

CITY OF NORTH MIAMI

Prior Audit Follow-Up



Sherrill F. Norman, CPA
Auditor General

Mayor, City Council Members, and City Manager

During the period October 2017 through February 2019, the following individuals served as City of North Miami Mayor, Council Member, or City Manager:

Dr. Smith Joseph, Mayor
Philippe Bien-Aime, Council Member
Alix Desulme, Council Member
Scott Galvin, Council Member
Carol Keys, Council Member
Larry M. Spring Jr., City Manager

The team leader was Javier M. Alfonso, and the audit was supervised by Jacqueline Bell, CPA.

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CITY OF NORTH MIAMI

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SUMMARY

Pursuant to Section 11.45(2)(j), Florida Statutes, this operational audit of the City of North Miami (City) focused on the progress that the City had made, or was in the process of making, in addressing the 30 findings and recommendations in our operational audit report No. 2018-038.

Our audit disclosed that the City had:

- Corrected 8 findings (Findings 1, 2, 6, 12, 18, 19, 25, and 29).
- Partially corrected 17 findings (Findings 3, 7, 8, 10, 13, 14, 15, 16, 17, 20, 21, 22, 24, 26, 27, 28, and 30)
- Not corrected 5 findings (Findings 4, 5, 9, 11, and 23).

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.

¹ *Adjusted 2018 Population Estimates for Florida's Counties and Municipalities, June 2019*; Florida Office of Economic and Demographic Research.

FINDINGS AND RECOMMENDATIONS

ADMINISTRATION AND MANAGEMENT

Finding 1: Management Turnover

Previously Reported

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 our report No. 2018-038.

We recommended that to promote efficient operations, high quality services, and the consistent application of City policies and procedures, the City 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.

Results of Follow-Up Procedures

The City corrected this finding. Our examination of City records and discussions with City personnel disclosed that, in August 2017, the City implemented a leadership training series through Barry University as a strategy to limit the negative effects of any potential turnover in key management positions. City records indicated that, for the period October 2017 through February 2019, the City experienced turnover in 10 key positions² that were not part of City management; however, there was no turnover in key management positions³ during that period.

Finding 2: Internal Audit Function

Previously Reported

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

We recommended that the City continue efforts to establish an internal audit function that will assist management in maintaining a comprehensive framework of internal controls.

Results of Follow-Up Procedures

The City corrected this finding. In April 2017, the City Council passed a resolution⁴ to negotiate and execute an agreement with an accounting firm for internal auditing services. In May 2017, the City executed a professional services agreement with the firm that outlined the scope of work to be performed including, for example, risk assessments of operations, reviews of specific organizational areas, compliance reviews associated with certain policies, procedures, and best practice standards, along with

² The 10 key positions included, for example, the assistant City attorney, code compliance officer, and budget administrator positions.

³ Key management positions include those at the director level or above.

⁴ City Resolution No. 2017-R-56.

recommendations for operational and procedural improvements. Additionally, during the period October 2017 through February 2019, the City established agreed-upon procedures with the firm and, based on those procedures, two audit reports were issued that contained findings and management's proposed corrective actions.

Finding 3: Budgetary and Financial Monitoring

Previously Reported

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.

We recommended that, 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 be prepared and timely presented to the City Council.

Results of Follow-Up Procedures

The City partially corrected this finding. Our examination of City records and discussions with City personnel disclosed that, in February 2018 the City approved an administrative regulation⁵ that required, within 45 days after each quarter of the fiscal year, the Budget and Finance Departments to communicate a quarterly budget-to-actual report on all funds, including current anticipated ending funding equity amounts, to the City Manager and the Mayor and Council. In addition, the City implemented a public transparency portal that provides financial data such as expenditures, revenues, and budget information for the current fiscal year as well as a historical view of previous years.

We found that the quarterly budget-to-actual comparison reports for the 2017-18 and 2018-19 fiscal years generally included all funds and were typically presented timely to the City Council, but excluded current anticipated ending fund equity amounts. In addition, the 2017-18 fiscal year fourth quarter report⁶ lacked budget-to-actual comparison information for the Enterprise and Internal Service Funds (proprietary funds) and the 2018-19 fiscal year first quarter report was not presented to the City Council. Moreover, the General Fund ending fund balance deficits totaled \$8.2 million and \$14.7 million, respectively, for the fiscal years ending September 30, 2018, and September 30, 2019, which indicate budgetary and related monitoring procedures were ineffective to timely identify and remedy the deficits.

In response to our inquiries, City personnel indicated that the 2017-18 fiscal year Comprehensive Annual Financial Report, which was not required to contain budgetary proprietary fund information, was presented to the City Council for the fourth quarter. In addition, City personnel indicated that the 2018-19 fiscal year first quarter financial report was not presented because the budget director position responsible for presenting the report was vacant during that period. City personnel also indicated that

⁵ City Administrative Regulation 11-01.

⁶ According to City personnel, the City Council reviewed and approved the 2017-18 fiscal year Comprehensive Annual Financial Report, which was also considered as the fourth quarter report.

the quarterly budget-to-actual reports are operating reports that detail revenues and expenditures and any equity analyses are done at year end.

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.

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

Finding 4: Statements of Financial Interests

Previously Reported

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 (Ethics Commission).

We recommended that the City 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. We also recommended that the policies and procedures require that the designated employee contact the Miami-Dade Supervisor of Elections to verify that the local officers timely filed the statements as required.

Results of Follow-Up Procedures

The City had not corrected this finding. Our examination of City records and discussions with City personnel disclosed that, as of April 2019, City policies and procedures had not been established to designate the employee responsible for periodically providing to the Ethics Commission the names and addresses of City Officials and employees required to file statements of financial interests and contacting the Miami-Dade Supervisor of Elections to verify that the officials and employees timely filed the required statements. In response to our inquiry, City personnel indicated that Administrative Regulation 1-2, issued in 1985, addresses the responsibility of every public officer, elected official, and employee to file the statement of financial interests annually. Notwithstanding, the regulation does not establish policies or procedures to ensure statements of financial interests are filed timely as required.

As part of our audit, we requested, and the City provided, a list of the 31 elected officials and employees required to file statements of financial interests during the period October 2017 through February 2019. From the list, we selected 16 officials and employees and requested for examination records to determine whether these individuals' 2018 statements of financial interests were appropriately filed with the Ethics Commission and the Miami-Dade Supervisor of Elections. We found that 2 (a former City Clerk and former Mayor) of the 16 individuals, whose statements of financial interests were required to be filed by

July 1, 2019, did not file the statements until August 26, 2019, and September 16, 2019, respectively, or 56 and 77 days late.

Absent policies and procedures to ensure that applicable City officers and employees timely file required financial disclosures, there is an increased risk that City officers and employees will 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: We continue to recommend that the City 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

Previously Reported

Although City ordinances⁷ and a Civil Service rule⁸ 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.

We recommended that the City 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.

Results of Follow-Up Procedures

The City had not corrected this finding. Our examination of City records and discussions with City personnel disclosed that the City had not established policies and procedures for communicating, investigating, and reporting known or suspected fraud.

In response to our inquiry, City personnel indicated that the proper protocol for reporting suspected or known fraud is to notify the Police Chief, and a police officer will apprehend and escort the person off the premises. In addition, the City drafted an administrative regulation titled *Establishment of Fraud Hot-Line* that provides a telephone number for the reporting of fraudulent activity. Notwithstanding this response, these protocols do not:

⁷ Sections 2-316 and 2-318, City of North Miami Code of Ordinances.

⁸ City of North Miami Civil Service Rule XIII, Sections B.11, B.13, and B.24 (February 2011).

- Define fraud or provide examples of actions constituting fraud and 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 appropriate authorities, or protecting the reputations of persons suspected but not determined guilty of fraud.

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: We continue to recommend that the City establish policies and procedures for communicating, investigating, and reporting known or suspected fraud.

CASH CONTROLS

Finding 6: Bank Account Reconciliations

Previously Reported

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.

We recommended that the City 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.

Results of Follow-Up Procedures

The City corrected this finding. During the period October 2017 through February 2019, the City had 9 commercial and 3 certificate of deposit bank accounts, requiring 204 bank account reconciliations. We selected for examination City records supporting the 17 reconciliations for the main operating account. We found that the City Chief Accountant timely prepared the reconciliations with items investigated, explained, and documented, and documented adjustments, if required, to the general ledger cash account balances. We also noted that the reconciliations evidenced timely supervisory review and approval.

Finding 7: Electronic Funds Transfers

Previously Reported

City 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.

We recommended that the City enhance established EFT procedures to require:

- An appropriate separation of duties for initiating EFTs and for reviewing and approving EFTs.
- Banking agreements to 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.

Results of Follow-Up Procedures

The City partially corrected this finding. Our examination of City records and discussions with City personnel disclosed that, as of May 2019, the City continued to maintain with three banks banking agreements that authorized EFTs. Our review of those three banking agreements disclosed that the City identified, by name, the employees authorized to initiate and approve EFTs and timely updated the agreements for personnel changes. In addition, EFT processing requires the employee who initiates the EFT to be different from the employee who approves it. However, one banking agreement stated that there was no EFT dollar limit, the other two agreements were silent regarding an EFT dollar limit, and City procedures did not establish employee EFT dollar limits for City personnel based on the employees' respective job responsibilities.

