



MIAMIBEACH

BUDGET AND PERFORMANCE IMPROVEMENT
Internal Audit Division

INTERNAL AUDIT REPORT

TO: Jorge M. Gonzalez, City Manager
VIA: Kathie G. Brooks, Budget and Performance Improvement Director
FROM: James J. Sutter, Internal Auditor

DATE: February 25, 2010
AUDIT: Miami Beach Police Athletic League Operational Audit
PERIOD: October 1, 2006 to May 31, 2009

This report is the result of a regularly scheduled operational audit of the Miami Beach Police Athletic League between October 1, 2006 and May 31, 2009.

INTRODUCTION

The Miami Beach Police Athletic League (PAL) was founded in 1958 and is the oldest in the state of Florida. This non-profit 501c3 organization offers the community's youth an array of recreational, athletic and educational activities. However, its primary focus is educational due to the shortage of nearby available outdoor field space.

Resolution No. 73-13924 authorized a five year lease agreement between PAL and the City on 02/21/73 for the use of a parcel of land on Flamingo Park for the benefit of the youth of the community and to enable our youth to participate in healthful sport and recreational activity. This lease agreement's terms were extended with the adoption of Resolution No. 77-15471A and then again until 06/30/96 with the passage of Resolution No. 93-20868.

Next, it was extended for a five year period ending 06/30/01 through the passage of Resolution No. 96-21987. However, PAL raised monies in 1997 through donations, grants, etc. with the City's assistance to construct a new facility in Flamingo Park. Accordingly, Resolution No. 98-22741 was passed granting PAL a twenty-five year lease to operate on the premises through June 30, 2023. Compliance with the stated lease terms is monitored by the City's Office of Asset Management.

PAL is presently located at 999 11th Street in Flamingo Park where it is visited by hundreds of children and adults daily Monday through Saturday. The 13,000 square foot facility opened in January 2001 and contains a computer lab; classrooms; fitness center; meeting, conference, library/reading room; offices; and wrestling, martial arts and workout rooms. Its programs are designed to create better relations between law enforcement officers and youth, as well as to prevent juvenile delinquency. Examples of offered programs include Cheerleading, Adult ESOL (English for Speakers of Other Languages), Youth Leadership, Miami Beach Explorers, PAL Seniors Art Program and Yoga In The Park.

PAL operates under the leadership of an Executive Director, who is a full-time Miami Beach police officer in accordance with City Resolution No. 11022. Additional assistance is received from an Outside Consultant, who also heads fundraising efforts. Per PAL's by-laws, monthly Executive Board meetings are to be held while the larger regular Board of Directors is to meet six times a year. The Executive Board and the Board of Directors are composed primarily of volunteer citizens and law enforcement officers, who together help plan PAL's future. In addition the agency's bi-laws specify the responsibilities of the officers including the Executive Director as to spending authority,

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oversight of operations, fund raising, public relations and check signing authorities. Also Executive Board of Directors shall plan for expenditures and present a yearly budget.

Although PAL and the City are separate entities, they are closely intertwined and benefit from each other's existence. For example, the City pays the Executive Director's salary, provides \$1 for every hour of police off-duty details worked, allows food concessions to be operated on City land during the Miami International Boat Show, transports children from nearby schools to PAL, permits PAL to operate on City owned land, etc. In return, the City utilizes the PAL building for City programs whereby local children are supervised in a structured learning environment and several Recreation Department employees' offices are located on the premises, etc.

The following audit period data is shown for comparative purposes only and should not be relied upon as the 2008 and 2009 listed figures are unaudited:

	01/06 – 12/06	01/07 – 12/07	01/08 – 12/08 *	01/09 – 05/09*
Net Assets as of 01/01	\$614,733	\$510,163	\$736,641	\$825,641
PAL Generated Income	\$358,115	\$656,698	\$418,985	\$141,459
Law Enforcement Trust Fund	\$33,000	\$37,000	\$12,500	\$0
Off-Duty Surcharge	\$0	\$78,793	\$94,512	\$40,823
One-time Utility Reimbursement	\$0	\$50,000	\$0	\$0
Total City Contributions **	\$33,000	\$115,793	\$107,012	\$40,822
Total Income	\$391,115	\$772,491	\$525,997	\$182,281
Total Expenditures	(\$495,685)	(\$546,013)	(\$436,997)	(\$179,365)
Change in Net Assets	(\$104,570)	\$226,478	\$89,000	\$2,916
Net Assets as of 12/31	\$510,163	\$736,641	\$825,641	\$828,557

* The independent accounting firm of Kantor, Geisler & Associates, LLC completed financial statement audits of PAL for the 2006 and 2007 calendar years as summarized above. Meanwhile, the reported figures for 2008 and through May 2009 are based solely on the PAL provided Profit & Loss Statements.

** These figures exclude the salary of the full-time police officer acting as PAL's Executive Director which was \$88,975 in 2006, \$90,361 in 2007, \$90,505 in 2008 and \$50,301.74 for 01/01/09 through 06/07/09. The listed payroll figures are based on the City's payroll year which differs slightly from the calendar year.

A similar internal audit was performed of PAL for the period of 01/01/02 through 12/31/04 during the 2005 fiscal year. The corresponding findings were forwarded to PAL for review. An exit conference was scheduled and held on 08/29/05 with PAL staff to discuss the audit's contents. Management responses were requested from PAL on three different occasions but were not received. Shortly thereafter, Hurricanes Katrina and Wilma impacted the Miami Beach and internal Audit's focus shifted to the collection and submittal of data for subsequent reimbursement of approximately \$10 million from FEMA and FWHA. As a result, the PAL audit was not followed up on and was not issued. We have reviewed these prior findings as part of our audit and included the status of these findings in Exhibit A, which is located at the end of this audit report.

OVERALL OPINION

The Miami Beach Police Athletic League (PAL) while remaining viable and providing a wide array of services for needy children and adults, has experienced several shortcomings in their operational

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controls within their agency which are detailed below. Adherence to existing controls and improvement in communication with and closer oversight by the Executive Board of Directors will better enhance the internal controls necessary to operate and meet the agency's objectives. In addition, the City should revise the existing Memorandum of Understanding to further clarify the lease agreement terms including the space usage and operations of the facility and require an annual management agreement specifying how City funds are to be spent. Consideration should be given to enhance the agency's bi-laws to strengthen internal controls as to limit expenditures to those directly relating to the agency's mission, require competitive bidding and signed contracts before purchases exceeding a designated threshold occur. Also, the City's involvement with PAL should be assessed and a decision reached on its level of commitment and interaction.

The following shortcomings were noted during the audit period and are in need of improvement:

1. PAL made tax-exempt purchases on behalf of two independent taxable organizations, Neostar Sports & Entertainment and the Miami Beach Fraternal Order of Police William Nichols Lodge No. 8, during the audit period.
2. PAL's lease agreement contains contradictory language regarding responsibility for paying the building's utilities. A Memorandum of Understanding was signed on 11/05/07 to provide future clarification and its terms followed but it was not approved by the City Commission. Additionally, the City has continued to pay for the building's water and sewer charges which should be paid by PAL.
3. The PAL building has several maintenance issues that should be repaired. In addition, \$31,143 of janitorial services for twelve months were paid by Police internal service charges rather than allocated to the building's occupants.
4. Internal controls were not sufficiently implemented and followed concerning gym membership payments to help prevent the misappropriation of monies by a recently terminate gym manager.
5. An unannounced cash count on 06/17/09 found that a new gym employee did not follow stated verbal procedures in the receipt and reimbursement of deposits for temporary access cards. Also, cash was not properly safeguarded or timely deposited at City National Bank to help reduce PAL's risk exposure.
6. Deficiencies in the non-profit's accounting records are identified that hinder the audit trail.
7. Deviations from PAL's by-laws and sound business practices for the Thanksgiving Day Food Drive and DNA LifePrint Kit Programs are listed.
8. PAL did not fully comply with all the terms listed in Florida Statute 561.422 regarding the attainment of temporary alcohol permits for not-for-profit organizations.
9. PAL made purchases on behalf of the City for the Parks & Recreation Department's Biggest Loser Contest, the Police Department's Citizen's Police Academy and for the Citywide Take Your Child To Work Day that were either partially or fully reimbursed. PAL has a close working relationship with these departments that should be re-evaluated.
10. American Express corporate credit cards were also used personally by PAL's Outside Consultant thereby creating additional work for their bookkeeper, increasing the possibility of mistakes, etc.
11. PAL funds were used to pay registration fees for an employee's spouse; flowers and food for funerals; wedding gifts; etc. that do not appear to adhere with the organization's mission statement.
12. Two Miami Beach Police Department employees missed work to attend out-of-town PAL sponsored events but were charged administrative leave time and were paid in full by the City.
13. One City employee who worked part-time at PAL did not prepare and submit the required "Outside Employment Statement" for the 2006 and 2007 calendar years.

