer base charges totaling \$5,223 and excluded water and sewer usage charges totaling \$13,675. The City entered into the payment

⁵³ Section 633.124(2), Florida Statutes.

arrangement with the customer in August 2014, when the account balance was \$18,898. After collecting \$5,523, and allowing the account to incur additional service charges of \$327, the City closed the account in May 2015 when the account balance was \$13,702.

- For 1 account with a delinquent account balance of \$152,111 as of March 2015, the average monthly billings exceeded the collection amount specified in the payment arrangement and the customer did not always make the required payments. Specifically, the City entered into a payment arrangement in June 2015 to collect \$4,000 per month from the customer; however, the average monthly billings for water and sewer service exceeded \$4,000 and the account balance actually increased. As of July 2016, the account balance totaled \$160,583.

For collection efforts to be effective, such efforts must be both timely and progressively strengthened as accounts become more delinquent. Without established dates for billing utility customers, collection delays may occur. Also, without timely collection efforts, such as effective payment arrangements, promptly issued property liens, and service terminations, and that progressively strengthen as accounts become more delinquent, there is an increased risk that account balances will continue to increase and not be collected. In response to our inquiries, City personnel indicated that many of the utility billing and collection deficiencies we noted occurred due to issues with the utility billing software program implemented in October 2012.

Recommendation: The City should establish billing dates for utility customers and promptly bill utility customers. Additionally, for delinquent accounts, the City should progressively strengthen collection efforts. Further, the City should establish procedures and guidelines for analyzing delinquent accounts and writing off accounts determined to be uncollectible.

Finding 27: Business Tax Receipts

City ordinances⁵⁴ provide that the City Clerk is responsible for collecting local business tax receipts (BTR)⁵⁵ and issuing business licenses consistent with State law⁵⁶ for the privilege of engaging in or managing any business, profession, or occupation within the City. The City's BTR revenues totaled \$1.6 million during the period October 2012 through March 2015. Our examination of City BTR records disclosed that:

- The City Clerk maintains a database of businesses located within the City that are to be issued BTR licenses and assessed related fees. As of August 2015, the database included 2,575 businesses. However, our evaluation of the City process for maintaining the database disclosed that the database was updated solely through the issuance of BTR licenses and, as such, any businesses located within the City that had not obtained a BTR license would not be included in the database.

In September 2015, we selected 30 businesses with City addresses from an online telephone directory and contacted the businesses to determine whether they were located within the City and were active during the period of our audit and, if so, were included in the database and had an active BTR license. We found 6 businesses that should have been included in the database and licensed but were not, and another 2 businesses that were included in the database but did not have active BTR licenses. In response to our inquiry, City personnel indicated that the City

⁵⁴ Chapter 11, City of North Miami Code of Ordinances.

⁵⁵ Section 205.022(2), Florida Statutes.

⁵⁶ Chapter 205, Florida Statutes.

had not established written procedures for monitoring BTR expirations and contacting businesses to ensure that applicable licenses remained active.

- In March 2012, the City Council passed a resolution⁵⁷ implementing an amnesty program waiving all outstanding fees due for BTR licenses issued before October 2011. The resolution indicated that the amnesty program “is progressive, fair and equitable, and furthers the best interests of the City.” However, neither the resolution nor other City records indicated the program’s specific benefit to the City. Additionally, although we requested, City records were not provided to identify the businesses granted amnesty, the amounts owed by each licensee that were forgiven, or any attempt to identify unlicensed businesses that were never assessed a BTR fee. As such, it was not apparent of record how the City Council determined the financial impact of the program and that the program was fair, equitable, and in the City’s best interests.

The lack of effective procedures to identify all active businesses within the City for inclusion in the database maintained by the City Clerk and to appropriately monitor the database, increases the risk that businesses required to obtain BTR licenses may not be included in the database or required to timely pay the BTR fee.

Recommendation: The City should establish procedures to ensure that the database of active businesses within the City is complete and that all such businesses have paid the required BTR fee. Additionally, for any future BTR amnesty programs, City records should identify the businesses participating in the program and the amounts forgiven, and evidence the City Council’s consideration of the economic impact of the programs.

INFORMATION TECHNOLOGY

Information technology (IT) access controls are intended to protect data and IT resources from unauthorized disclosure, modification, or destruction. Effective management of IT access privileges includes the timely deactivation of IT access privileges when an employee is terminated, proper disaster recovery planning, and the establishment of security incident response plans.

Finding 28: Timely Deactivation of Access Privileges

As certain critical application systems and confidential or sensitive information stored within individual users’ documents are accessible through the City’s network, prompt action is necessary to ensure that the access privileges are not misused by former employees or others to compromise data or IT resources.