In response to our inquiry, City personnel indicated that EFT dollar limits were not established because the City believes the lack of limits allows for operational flexibility in managing City funds. City personnel also indicated that the independent EFT approval and a proper business purpose supported by appropriate documentation provide sufficient control over EFTs. Notwithstanding this response, EFT dollar limits based on employee job responsibilities help protect the City from excessive and potentially unauthorized withdrawals.

During the period October 2017 through February 2019, the City recorded a total of 45,527 EFT payments totaling \$108 million. We examined City records supporting 30 selected EFT payments totaling \$19.2 million and noted that review and approval was documented. However, 9 EFTs totaling \$877,021 for automated compensation payments identified a Payroll Department employee as the initiator of the EFTs who was not authorized by the banking agreement to perform this function. City personnel indicated that, because the EFTs were for compensation payments, they believed it was reasonable for Payroll Department employees to initiate the EFTs. Notwithstanding the explanations provided, the banking agreement did not grant that employee the authority to initiate EFTs.

While our tests did not disclose any EFTs for unauthorized purposes, it is incumbent on the City to establish effective EFT controls to reduce the risk for unauthorized EFTs and help safeguard City resources.

Recommendation: We continue to recommend that City procedures establish employee EFT dollar limits based on the employees' job responsibilities of those employees. In addition, the City should ensure that EFTs are only initiated by employees granted that authority on City banking agreements.

PAYROLL AND PERSONNEL ADMINISTRATION

Finding 8: Employment Practices and Personnel Records

Previously Reported

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.

We recommended that the City 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, we recommended that the City continue efforts to ensure that employee evaluations are performed as required.

Results of Follow-Up Procedures

The City partially corrected this finding. Our examination of City records disclosed that new hires receive a probationary evaluation after 6 months of employment and an annual evaluation after the employee's first year of employment. In April 2019, the City implemented procedures for verifying and documenting in the personnel records that applicants met the minimum experience and educational requirements of the applicable positions.

Our examination of City records and discussions with City personnel disclosed that the City hired 64 non-temporary employees during the period October 2017 through February 2019. As part of our audit, we requested for examination City records supporting 8 selected new hires to determine whether the employees received both a probationary and an annual evaluation and met the minimum educational and experience requirements. Although we found the new hires received the required evaluations, City records did not always demonstrate that new hires met the minimum educational requirements. Specifically, the City did not maintain documentation in the personnel records evidencing:

- 2 new hires, including an Administrative Coordinator and Chief Structural Inspector, met the minimum educational requirements for their positions. In response to our inquiries, City personnel requested the documentation from the employees and obtained evidence that the minimum educational requirements were met.
- The required certifications for an individual hired as an IT Specialist II. In response to our inquiry, City personnel indicated that the IT Specialist II was not required to have the certification specified in the job description. Although we requested, records were not provided to support the basis for this response.

Based on the results of our procedures, the City lacked the documentation because of oversights. Documented verifications of education and credentials provide critical information for making personnel decisions and provide assurance that new employees meet the minimum requirements for the position.

Recommendation: We continue to recommend that the City establish procedures for verifying and documenting in the personnel records that, prior to hire, applicants meet the minimum education and other requirements of the applicable positions.

Finding 9: Background Screenings

Previously Reported

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

We recommended that the City 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 recommended 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.

Results of Follow-Up Procedures

The City had not corrected this finding. As noted in our audit report No. 2018-038, in August 2014 the City Manager issued an administrative regulation⁹ requiring level 2 background screenings¹⁰ for certain individuals, including executive-level positions; positions of trust for handling or safeguarding cash in excess of \$300; and Parks and Recreation Department, Library, and Museum of Contemporary Art employees, vendors, volunteers, and interns who work with vulnerable populations. Department directors and managers must ensure that screenings of these individuals' backgrounds are also obtained at least once every 5 years.

In response to our request, City personnel provided us a list of the 358 City employees who were required to have a background screening during the period October 2017 through February 2019. As part of our audit, we requested for examination City records supporting the screenings of 30 selected employees and identified only 1 employee, a general maintenance worker hired February 2019, who, because of an oversight did not have a background screening on file. However, although we requested, the City was unable to provide a list of vendors, volunteers, and interns required to obtain background screenings and records were not provided to identify who was assigned responsibility for ensuring those individuals' background screenings were obtained.

⁹ City of North Miami Administrative Regulation 00-99.

¹⁰ Level 2 background screenings include 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.

Absent effective controls to obtain required background screenings, the risk increases that individuals with unsuitable backgrounds may perform City services, including services for vulnerable populations.

Recommendation: We continue to recommend that the City enhance procedures 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. Such enhancements should include assigning an employee responsibility for monitoring required background screenings of vendors, volunteers, and interns to ensure those screenings are obtained and considered before those individuals perform City services.

Finding 10: Severance Pay

Previously Reported

Severance pay provisions in City employment agreements did not always comply with State law¹¹ 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.

We recommended that the City 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.

Results of Follow-Up Procedures

The City partially corrected this finding. According to City personnel, no severance pay was made during the period October 2017 through February 2019 and our discussions with City personnel and examination of City records disclosed that the City updated the severance pay provisions in the employment contract for the City Attorney in 2016 to limit severance pay to 20 weeks of compensation. Notwithstanding, the City had not established policies and procedures to limit severance pay pursuant to State law and to reference the limit in employment agreements. Absent policies and procedures requiring language in employment agreements to limit severance pay to the statutory thresholds, the risk increases that unallowable payments for severance pay may be made.

Recommendation: We continue to recommend that the City establish policies and procedures that ensure severance pay is limited to the thresholds in State law.

Finding 11: Employee Separation Agreements

Previously Reported

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 workday. Additionally, City policies and procedures need to be revised to require City Council approval of employee separation agreements before such agreements are executed.

¹¹ Section 215.425(4)(a), Florida Statutes.

We recommended that the City document the authority for, and the public purpose served by, the costs associated with employment separation agreements. Additionally, we recommended 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.

Results of Follow-Up Procedures

The City had not corrected this finding. Our review of City records, policies, and procedures, and discussions with City personnel disclosed that, as of May 2019, City policies and procedures did not require City Council approval prior to the implementation of employee separation agreements.

In response to our request, City personnel provided us with a list of the 50 City employees with employment separation dates during the period of October 2017 through February 2019. As part of our audit, we selected 8 employees with employment separation payments totaling \$284,400 to determine whether separation agreements were approved by the City Council and payments for unused vacation and sick leave were paid in accordance with City policies and procedures and State law. We found that the City Attorney entered into two separation agreements, authorized by the City Manager, on behalf of the City with two City employees, including one with no financial impact and the other with a settlement totaling \$15,000. In response to our inquiries, City personnel indicated that neither agreement was submitted for City Council approval as neither agreement exceeded \$25,000.

When the City Council is not apprised of agreements with employees separating from City employment, there is an increased risk that concessions provided may differ from City Council intent.

Recommendation: We again recommend that City policies and procedures be revised to require employment separation agreements be submitted for City Council input prior to executing such agreements and include the public purpose served by the costs associated with employment separation agreements.

Finding 12: Early Retirement Incentive Program

Previously Reported

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.

We recommended that 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 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, we recommended that the City 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.

Results of Follow-Up Procedures

The City corrected this finding. Our examination of City records and discussions with City personnel disclosed that the City did not implement another ERIP during the period October 2017 through February 2019. In addition, the City took steps to avoid the need for another ERIP by preventing new employee participation in the City pension plan as of January 2016 and joining the Florida Retirement System effective February 2016.

PROCUREMENT OF GOODS AND SERVICES

Finding 13: Purchasing Thresholds and Limits

Previously Reported

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 ordinances¹² 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.

We recommended that the City continue efforts to ensure the reasonableness of the City Manager and Purchasing Director's purchasing thresholds. We also recommended that City ordinances 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.

Results of Follow-Up Procedures

The City partially corrected this finding. Our examination of City records and discussions with City personnel disclosed that City ordinances were amended in October 2017 to address the City Manager and Purchasing Director's purchasing thresholds and limits for change orders. However, the language in the amended ordinances needs clarification as the ordinances provide that:

- The City Manager may "approve change orders and contract modifications for supplies and services which do not exceed twenty-five thousand dollars (\$25,000) or fifteen (15) percent of the original contract amount." As written, the City Manager has authority to approve change orders and contract modifications up to 15 percent of the original contract amount, which could exceed the \$25,000 change order dollar limit.
- The Purchasing Director may approve a 5 percent threshold for change orders and contract modifications but the ordinance does not set a maximum purchasing dollar limit.

According to City personnel, they interpreted the ordinance to limit the City Manager's purchasing threshold up to a maximum of \$25,000 for change orders and contract modifications. City personnel agreed that a dollar amount limit is absent from the Purchasing Director's purchasing authority but that the authority could not exceed the City Manager's \$25,000 limit. Notwithstanding, absent further clarifying language, City employees may not consistently interpret the language in City ordinances,

¹² Section 7-129, City of North Miami Code of Ordinances.

increasing the risk that the City may be obligated to expend amounts exceeding City Manager or Purchasing Director authority and contrary to City Council intent.