PURPOSE

The purpose of this audit was to determine whether the Miami Beach Police Athletic League complied with tested requirements listed in the signed lease agreement; whether maintained accounting records and supporting documentation are organized, complete and sufficient; whether internal controls are soundly developed and functioning and a proper segregation of duties exists; whether monies received from various sources were appropriately safeguarded and deposited intact; whether eligible sampled expenditures were properly approved, paid timely and for legitimate business purposes; and whether sampled permits, business tax receipts and utility payments were current.

SCOPE

1. Confirm that policies and procedures exist, are known and are followed by staff.
2. Confirm that maintained accounting records and supporting documentation are organized, complete and sufficient.
3. Confirm that the internal control process is adequate and that a proper segregation of duties exists.
4. Confirm that tested monies collected from various revenue sources were deposited intact and correctly recorded.
5. Confirm that sampled expenditures were properly approved, paid timely and for legitimate business purposes.
6. Confirm that City personnel are not working for the Miami Beach Police Athletic League concurrently.
7. Confirm that the Miami Beach Police Athletic League maintains the appropriate insurance coverage.
8. Confirm that the Miami Beach Police Athletic League is current with its business taxes, permits, utilities, etc.

FINDINGS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

1. Finding – *Tax Exempt Purchases for Taxable Entities*
Internal Audit performed cursory scans of the Miami Beach Police Athletic League or PAL's expenditures looking for anything that seemed out of place or unusual and warranted further review. In doing so, four occasions were noted whereby PAL would pay for an expense on behalf of two outside organizations using their tax exempt number, only to receive a donation or reimbursement payment shortly thereafter by these organizations. As a result, these taxable entities avoided paying state sales and/or resort taxes.

The first occasion was when Neostar Sports & Entertainment produced a series of events at

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Nikki Beach Club and Pearl (both are located at 1 Ocean Drive inside the Penrods building) during Super Bowl weekend from 02/01/07 through 02/04/07. PAL allowed this for profit corporation to use their certificate of exemption to avoid paying taxes on their \$400,000 function (net of \$78,000 in service charges). In return for not paying \$36,000 (\$400,000 x (7% state sales tax + 2% resort tax) due in taxes, PAL was to receive a minimum donation of \$25,000 from the proceeds. However, Neostar Sports & Entertainment filed for bankruptcy after the event's conclusion and only remitted \$195,800 and \$12,500 to date to Penrods and PAL respectively.

The remaining three occasions involved the 2007, 2008 and 2009 police retirement reunion luncheons hosted by the Miami Beach Fraternal Order of Police William Nichols Lodge No. 8 (FOP). The FOP is a non-profit organization but is not a 501c3 and therefore is not exempt from taxation.

For example, the associated \$1,600 cost for the 03/26/09 luncheon was initially paid for by PAL through check number 8524. PAL was subsequently reimbursed \$1,000 by the FOP meaning that PAL donated \$600 to the event. In addition, the FOP was not charged and did not remit any state sales or resort taxes on this event which would have equaled \$144.

Recommendation(s)

These practices should be discontinued immediately and the applicable amount of taxes due should be paid in the future. In addition, the taxing authorities should be made whole for any past taxes not previously paid.

City's Response

The PAL Board will be asked to adopt a policy that addresses the use of the non-profit and tax exempt status. If City support for PAL is to continue, a policy not to allow the use of PAL tax exempt status for the benefit of non-qualified organizations must be adopted and followed.

Agency's Response

PAL agrees to discontinue practices and continue to pay as it has applicable taxes on events. PAL will agree to adhere to procedures pertaining to all events. This will be addressed in policy and procedures and internal controls. All other areas will be noted in the policy and procedures for PAL.

2. Finding – Utilities Payments

Resolution No. 96-21987 requires PAL to maintain the facility and pay all utilities throughout the term of the lease agreement. Meanwhile, section 2 of PAL's corresponding lease agreement states "*Lessor {City} agrees to pay for all utilities used within the premises including, but not limited to, electric, water, gas, telephone and garbage disposal.*" These two statements are contradictory resulting in uncertainty as to which organization is responsible for paying for the building's utilities. The City's Legal Department opined that a scrivener's error occurred and that PAL has always been responsible for the utilities of the building. In reality, the City paid the water and sewer charges totaling \$18,924 during the audit period while PAL paid the electric and telephone invoices.

In an attempt to resolve this issue, the City Manager and PAL Board President signed a Memorandum of Understanding on 11/05/07 which contained a paragraph stating "*The Parties have also discussed the payment of utility bills associated with the operation of the Building.*"

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The City of Miami Beach has agreed on a one time payment of \$50,000 to assist with previous utility bills associated with the property. This payment is with the understanding that in the future the Police Athletic League may utilize an Off-Duty Police Surcharge Fund created to assist the Police Athletic League for whatever portion of future utility bills the Police Athletic League determines is necessary. The fund has been created to assist in the eligible operational expenses of the Police Athletic League by adding one dollar per hour to the off duty police rate. This amount shall be forwarded to the Police Athletic League upon receipt of a quarterly request from the Police Athletic League. In the event the surcharge rate is altered in the future, the parties agree to meet and discuss alternate funding mechanisms as necessary. The City will have no future responsibility to pay utility bills beyond this one time payment per terms indicated in the Lease Agreement.” The terms above of this Memorandum of Understanding have been followed despite the fact that it was not brought before the City Commission for their approval.

The City made the \$50,000 payment with the issuance of check number 251711 dated 07/27/07. In addition, the City's Finance Department has made quarterly wire transfers to PAL totaling \$214,128 since December 2007 for the off-duty surcharge. Therefore, Internal Audit believes that PAL is responsible for paying all utilities associated with the building, which includes the water and sewer charges currently paid by the City.

Recommendation(s)

The City should decide whether to seek reimbursement from PAL for the \$18,924 in water and sewer charges paid for the two meters numbered 09704056 and 02044852 covering through 06/01/09 and 06/02/09 respectively. Furthermore, the water and sewer bills for these two meters should be billed to and paid by PAL going forward. In addition, the City should revise the existing Memorandum of Understanding to further clarifying the lease agreement terms including the space usage and operations of the facility. Finally, Internal Audit recommends an annual management agreement be prepared and signed by both PAL and the City specifying how any City funding received is to be spent.

City's Response

It is agreed that per the lease agreement and subsequent memo of understanding, PAL is responsible for the payment of utilities. The memo of understanding was drafted to resolve an existing dispute within the terms of the approved lease agreement and as such did not require City Commission approval. In order to fairly address utility responsibilities, a management agreement will be negotiated that apportions the responsibility of utilities and building maintenance noted in comment number 3, consistent with City and PAL building utilization and to properly recognize the water use reflected as a result of multiple users on one meter. The management agreement will also address the utility bill in the amount of \$18,924 that has been paid by the City, inconsistent with current agreements. This agreement will need the approval of the City Commission and will be submitted upon completion.

Agency's Response

PAL with the City of Miami Beach and Miami Beach Police Department will prepare a management agreement in reference to the contradictory language regarding responsibility for paying the building utilities. A memorandum of understanding was signed on 11/05/07 to provide future clarification and its terms were followed. PAL is in the process of authoring an agreement document to address and resolve this issue. The agreement will also include the Miami Beach Parks and Recreation Department which currently operates out of the facility. The following is a copy of an email response from the City's Public Works Department in

reference to the related meters:

"Thank you for advising me as to the Holiday hours for the Boys and Girls Club. As discussed on site today after our meter feed, we have determined that #2044852 feeds the 2-new bathrooms at the PAL Building (located in the northeast section of your building). #09704056 feeds the rest of the PAL building, the Boys & Girls Club, and the ticket office in the field. At this time, it appears that neither of these two meters supplies any water to the field sprinklers nor any irrigation system around the buildings. If you require any additional information, please do not hesitate to contact me directly. This issue will again be outlined in the new CMB Parks and Recreation PAL, management agreement when drafted as to how financial cost will be determined since the Boys and Girls club currently operates under one of the meters as does Parks and Recreation and PAL".

3. Finding – Building Maintenance

Section 3 of PAL's lease agreement states *"The Lessee {PAL} accepts the premises in their present 'as is' condition, and is responsible for all interior modifications and maintenance."* The PAL building has been identified by PAL administration as containing such deficiencies as water damage in the walls, leaks in the roof, broken treads in stairwells, etc. These items if not repaired or resolved timely could result in injury or illness to the building's inhabitants.