The City provided certain employees the ability to log on to City computers and access e-mail and other information using network accounts and also access the City’s finance and personnel applications using the City’s enterprise resource planning (ERP) system software on City computers. Although the Personnel Administration Department is responsible for providing written notification of employment separations to the IT department to remove former employees’ network and application access, the City had not established written policies and procedures to ensure the prompt deactivation of employee access privileges or that appropriate departments performed a periodic review and evaluation of employee access privileges.

⁵⁷ Resolution No. R-2012-37 Amnesty program to waive all past due business tax receipts incurred before October 1, 2011.

In October 2015, we evaluated access privileges to the City's network and ERP system for 28 of the 294 employees who separated from City employment during the period October 2012 through March 2015 and found that:

- Network access privileges of 5 employees were not promptly deactivated upon employment separation. Subsequent to our notification of City management in September 2015, the City deactivated the access privileges of these former employees; however, the deactivations occurred 350 to 1,037 days after the employment separation dates.
- ERP system access privileges of 15 employees were not promptly deactivated upon employment separation. Specifically, the City did not deactivate the access privileges of 9 of the 15 former employees until 35 to 320 days after the employment separation dates and the ERP system access privileges were not deactivated for the other 6 former employees until we notified City management in October 2015, which was 384 to 545 days after the employment separation dates.

While our audit procedures did not disclose any errors or fraud because of the untimely deactivations, when access privileges of employees are not promptly deactivated, the risk is increased that access privileges may be misused by former employees or others. Also, documented periodic reviews and evaluations of employee access privileges are essential to ensuring that such privileges remain appropriate and necessary for the performance of the employee's job responsibilities.

Recommendation: The City should establish policies and procedures to require that:

- **The Personnel Administration Department promptly notify the IT Department of employees who will be separating from City employment.**
- **The IT Department promptly deactivate the access privileges of individuals upon their separation from City employment.**
- **Periodic reviews and evaluations of employee access privileges be performed and documented and that such privileges are updated based on the evaluation results.**

Finding 29: Disaster Recovery

Disaster recovery planning is an IT control established to manage the availability of valuable data and IT resources in the event of a processing disruption. The primary objective of disaster recovery planning is to provide the entity a plan for continuing critical operations in the event of a major hardware or software failure. An effective IT disaster recovery plan identifies critical data, processes, and applications and contains a step-by-step plan for recovery and restoration of data. In addition, plan elements should be tested periodically to disclose any areas not addressed and to facilitate proper conduct in an actual disruption of IT operations.

While the City periodically backs up data and performs additional backups when a hurricane watch is issued, the City had not, as of August 2016, established a disaster recovery plan for its IT operations detailing the procedures to be followed to recover and restore financial records and other critical applications in the event of a major hardware or software failure. The lack of an established disaster recovery plan for IT operations and periodic testing thereof increases the risk that the City may not promptly and effectively resume all critical IT operations, or maintain availability of IT data and resources, in the event of a disaster or other service interruption.

Recommendation: The City should establish a disaster recovery plan, and periodically test and evaluate the plan.

Finding 30: IT Security Incident Response Plan

The establishment of IT security incident response plans by management are essential to ensure an appropriate, effective, and timely response to security incidents. These plans typically detail responsibilities and procedures for identifying, logging, and analyzing security violations and include a centralized reporting structure, and provisions for a team trained in incident response, notification to affected parties, and incident analysis and assessment of additional actions needed.

State law⁵⁸ requires that any person who conducts business in Florida and maintains computerized data in a system that includes personal information to provide notice of any breach of security of the system, following determination of the breach, to any Florida resident whose unencrypted personal information was, or is reasonably believed to have been, acquired by an unauthorized person. The notification is to be made no later than 30 days following the determination of the breach.

Although the City had established procedures to respond to selected incidents involving user security violations, the City had not, as of August 2016, established an IT security incident response plan that included:

- Definitions of computer security incidents and an established process for reporting a suspected incident.
- Detailed procedures for isolating and containing a security threat and capturing and maintaining events associated with an incident.
- Identification of response team members trained in roles and responsibilities.
- The process for involving the appropriate local, State, and Federal authorities.
- Detailed procedures for notifying, pursuant to State law, affected parties whose personal information was, or was reasonably believed to have been, acquired by an unauthorized person.

Should an event occur that involves the potential or actual compromise, loss, or destruction of City data or IT resources, the lack of an established IT security incident response plan may result in the City's failure to take appropriate and timely actions to prevent further loss or damage to City data and IT resources.