Recommendation: We recommend that the City Council amend City ordinances to clarify the limits on change orders and contract modifications for both the City Manager and the Purchasing Director.

Finding 14: Housing Program Contracting Process

Previously Reported

The City's housing program policies and procedures¹³ 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.

We recommended that the City 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 recommended that the original project contracts include provisions necessary to remedy City code violations and any other concerns associated with the projects.

Results of Follow-Up Procedures

The City partially corrected this finding. During the period October 2017 through February 2019, the City spent \$1.1 million on 63 housing projects. As part of our audit, we examined supporting documentation for 21 selected housing projects totaling \$436,312 and determined that the original project contract included provisions necessary to remedy City code violations and that change orders associated with the project appeared reasonable and unrelated to code violations. Notwithstanding, as of March 2020, housing program policies and procedures had not been updated to require documented consideration of City code requirements and any required efforts needed to remedy code violations prior to initiating contracts for housing program projects.

In response to our inquiries, City personnel indicated that the City established a department for the housing and social services program and anticipated that the housing guidelines would be amended in the near future to incorporate the organizational and recommended changes. Absent established effective policies and procedures requiring documented consideration of the City code requirements and efforts to remediate concerns before initiation of the contracting process, the City cannot ensure 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.

Recommendation: We continue to recommend that the City establish housing program policies and procedures that require, before initiation of the contracting process, documented

¹³ *Housing Program Guidelines*, March 2010.

consideration of City code requirements and any efforts needed to remedy code violations and other concerns associated with housing program projects.

Finding 15: Purchasing and Payment Processing

Previously Reported

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.

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

Results of Follow-Up Procedures

The City partially corrected this finding. During the period October 2017 through February 2019, the City recorded 71,969 expenditures totaling \$194.6 million. To determine whether written purchase orders or contracts were appropriately executed and used to authorize purchase transactions, receipt and approval of goods was evidenced, and the authorized public purpose was documented prior to payment, we examined City records supporting 30 selected expenditures totaling \$3.3 million. We found that:

- Although City ordinances¹⁴ require City Manager authorization for purchases between \$5,001 and \$25,000, City records did not evidence that the City Manager approved a \$10,920 payment for advertising in October 2017. City ordinances¹⁵ provide that advertisements are exempted from City ordinance purchasing requirements and may or may not be procured through the Purchasing Department but shall nevertheless be procured, whenever possible, in accordance with the ordinance requirements. City ordinances, policies, and procedures do not provide alternative processes for procuring advertisements and do not specify the individuals authorized to pre-approve advertising expenditures. In response to our inquiry, City personnel indicated that, in practice, the City Manager approves advertising expenditures when costs exceed \$25,000. Notwithstanding this response, the City purchasing thresholds were changed for the City Manager before this transaction was made, and the City Manager did not approve this transaction as ordinances recommended.
- City ordinances require Purchasing Director authorization for any purchase up to \$5,000; however, in September 2018, the City paid \$3,255 for parts and supplies without documenting that authorization. Upon inquiry, the Finance Director responded that this item was processed as a direct voucher rather than a purchase order and that direct vouchers are not routed through the Purchasing Department for approval as requisitions are handled for purchase orders. Notwithstanding the Finance Director's response, City ordinances do not exempt direct voucher purchases from Purchasing Director authorization.

City personnel also indicated that the Purchasing and Finance Departments encourage all City departments to utilize purchase requisitions and purchase orders, given their inherent safeguards, as the

¹⁴ Section 7-129, City of North Miami Code of Ordinances, requires Purchasing Director authorization for purchases not to exceed \$5,000 and City Manager authorization for purchases between \$5,001 and \$25,000.

¹⁵ Section 7-121, City of North Miami Code of Ordinances.

primary procurement method rather than the direct voucher method. Notwithstanding this response, City departments continue to make direct voucher payments to vendors without authorized approval for certain transactions that require Purchasing Director or City Manager authorization. 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: We continue to recommend that the City ensure that written purchase orders or contracts are appropriately executed and used to authorize purchase transactions before goods and services are received and payments are made.

Finding 16: Backflow Prevention Device Contract

Previously Reported

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.

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

Results of Follow-Up Procedures

The City partially corrected this finding. Our examination of City records and discussions with City personnel disclosed that, in June 2018 the City implemented procedures to ensure that contracts include all pertinent City ordinance requirements and that only authorized personnel sign and establish contracts. Such procedures include submitting proposed contracts to the City Attorney for review prior to contract execution, contract monitoring and management services by three contract compliance managers, and CPA firm contract compliance monitoring and other internal audit procedures.

During the period October 2017 through February 2019, the City maintained 18 vendor and 4 lease revenue generating contracts. To determine whether City procedures were effective, we examined City records supporting 4 vendor and 1 lease revenue generating contracts and found that the contracted services were authorized by City ordinances and an authorized City employee signed the contracts. However, although we requested, City personnel provided no response or records to show actions taken to recover the \$2,500 contract termination fee paid in December 2013 for backflow prevention device tests.

Recommendation: We continue to recommend that the City take appropriate action to attempt to recover the \$2,500 contract termination fee.

Finding 17: Solid Waste and Recycling Collection Services Contract

Previously Reported

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.

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

Results of Follow-Up Procedures

The City partially corrected this finding. Our review of the City records disclosed that in February 2012 the City entered an initial solid waste and recycling collection services contract whereby the City was generally responsible for collecting payments from residential and commercial customers and remitting the payments to the contractor, who was required to remit franchise fees to the City. For the period November 2017 through January 2019, the City extended the contract for these services. However, we found that effective City contract management and monitoring procedures had not been established. Specifically:

- Section 5.9 of the initial contract required that, upon (a) the commencement of the 4th year of the term of the contract agreement or (b) the time as the contractor is performing more than 75 percent of the City's commercial solid waste collection services, the contractor shall provide the City with \$120,000 per year during each year of the term of the contract, including extensions and renewal options, to fund a contract manager position within the City, which shall be selected and employed at the City's sole discretion. Accordingly, in February 2016, the Interim City Manager sent a letter to the contractor requesting payment of \$120,000 to fund the contract manager position. However, although we requested on several occasions, City records were not provided to demonstrate City efforts after February 2016 to request the \$120,000 payment or that the contractor, as of July 2020, had provided any funds to the City to fund the contract manager position.
- Section 14 of the contract required the contractor to maintain certain types of insurance and to convey certificates of insurance to the City to evidence 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 or that the insurance coverage limits were in accordance with the contract terms and conditions. Specifically, although the contract required:
 - Pollution liability insurance in an amount not less than \$25 million per occurrence and in the aggregate with a deductible of \$25,000, the City did not provide documentation of coverage for the period October 2017 through December 2018. Our review of a certificate of insurance for pollution liability provided by the City for the period January 2019 through January 2020 noted coverage of \$2 million in the aggregate, or \$23 million less than the contractually required per occurrence and in the aggregate coverage.

- Excess liability insurance in an amount not less than \$25 million per occurrence and in the aggregate, the City was unable to provide documentation of coverage for the period October 2017 through December 2018. Our review of a certificate of insurance for umbrella liability provided by the City for the period January 2019 through January 2020 noted coverage of \$10 million in the aggregate, or \$15 million less than the contractually required per occurrence and in the aggregate coverage.
- Section 21 of the contract required the contractor to annually provide the City with a certified annual financial statement within 6 months of the close of the contractor's fiscal year (June 30) throughout the term of the agreement or any extension thereof. However, according to City personnel, the City did not receive and review the contractor's financial statements for the fiscal year ended June 30, 2017, until June 2019.

The City's lack of effective contract management and contract monitoring throughout the solid waste and recycling collection services contract may have contributed to, or resulted in the untimely detection and resolution of, the noted deficiencies. Also, without adequate procedures to monitor the contractor's insurance coverage, risk increases that such coverage may not exist or is insufficient, subjecting the City to potential losses.

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

Finding 18: Building Inspection and Permitting Services

Previously Reported

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.

We recommended that the City enhance City contracting procedures to demonstrate that contracts are awarded and modified in a fair, equitable, and economical manner. We also recommended 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.

Results of Follow-Up Procedures

The City corrected this finding. Our examination of City records and discussions with City personnel disclosed that, as of May 2017, the City no longer contracted for building inspection and permitting services but instead provided the services in-house through the City Building Department. According to City personnel, for other contracted services, the Purchasing Department continues to work closely with the City Attorney on solicitations to ensure the procurement process is transparent and in accordance

with City ordinances and applicable State law. The results of RFP solicitations, along with staff recommendations, are brought to the City Council for acceptance or rejection.

Finding 19: Property Management Services – Biscayne Landing

Previously Reported

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.

We recommended that the City enhance property management services contracting and related monitoring procedures to ensure that:

- Prior to the issuance of a 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.

Results of Follow-Up Procedures

The City corrected this finding. Our examination of City records and discussions with City personnel disclosed that, effective March 2015, City personnel began performing property management services.

Finding 20: Adult Education Tuition Program

Previously Reported

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.

We recommended that the City 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, we recommended that the City:

- 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.