In addition, the Property Management Division had not been billing PAL for the janitorial services provided on the premises. As a result, PAL was recently back billed a total of \$31,143 (\$2,595.25 per month x 12 months) for janitorial services provided by Diamond Contract Services, Inc. in compliance with City Resolution No. 2008 – 26859. It was subsequently determined that monies for the janitorial services were budgeted to the Police Department so this outstanding balance was recently paid out of their internal service charges.

Recommendation(s)

Although the facilities are costly to maintain as time progresses and the resident children are hard on the building, the inhabitants' safety should be a top priority and the listed items should be repaired as soon as possible. The Property Management Division should ensure that all janitorial services are billed timely. Finally, Internal Audit recommends that the janitorial services payments be allocated between PAL and the Parks & Recreation Department based upon their calculated usage of the building.

Agency's Response

This issue will also be addressed in the management agreement with the City of Miami Beach, Miami Beach Police Department and the Parks and Recreation Department. It should be noted that PAL, prior to this, paid for all janitorial services within the facility until informed that PAL would be covered under the current contract with the city. PAL still pays for building repairs to some extent and supplies due to the influx of children for summer camp. The cleaning service does not provide paper supplies or other miscellaneous cleaning supplies during the summer nor do they clean the gym.

PAL will reach an agreement with the City of Miami Beach to resolve payment of utilities via a management agreement that apportions the responsibility of utilities and building maintenance.

The agreement will be consistent with building utilization and will properly recognize the water use reflected as a result of multiple users on one meter. The agreement will require the

approval of the City Commission and the PAL Board. It will be submitted to both entities for review and approval upon its completion.

4. Finding – *Gym Memberships*

PAL's customers typically remit cash, checks or debit/credit cards to any of the four gym employees in return for their membership. PAL staff stated that a majority of gym members are employed in the service industry and pay by cash so that it is imperative that they continue to accept it. However, they do not take any preventive measures (counterfeit pens, etc.) to ensure that all currency accepted is legitimate or only accept bills of \$20 or less to limit their risk exposure.

Those customers paying on the premises are to receive a pre-numbered sequential receipt indicating the payment details, as well as having their access card activated allowing them entry to the gym during the corresponding time period. The monies received are then safeguarded in a locked cabinet and/or safe until the bank deposit is made by the Executive Director. A proper segregation of duties existed as the PAL employees receiving the monies were separate from those responsible for reconciling and preparing the bank deposit.

A tenured PAL employee (full time gym manager) was terminated in April 2009 after reimbursing PAL \$500 for misappropriating cash received for gym memberships. He would accept the customer's cash payment, prepare a receipt from the back of the book, activate the customer's access card and then keep the money by throwing away PAL's copy of the receipt so that there was no record of the transaction.

Given PAL's internal control structure and maintained documentation, it would be extremely difficult and time consuming to reasonably estimate the amount misappropriated. However, Internal Audit did arbitrarily select eighteen receipt books with one hundred in each to determine how many receipts were missing. It was found that an average of seven was missing from each tested receipt book, ranging from a high of twenty to a low of zero (3 of 18 books sampled or 16.67% were not missing any receipts). Thirteen of the fifteen remaining receipt books that were missing receipts did not contain the last receipt among others, which could confirm the employee's aforementioned method of misappropriating cash.

Another plausible explanation posed by PAL's Executive Director is that the gym manager gave receipts to clients who paid him directly for training. PAL permits this practice with all monies retained by the employee. Apparently, the gym manager told PAL's Executive Director that he would typically use the receipts in the back of the book for these training payments. Yet, Internal Audit noted several instances whereby other receipts in the middle of the book were used for this training, which were noted as such with no monies listed.

Therefore, Internal Audit focused primarily on improving the collection and recording process to help prevent similar occurrences. It was determined that the following shortcomings contributed to the misappropriation and are in need of corrective action:

- a. The pre-numbered receipt books were store bought in quantity and were stored in the Executive Director's office on an unlocked bookshelf accessible to all until needed. Furthermore, the numbers were not used in sequence and were not routinely checked to ensure that all were accounted for (including voids).
- b. All three copies of voided receipts were typically not present to help confirm that the customer did not pay monies, receive the white copy as a receipt, dispose of the

yellow copy and then have the gym employee void the pink copy that remained in the receipt book. A few examples found were for receipt numbers 353687, 353705 and 730115.

- c. The pre-numbered sequential receipts were not routinely reconciled with the amounts deposited to help determine if any monies collected were not remitted. Similarly, the monies deposited are not being reconciled with the corresponding amount of time placed on the members' access cards to confirm that proper payments were received.

Recommendation(s)

In lieu of not accepting cash payments, PAL should consider implementing the following recommendations to help prevent gym monies from being misappropriated:

- a. Receipt books should be properly safeguarded in a locked area accessible only by the Executive Director or his designee. These books should be used sequentially with receipts being issued from only one at a given time. Additionally, the receipt books used should be distinguished from other Office Depot receipt books to help prevent someone from buying their own books and issuing receipts accordingly. Finally, the Executive Director should create and maintain an Excel spreadsheet tracking all receipt book numbers to help ensure that each is accounted for with any deemed missing promptly investigated.
- b. All three voided copies of the receipt (white, yellow and pink) should be present in the book and labeled as such.
- c. Reconciliation of the monies collected with the pre-numbered receipts listed amounts and the time placed on the access cards should be performed by the Executive Director or someone designated who is independent of those collecting the monies with any variances immediately investigated.

Agency's Response

This issue has been addressed and corrected through the implementation of a new operating system. It consists of receipt books which contains the PAL logo not common with such receipts. Also, voided receipts will remain in the receipt book and not discarded. Currently one receipt has been voided in over 320 transactions. Membership transactions will be randomly checked on a weekly basis to ensure staff compliance with this policy.

Additionally, a counterfeit marking pen will be used to identify fraudulent bills. PAL is also in the process of creating a daily financial balance sheet to be utilized by staff along with a drop box system. The details of this will be addressed in greater detail in PAL's policy and procedures.

5. Finding – Unannounced Cash Count

Gym membership fees vary primarily depending on whether the customer is a new member or a renewal; the length of time purchased (daily, weekly, biweekly, monthly, bimonthly or quarterly); and their employer (high school student, City employee or other). A \$140 cash bank is provided so that change can be supplied as needed. All temporary gym passes require an additional \$20 deposit for the access card, which must be in cash and is retained until either returned or the monies are confiscated after a designated amount of time has elapsed.

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An unannounced count of the cash collected for gym memberships and access card activation deposits was performed on 06/17/09 and found the following:

- a. The cash on hand was \$40 less than the amount of the cash bank plus the receipts. It was subsequently determined that this shortage was caused by a new gym employee who did not follow proper procedures and reimbursed two customers \$20 each from the daily proceeds rather than from the separately maintained access card deposits. Further inquiries found that PAL does not have updated policies and procedures to reflect its current operations and the responsibilities of its employees, which would be especially helpful with new employees.
- b. One customer's access card payment was made via credit card and was accepted by the same new gym employee who again did not follow or was not aware of the proper procedures.
- c. A total of \$3,270 in cash was safeguarded in a padlocked cabinet inside the gym office despite the existence of a more secure combination safe inside PAL's main offices. These monies had been accumulated since 06/10/09, the date following the last deposit.

Recommendation(s)

The implementation of the following recommendations should help ensure that all gym monies are properly accounted for:

- a, b. PAL should draft operating policies and procedures as soon as possible that descriptively outline current operations. Policies and procedures serve both as a benchmark to measure individuals' performance and as an instruction manual in the event employees' change. Once completed, they should be distributed to all applicable personnel so that they can be read and strictly followed.
- c. Bank deposits should be made routinely more frequently (for example on Mondays and Fridays) to help reduce the amount of cash stored on the premises. In addition, the monies maintained on site should be moved daily to the more secure safe to help reduce the likelihood of misappropriation.

Agency's Response

An average deposit of proceeds is usually in the above noted amount of \$3,000 from the gym memberships over a two-three week period. Policy and procedures are currently being drafted based on the audits findings and more frequent bank deposits will be taken into account and noted as an area of concern.

It should be noted that in reference to finding A the issue was rectified and reported to auditor prior to this report and the bank balanced to the normal amount. Monies will be dropped into drop box with daily balance sheet upon policy being instituted with board approval with in the next three to six months after review and policy is adopted.

6. Finding – *Documentation and Internal Controls*
Annual audits performed by an independent accounting firm were completed with PAL receiving unqualified opinions indicating their compliance with FASB accounting pronouncements for not-for profit companies reporting on a cash basis (revenue is reported

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only when the cash is received and expenses are recorded only when the cash is paid). The determination of income on the cash basis rests upon the collection of revenue and the payment of expenses thereby ignoring the matching principle. Consequently, cash basis financial statements are not in conformity with generally accepted accounting principles as the preferred approach is the accrual basis of accounting.