Recommendation: The City should establish an IT security incident response plan to provide reasonable assurance that the City will respond in an appropriate and timely manner to events that may jeopardize the confidentiality, integrity, or availability of City data and IT resources.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government

⁵⁸ Section 501.171, Florida Statutes.

operations. Pursuant to Section 11.45(3)(a), Florida Statutes, the Legislative Auditing Committee, at its February 16, 2015, meeting, directed us to conduct this operational audit of the City of North Miami.

We conducted this operational audit from May 2015 through November 2015 and from April 2016 through August 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of this operational audit were to:

- Evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, contracts, grant agreements, and other guidelines.
- Examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those controls.
- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in management's internal controls, instances of noncompliance with applicable laws, contracts, grant agreements, and other guidelines; and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included the selection and examination of transactions and records during the audit period October 2012 through March 2015, and selected transactions taken prior and subsequent thereto. Unless otherwise indicated in this report, these transactions and records were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable,

information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature, does not include a review of all records and actions of agency management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, waste, abuse, or inefficiency.

In conducting our audit we:

- Reviewed applicable laws, contracts, grant agreements, and City ordinances, policies, and procedures, and interviewed City personnel to gain an understanding of the City's processes and to evaluate whether the City had established effective policies and procedures for major City functions, such as procurement, finance, and human resource management.
- Examined City Council meeting minutes during the audit period, and the minutes of selected meetings prior and subsequent to the audit period, to determine the propriety and sufficiency of actions taken related to the programs, activities, and functions included in the scope of this audit.
- Reviewed City records related to the City Council-adopted budgets for the 2014-15 and 2015-16 fiscal years and the City's quarterly budget-to-actual comparison reports for the 2014-15 and 2015-16 fiscal years to determine whether the reports were prepared, containing relevant and useful information, and timely presented to the City Council for all funds.
- Examined City records to determine whether the City had established an internal audit function and whether internal audit responsibilities were assigned to City employees or the services of an accounting firm were obtained for this purpose.
- Examined City records to determine whether the City had established anti-fraud policies and procedures to provide guidance to employees for communicating known or suspected fraud to appropriate individuals.
- From the population of 9 commercial and 3 certificate of deposit bank accounts maintained during the audit period that should have resulted in 360 bank account reconciliations, requested for examination, City records supporting 30 selected bank account reconciliations for the main operating account to determine whether the reconciliations were timely performed.
- Examined authorized signatures for all bank agreements for timely updates in response to personnel changes during the audit period.
- Examined City records to determine whether the City had established an adequate, comprehensive electronic funds transfer (EFT) policy and evaluated the adequacy of EFT controls. From the population of 2,271 EFTs totaling approximately \$105 million during the audit period, we examined 30 selected EFTs totaling \$33.7 million to determine whether the EFTs were adequately supported and properly authorized.
- Evaluated City controls over selected processes to determine whether an adequate separation of duties existed to prevent employees from access to both physical assets and the related accounting records or to all phases of a transaction.
- Examined City records to determine whether the City had established an audit committee and followed prescribed procedures to contract for audit services pursuant to Section 218.391, Florida Statutes.
- Evaluated severance pay provisions in three employment agreements to determine whether the severance pay provisions complied with Section 215.425(4), Florida Statutes. Also, for two of the employees who received severance pay totaling \$101,014 during the audit period, we examined City records to determine whether the severance payments complied with Section 215.425(4), Florida Statutes, and City policies and procedures.

- Examined City records to determine whether separation agreements entered into during the audit period with two employees were in compliance with City policies and procedures.
- Examined City records for 72 selected employees, from the population of 206 applicable employees required by Administrative Regulation 00-99 to undergo a level 2 background screening as of April 2016, to assess whether City personnel performed the required fingerprint and background checks.
- Evaluated the adequacy of City policies and procedures related to identifying potential conflicts of interest. For selected City officials, we reviewed Department of State, Division of Corporations, records; statements of financial interests; and City records to identify any potential relationships that represented a conflict of interest with City vendors.
- Examined City records supporting 45 travel expenditures totaling \$41,260 from the population 2,764 travel expenditures totaling \$840,308, and 50 expenditures totaling \$811,292 from the population of 21,111 expenditures totaling \$160,811,713, to determine whether such expenditures were:
 - Reasonable.
 - Correctly recorded.
 - Adequately documented.
 - Served a valid public purpose.
 - Properly authorized and approved.
 - In compliance with applicable laws, City policies and procedures, and contract terms.
- From the population of 3,525 purchasing card (P-card) expenditures totaling \$797,015 during the audit period, examined City records supporting 55 selected expenditures totaling \$64,417 to determine whether the P-card program was administered in accordance with City policies and procedures and whether the expenditures were not of a personal nature.
- From the population of 23 cardholders who separated from City employment during the audit period, examined City records to determine whether the P-cards were promptly deactivated.
- From 179 housing projects with expenditures totaling \$3.3 million during the audit period, examined City records supporting 4 projects with one or more change orders and expenditures totaling \$326,926 to determine compliance with City policies and procedures.
- Examined implementation of the City's early retirement incentive program (ERIP) and compared actual City implementation actions with actuarial report assumptions used to estimate projected City cost savings.
- Evaluated the adequacy of the City's adult education program agreement with the Miami-Dade County District School Board and examined City records to determine whether the City complied with the terms and conditions of the agreement.
- Examined City records supporting 134 selected utility bills issued for 30 customer water accounts for the months of April 2014 through March 2015 to determine whether bill amounts and related collections complied with applicable City ordinances, policies, and procedures. We also evaluated the City's utility services billing and collection processes.
- Determined the completeness of City business tax receipt (BTR) records, which included 2,575 businesses with active BTRs as of August 2015. We also reviewed City records relating to a BTR amnesty program, approved by the City Council in March 2012, waiving all delinquent BTR fees incurred before October 1, 2011.
- Examined City records to determine competitive procurement and contract compliance for:

- Building inspection and permitting.
- Biscayne Landing property management.
- Solid waste and recycling collection.
- Maintenance of an inventory listing of tested backflow prevention devices.
- Reviewed the City's purchasing ordinances to evaluate the reasonableness of the City's procurement and change order thresholds relative to comparable municipalities.
- Examined the personnel records for 30 employees selected from the 121 employees hired during the audit period to determine whether the City had adequate controls over hiring practices, including documented verifications of educational and work experience and evaluations of employee performance.
- Obtained and reviewed the ordinance and legal authorization for the City's water and billing surcharge. We also examined surcharge collections for separate accountability and reviewed recorded City Council meeting minutes evidencing the Council's intent on whether surcharge collections should be refunded.
- Evaluated City procedures for the deactivation of employee information technology (IT) access privileges upon separation from City employment. We also reviewed selected access privileges for 28 of the 294 former employees who separated from City employment during the audit period to determine whether their IT access privileges had been timely deactivated.
- Determined whether a comprehensive IT disaster recovery plan had been established, properly designed, was operating effectively, and had been recently tested.
- Evaluated the adequacy of City policies and procedures related to IT security incident response and reporting.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

AUTHORITY

Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.



Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE



November 14, 2017

CITY OF NORTH MIAMI - Responses to State Auditor Findings

Finding #1 Management Turnover

The City acknowledges the finding and recognizes the need for stability in the executive management positions. The City has assembled a management team that is experienced, qualified and capable in their respective duties and responsibilities and promotes succession planning from within the ranks. The tone at the top is one of structure and of seeking process improvement. Managers and Supervisors are charged with documenting and updating the policies and procedures in their respective areas to minimize the effects of excessive turnover and attrition. It should also be noted that the City Council recently extended the employment contract with the current City Manager for an open ended term.

Finding #2 Internal Audit Function

The City concurs with the finding and recommendation. An Internal Audit function is an essential component of the management internal control framework. As of January 2017, the City contracted with an independent accounting firm to perform the functions of an internal auditor. In this role, the firm will develop comprehensive audit work plans targeting higher risk processes, contracts compliance and municipal operations with guidance from top City Management and the Council. The goal being to garner greater efficiencies through streamlined best practices. The outside accounting firm will also operate the fraud hotline so employees and constituents can comfortably report any concerns anonymously of that nature.

Finding # 3 Budgetary and financial monitoring

The City acknowledges the finding and will take action to implement the recommendation. One essential step will be to pass an ordinance or Administrative Regulation ("AR") requiring the Budget and Finance Departments to present a quarterly financial update to the Council, which will include a budget to actual analysis. The ordinance or AR will be approved and implemented by March 1, 2018. It should also be noted that Finance and Budget did present all four quarters for fiscal year 2017.

Finding # 4 Statements of Financial Interests

The City recognizes the importance of compliance with local and state financial disclosure requirements. While, the requirement falls on each individual to ensure compliance, the City will develop an Administrative Regulation (AR) designating the City Clerk as the responsible department for ensuring City staff and Officials are in compliance with the financial disclosure requirements. This AR will be approved and implemented by January 30, 2018.