Results of Follow-Up Procedures

The City partially corrected this finding. Our review of City records and discussions with City personnel disclosed that the City adopted a resolution¹⁶ in January 2018 to amend guidelines for monitoring and implementation of the adult education tuition program for economically challenged City residents attending North Miami High School. Our review of the amended guidelines¹⁷ disclosed that, although the resolution summary indicates that the tuition program is for economically challenged City residents, the amended guidelines included North Miami residency and program application completion as the only requirements for enrolling in the program with reimbursement based upon attendance and course completion. The amended guidelines funds adult education tuition program and vocational fees for each eligible student up to \$750 per trimester or a maximum of \$1,500.

In response to our inquiries, City personnel indicated that the Department of Community Planning and Development oversees residency determinations by verifying proof of residency with information obtained from valid State-issued identification, bank statements, lease agreements, utility bills, or other official documentation approved by the City. City personnel also indicated that because the program is funded by the General Fund as a scholarship, any North Miami resident may apply for and receive the scholarship regardless of income. Notwithstanding this response, the resolution title indicates that program funds would be used to assist economically challenged City residents and neither the City agreement with the District nor other City records established criteria for evaluating economic eligibility. Without such, City records did not demonstrate the program funds were used for economically challenged City residents pursuant to City Council intent.

For the period October 2017 through February 2019, the City expended adult education tuition program expenses totaling \$60,843 for 295 students enrolled in the tuition program. We examined City records supporting 30 selected students, who received \$12,600 in program funds, and determined that the City documented verifications that the amounts billed by the District were in agreement with fee schedules established in the amended guidelines and routinely verified that student addresses were valid and located within the City.

Additionally, we inquired about City efforts to recover from the District the \$7,323 paid for the 83 ineligible students identified in our prior report No. 2018-038. Subsequent to our inquiry, the City sent a remediation letter requesting that the District provide the \$7,323 payment and the payment posted to the City's bank account in September 2019.

¹⁶ City of North Miami Resolution No. 2018-R-3.

¹⁷ *North Miami Adult Education Center City of North Miami Funding Monitoring Guidelines.*

Recommendation: We continue to recommend that the City establish criteria to be used to identify economically challenged City residents eligible for program participation and ensure that agreements include such criteria. Alternatively, if City Council intent is not to base scholarships on economic criteria, the City Council should take action to clarify that in City records.

Finding 21: Auditor Selection and Audit Services Contract

Previously Reported

City auditor selection procedures and the audit services contract process need improvement to effectively promote independence and compliance with State law.¹⁸

We recommended that the City revise the Auditor Selection Committee membership to ensure that no members exercise City managerial responsibilities. In addition, we recommended that the City ensure that contracts for audit services include all the provisions required by State law.¹⁹ We also recommended 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.

Results of Follow-Up Procedures

The City partially corrected this finding. State law²⁰ 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. The GFOA's 2006 *Audit Committees – An Elected Official's Guide* clarifies 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. Notwithstanding, as of January 2020, the City has not established an audit committee.

In response to our inquiries, City personnel indicated that the City contracted for audit services in November 2016 and the contract extended through November 2019 with an option to extend for two additional 1 year periods. Our examination disclosed that the audit services contract contained the required statutory contract provisions. In addition, City personnel indicated that the auditor was selected by an auditor selection committee, referred to as an "evaluation committee," composed of four members of City management, including the Finance Director and another individual. However, as the evaluation committee was composed almost entirely of City management, the committee's ability to act in an independent and effective manner was diminished.

The City contract for auditing services cited the request for qualifications (RFQ) as an incorporated document to the contract. The RFQ included a requirement that a listing of hours incurred and a description of the work corresponding to such hours shall accompany the invoice in support of this calculation. Although the City paid six invoices for audit services totaling \$236,000 for the period October 2017 through February 2019, our examination disclosed 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

¹⁸ Section 218.39, Florida Statutes.

¹⁹ Section 218.391(7), Florida Statutes.

²⁰ Section 218.39, Florida Statutes.

sufficient detail to demonstrate compliance with the terms of the contract. In response to our inquiries, City personnel indicated that invoices were not reviewed to verify whether sufficient detail was given to demonstrate compliance with the terms of the contract. Consequently, City records did not adequately support the amounts paid for audit services.

Recommendation: We continue to recommend that the City revise the Auditor Selection Committee membership to ensure that no members exercise managerial responsibilities. We also continue to 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

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

Previously Reported

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

We recommended that the City 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.

Results of Follow-Up Procedures

The City partially corrected this finding. Our examination of City P-card records and discussions with City personnel disclosed that City policies and procedures associated with P-card authorization, issuance, purchasing limits, related usage, and cancellations could be enhanced to better promote P-card accountability.

P-Card Authorization and Issuance

During the period October 2017 through February 2019, the City had a total of 96 P-card accounts. To determine whether P-cards, and the associated purchasing limits, were authorized and cardholders were trained to use the P-cards in accordance with the *Purchasing Card Policy and Procedures Manual (P-Card Manual)*, we requested for examination City records supporting 14 selected cardholder accounts. While we found that P-cards and cardholder purchasing limits (including temporary increases) were authorized and that cardholders took possession of the P-cards and agreed to the terms of use, records

were not provided to demonstrate that the 14 cardholders attended the required P-card training. According to City personnel, all new cardholders are provided one-on-one training; however, no attendance or other records were maintained to demonstrate this training. Without the training records, management's assurance that the cardholders understand the necessary procedures to comply with the *P-Card Manual* is limited.

P-Card Purchasing Limits

Our discussions with City personnel and examination of City records disclosed that, as of April 2019, 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. In addition, the City's agreement with the bank that processed the P-card transactions did not require the bank to enforce City-established purchasing limits.

In response to our inquiries, City personnel indicated that cardholder spending limits are compared monthly to their monthly usage; however, the comparison is not documented. Additionally, City personnel indicated that the City's agreement with the bank that processed P-card transactions was not amended because the bank would decline card transactions should sufficient funds be unavailable. However, without documented 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.

The City incurred 4,972 P-card expenditures totaling \$1.2 million during the 17-month period October 2017 through February 2019 for 72 active P-card accounts. Our examination of City records supporting these expenditures identified charges that exceeded limits established by the *P-Card Manual*, P-card accounts that lacked transaction limits, and monthly purchasing limits that appeared excessive due to limited P-card usage. Specifically, we found that:

- The single transaction limit of \$500 established in the *P-Card Manual* was exceeded by \$101 to \$7,500 or by a total of \$616,635 for 480 P-card expenditures. Additionally, 180 of the 480 expenditures exceeded the *P-Card Manual* invoice limit of \$1,000 by \$105 to \$7,000 or by a total of \$370,013, and 33 of those expenditures exceeded the daily limit of \$2,500 by \$213 to \$5,500 or by a total of \$121,133. 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.
- 65 of the 72 P-card accounts lacked single transaction limits, although the *P-Card Manual* set account limits at \$500 each.
- 3 cardholders had excessive monthly purchasing limits, ranging from \$500 to \$15,000, as the cardholders did not use their P-cards during the 17-month period.

In response to our inquiries, City personnel recognized the need to improve P-card policies and procedures and indicated that not all P-cards are intended to be used on a regular basis as some facilitate travel, some are used occasionally, and others are for backup purposes. Additionally, according to City personnel, the City did not require single transaction limits for cardholders but only required a single transaction limit when a card's monthly limit exceeded \$5,000. Notwithstanding, absent effective controls over P-card use, there is an increased opportunity for P-card fraud, loss, theft, or misuse without timely detection and resolution.

P-Card Cancellations

We examined City records for the four cardholders who separated from City employment during the period October 2017 through February 2019 to determine whether the cardholders' P-cards were timely canceled. We found that, while three of the four P-cards were promptly canceled upon employment separation, the other P-card was used to incur a \$71.62 legitimate City charge 66 days after the cardholder's separation from City employment and, due to oversight, was not canceled until 87 days after the employee's separation date.

In response to our inquiries, City personnel indicated that staff from the former employee's department confiscated the P-card from the individual upon employment separation but never gave it to the P-Card Administrator, who is responsible for the destruction of the card. The P-Card Administrator identified the charge when the bank statement associated with the P-card was reviewed at the end of the month and immediately took possession of the card and had it destroyed. Without prompt cancellation and collection of assigned P-cards, the City increases the risk that other charges to an unauthorized P-card could be incurred.

Recommendation: We continue to recommend that the City enhance controls over P-cards by:

- **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, timely take appropriate actions, such as adjusting purchasing limits.**
- **Ensuring prompt cancellation and collection of P-cards upon a cardholder's separation from City employment.**

EXPENDITURES

Finding 23: P-Card Expenditures

Previously Reported

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

We recommended that the City 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.

Results of Follow-Up Procedures

The City had not corrected this finding. The City *P-Card Manual* provides guidelines for P-card expenditures, including documentation requirements and allowability. For example, the *P-Card Manual* specifies that payments for fines and penalties, donations and charitable contributions, restaurant charges, and entertainment expenses are unallowable and that the cardholder is required to retain sales receipts to match receipts with monthly card statements. City department heads monthly review and sign

cardholder activity reports to demonstrate reconciliations of the P-card payment request and authorization forms, receipts, and supporting documentation to the monthly billing statements. However, the *P-Card Manual* did not identify the employee responsible for monitoring the P-card activity of elected City officials.