In order to avoid duplication of work Internal Audit did not test PAL's accounting methods. Instead, the focus shifted to testing their documentation and following of prescribed internal controls. Although, it was noted that PAL's accounting records have continued to improve from our past review, the following deficiencies were found that are in need of improvement:

- a. Supporting documentation for canceled checks payable to individuals was occasionally missing from the files as only the check remittance was present. Examples include but are not limited to check numbers 7126 (dated 04/30/07 for \$1,000.00), 7885 (dated 06/03/08 for \$250.00), 7969 (dated 07/07/08 for \$100.00) and 7976 (dated 07/09/08 for \$200.00). Upon request to PAL's Executive Director, sufficient additional documentation was provided for check number 7126.
- b. It was noted that checks payable to restaurants did not always list the business purpose, who participated, etc. One example was check number 8190 (dated 10/21/08) for \$2,179.20 payable to Monty's Stone Crab & Seafood House.
- c. Checks payable to individuals were used occasionally to fund cash advances given to individuals prior to trips' commencement. The subsequent review of PAL's documentation did not find substantiation indicating the results of the settlements, invoices indicating how the money was spent, the return of any unused monies, etc. Examples include but are not limited to checks numbered 7070 (dated 03/29/07 for \$500.00), 7935 (dated 06/23/08 for \$750.00) and 8459 (dated 03/03/09 for \$300.00). Upon request to PAL's Executive Director, sufficient additional documentation was provided for check number 8459.

However, the settlement for check number 7935 had not been performed as of 10/27/09 and included in the envelope containing the supporting receipts was \$77.00 in currency. Review of the enclosed receipts and summary sheet found that three receipts were missing and that in total they exceeded the cash withdrawn by \$194.53.

- d. PAL by-laws require two signatures on all checks with Executive Board of Directors approval for all checks in excess of \$2,500. The checks are safeguarded in the bookkeeper's locked desk drawer until used. The City National checking account contained three signatories but one did not sign any checks during the audit period (PAL Treasurer) as all the reviewed checks were signed by the Executive Director and the Outside Consultant.

Of these two signatories, only the Executive Director works full time on the premises and one or both travel frequently. When travel is imminent, one signatory will pre-sign checks so that they can be issued in their absence once the other signatory signs. An unannounced inspection conducted on 06/09/09 found that two blank checks were pre-signed by both signatories in the locked drawer awaiting completion despite the fact that both were in town.

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Additionally, review of cancelled checks found that numbers 8300 (dated 12/16/08 for \$189.83) and 8302 (dated 12/17/08 for \$1,619.00) were issued and cashed by City National Bank despite only containing one authorized signature. These checks were scrutinized and appeared to represent legitimate PAL expenditures. However, this scenario circumvents the dual signatures' requirement and minimizes its effectiveness.

- e. The lease agreement for the FOP states *"Tenant shall pay to Landlord \$12,768.00 {over a two year period} payable in monthly installments of \$532 representing \$500 rent plus \$35.00 for sales tax at 5%."* Given the contradictory nature of this statement, testing showed that the FOP typically paid \$523.00 per month in rent and was not questioned until recently. The Executive Director notified the FOP President in June 2009 and he correctly remitted \$535 for the July 2009 rent.
- f. There was no lease agreement for the Miami Beach Policeman's Relief and Pension fund (commonly known as the 1% fund). They currently remit \$300 in rent per month and are responsible for all expenses related to telephone connections, usage, and charges.
- g. Until 2008, voided checks were disposed of and were not entered into QuickBooks as such. Therefore, Internal Audit had to review the bank statements and reconciliations to ensure that ten sampled missing checks were actually voided. No variances were found.
- h. The independent audit of the 2008 calendar year financial statements by an external accounting firm has not been completed to date.

Recommendation(s)

PAL should convert to the accrual basis of accounting to further comply with generally accepted accounting principles thereby recognizing revenue when it is earned and recognizing expenses in the period incurred, without regard to the time of receipt or payment of cash. Additionally, the implementation of the following recommendations should help ensure the existence and completeness of PAL's documentation and help provide a proper audit trail:

- a. Checks should not be prepared unless all supporting documentation has been submitted and attached to the remittance so that their legitimacy can be verified by independent sources.
- b. Invoices should clearly indicate the expenditures' business purpose, the names of attendees, etc., especially for less obvious purchases like food, lodging, etc.
- c. Whenever individuals receive advances for trips, there should be a settlement sheet prepared upon their return. Attached should be invoices for any expenditures made with the individual either returning any overages or issued another check for any shortages. This settlement sheet should be signed by both the individual who received the monies and the person performing the reconciliation.
- d. A new signatory should be added to the checking account with the Executive Board of Director's approval. In addition, checks should not be pre-signed and they should always be signed by two signatories after verifying the legitimacy of the payment.

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- e. The FOP should remit monthly rental payments of \$535.00 with PAL deciding whether to back bill the FOP for any shortages previously incurred.
- f. All building tenants should sign lease agreements specifying the terms for which each party is responsible for to help avoid potential future confusion. In addition, the rent seems especially low and may want to be increased in the future.
- g. Voided checks should be maintained in the files and should be entered into QuickBooks as such.
- h. Annual calendar year audits should be completed within a reasonable time after the close of the year (180 days around June 30th) and submitted to the Executive Board upon completion.

Agency's Response

- a. Expenses are now tracked on both the credit card statement and on PAL vouchers detailing the expenses and placed in a monthly file along with supporting receipts.
- b. The check referenced was issued to pay for food held during PAL fundraiser at Monty's during event participants attending were requested to sign in at the event.
- c. The Pal voucher system being implemented will now provide for a better accounting of expenses it should be noted that check #8459 was cashed from a bank. (Funds for fundraising event i.e. change) and reimbursed upon conclusion of event as noted on the deposit slip.
- d. PAL currently has three authorized signers on accounts. Two of their signatures must appear on each check written. PAL during the audit period wrote 2000 total checks for payment and operations. PAL has changed procedures to a bi-weekly for issuing checks for payment.
- e. This issue has been resolved as the FOP has paid all monies past due to PAL and is currently paying the proper amount.
- f. PAL currently has a new lease with the Pension Fund for 2010 and 2011 and has a current lease with the FOP until 2011 which was provided to the auditor both are on file for review if needed.
- g. Voided checks will now be entered into "Quick Books".
- h. The PAL will seek an opinion from the accounting firm we utilize but in that regard, we will look to change our year end tax period to 9/30 which would coincide more with the cities fiscal year. The issue at hand is that PAL currently does a January to December calendar year and when all information on taxes is obtained it is then turned over to the accounting firm which usually puts PAL in the middle of the busy tax period by making the above noted change it bring us into the fall which is a less busy period for the accounting firm. We will research this issue further to determine if it will be an issue with the IRS. This change will be presented at our next executive board meeting and then the membership for formal approval. Thus rectifying this finding and as always be available to the board for review on a yearly basis.

7. Finding – Larger Programs Reviewed

Each year PAL performs a variety of community projects to benefit its members. Two of the larger projects during the audit period were the annual Thanksgiving Day Food Drive and the DNA LifePrint purchase in March/April 2009. These two projects were reviewed and are reported on separately below.

1) Thanksgiving Day Food Drive

Annually PAL conducts a Thanksgiving Day Food Drive which consists of requesting donation of food and monies to cover cost of food to be given out to needy families. This is a community event which involves residents and non residents, area businesses and students in providing donations and volunteering time to prepare and deliver baskets of food. PAL receives a listing from the Miami Beach elementary and middle schools of all children receiving either a free or reduced lunch. To assist these needy families, a Thanksgiving basket is prepared consisting of an eight to ten pound turkey, fresh vegetables, fresh bread, fresh fruit, canned goods, etc. Additionally, PAL gives these food baskets to other identified needy Miami Beach families, as well as to charitable organizations like the Log Cabin and Douglas Gardens. This program typically costs PAL in excess of \$15,000 annually to stage (excluding labor). Donations are garnered with any monetary shortages covered by PAL based on approval from the Executive Board of Directors. Internal Audit concluded the following after reviewing the provided documentation:

- a. Vendor invoices were maintained to provide supporting documentation for all tested purchases. However, documentation was lacking to show who received the food baskets, how many were given to each school, etc.
- b. PAL purchased twenty-four turkeys weighing 16/18 pounds, four weighing 22/24 pounds and six 8/10 pound turkey breasts in 2008. Although documentation was not maintained, PAL contends that these turkeys and any other remaining Thanksgiving baskets were distributed to the fifteen Parks & Recreation and nine Municipal Service Workers' employees who work in the building, three to PAL's administrative staff, four to PAL's gym employees, five to MBPD Police Evidence Unit staff and to others who help throughout the year. Yet, proper supporting documentation was not maintained again to confirm these food distributions.