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Finding # 5 Anti-Fraud Policies and Procedures

The City concedes that although City Ordinances and Civil Service rules have provided information and guidance related to ethical conduct and behavior, the guidance does need more specificity for instance with assigning a responsible point of contact for reporting fraud, as outlined in the Finding. The City is developing an Administrative Regulation (AR) detailing how the City will report, mitigate, investigate, and discipline employees for fraud. The policy will establish a framework to aide staff in reporting fraud or suspected fraud against the City. The policy will be applicable to all City of North Miami employees, elected officials, and volunteers, as well as outside consultants, contractors and vendors who have business relationships with the City. As mentioned in the response to Finding #2, the Internal Audit function will also play a key role in the process along with the Internal Affairs office of the Police Department. This has already been implemented. The City will have the updated framework implemented within the current fiscal year and will prepare communication for employees and the public on how to make fraud reports. The AR will be approved and implemented by March 31, 2018.

It should be noted that on December 8, 2015, the City passed Ordinance 1394 which established a Public Service Code of Honor for City Officials and employees. The Code requires Officials and employees to report information concerning activity which may constitute a crime to the Miami-Dade County Commission on Ethics and/or the State Attorney, and fully cooperate with any law enforcement action to investigate the activity.

Finding # 6 - Bank Reconciliations

The City recognized the issues noted in the findings, and has taken measures to address them as far back as fiscal year 2015/2016. The period under audit was an especially turbulent period for the Finance Department, which went through unprecedented turnover in many key positions which led to the breakdown in controls and institutional knowledge pertaining to the bank reconciliations.

We recognize the bank reconciliation process and its review are key controls in the fiscal stewardship role the Finance Department plays. Due to its complexity and time-consuming nature, we have now implemented the following:

1. The step-by-step bank reconciliation process has been documented so that new staff members can have the knowledge to continue should current staff members leave. Finance has also instituted cross-training so that the work does not fall behind when employees go on vacation.
2. When completed, bank reconciliation statements are printed, signed and dated by both preparer and reviewer/approver.

As of fiscal 2016, the Finance Department is fully staffed with experienced, qualified professionals working to improve the process and updating policies and procedures as needed.

Finding # 7- Electronic Funds Transfer

The City acknowledges the finding and has taken steps to make corrective actions as far back as fiscal 2015. The "call-in call back" method to verify Electronic Funds Transfers (EFT) is no longer used. All EFT's are now done electronically whereby the initiation can be any authorized person, but the approver cannot be the same as the initiator. A listing of the authorized signers is maintained and updated immediately

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when there are changes in personnel. Prior to 2015, EFTs were usually processed via Journal Entry (JE) which did not allow capturing the information at the vendor level and supporting documents were not always attached to those JEs. We now create an invoice in the AP module, apply the EFT payment and post it just like a regular check process. We now ensure that no JE is approved without adequate supporting documents attached.

Finding # 8 - Employment Practices and Personnel Records

The City acknowledges the finding. The City Administration establishes eligibility lists in accordance with the Civil Service Rules to ensure candidates have the requisite qualifications, education and experience related to the positions for which they apply. The City verifies employee records prior to hiring through verification of employment history, obtaining copies of certificates and diplomas to affirm education credentials, as well pre-employment examinations, interviews, background investigations, and reference checks.

Employee merit increases are tied to their annual evaluations. The Personnel Department uses the Eden system to generate the list of employees whose anniversary dates fall within a specific month and distributes the lists to the relevant department directors for completion a month in advance. Reminders are also sent as needed to the various department directors to ensure the evaluations are completed timely.

Finding # 9 - Background Screening

The City acknowledges the finding. The City Administration now performs Level 2 background screenings and promptly executes the appropriate actions based on the results. The background screenings are performed for Executive-level positions, positions of trust with responsibilities for handling or safeguarding cash exceeding \$300, positions in the Parks and Recreation Department, Library, and Museum of Contemporary Art, including City personnel, interns, volunteers, and vendors who are considered to work with vulnerable positions, as well as anyone working with populations enumerated in State law. Personnel along with the Purchasing Department work together specifically to ensure vendors are checked when appropriate. The City also conducts monthly driver license screenings on employees who drive or have access to City vehicles.

Finding 10: Severance Pay

The City acknowledges the finding of the auditor. Severance pay is now provided in accordance with employment agreements and separation agreements and is subject to state limitations with the provision prohibiting severance pay when the employee has been fired for misconduct. Additionally, City Council approval is required on all settlement agreements exceeding \$25,000. An Administrative Regulation outlining the severance policy parameters will be approved and implemented by December 31, 2017.

Finding 11: Employee Separation Agreements

The City acknowledges the finding of the auditor. The City Charter prohibits the City Council members from having direct input into employment matters impacting employees other than the City Manager and City Attorney. When separation agreements become the subject of litigation, approval is required by the Council for amounts exceeding \$25,000. With respect to general separation agreements that are not the subject of litigation, the City Manager has authority to negotiate and approve. Notwithstanding the aforementioned, the City will approve and implement an Administrative Regulation governing development and approval of separation agreements. The AR will specifically address restrictions on usage of leave time beyond the



employee's last day of employment, documentation of public purpose, and provide parameters under which the City Manager will enter such an agreement.