During the period October 2017 through February 2019, the City reported 91 active P-card accounts and 4,972 P-card expenditures totaling \$1.2 million. To determine whether the P-card expenditures were appropriate and documented in City records, we requested for examination City records supporting 30 selected P-card expenditures totaling \$34,243. Our examination disclosed that the City incurred:

- A P-card charge totaling \$5,898 at a hotel for 40 rooms associated with a school trip sponsored by a Councilman and authorized by the City Manager. City records included an agreement with the hotel for the rooms; however, although we requested, City records, such as a hotel invoice evidencing receipt of the services, were not provided to demonstrate that the rooms were used for the school trip.
- 2 P-card expenditures totaling \$819 for a money counter machine and \$270 for an unallowable restaurant charge related to a business meeting that included sales tax totaling \$72. Although authorized by the Department head, the restaurant charge and sales tax totaling \$342 are contrary to the *P-Card Manual*,²¹ which prohibits P-card restaurant charges and requires cardholders to provide vendors with the City sales tax exemption certificate so that the City does not pay sales tax on vendor payments. State law²² provides an exemption from sales tax to governmental entities when payments are made directly to the vendor by the governmental entity.
- 3 P-card expenditures totaling \$2,410 including a \$1,010 citation fine from the Miami-Dade Fire Department for a false fire alarm; \$500 for a fundraising gala that included food, music entertainment, and a silent auction; and a \$900 payment for a charitable event that consisted of an open bar, gala dinner, and dancing. Although authorized by the Department head, the expenditures were not made in accordance with City policies and procedures as payments for fines and penalties, donations and charitable contributions, and entertainment expenses are unallowable P-card expenses.

Additionally, City records did not evidence that anyone monitored the 240 transactions totaling \$45,055 related to elected officials' P-card usage during our audit period. In response to our inquiries, City personnel indicated that elected officials' P-card expenditures are not processed through the City Purchasing Department and do not have cardholder activity reports. Notwithstanding, absent documented review and approval of all P-card expenditures, there is an increased risk that unallowable charges, fraud, or misuse may occur and not be timely detected and resolved.

Recommendation: We continue to recommend that the City 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. Such enhancements should include designation of an employee to review and approve the propriety of P-card transactions incurred by elected City officials.

²¹ Section 4.9, *Purchasing Card Manual*.

²² Section 212.08(6), Florida Statutes.

Finding 24: Travel Cost Reimbursement Expenditures

Previously Reported

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

We recommended that the City 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 recommended that City administrative regulations be amended to require that records be maintained to document the public purpose for all travel expenditures.

Results of Follow-Up Procedures

The City partially corrected this finding. Our discussions with City personnel disclosed that the City had not amended its administrative regulation,²³ which established specific travel guidelines for City employees, to require that records be maintained to document the public purpose for all travel expenditures.

During the period October 2017 through February 2019, the City recorded 2,237 travel expenditures totaling \$503,082. As part of our audit, we requested for examination City records supporting 30 selected travel expenditures totaling \$63,168 to determine whether the expenditures were appropriately calculated, approved, and necessary for the City and met an authorized public purpose. Our examination disclosed that:

- The then City Clerk incurred \$2,521 in travel expenditures 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 inquiries, City personnel stated that they could not explain why the then City Clerk chose that seminar or why the City Manager approved that training location.
- In September 2018, the City paid \$1,950 for 30 tickets for 30 persons who confirmed to attend a professional football game as an employee morale event. City personnel indicated that employees were responsible for reimbursing the City and that, in the past, the professional team had reimbursed the City for unused tickets. However, only 25 persons attended and reimbursed \$1,625 to the City for those tickets. According to City personnel, the other 5 persons canceled at the last minute and the professional team would not reimburse the City for the unused tickets. Although we requested, City records were not provided to evidence the public purpose or City Council approval or other authority for this purchase. City personnel indicated that the 2018-19 fiscal year budget included a budgeted amount for employee appreciation; however, the budget specifically listed an Employee of the Quarter/Employee Picnic Program with no mention of the professional football game. City personnel also indicated that, in the future, the City would not promote similar events.

²³ City of North Miami Administrative Regulation 1-12, *Establishment of Policy for Travel on City Business*, enacted May 3, 2000.

Without a regulation that provides for records to be maintained to document the public purpose for all travel expenditures, there is an increased risk that unauthorized or unnecessary travel-related expenditures may be incurred.

Recommendation: We continue to 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

Finding 25: Utility Service Collections - Separation of Duties

Previously Reported

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

We recommended that to ensure adequate separation of duties, the City 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, we recommended that compensating controls be implemented.

Results of Follow-Up Procedures

The City corrected this finding. Our examination of City records and discussions with City personnel disclosed that in October 2018 the City trained three junior accountants, who do not record transactions, to perform back-up cashier duties.

Finding 26: Utility Service Billing and Collection Processes

Previously Reported

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

We recommended that the City establish billing dates for utility customers and promptly bill utility customers. Additionally, for delinquent accounts, we recommended the City progressively strengthen collection efforts. Further, we recommended that the City establish procedures and guidelines for analyzing delinquent accounts and writing off accounts determined to be uncollectible.

Results of Follow-Up Procedures

The City partially corrected this finding. Our examination of City records and discussions with City personnel disclosed that, for the period of October 2017 through April 2019, the City had 20,445 active utility customer accounts. As part of our audit, we examined City records supporting 30 selected accounts and determined that the City had promptly billed each customer.

We also noted that City ordinances²⁴ require property liens be issued on delinquent accounts and that services be discontinued without further notice on all accounts not paid within 45 days of billing. To evaluate City collection efforts, we examined City accounts receivable records, including the accounts receivable aging report for February 2019, and identified 6,914 accounts totaling \$8.1 million that were outstanding more than 90 days. We requested for examination City records supporting 30 of those accounts totaling \$2.8 million and found that property liens were not issued for any of the accounts. Additionally, we found that, for 19 accounts, services were not promptly disconnected. Specifically:

- For 14 accounts with a \$1.9 million total receivable balance, services were not disconnected, and no payment arrangements were made.
- For 3 accounts with a \$28,007 total receivable balance, no payment arrangements were made, and services were not disconnected until 62 to 569 days after the accounts became delinquent.
- For 1 account with a \$97,654 receivable balance, the customer defaulted on a City payment arrangement and services were not disconnected.
- For 1 account with a \$7,226 receivable balance, the City disconnected service on three occasions; however, service was reinstated each time with no payment arrangement.

Additionally, we requested for examination a listing of uncollectible accounts from the City for the period of October 2017 through February 2019; however, City personnel responded that, in lieu of writing off accounts, the City issues property liens on the properties associated with delinquent accounts. Upon further inquiry, City personnel indicated that they had not issued a property lien since the City transitioned to service billing software in 2012 and had not implemented any policies or procedures to analyze and write off delinquent accounts deemed to be uncollectible. City personnel also indicated that the City does not shut off water for large apartment complexes because the resources required by these efforts, including involvement by the fire department, would exceed the benefits gained and, since some customers outside the City only receive sewer services, the City cannot physically shut off utilities to those customers for nonpayment. However, although we requested, City records were not provided to demonstrate that collection efforts and related costs exceeded expected benefits and justified continued services to nonpaying customers.

For collection efforts to be effective, such efforts must be both timely and progressively strengthened as accounts become more delinquent. 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.

Recommendation: We continue to recommend that the City progressively strengthen collection efforts for delinquent utility accounts. We also continue to recommend that the City establish procedures and guidelines for analyzing delinquent accounts and writing off accounts determined to be uncollectible. Such procedures and guidelines should require that records demonstrate, if costs relating to collection efforts will exceed expected benefits, the basis for continuing services to nonpaying customers and writing off uncollectible amounts.

²⁴ Sections 19-55 and 19-56, City of North Miami Code of Ordinances.

Finding 27: Business Tax Receipts

Previously Reported

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 program²⁵ or the amounts forgiven, or evidence the City Council's consideration of the economic impact of the program.

We recommended that the City 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, we recommended that City records 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.

Results of Follow-Up Procedures

The City partially corrected this finding. Our examination of City records and discussions with City personnel disclosed that the City implemented procedures in January 2018 to help ensure the completeness of the City's database of active businesses within City limits. These procedures include requesting a quarterly report of all businesses located within the City from the Business Tax Office of Miami-Dade County. The report is cross-referenced to the City database of businesses and those missing from the database are either contacted by BTR staff or referred to the City Code Enforcement Division.

In August 2019, we evaluated the completeness of City BTR records, which included 941 businesses with active BTRs, by selecting 30 businesses with City addresses from an online telephone directory and determining whether the businesses 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 10 businesses that should have been included in the database and licensed but were not, and another 8 businesses that were included in the database but did not pay their BTR fees. In response to our inquiries, City personnel indicated that, although the procedures requiring a comparison of the Business Tax Office's list of active businesses to the City's database of businesses was effective January 2018, they missed certain businesses due to oversight.