2) DNA LifePrint Kits

DNA LifePrint kits include ten digit FBI certified biometric fingerprints, a DNA identification kit, a high quality color digital photograph and a Comprehensive Child Safety Journal. This information is stored in the privacy of one's own home and is to be used to help identify any children deemed missing. Donated monies were raised to offset the \$23,416.09 purchase and disbursement of DNA LifePrint kits to kindergarten, first and second grade school children in March/April 2009. Internal Audit has reviewed the documents provided and concluded the following:

- a. Although review of the PAL provided Board of Directors minutes showed that the purchase had been discussed and \$7,500 in restricted monies had been received, they did not specifically approve the \$23,416.09 purchase which is required for all amounts in excess of \$2,500 by Article III Section 10 of the by-laws.
- b. PAL's mission statement reads *"To provide a safe environment for juveniles, offer programs that emphasize education, promote self-esteem, deal with those underlying conditions that threaten the future of our youth and continue our dual*

mission of 'Filling Playgrounds, Not Prisons – Success Through Education' through involvement of parents, police officers and citizens of our community." Although a worthwhile and positive endeavor, this purchase of DNA LifePrint kits does not appear to be in compliance with this mission statement as it is not a preventive measure and is primarily beneficial when a child is missing.

- c. Donated monies were restricted for this purpose in accordance with the donor's wishes per notations documented on the deposit slips and were spent accordingly. However, no documentation was provided (letters from the donor restricting the purchase, a copy of the donor's check with a description in the memo field, etc.) confirming the donor's intentions.
- d. PAL staff did not obtain any other quoted prices to determine if the purchase of DNA kits could have been made for less money through another company.
- e. A proposal was the binding document provided governing the DNA LifePrint kits purchase as a contract was not formulated listing the terms, prices, etc. of the transaction.
- f. The \$14.95 price per kit listed on the Internet at the company's website does not appear to equate to the product that PAL received for \$20. Additional items received with the purchase of each kit included bio-metric fingerprint analysis, a journal, etc. that Internal Audit was unable to determine a price for.

Recommendation(s)

The implementation of the following recommendations should help improve the audit trail and ensure that designated purchases are within specified guidelines:

1) Thanksgiving Day Food Drive

- a. A list of the needy families receiving food distributions should be maintained and attached to the supporting documentation. Also, the school's principal or designee should sign a form attesting to the receipt of the stated number of Thanksgiving baskets.
- b. All members of the Executive Board of Directors should be fully informed and approve of any intentions to purchase and give away turkeys to non-school children's' families. Furthermore, better records should be maintained to support the final distribution of all turkeys purchased with PAL donated monies.

2) DNA LifePrint Kit

- a. All purchases exceeding \$2,500 should be approved in advance by PAL's Executive Board of Directors and should be documented in the minutes.
- b. PAL purchases should be in support of their mission statement unless approved by the Executive Board of Directors.
- c. In the future, supporting documentation should be maintained confirming the donor's intention to restrict the monies to a particular purchase, program, etc. The Executive Board of Directors should discuss at their next scheduled meeting after receipt of the monies whether to accept the funds with the attached restriction or return them promptly to the donor. Finally, PAL should decide on an appropriate course of action as to what to do with the remaining approximately \$8,000 currently restricted for the purchase of additional DNA kits for third, fourth and fifth grade children.
- d. PAL's by-laws should be amended to require competitive bidding by obtaining quotes from at least three different vendors for purchases exceeding a designated threshold.
- e. PAL's by-laws should be amended to require signed contracts before purchases exceeding a designated threshold occur.

- f. The comparison by PAL Board of Directors' members to the current Internet \$14.95 price appears unfounded as additional products were received thereby increasing the value of the kits received. The comparison of the prices paid should be for identical products to be fair.

Agency's Response

The Turkey Giveaway is a long standing annual event approved by the PAL board. As to how PAL will account for Turkey distribution will be addressed in the policy and procedures. This year all schools were requested to provide documentation on the families that received Thanksgiving Baskets. It should be noted that documentation was missing from the files. It should also be noted that PAL has done the Turkey giveaway for over 30 years without issue. The turkeys are given to needy families as identified by local schools. PAL does not seek formal bids for turkeys but we do price shop with several vendors for the best pricing and this event was approved by the board.

The DNA program has been ongoing by PAL for several years, prior to audit, on a smaller scale to local schools in the Miami Beach feeder program. PAL received the DNA kits, bio metric finger prints which are CODIS compatible, child safety journal and child photo on a disk at a reduced cost. PAL did not retain any records nor did the company or police department for the validity of the program. The PAL executive board will also look into formal bidding for future events and programs as noted above. The PAL board has approved this event for the 2010 school year.

8. Finding – Alcohol Permits for Nonprofit Civic Organizations
Florida Statute 561.422 states "... the director of the division may issue a permit authorizing a bona fide nonprofit civic organization to sell alcoholic beverages for consumption on the premises only, for a period not to exceed 3 days, subject to any state law or municipal or county ordinance regulating the time for selling such beverages. All net profits from sales of alcoholic beverages collected during the permit period must be retained by the nonprofit civic organization..." PAL obtained alcohol permits for Volleypalooza 2007, Miami Beach World Cup Polo 2007 and Miami Beach World Cup Polo 2009 during the audit period.

In return for a negotiated fee, they allowed such independent vendors as Boucher Brothers and Playwright Pub to operate the alcohol concessions. The concessionaire would then be responsible for providing PAL with the necessary information and monies to pay the applicable taxes. However, this arrangement contradicts Florida Statute 561.422 as the events were held on the beach and not at 999 11th Street and PAL only receives the fixed negotiated amount rather than retaining all the net profits. Additional problems could exist if the concessionaire is subsequently audited, fails to pay, incurs late charges, etc.

Recommendation(s)

PAL should fully comply with Florida Statute 561.422 as the receipt of alcohol permits is an effective fundraiser. Available options include operating the concession with PAL personnel/volunteers, paying independent vendors a fixed fee in exchange for operating the concession while PAL retains any profits generated, etc.

City's Response

If the City's support for PAL is to continue, a policy not to allow the use of PAL tax exempt status for the benefit of for-profit organizations must be adopted and followed.

Agency's Response

In the future PAL will not deviate and will adhere strictly to state guidelines and policy. The PAL board will be asked to adopt a policy that addresses the authorized uses of the agency's tax exempt status.

9. Finding – *City Purchases*

PAL and the City's Parks & Recreation Department share the building located at 999 11th Street and much of the costs to operate the facility. As a result, compromises are reached as to the availability of space, the staging of programs, the maintenance of the building, etc.

Similarly, the Police Chief's Office and PAL are closely intertwined as they each perform services for one another. For example, the Police Chief's Office assigns one full-time police officer to be PAL's Executive Director and pays his salary, supplied Law Enforcement Trust Fund monies with the City Commission's approval, the Police Chief sits on PAL's Board of Directors, the Executive Director reports directly to the Police Chief's Office, assists in fundraising efforts, etc. Meanwhile PAL houses the FOP union and the Miami Beach Policeman's Relief and Pension Fund in exchange for low monthly rents and programs whereby local children are supervised in a structured learning environment where they realize that police officers are not the enemy.

PAL was found to make payments on behalf of the City and then be reimbursed none, some or all of the monies depending on their arrangement. The following examples represent some of the different types of purchases made during the audit period of October 1, 2006 through May 31, 2009:

- a. The recent edition of the Miami Beach Employee Newsletter's front page discusses a Biggest Loser contest recently held by the City's Parks & Recreation Department. The winner of this contest received a three night cruise for two costing \$600 that was paid completely by PAL check number 8485 (dated 03/13/09) with no monies being reimbursed.
- b. PAL staged a Police Appreciation barbeque on 05/25/09 for the Citizen's Police Academy. Food expenses totaling \$599.16 were incurred by PAL that was fully reimbursed by the agency. In addition, PAL provided the labor and equipment necessary to prepare the food at no charge.
- c. PAL paid \$1,566.00 to K Sport Inc. for the purchase of t-shirts in assorted sizes and \$702.37 to Costco for food for Take Your Child To Work Day in April 2009. A total of \$2,250.00 was reimbursed by the City's five labor unions thereby resulting in PAL paying the immaterial difference of \$18.37 for this City sponsored event.
- d. PAL made a donation to the Miami Beach Police Department by remitting \$420.00 through check number 7871 to purchase shirts for Memorial Day 2008 staff.
- e. A \$2,500 advance was made to a Miami Beach Police Department employee via check number 7112 on 04/25/07 so that her child could participate in a school program abroad called the People to People Ambassador Program. This child participated in several PAL programs including the Youth Director's Council. The employee agreed to and timely made four \$250 reimbursement payments to PAL with the remaining \$1,500 balance being paid by the City through the issuance of check number 242185. The source of the City funds was Resolution No. 2007-26462 which authorized the conversion of \$8,500 from unclaimed evidence into the police special revenue fund. The previous Police Chief authorized this payment to PAL as a promotional activity.