Finding 12: Early Retirement Incentive Program

The City acknowledges the auditor's finding. The City has negotiated pension reform with the employee bargaining units to freeze the two pension plans from accepting new members (June 2016 for the general employees plan and January 2017 for the police pension plan) and further requiring new employees and police to join the more financially feasible Florida Retirement System (FRS). This will limit future impact of the retirement plans to the City's finances, operations and services, thus eliminating the future need for an ERIP program.

Finding # 13 Purchasing Thresholds and Limits

The City acknowledges the auditor's finding. On September 8, 2015, the North Miami City Council passed an ordinance amending Chapter 7 of the North Miami City Code of Ordinances, specifically at Article III entitled "Procurement Code", to reduce the dollar threshold required to enter contract agreements without the authorization of the City Council as follows:

- The new ordinance decreased the threshold amount capable of being awarded by the City Manager and City Attorney from \$100,000 to \$25,000, without the authorization of the Mayor and City Council.
- The new ordinance also reduced the Purchasing Director's approval threshold from \$50,000 to \$5,000.
- The new ordinance also modified the language regarding the City Manager and Purchasing Director's approval thresholds for change orders clarifying that the Purchasing Director may approve change orders and contract modifications which do not exceed five (5) percent of the original contract amount and shall recommend to the City Manager all change orders and contract modifications of up to fifteen (15) percent of the original contract amount.

The City amended this Ordinance to clarify the change order thresholds by adding the underlined portion below to the section detailing the City Manager's authority (Section 7-129a):

- "Approve change orders and contract modifications for supplies and services which do not exceed twenty-five thousand dollars (\$25,000.00) or fifteen (15) percent of the original contract amount... unless the contract exceeds \$25,000."

This Ordinance became effective on October 24, 2017.

Finding #14 Housing Program Contracting Process

The City acknowledges the finding. The City Community Development Department and Purchasing Department are working on the corrective action recommended by the State Auditor. The Housing Guidelines are currently under review and the City Manager and administrative staff will ensure more stringent language is included in the housing program process to address the applicable code violation(s) (if any), rehabilitation standards, ordinances and zoning ordinances. The changes to the policies will be implemented before the end of fiscal year 2018. Further, it should be pointed out that the City has reduced change orders within the Housing Division by 90%.



Finding # 15 Purchasing and Payment Processing

The City acknowledges the auditor’s finding. The City’s Purchasing Department requires adequate backup documentation prior to approval and issuance of purchase orders. These documents are attached to each requisition for easy reference. This practice ensures proper internal controls are maintained with respect to the procurement.

The Purchasing and Finance Departments actively encourage departments to utilize purchase orders to effect procurements rather than direct vouchers because of the additional safeguards inherent with PO purchases. Direct vouchers will be limited to emergency-type purchases with clear public purpose statements, effective immediately.

Finding 16: Backflow Prevention Device Contract

The City acknowledges the finding has taken actions to ensure all pertinent City Ordinances are followed when securing contracts. Processes such as requirements that contracts be reviewed for legal sufficiency by the City Attorney’s Office and having a fully staffed Purchasing Department have helped in addressing the issues noted in the finding. To reconcile and monitor revenue-producing contracts, the combination of the establishment of the Internal Audit function and the Contracts Compliance Managers’ positions will assist operational departments in this effort. These two functions were implemented earlier in fiscal 2017.

As for the \$2,500 cited as paid to the contractor, the City did reach out to the vendor, but the vendor disputes the matter on legal/contractual grounds. Currently, we have determined the cost of recovery through litigation will outweigh any benefit that would be derived.

Finding 17: Solid Waste and Recycling Collection Services Contract

The City acknowledges the finding. The contract in question is currently out for bid. The new City administration recognizes there was non-compliance on both sides – the City and contractor – which lead to many of the issues documented in the audit report. The contract was modified near the end of its term to address many of the issues of non-compliance. Going forward, any new contract will be managed more effectively because of the Contract Compliance Management function and bolstered by the Internal Audit Function.

Finding 18: Building Inspection and Permitting Services

The City recognizes and acknowledges the finding. The service contract noted in the finding was terminated and the Building and Zoning function was insourced in FY 2015/16. The City has fully staffed the Purchasing Department and that department works closely with the City Attorney for solicitations to ensure the process is transparent and in accordance with City Ordinances and applicable State Statutes. To mitigate the risk of future issues such as those noted in the Finding, the City has staffed two Contract Compliance Managers effective October 2016 who monitor contract terms and ensure compliance by the City as well as counterparties. The Internal Audit function will also serve to bolster the compliance function and safeguard against future issues.