Additionally, we inquired with City personnel regarding the City's amnesty program and were told that the City has not offered an amnesty program since 2018 and does not anticipate offering any amnesty programs moving forward. Businesses that are delinquent are required to pay amounts owed in arrears before being granted a current BTR.

The lack of effective procedures to identify all active businesses within the City for inclusion in the database, 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.

²⁵ City of North Miami Resolution No. R-2012-37, Amnesty program to waive all past due business tax receipts incurred before October 1, 2011.

Recommendation: We recommend that the City follow established procedures to ensure the completeness of the database of active businesses within the City and that those businesses have paid the required BTR fee.

INFORMATION TECHNOLOGY

Finding 28: Timely Deactivation of Access Privileges

Previously Reported

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

We recommended that the City establish policies and procedures to require:

- The Personnel Administration Department promptly notify the Information Technology (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.

Results of Follow-Up Procedures

The City partially corrected this finding. Our examination of City records and discussions with City personnel disclosed that the City adopted an administrative regulation²⁶ that requires the IT Department to perform an annual audit of technology user access to applications and data, review quarterly user access reports to identify users no longer employed, and determine any needed changes to the access of active users. In addition, Department heads are required to request needed changes to user access and for the IT Department to implement any access changes or modifications as requested.

In June 2019, we evaluated access privileges to the City's network and ERP system for 24 of the 218 employees who separated from City employment during the period October 2017 through February 2019 and found that the City did not always timely deactivate access privileges. Specifically:

- 2 former employees' network access privileges were not deactivated until 14 to 17 days after the employment separation dates. Such privileges allowed the individuals unauthorized access to City documents and e-mails.
- 1 former employee's ERP system access privileges were not deactivated until 90 days after employment separation; however, according to City personnel, the ERP cannot be accessed without network access and the former employee's network access was disabled 17 days after the employment separation date.

In response to our inquiries, City personnel indicated that the untimely deactivations were attributed to Personnel Administration Department delays in notifying the IT Department of employee separations.

²⁶ City of North Miami Administrative Regulation 00-104, *User Technology and Application Access Review*, enacted March 26, 2017.

While our audit procedures did not disclose any errors or fraud due to 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.

Recommendation: We recommend that the City 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 all access privileges of individuals upon separation from City employment.

Finding 29: Disaster Recovery

Previously Reported

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.

We recommended that the City establish a disaster recovery plan, and periodically test and evaluate the plan.

Results of Follow-Up Procedures

The City corrected this finding. The City enacted an administrative regulation²⁷ in March 2017 establishing a backup and recovery policy to define, document, implement, and monitor information technology backup and recovery processes and ensure that critical technology servers are backed up at an appropriate frequency to reduce risk in case of system failure or a disaster. Our examination of City records and discussions with City personnel disclosed the City did not experience a loss of IT capabilities during the period October 2017 through February 2019 and the City successfully performed periodic database restore testing and evaluations in July and August 2018.

Finding 30: IT Security Incident Response Plan

Previously Reported

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

We recommended that the City 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.

Results of Follow-Up Procedures

The City partially corrected this finding. Our examination of City records and discussions with City personnel disclosed that the City established procedures for an Incident Response Plan in April 2019.

²⁷ City of North Miami Administrative Regulation 07-04, *Backup and Recovery Policy*, enacted March 26, 2017.

However, because of oversights, the procedures lacked definitions of computer security incidents and guidelines for notifying affected parties whose personal information was, or was reasonably believed to have been, acquired by an unauthorized party. In response to our inquiry, City personnel indicated that the Incident Response Plan will be updated to include detailed procedures for notifying the affected parties and to define computer security incidents.

The City did not experience any security incidents for the period October 2017 through February 2019. However, without defining computer security incidents and providing guidelines for notification of a breach in personal information, the City may not appropriately or timely respond to the incident.

Recommendation: We recommend that the City include the following elements in the established Incident Response Plan procedures:

- **Definitions of computer security incidents.**
- **Guidelines for notifying, pursuant to Section 501.171, Florida Statutes, affected parties whose personal information was, or was reasonably believed to have been, acquired by an unauthorized person.**

OBJECTIVES, SCOPE, AND METHODOLOGY

Pursuant to Section 11.45(3)(a), Florida Statutes, we conducted an operational audit of the City of North Miami (City) and issued our report No. 2018-038 in November 2017. Pursuant to Section 11.45(2)(j), Florida Statutes, the objective of this audit was to perform, no later than 18 months after release of that report, appropriate follow-up procedures to determine the City's progress in addressing the findings and recommendations contained within report No. 2018-038.

We conducted this follow-up audit from May 2019 to December 2019 in accordance with applicable generally accepted government auditing standards. Those standards require that we plan and perform the follow-up 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.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the follow-up audit, weaknesses in management's internal controls; instances of noncompliance with applicable laws, rules, regulations, 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 follow-up 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 transactions, as well as events and conditions, occurring during the audit period October 2017 through February 2019 and selected City actions taken prior and subsequent thereto. Our audit included the examination of pertinent City records and transactions, inquiry of City personnel, observation of procedures in practice, and additional follow-up procedures as appropriate. Unless otherwise indicated in this report, records and transactions were not selected with the intent of projecting the results, although we have presented for perspective, where practicable, information concerning the relevant population value or size and quantifications relative to the items selected from examination.

Specifically, we:

- Reviewed applicable laws, grant agreements, and City ordinances, administrative regulations, 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 for the period October 2017 through February 2019 to determine the propriety and sufficiency of actions taken.
- Determined if the City documented consideration of any City actions that may increase turnover in key management positions and strategies to limit the negative effects of such turnover. Additionally, we evaluated the reasonableness and implementation of such strategies.
- Examined City records to determine if 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.
- Determined whether budget-to-actual comparison reports for all budgeted funds were timely prepared and timely presented to the City Council for the 2017-18 fiscal year and the 2018-19 fiscal year through February 2019.
- Determined whether the City established policies and procedures that assign to an employee responsibility for providing the names and addresses of local officers required to file statement of interest forms to the Florida Commission on Ethics.
- From the population of 25 City employees and 6 elected officials required to file statements of financial interests during the period October 2017 through February 2019, requested for examination City records for 10 City employees and 6 elected officials to determine whether the statements of financial interests were timely filed.
- Examined City records to determine whether the City had established anti-fraud policies and procedures to provide guidance to employees for identifying and communicating known or suspected fraud to appropriate individuals.
- From the population of 204 bank account reconciliations required for 9 commercial and 3 certificate of deposit bank accounts maintained during the period October 2017 through February 2019, requested for examination City records supporting the 17 selected bank account reconciliations for the main operating account to determine whether the reconciliations were timely performed.

- 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 45,527 EFTs totaling \$108 million during the period October 2017 through February 2019, we requested for examination City records supporting 30 selected EFTs totaling \$19.2 million to determine whether the EFTs were adequately supported and properly authorized.
- Examined personnel records for 8 employees selected from the 64 non-temporary employees hired during the period October 2017 through February 2019 to determine whether the City had adequate controls over hiring practices, including documented verifications of educational and work experience and evaluations of employee performance.
- Examined City records to determine whether the City had established policies and procedures for background screenings at least every 5 years for City employees in executive-level positions and positions of trust, as well as for any individuals (employees, vendor workers, volunteers, and interns) who work with vulnerable populations.
- From the population of 358 employees, serving in executive level positions, selected 30 employees who were in positions of trust, responsible for safeguarding cash in excess of \$300, or worked with children, the elderly, or other vulnerable populations and examined City records during the period October 2017 through February 2019 to assess whether City personnel performed the required background screenings.
- Evaluated severance pay provisions in the City Attorney, City Manager, and a selected City employee's employment agreement to determine whether the severance pay provisions complied with Section 215.425(4) Florida Statutes.
- Examined City records to determine whether City policies and procedures require City Council approval of employee separation agreements before such agreements are executed.
- From the population of 50 City employees with employment separation dates during the period October 2017 through February 2019, selected 8 employees with employment termination payments totaling \$284,400, to determine whether separation agreements were approved by the City Council and payments for unused vacation and sick leave were paid in accordance with City policies and procedures and State law.
- Examined City records to evaluate the sufficiency of controls over implementation of programs, such as early retirement incentive programs, that significantly impact City finances, operations, and services.
- Reviewed the City's purchasing ordinances to evaluate the reasonableness of the City's procurement and change order thresholds for reasonableness.
- Determined whether the City established housing program policies and procedures that required, 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.
- From 63 housing projects with expenditures totaling \$1.1 million during the period October 2017 through February 2019, examined City records supporting 21 selected projects with expenditures totaling \$426,312, to determine whether original project contracts included provisions necessary to remedy City code violations and any other concerns and whether change orders associated with those projects were reasonable and were not for code-related requirements that should have been foreseen during the project planning process.
- Examined City records supporting 29 selected expenditures totaling \$3.3 million, from the population of 71,969 expenditures totaling \$194.6 million, to determine whether written purchase

orders or contracts were appropriately executed and used to authorize purchase transactions prior to payment, the receipt and approval of goods and services was evidenced, and the authorized public purpose for the related expenditure was documented.