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- f. PAL remitted \$3,000 (check number 7713 dated 02/27/08) to purchase a table at the Law Enforcement Officers Awards on behalf of the Miami Beach Police Department. Tuxedos were also rented at PAL's expense by the Executive Director and Outside Consultant at a price of \$198.00 on 03/03/08 so that they could attend the event.
- g. The Keep A Clear Mind program is a take-home drug education program designed to influence known risk factors for substance use among upper elementary school students ages 8 to 12. This Miami Beach Police Department sponsored program was funded completely by PAL during the audit period with total costs exceeding \$10,000.

Recommendation(s)

Although PAL is presently a financially sound organization and receives assistance from the City, they should not be expected to initially purchase items for City sponsored events that may or may not be fully reimbursed in the future. This practice should be discontinued going forward.

Furthermore, the City Administration should closer scrutinize the relationship between the Parks & Recreation Department, Police Chief's Office and PAL to determine the optimal working environment. Currently, the possibility exists that they could exert considerable influence over PAL's operations.

City's Response

The PAL Board will be asked to adopt a policy that directly links expenditures to the adopted mission of PAL. The Police Chief's Office, Parks and Recreation and other City Departments will be advised not to procure items through PAL and to undertake any necessary financial transactions within the confines of established City policy.

Agency's Response

In reference to Finding 9(a) this event was utilized to promote health and weight loss to participants held by CMB Parks and Recreation as Pal sponsored event with the thought in mind that children might observe parents taking the initiative and follow suit as recent studies indicate child obesity is on the rise.

PAL will, based on this report, no longer sponsor or assist in "Take Your child to Work." PAL will discontinue providing any shirts for the Memorial Day event. This practice was stopped in 2008.

In reference to Finding 9(e) - All funds advanced by PAL were reimbursed. In reference to Finding 9(f) - This practice will no longer be done and it should be noted that while attending said event fundraising was conducted by PAL to raise monies for PAL programs. A refund has been requested to settle this issue. These issues as others will be covered in policy and procedure or with board approval as in the past.

PAL will also look to adopt and utilize a "Program Assessment" form which will be submitted to the Executive Director and provided to the Executive Board for approval. This form will more clearly identify and record the Board approval of the link between expenditures and the adopted mission of PAL.

- 10. Finding – American Express Corporate Credit Cards
PAL provided American Express corporate credit cards for its Executive Director, Outside Consultant and Bookkeeper during the audit period. These corporate cards were recently

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recalled at the 06/09/09 PAL regular Board meeting and are no longer used unless approved.

It was noted that the American Express corporate credit card lists a monthly AOL charge of \$25.90 during the audit period that was paid by PAL. Inquiries learned that this charge was created around 2000 when one needed to purchase an AOL membership to have AOL e-mail addresses for staff and the upstairs computer labs. As time progressed, AOL membership became no longer needed but no one at PAL questioned this monthly invoice and it was continually paid. Per PAL staff, this monthly \$25.90 automatic charge was recently stopped in October 2009 when they became aware of its purpose.

Furthermore, testing during the audit period discovered that these credit cards were occasionally used to pay for the Outside Consultant's personal expenses. The standard procedure is for the cardholder to review the monthly statement's listed charges and separate business-related from personal. Next, the applicable individuals are to timely reimburse PAL in full for all those identified as personal. This process creates additional work for PAL's bookkeeper, increases the complexity and the possibility of mistakes, and indirectly receives non-interest bearing short term loans from the 501c3 organization.

It was determined that a total of \$2,402.90 for such personal items as air fare for family and friends; meals while both local and out-of-town; assorted items at Home Depot and Costco; etc. were procured during the audit period. Of this amount, a total of \$2,327.06 was reimbursed by the Outside Consultant leaving a current balance outstanding of \$75.84 from the 2007 and 2008 calendar years. This outstanding balance does not include Delta Sky Miles earned by PAL's corporate credit cards that were used in June 2007 and January 2008 to garner reduced air fare for personal travel.

PAL also paid for the purchase of a \$124.01 wireless earphone and \$487.47 for two new cell phones, plus the monthly cell phone payment for the Outside Consultant, Executive Director and Bookkeeper. In fact, the total cellular phone charges were approximately \$4,500 annually granting these three users 6,000 minutes per month. Although these services and products can be used for both business and personal reasons by all parties, the Outside Consultant's signed employment contract states that no benefits are included as PAL is only responsible for the agreed upon compensation and to pay for all reasonable expenses associated with attending State and National PAL conferences.

Finally, it was noted that there were meals purchased with the business purpose noted in the margin on the credit card statements. It was calculated that a total of fifty-nine meals were purchased at restaurants (including alcoholic beverages) during the audit period at an average price of \$71.59 per purchase. Internal Audit has no known means to confirm or disprove the business purpose of these meals but they do not appear to be excessive and amount to approximately one to two per month.

Recommendation(s)

If the Executive Board of Directors opts to reissue the corporate credit cards, then going forward they should only be used for business-related expenditures. The outstanding personal expenditures balance of \$75.84 should be repaid immediately by the Outside Consultant. Also, any sky miles earned should only be used for business purposes for the PAL organization.

PAL staff should review all automatic invoices and long term contracts (cell phones, copiers,

etc.) to ensure that they are receiving the best price for the service rendered, especially given today's economic climate. If not, the desired services should be competitively shopped so that more optimal prices can be secured.

The Executive Board of Directors should be notified of any changes made to the plans and should be kept abreast as to who is receiving the benefit. For example, the Executive Board of Directors should decide whether they choose to pay any costs associated with the Outside Consultant's cell phone. If so, they should amend the Outside Consultant's employment contract accordingly.

Finally, Internal Audit realizes that sometimes monies have to be expended on meals, gifts, etc. in an effort to build relationships with people to help secure donations. Since the Outside Consultant's employment contract is silent on this issue, the Executive Board of Directors may want to authorize designated amounts in the budget limiting the amount of meals and gifts that can be reimbursed. PAL's policy on the consumption of alcohol during this process should be also reviewed and decided upon by the Executive Board of Directors.

Agency's Response

The primary mission of the consultant at PAL was to generate funds for the organization. The issue of potential mispending has recently been brought to light by a former Board member. The auditors stated that they cannot "confirm or disprove the business purposes of these meals but they do not appear to be excessive and amount to approximately one to two per month," Board policy will make clear the approved uses of PAL funds for these purposes.

As noted AOL account has been discontinued as was needed for computer labs (2) which allow access to internet for after school programs prior to my arrival.

The phone bill for cellular phones has also been adjusted based on the long term plan PAL originally had. The total yearly bill should be half or less of the previous yearly bills.

PAL will now only utilize credit cards for business related expenses. The PAL will look to adopt a modified version of the City of Miami Beach "P" card policy. PAL will address these issues in policy and procedures and will present any contracts as stated in current by-laws to board and president, or his designee, for review.

11. Finding – *Non-Business Expenditures*

PAL's mission statement reads "*To provide a safe environment for juveniles, offer programs that emphasize education, promote self-esteem, deal with those underlying conditions that threaten the future of our youth and continue our dual mission of 'Filling Playgrounds, Not Prisons – Success Through Education' through involvement of parents, police officers and citizens of our community.*" The following expenditures do not appear satisfy PAL's mission statement and therefore may have been better suited to have been paid by the benefiting individuals rather than the organization.

- a. A total of \$3,721.28 in purchases that did not appear to satisfy their mission statement was questioned upon reviewing the check register and supporting documentation during the audit period. Examples noted include conference registrations for a spouse; PAL's Costco membership also included family members; food and/or flowers for family and friends' funerals; donations to Cooper City athletic organizations; wedding gifts; etc.