Finding 19 Property Management Services – Biscayne Landing

The City acknowledges the Finding. The Property Manager contract referenced in the audit report was terminated by the City in 2014. Generally, when RFP’s are to be issued, they do not go before the Council for approval to be issued. Instead, the Council has the discretion on the back end to approve or not the

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recommended vendor/contractor presented by management after qualified respondents' proposals have been evaluated. Currently, the City has an in-house Contracts Compliance Manager assigned to the Project. This position, along with Public Works personnel, monitor the contract for compliance with various matters including, but not limited to, engineering, finances and insurance.

Finding # 20 Adult Education Tuition Program

The City acknowledges the finding presented by the auditor. The City has implemented new monitoring measures and guidelines for the North Miami Adult Education Center which outlines the School District Responsibilities and Procedures for Solicitation of Funding, as well as the City of North Miami Responsibilities. As stated in the guidelines, the school is responsible for forwarding completed applications to the Department of Community Planning & Development (CPD) for verification of applicant residency and income status. Once complete, CPD will notify the school officials of any deficiencies, and once corrected, the applicant is permitted to continue with registration. The School District is also responsible for providing monthly status reports to demonstrate compliance with the terms of the program agreement.

Finding # 21 Auditor Selection and Audit Services Contract

The City acknowledges the finding presented by the auditor, however, a distinction needs to be made between an Audit Committee and an Audit Selection Committee. For the auditor procurement, the City assembled a panel composed of financial professionals both internal and external, including a non-financial professional. The group reviewed the respondents to the RFP's proposals, scored and ranked them and presented the results to City Management for Council approval. We understand the importance of independence in this situation as such, the City will recommend that the City Council formally establish an Audit Advisory Committee (ACC) composed of all outside members with the requisite qualifications (CPA, government financial professionals, etc.) and the ACC can serve as the selection committee for future audit services procurements.

All future contracts for auditing services will incorporate the language required by State Statute. Invoices with sufficient detail will be required to be provided by the auditor.

Finding # 22 P-Card Authorization and Issuance, Purchasing Limits, and Cancellations

The City acknowledges the finding of the auditor. The City has enhanced controls over the use of P-Cards as follows:

- Requiring all credit limit increases be formally requested on a "Credit Limit Increase Request Form" which must be approved and signed by the cardholder's department director and by the City Manager. This form must be filled out for both temporary and permanent increases and must include the reason for requesting the increase. Requests for a temporary increase must specify the dates for which this increase will be necessary. These dates are added to the online banking system and the credit limit increases are automatically adjusted based on the dates inputted.
- Documenting when cards are turned in by employees either leaving the City or transferring to different departments by requiring the cardholder or someone returning the card on their behalf to sign a form indicating the card has been returned. This form is also signed by a representative from the Purchasing Department and the card's deactivation date is recorded on the form.
- Requiring cardholders to sign a document confirming that they received the card.



- Requiring that all forms, including Forms "A" and "B" signed upon issuance of new cards, credit limit increase requests, and any other documentation related to changes or updates to a cardholder's account(s) are kept together on file in the Purchasing Department.

The P-Card Administrator has conducted informal reviews and analysis of spending patterns and expenditures and has made periodic recommendations to cardholders regarding their card spending limits. This process will be memorialized in a standard operating procedure by January 31, 2018, and shall be conducted on an ongoing basis.

Finding # 23 P-Card Expenditures

The City acknowledges the auditor's finding. The City now requires each department submit their P-Card invoices and related documentation to the Purchasing Department, instead of the Finance Department, upon receipt of each monthly bank statement. These expenditures are reviewed by the P-Card Administrator and ultimately by the Purchasing Director for compliance and to ensure adequate information is provided. Moreover, each department is now required to submit a "Cardholder Activity Report" as the cover page for each cardholder's receipts and backup documentation. This report must be signed by the department head and the department's proxy reconciler indicating that they have reviewed and approved the cardholder's charges for that billing cycle. All documentation related to P-Card expenditures is kept on file in the Purchasing Department and is filed by billing cycle and by cardholder.

The Purchasing Department is also in the process of finalizing and distributing a new P-Card manual which will address all prior deficiencies in the City's P-Card program.

Finding 24: Travel Cost Reimbursement Expenditures

The City acknowledges the auditor's findings. The City currently has an Administrative Regulation (AR) in place that requires a pre-approval of all travel by the City Manager and a corresponding expense report within five (5) business days of the return of the travel event. Currently, the City administration re-issued the AR as a re-education for staff and requires strict compliance with the regulation. Any violations will be documented as unauthorized travel and disciplinary action will be taken up to and including termination.