- Examined City records to determine whether the City took appropriate action to recover the \$2,500 contract termination fee paid to the backflow prevention device contract vendor.
- From the population of 22 City revenue generating contracts during the period of October 2017 through February 2019, examined City records supporting 5 selected revenue generating contracts to determine whether contracted services were authorized by City ordinances and the related service contracts were signed by an authorized party.
- From the population of 18 vendor and 4 lease contracts active during the period of October 2017 through February 2019, examined 4 vendor and 1 lease contract to determine whether the contracts were for services authorized by City ordinances and appropriately approved and signed.
- Examined City records to determine whether the City extended the contract for solid waste and recycling collection services and, if extended, to determine whether effective contract management and monitoring procedures were implemented, such as enforcement of the contract provision for the contractor to fund the contract manager position.
- Examined City records to determine whether the solid waste and recycling collection services contractor provided contractually required certificates of insurance and that the coverage types and amounts agreed with the contract's insurance requirements and whether the contractor timely provided, and City personnel reviewed, the contractor's financial statements.
- Examined City records to determine whether the City enhanced contracting procedures to demonstrate that contracts are awarded and modified in a fair, equitable, and economical manner for:
 - Building inspection and permitting services.
 - Biscayne Bay property management services.
- Determined whether the City established adequate monitoring procedures to verify and ensure compliance with the adult education tuition program agreement's terms and conditions, including the District's provision of required student participation, student enrollment, expenditure, and biannual academic performance data, and whether the City attempted to recover from the District the \$7,323 associated with the 83 ineligible students we identified in report No. 2018-038.
- From the 295 students, with tuition totaling \$60,843, enrolled in the City's adult education program during the period of October 2017 through February 2019, examined City records related to 30 selected students, with tuition totaling \$12,600, for evidence of compliance with the adult education program contract with the Miami-Dade County District School Board.
- Reviewed City records associated with the City's most recent auditor selection process to determine whether the City revised its Auditor Selection Committee membership to ensure that no members exercise City managerial responsibilities, the contract for audit services included all the provisions required by State law, and that invoices were sufficiently detailed to demonstrate compliance with the terms of the contract.
- From the population of 13,326 vendor payments totaling \$139,158,392 during the period October 2017 through February 2019 (excluding payments for waste management, Biscayne Bay property management, adult education tuition program, and auditor selection), examined City records supporting 30 vendor payments totaling \$5,925,103 to determine whether:
 - City contracting procedures were sufficient to demonstrate that contracts were awarded and modified in a fair, equitable, and economical manner.

- For any contracts awarded pursuant to a Request for Proposal (RFP) or Request for Qualifications (RFQ) process, the City Council approved the RFP/RFQ, City records included justification for the basis for points assigned during the proposal, the approved proposal was the same proposal submitted for ranking, and proposal revisions were authorized by the City Council.
- Invoices were prepared at the level of detail specified in the contract, were sufficient to evidence that deliverables were met, and were adequately supported.
- Monitoring procedures were sufficient to ensure that contractors complied with material contract terms.
- Contract modifications were approved by the City Council and served a documented and valid public purpose.
- Examined City records supporting 14 purchasing cards (P-cards) issued during the period of October 2017 through February 2019, to determine whether the employee accepted the card and the established conditions of card usage, there was a signed purchasing cardholder agreement, and there was evidence that the employee attended P-card training.
- From the population of 4 cardholders who separated from City employment during the period October 2017 through February 2019, examined City records to determine whether the P-cards were promptly deactivated.
- Reviewed City records to determine whether the City properly authorized all cardholder purchasing limits, the City agreement with the bank was revised to require the bank to enforce City established cardholder purchasing limits, and the City required periodic reviews and evaluations of cardholder purchasing limits and usage and appropriate actions, such as adjustments to purchasing limits, were timely taken.
- From the population of 4,972 P-card expenditures totaling \$1,223,117 during the period October 2017 through February 2019, examined City records supporting 30 selected expenditures totaling \$34,243 to determine whether the P-card program was administered in accordance with City policies and procedures and whether the expenditures were for authorized public purposes.
- Determined whether the City amended its administrative regulations to require that records be maintained to document the public purpose for all travel expenditures.
- From the population of 2,237 travel expenditures totaling \$503,082 during the period October 2017 through February 2019, examined City records related to 30 travel expenditures totaling \$63,168 to determine whether the expenditures were reasonable, adequately documented, for a valid public purpose, and properly authorized and approved.
- 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.
- From the population of 20,445 utility accounts active during the period October 2017 through April 2019, examined City records supporting 30 utility accounts to determine whether the City timely billed utility customers.
- From the population of 6,914 utility accounts with an outstanding receivable balance more than 90 days totaling \$8.1 million as of February 28, 2019, examined City records related to 30 utility accounts with receivable balances totaling \$2.8 million to determine whether the City progressively strengthened collection efforts, established procedures and guidelines for analyzing delinquent accounts and writing off accounts determined to be uncollectible, and uncollectible

accounts were written off as uncollectible pursuant to established City procedures and good business practice.

- Determined the completeness of City business tax receipt (BTR) records, which included 941 businesses with active BTRs as of August 2019. 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.
- 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 24 of the 218 employees who separated from City employment during the period October 2017 through March 2019, to determine whether their IT access privileges were timely deactivated.
- Determined whether a comprehensive IT disaster recovery plan had been established, properly designed, was operating effectively, and had been recently tested.
- Determined whether the City established an IT security incident response plan with the following elements:
 - 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.
- Determined whether a significant security incident occurred during the period October 2017 through February 2019 and whether the City followed its established response plan.
- 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**.

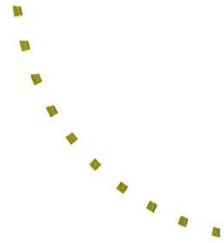
AUTHORITY

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



October 29, 2020

Ms. Sherrill F. Norman, CPA
Auditor General: State of Florida
Claude Denson Pepper Building, Suite G74
111 West Madison Street
Tallahassee, FL 32399-1450

Re: City of North Miami Response to Preliminary and Tentative Audit Findings and Recommendations

Dear Ms. Norman:

Attached you will find the City of North Miami's responses to the findings presented in the Preliminary and Tentative Audit Report that accompanied your September 29, 2020 letter.

The City appreciates the feedback and recommendations provided by your Office. Your audit staff were professional and thorough. We will use this report's findings as a basis to improve our operations going forward. On behalf of the Mayor and City Council and staff of the City of North Miami, we thank you for your efforts.

Sincerely,

A handwritten signature in blue ink that reads "Theresa Therilus".

Theresa Therilus, Esq.
City Manager





November 06, 2020

City of North Miami: Response to Preliminary and Tentative Audit Findings and Recommendations

Finding 3: Budgetary and Financial Monitoring

The City concurs with the recommendation of the auditor that fund equity information should be presented with the budget-to-actual financial information. Fund Equity results can vary wildly throughout the year because not all expenditures are incurred at a steady rate (for example, annual pension contributions are incurred all at once at the beginning of the fiscal year); and not all revenues earned or received ratably throughout the year (for example, the lion's share of property tax revenues are received every December). The best and most accurate presentation of fund equity information remains the fiscal year, as indicated, it can be useful for fiscal tracking purposes during interim periods. This information will be included in the presentation of the fourth quarter fiscal year 2020 report.

Finding 4: Statements of Financial Interests

The City acknowledges the finding. The Deputy City Clerk is designated and is responsible for sending notices and reminders on annual financial disclosures forms to the Elected Officials and appointed members of City boards and commissions such as: the Board of Adjustment, Community Redevelopment Agency, and the Planning Commission; as well as City staff such as the Zoning Director, the Chief of Police, Department Directors, Assistant or Deputy Department Directors, and all other employees who according the City Clerk's records show they are required to file a Financial Disclosure Form or Memorandum. The notice contains filing dates, mailing instructions, and the deadline to file the form.

Going forward, the City will develop an internal Administrative Regulation that designates the Deputy City Clerk as the person in charge of notifying the Commission on Ethics and the Supervisor of Elections of filing verifications of the Financial Disclosure Forms.


Finding 5: Anti-Fraud Policies and Procedures

The City concurs with the auditor and will develop an Administrative Regulation that will provide policies and procedures that explicitly define fraud, and provide guidance on how to communicate, investigate and report known or suspected cases of fraud.

Finding 7: Electronic Funds Transfers

The City agrees, generally, with the auditor's recommendation that imposing dollar limits based on employees' job responsibilities can be beneficial in certain circumstances. In the case of the City, as a

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practical matter, there are mitigating controls that offset the perceived risks cited by the auditor. The auditor cites the risk of excessive or unauthorized withdrawals as a reason for imposing the dollar limits. The City uses EFT payments – which include wire transfers in limited situations by design. The vast majority of payments are made by check primarily because of the costs associated with wire transfers. Further, the risk of unauthorized payments is addressed by the dual approval required to effect the electronic payment. Every payment must be properly supported with documentation indicating the purpose, the amount, the general ledger coding, contracts, invoices and approvals by the departments requesting the payment (as applicable). No one employee can process any EFT payment from start to finish.