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- b. One donor gave \$25,000 deposited on 04/22/08 to pay for a PAL sponsored rafting trip to Hell's Canyon in Idaho. Documentation was provided indicating that the donor approved the Outside Consultant's grandson participation although he lived in Missouri and to cover all associated expenses. The total calculated cost for the trip was \$28,704.79, which exceeded the donor's contribution by \$3,704.79 and was paid for with PAL monies. Additionally, there was no evidence in the provided Executive Board of Directors' meeting minutes that this rafting trip was approved in advance as it well exceeded the designated \$2,500 threshold in the PAL by-laws. The only mention found was in the July 9, 2008 minutes where it read "*White Water rafting: Winer, Freedline, Morgan {adult chaperones} and 9 kids participated. It was a great team building experience; food was great.*" Similarly, Internal Audit could not determine if the Executive Board of Directors authorized the payment of the aforementioned \$3,704.79 shortage.
- c. On 12/04/08 an invoice from Restaurant Depot for \$577.95 shows expensive cuts of meat and seafood (7 racks of lamb, 14 pounds of skirt steaks, 15 pounds of flank steaks, 9 pounds of angus ground chuck, 2 packages of smoked salmon with cracked pepper, meatballs, 22 pork tenderloin, 6 boxes of shrimp and breaded shrimp) being purchased with check #8253. Inquiries revealed that these meats were all given to three needy individuals but documentation was not provided to support this distribution nor was the Executive Board of Directors apparently notified. Internal Audit could not verify the accuracy of these statements but is questioning as to why PAL would purchase more expensive cuts rather than bulk.
- d. Additional payments were noted to such charitable organizations as the Boy Scouts, Girl Scouts, American Cancer Society, March of Dimes, etc. These payments benefit a good cause but do not adhere to PAL's mission statement.

Recommendation(s)

Although the individuals making these expenditures may volunteer time and work diligently on PAL's behalf, Internal Audit believes that these expenses are not attributed to the operations of PAL and would be better paid by the individuals or with approval from the Executive Board of Directors. Closer scrutiny should be placed on future expenditures submitted for reimbursement to ensure their business purpose before a check is prepared.

Any expenditure made exceeding the \$2,500 limit should be approved by the Executive Board of Directors and documented as such in the approved minutes. Finally, any payments to any organization, individual, etc. that does not satisfy PAL's mission statement should be first approved by the Executive Board of Directors, regardless of the amount. A revision to the agency's bi-laws should be considered to limit expenditures to those which directly relate to the mission of the agency.

Agency's Response

PAL will address these recommendations in policies and procedures when utilizing the Costco cards. The By-laws are currently under review and pending approval of the executive board and general membership board. PAL will revise its mission statement to reflect this, to cover donations, and community donations to schools.

Boy Scouts and Girl Scouts are PAL troop sponsored programs. In addition, the Explorer program operates under Learning for Life which is a Boy Scout program. PAL's Executive Board will continue to be advised of and approve expenditures as noted by audit to other groups such as March of Dimes and American Cancer Society.

White Water rafting documentation has been provided to the Internal Auditor from the donor. The shortfall of monies will be brought before the PAL Executive Board for approval of expenses.

PAL will ensure future trips, programs, and events are board approved and consistent with PAL mission statement.

12. Finding – City Employees' Leave Time

Two MBPD employees traveled on PAL sponsored overnight trips (Hell's Canyon White Water Rafting Trip, Explorers competitions, Youth Director Council events, etc.) and their City paychecks were not adjusted to reflect this time spent away from their job. These individuals were charged approved administrative time. For example, employee identification number 10925 was charged 64 hours administrative time to attend the Hell's Canyon White Water Rafting Trip.

Recommendation(s)

City employees should only be paid by the City for hours worked on behalf of the City. Otherwise, they should use accrued leave time or be charged Leave Without Pay to compensate for the hourly void.

City's Response

With the exception of the Director, City employees should not be routinely used as trip chaperones. Volunteer chaperones should be selected and in the event an employee volunteers, appropriate leave time should be taken. In the event a trip is sponsored by the City and no volunteers are available, only with the explicit advance written approval of the Chief or other Department Director should an employee be used and specific acknowledgement of the authorized leave or paid time provided for the event

Agency's Response

Individuals chaperoned children on a PAL trip as both male and females attended. In some instances administrative time was or has been used. For example, Friday, Saturday and Sunday even though an employee is off Saturday and Sunday for PAL functions.

Internal Audit Observation

While the agency recognizes their previous use of City employees as chaperones, this practice should be limited to days were the employees are off of work. Otherwise appropriate leave (other than Administrative leave) should be taken as approved by the Police Chief's office.

13. Finding – Outside Employment Statement

All full-time City employees are required to file a form entitled "Outside Employment Statement" with the City Clerk's Office if they engage in any outside employment. This form is due annually on July 1st for any work performed during the preceding calendar year. Upon reviewing the City Clerk's records, it was discovered that a Recreation Program Supervisor who also worked part-time at PAL did not submit the required forms for 2006 and 2007.

Recommendation(s)

City employees should submit "Outside Employment Statements" timely to the City Clerk's Office as necessary.

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Agency's Response

Subsequent to the audit, the outside employment form was submitted and approved by the City Manager.

EXIT CONFERENCE

An initial meeting to discuss Internal Audit's preliminary findings was held on August 19, 2009 and the participants included Police Chief Carlos Noriega, Assistant Chief of Police Raymond Martinez, Police Captain James Hyde, PAL Executive Director Harry Morgan, James Sutter (Internal Auditor) and Mark Coolidge (Senior Auditor). A former Executive Board of Directors member subsequently prepared a list of concerns that were investigated by Internal Audit with any additional findings incorporated into the above audit report. Several meetings were held afterwards with the applicable parties to discuss and finalize the contents of this report. Management responses were solicited on December 2, 2009 and were received February 24, 2010 and are included in this issued audit report.

JJS:MC:mc

Audit performed by Senior Auditor Mark Coolidge

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cc Carlos Noriega, Chief of Police
Robert Middaugh, Assistant City Manager
Harry Morgan, PAL Executive Director
Fred Beckmann, Public Works Director

EXHIBIT A
SUMMARY OF FINDINGS AND RECOMMENDATIONS DATED AUGUST 29, 2005

Note: The findings and recommendations below were reviewed by Internal Audit and the Miami Beach Police Athletic League or PAL. They were not previously presented to the Miami Beach Police Department or Parks & Recreation Department and therefore have not been able to be refuted and may contain some inaccuracies; some outstanding monies may have been reimbursed; some recommendations may not be practical or feasible; etc. However, these findings were used as the basis for planning the current audit. The status of each of the prior findings for the current audit period of 10/01/06 – 05/31/09 is summarized after each finding under the subheading entitled "Current Status".

1. Finding – Accounting Records

Although Miami Beach Police Athletic League's (PAL's) accounting records have continued to improve and are audited annually by an independent accounting firm, the following deficiencies were noted and are in need of improvement:

- a. Invoices were strewn about in the audit period's monthly files making them difficult to locate.
- b. Invoices supporting canceled checks were occasionally missing from the files (including checks payable to cash) and could not be located.
- c. The reimbursement of expenditures from National PAL and Florida PAL were not monitored to ensure that full payment was received.
- d. Checks payable to cash were used primarily to fund cash advances given to individuals prior to trips commencement (Explorers, Cheerleading competition, etc.) and to provide change for the Boat Show concessions. The subsequent review of PAL's documentation did not find substantiation indicating the results of the settlements and the return of any unused monies.
- e. Current procedure requires two signatures on all checks with Board of Directors approval for all checks in excess of \$500. The checking account contains three signatories but only one works on the premises full-time and all frequently travel. Inquiries discovered that checks are occasionally pre-signed to expedite issuance. Meanwhile, review of canceled checks also found instances whereby only one signature was present or someone else apparently signed a signatories' name. These instances were scrutinized and appeared to represent legitimate PAL expenditures. However, the aforementioned scenarios circumvent the dual signatures' requirement and minimize its effectiveness.
- f. Weekly Time Sheets detailing the hours worked daily by PAL employees were not always signed by the corresponding employees and/or supervisors attesting to the number of hours worked.
- g. PAL's 2002 calendar year invoices were requested verbally by Internal Audit on four separate occasions but were not provided prior to the conclusion of this audit. This scope limitation was lessened by using PAL generated QuickBooks reports for that year.

Recommendation(s)

The implementation of the following recommendations will help ensure the existence and completeness of the supporting documentation and audit trail:

EXHIBIT A
SUMMARY OF FINDINGS AND RECOMMENDATIONS DATED AUGUST 29, 2005

- a. The procedure currently followed for 2005 calendar year receipts should continue as it involves the stapling of all the supporting invoices to the applicable payment record/check remittance.
- b. Checks should not be prepared unless all supporting documentation has been properly submitted and its legitimacy can be verified.
- c. PAL's bookkeeper is in the process of creating QuickBooks subsidiary ledgers to track all National and Florida PAL reimbursable expenditures and net them against all received reimbursement checks.
- d. Different scenarios are currently being investigated (corporate debit cards protected by a PIN number, checks payable to individuals supported by settlement sheets, etc.) to possibly replace giving individuals' cash advances. Whichever method is selected, proper supporting documentation should be maintained.
- e. A new signatory should be added to the checking account with the Board of Director's approval. A possible candidate is PAL's bookkeeper who is typically on the premises during the work week and prepares the checks. In addition, the American Express corporate credit card should be used at off-site locations to alleviate the difficulties associated with the check's dual signature requirement.
- f. All Weekly Time Sheets should be signed by the corresponding employee and their supervisor attesting to the number of hours worked.
- g. Access to all requested records should be timely granted by PAL administration.