Finding # 25 -Utility Service Collections - Separation of Duties

The City acknowledges the auditor's finding. During the period reviewed by the State Auditors, the Finance Department was understaffed. The Department is now fully staffed. As of fiscal year 2016-2017, the Finance Department has cross-trained three Account Clerks who all can serve as back-up cashiers, and none have duties to record cash receipts in the accounting system.

Finding 26: Utility Service and Collection Processes

The City acknowledges the auditor's finding. As of May 2016, the Finance Department has corrected the late dispersing of utility bills issue by increasing the staffing in the billing section and adjusting the meter read dates. The City was also able to increase billing efficiency by implementing policies and procedures designed to ensure utility bills are sent out within the 30-day period following the meter read date. Residential billing cycles are quarterly and there is a 45-day window given for payment. Beyond this period, accounts are eligible for cut-off if no payment is made.

We are currently revising the City Ordinance relating to delinquent accounts and the basis of writing off accounts deemed to be uncollectable. As of May 2016, the City has entered into payment arrangements

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with high dollar value utility accounts. As of May 2017, the City has staffed the Liens Unit to manage the collections of the delinquent accounts and to analyze balances to deem collectability.

Finding 27 – Business Tax Receipts

The City acknowledges the auditor's finding. As of FY2017, the Clerk's Office has formalized the following procedures to address the issues noted in the finding:

1. Staff assess all businesses within the City of North Miami by initiating visits from staff who have been assigned to four quadrants of the City to help identify businesses who are not in compliance with registering for a Certificate of Use (CU) or a Business Tax Receipt (BTR). After the initial contact with the owner, a 72-hour grace period will be given to the owner to obtain a certificate of use and then acquire a BTR. If the initiation of the CU has not begun, then the business will be referred to the Code Compliance Office for further enforcement.
2. Staff also visit businesses that are delinquent. The businesses have 72 hours to comply. After 72 hours, if the account remains delinquent, the Code Compliance Office will be notified for further enforcement.
3. Working closely with Miami-Dade County to potentially identify new or existing businesses in the area.
4. The previous amnesty program was approved by Council on March 27, 2012. Moving forward, if an amnesty program is ever considered, qualified businesses will be identified under the amnesty program and/or amounts forgiven. Research/analysis will be conducted and evidence will be provided to Council on the probable economic impact of the program.

In further discussion with the City Clerk and the City Council members, it is anticipated that administration of BTRs will shift to the City Administration at the beginning of the 2019 fiscal year, at which time amended policies and procedures will be adopted and implemented.

Finding 28: Timely Deactivation of Access Privileges

The City acknowledges the auditors finding and has satisfied the recommendation. As of March 2017, the City enacted Administrative Regulation 00-104 entitled, "*User Technology and Application Review*" which requires an annual audit of user access as well as quarterly user access reports to identify users no longer employed and/or determine any changes to the access of active users. The new policy will ensure access privileges are not available to former employees, and therefore, safeguard against data compromise or other information technology resources. In addition, the Personnel Department currently copies the IT Department on termination letters and requests for de-activation of employees are sent to the IT Help Desk System.

Finding 29: Disaster Recovery

The City acknowledges the auditors finding and has satisfied the recommendation. As of March 2017, the City enacted Administrative Regulation 07-04 entitled, "*Backup and Recovery Policy*" outlining the City's backup and recovery operating procedures, including Server Backup Plans, Backup Requirements, Media Storage/Retention/Destruction, and Backup Logs/Review. The Disaster Policy also considers and plans for processing disruptions, such as major hardware and/or software failure. The Administrative Regulation calls for periodic restore testing of critical data, processes and applications. The City's IT contingency plans

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are also documented in its Continuing Operations Plan (COOP Plan) which is maintained (documented and tested) by the City's Emergency Management Division.

Finding #30: IT Security Incident Response Plan

The City concedes that although the City had established procedures to respond to selected incidents involving user violations, the City will revise and expand the plan to establish the proper policies and procedures which include a comprehensive framework to ensure the effective response and handling of security incidents that affect the availability, integrity, or confidentiality of the City's information assets. The plan will include the definitions of computer security incidents describing the process of responding to an incident pursuant to local, state, and federal authorities. The plan will facilitate quick and efficient response to incidents, and to limit their impact while protecting the City's information assets. The plan defines roles and responsibilities, documents the steps necessary for effectively and efficiently managing an information security incident, and defines channels of communication. The plan also prescribes the education needed to achieve these objectives. The plan will be completed and implemented by January 31, 2018.