With respect to the payroll EFT's, the Payroll Department staff prepares the documents and data of what is to be paid. Before any payment is initiated, the files and reports are reviewed and approved by someone not involved in the payroll process (Chief Accountant, Assistant Finance Director or the Finance Director). The Payroll staff logs into a bank portal to upload the approved file for payment processing. The file is not released until a call is made to get a confirmation of the total amount of the file uploaded and a confirmation number. Currently the Payroll staff member makes the call to get the confirmation number. The City will immediately modify the process to have someone other than payroll staff make the call to add additional segregation of duties. Additionally, the City will obtain individual bank access credentials for Payroll staff to improve accountability.

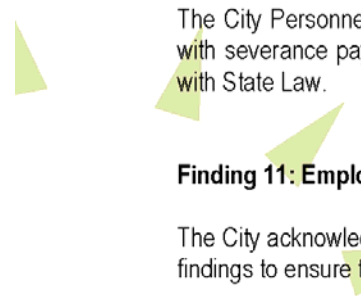
Finding 8: Employment Practices and Personnel Records

The City acknowledges the findings of the auditor. Effective immediately, the Personnel Department will require education and credential documents prior to the start date of any employee.

Finding 9: Background Screenings

The City acknowledges the findings of the auditor. Effective immediately, the Employment & Benefits Manager is designated to monitor the screenings of employees, volunteers, and interns to ensure backgrounds are obtained and considered.

Finding 10: Severance Pay



The City Personnel acknowledges the findings and will recommend an Administrative Regulation dealing with severance pay to City Management that will outline policies and procedures that are in accordance with State Law.

Finding 11: Employee Separation Agreements

The City acknowledges the findings. The Personnel Department will inform the City Attorney's Office of the findings to ensure that Council Approval is obtained.



Finding 13: Purchasing Threshold and Limits

City Staff agrees that the City's Ordinance needs to be clarified with regards to the dollar amount approval thresholds. Accordingly, we will draft recommendations for revisions to the language contained in Section 7-129 of the City's Code of Ordinances for approval by the City Attorney's Office and ultimately for submittal to the City Council for adoption.

Finding 14: Housing Program Contracting Process

The City will make the changes recommended by the auditor to its Housing Program policies and procedures to require, before initiation of the contracting process, documented consideration of City Code provisions and efforts to remediate code violations and any other concerns associated with housing program projects. The change will be presented before the City Council for approval.

Finding 15: Purchasing and Payment Processing

The City acknowledges the finding. The City will consider the recommendation of the auditor to implement procedures, whenever practicable, that will have procurements exempt from the City's Procurement Code reviewed and approved by the Purchasing Director or designee in the Purchasing Department or City Manager or designee within the procurement dollar limits proscribed by the Procurement Code.

The Purchasing Department will work with the Finance Department to ensure that all departments understand and comply with requirement that all purchases governed by the Procurement Code be processed via the requisition process rather than through the direct voucher process.

Finding 16: Backflow Prevention Device Contract

The City notes the finding of the auditor. The City's position at the time the termination fee was paid is that it was within the terms of the contract. The contract was signed in August of 2012 but the program was not implemented until April of 2013. The delay in the commencement of work was not the fault of the vendor, but rather the City it was deemed. The request for cancellation was initiated by the City within one year of implementation because this was deemed to be in the best interest of the City by management at the time. Per the terms of the contract, there was \$2,500 termination fee which the City agreed to pay. However, the City will take the recommendation of the auditor under advisement and will consult the City Attorney for input as to whether the payment was proper. Depending on the recommendation received, staff will seek City Council guidance as to any collection efforts, if warranted, should be undertaken.



Finding 17: Solid Waste and Recycling Collections Services Contract

The City concurs with the finding of the auditor and will continue to improve the Contracts Management function. The City has recently procured a new sanitation contract with improved safeguards and provisions and will enforce the payment terms incorporated for the Contract Manager position.

Finding 20: Adult Education Tuition Program

We receive the State Auditor recommendation and the City will establish the criteria to be used to identify economically challenged City residents; furthermore, the City will reach out to the School Board/North Miami Adult Education Program representative to modify the intake application currently in used to include those criteria. The FY 2020-2021 agreement will include the established criteria as well.

Finding 21: Auditor Selection and Audit Services Contract


The City concurs with the State Auditor that an Auditor Selection Committee needs to be established by the City Council in accordance with State Statute 218.391. This process is expected to be completed in the coming weeks as the City is currently in the final year of its contract with its current external auditor. Further, the City will instruct the auditor to provide sufficient detail on their invoices to comply with the terms delineated in the RFP and contract for audit services.

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

The City is using the State of Florida's contract for Purchasing Card services, but also executed an Eligible User Agreement with the Bank. The City still remains bound by the terms of the State contract and would therefore not be the party to make amendments to the main contract. The contract does allow for the application of credit limits. All of the City's P-Cards have an established credit limit approved by the City Manager and any transaction which would exceed this limit is rejected as evidenced by the examples previously provided.

We will develop policies and procedure will require new and existing cardholders to attend a formal training session prior be issued a P-Card and annually thereafter in order to maintain their P-Card. An attendance log will be kept for these training sessions by the Purchasing Department. The new policies and procedures will also establish a procedure for bi-annual reviews of all cardholders' P-Card limits and usage. Based on these reviews our office will make recommendations to management to make changes.

The Personnel Department collects all city-issued items from employees upon their separation from City employment. This includes P-Cards issued to these employees. The Personnel Department then promptly returns these P-Cards to our office where they are immediately cancelled and destroyed. Employees may also turn in their card ahead of time directly to the Purchasing Department. The return of P-Cards to the



Purchasing Department is documented through a standard form which the person returning the card and the Purchasing staff member receiving the card both sign and date. The form also documents the card's deactivation date.

The City will consider amending its banking agreement to better control credit limits.

Finding 23: P-Card Expenditures

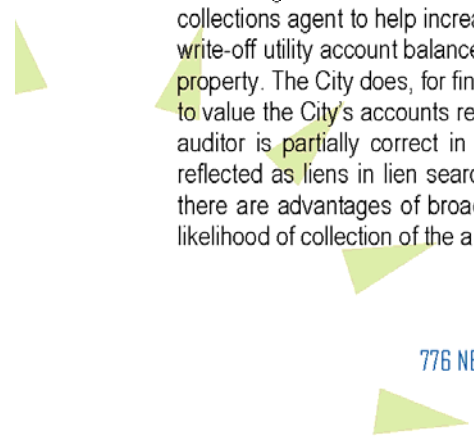
The Purchasing Department is developing enhanced policies and procedures for P-Card use and will include a requirement for periodic training for all cardholders and proxy reconcilers.

The City administration will take under consideration the auditor's recommendation with regards to review and approval of p-card transactions made by elected officials and determine which department will ultimately be responsible for this.

Finding 24: Travel Cost Reimbursement Expenditures

The Budget Office will work to amend the City's administrative regulations to maintain documents for all travel for the City. We will work with departments to make sure travel requests are submitted days in advance to allow the necessary approvals before the trip. Documents will be scanned and readily available at any point after travel expense reports are submitted to allow for staff to maintain the purpose of travel. To avoid unnecessary travel-related expenditures, we would request for the traveler to submit a memo outlining the public purpose of the trip.

Finding 26: Utility Service Billing and Collection Processes



The City concurs with the State Auditor that collection efforts on utility accounts do need to be strengthened and improved. City Ordinances permits the City cut off service to any delinquent account holder, and will exercise this option going forward regardless of the type of account – including apartment complexes. Currently, the City does set up payment arrangements with the larger delinquent accounts, we concur we can strengthen enforcement to achieve compliance. City is considering enlisting the use of a third party collections agent to help increase the rate of collection with delinquent accounts. The City does not outright write-off utility account balances for not non-payment. Rather the amounts are held as utility liens against the property. The City does, for financial reporting purposes, calculate an allowance for uncollectable bad debts to value the City's accounts receivable for GAAP (Generally Accepted Accounting Principles). Although the auditor is partially correct in that liens have not been filed with Miami-Dade County, the amounts are reflected as liens in lien searches provided in the City. Having said that though, the City does recognize there are advantages of broadening the span of the lien by filing with the County. This can increase the likelihood of collection of the amount due. The City will re-start filing with the County for that purpose.



Finding 27: Business Tax Receipts

The City continues its efforts to have a complete database of businesses that exist and are active within city limits. This is a continuous, on-going process as businesses are constantly being established and dissolved. The BTR Office, ever since being transferred to the Finance Department from the City Clerk's Office, has stepped up vigilance to ensure compliance with BTR regulations. In addition to cross-referencing the County records, the BTR Office also cross-checks its records with other City Departments such as the Certificate of Use Division of Community Planning and Development, Utility Billing's business accounts, and Code Enforcement which patrols the businesses. The City will continue expand its search methods such as liaising with organizations such as Chambers of Commerce, and even the online telephone directories cited by the auditor, to ensure the BTR database's completeness and that business are in compliance with the BTR regulations.

Finding 28: Timely Deactivation of Access Privileges

The City agrees with the recommendations and will ensure that the Personnel Department promptly notify and include the IT Department about any terminations/separations from employment as soon as they are received.

Finding 30: IT Security Incident Response Plan

The IT Department will modify their Incident Response plan procedures as recommended to include definitions and guidelines for escalation/notification of computer security incidents.