Current Status

This finding is similar to number 6 in the current audit report.

- a. This finding is no longer relevant as PAL's check remittances and supporting invoices are now fastened and stored in sequential order inside a monthly folder.
- b. This finding holds true in the fact that supporting invoices were not always attached to the check remittance. However, one improvement implemented is that checks are no longer written payable to cash.
- c. Expenditures relating to National PAL and Florida PAL such as memberships, travel, etc. are now paid by the local PAL and are not submitted for reimbursement. Furthermore, the Outside Consultant's signed employment agreement states that PAL is to pay for all reasonable expenses associated with attending State and National PAL conferences.
- d. Checks are no longer issued payable to cash. Instead, cash advances are made through checks payable to the individual. Settlements are to occur at the conclusion of the trip.
- e. All PAL checks are required to contain two signatures before being presented to City National Bank for payment. All checks reviewed except for two, numbered 8300 and 8302, satisfied this requirement. These two checks were closely analyzed and seemed to represent legitimate PAL expenditures. The permitted PAL check signatories are currently being re-evaluated by the Executive Board of Directors as the Outside Consultant is no longer authorized.
- f. Weekly Time Sheets are presently being maintained for the gym employees.
- g. All requested records were provided for review.

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2. Finding – Monies Collected

PAL's customers typically remit either cash or checks in return for quarterly gym memberships. Those paying on the premises receive a pre-numbered receipt indicating the payment details. The monies received are then safeguarded in a locked cabinet until the bank deposit is made. A proper segregation of duties existed as the PAL employees receiving the monies were separate from those responsible for preparing the bank deposit. However, testing showed the following internal control deficiencies over the collection and depositing of funds did exist:

- a. Bank deposits were frequently commingled between different revenue sources thereby complicating the reconciliation process. For example, reviewed bank deposits were found to contain monies received from vending machine companies, facilities rentals, donations, etc.
- b. The sources of the currency amounts comprising the bank deposit was not present hindering reconciliation with the cash receipt books data.
- c. A monthly reconciliation of the pre-numbered receipts with the amounts deposited was not performed to help determine if any monies collected were not deposited into the bank.

Recommendation(s)

PAL should consider implementing the following recommendations to help ensure that all monies are accounted for:

- a. Separate bank deposits should be made for each money source (gym memberships, facilities rentals, donations, grants, vending machines, etc.).
- b. A listing of the currency sources and amounts comprising the bank deposit should be maintained to facilitate the reconciliation process.
- c. A monthly reconciliation of the pre-numbered receipts with the amounts deposited should be performed monthly by individuals independent of those collecting the monies.

Current Status

This finding is similar to number 4 in the current audit report.

- a. This recommendation is currently being followed as gym membership monies are deposited together with each members' name listed on the deposit slip. Also, donations are grouped together with their purpose noted on the margin (restricted or unrestricted).
- b. The currency sources and amounts are now listed on the bank deposits.
- c. This reconciliation process continued not to be performed during the audit period.

3. Finding – Alcohol Permits for Nonprofit Civic Organizations

Florida Statute 561.422 states "... the director of the division may issue a permit authorizing a bona fide nonprofit civic organization to sell alcoholic beverages for consumption on the premises only, for a period not to exceed 3 days, subject to any state law or municipal or county ordinance regulating the time for selling such beverages. All net profits from sales of alcoholic beverages collected during the permit period must be retained by the nonprofit civic

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civic organization...” PAL obtained alcohol permits for Volleypalooza, the Fourth of July, Ocean Drive Magazine, etc. during the audit period.

In return for a fixed negotiated fee, they allowed such independent vendors as Penrods and Boucher Brothers operate the alcohol concessions. The concessionaire would then be responsible for providing PAL with the necessary information and monies to pay the applicable taxes. However, this arrangement contradicts Florida Statute 561.422 as PAL only receives the fixed negotiated amount rather than retaining all the net profits. Additional problems could exist if the concessionaire is subsequently audited, fails to pay, incurs late charges, etc.

Recommendation(s)

PAL should fully comply with Florida Statute 561.422 as the receipt of alcohol permits is an effective fundraiser. Available options include operating the concession with PAL personnel/volunteers, paying independent vendors a fixed fee in exchange for operating the concession while PAL retains any profits generated, etc.

Current Status

This finding is similar to number 8 in the current audit report and continues to be an issue as PAL is not fully complying with Florida Statute 561.422.

4. Finding – Tax Exempt Purchases for Others

The check register identified eleven transactions which totaled over \$12,000 called “check exchanges” whereby PAL would pay for an expense on behalf of an outside organization or individuals using their tax exempt number, only to be reimbursed shortly thereafter in full by these organizations or individuals. As a result, these entities avoided paying state sales and/or resort taxes. PAL did not receive any additional compensation as their primary objective was to thank those who have volunteered time in their different programs.

One example found involved the staging of the Fraternal Order of Police’s 04/02/04 awards banquet at the Shelborne Beach Resort. PAL initially paid the entire event’s cost of \$5,310.00 via check number 4823 saving the union \$477.90 in taxes. PAL was subsequently reimbursed in full through check number 2419 approximately one month later.

Recommendation(s)

These questionable check exchanges should be ceased immediately and the applicable amount of taxes should be paid in the future.

Current Status

This finding is similar to number 1 in the current audit report and continues to be an issue although it was not as prevalent.

5. Finding – American Express Corporate Credit Cards

PAL currently provides American Express corporate credit cards for three of its employees. Testing discovered that these tax-exempt credit cards are also routinely used for personal expenses. The standard procedure is for the cardholder to review the monthly statement’s listed charges and separate business-related from personal. Next, the applicable individuals

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are to timely reimburse PAL in full for all those identified as personal. This process creates additional work for PAL's bookkeeper, increases the complexity and the possibility of mistakes, allows individuals to make tax exempt personal purchases and indirectly receive non-interest bearing short term loans from the 501c3 organization. Reconciliation of the personal expenditures with the amounts reimbursed shows that \$394.62 for the 2004 calendar year apparently has not been repaid as of yet.

Recommendation(s)

PAL's corporate credit cards should only be used for business-related expenditures. Any previous outstanding personal expenditures should be repaid immediately.

Current Status

This finding is similar to number 10 in the current audit report but it was expanded to include a review of the Outside Consultant's business expenses currently paid by PAL.

6. Finding – Apparent Personal Expenditures

A total of \$4,457.11 in apparent personal purchases was discovered upon reviewing the check register and supporting documentation during the audit period. Examples noted include the purchase of meals, registration fees and airline tickets for spouses; food for family and friends' funerals; parking tickets received by PAL volunteers; etc. These purchases were not previously designated as personal expenditures and do not appear to have been repaid as of the conclusion of this audit.

Recommendation(s)

Although the individuals making these expenditures may volunteer time and work diligently on PAL's behalf, Internal Audit believes that these expenses are not attributed to the operations of PAL and should be paid by the individuals. Closer scrutiny should be placed on future expenditures submitted for reimbursement to ensure their business purpose before a check is prepared.

Current Status

This finding is similar to number 11 in the current audit period and was expanded to also include payments to charitable organizations which although beneficial do not appear to satisfy PAL's mission statement and apparently did not receive approval from the Executive Board of Directors.

7. Finding – Association with the Police Chief's Office

The Police Chief's Office and PAL are closely intertwined as they each perform services for one another. For example, the Police Chief's Office assigns one full-time police officer to be PAL's Executive Director and pays his salary, supplies Law Enforcement Trust Fund monies with the City Commission's approval, the Police Chief reviews the budget and sits on PAL's Board of Directors, the Executive Director reports to the Head of Internal Affairs, allows PAL to use their standing orders with Corporate Express and Iron Mountain to purchase program supplies and store documents, assists in fundraising efforts, etc. In return, PAL houses the Fraternal Order of Police (FOP) Union and the FOP Health Trust in exchange for low monthly rents, local children are supervised in a structured learning environment where they realize that police officers are not the enemies, etc.

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Upon review of PAL's records, it was determined that twelve identified expenditures totaling \$13,933.60 were made at the request of and for the direct benefit of the Police Chief's Office. Items purchased or supplied include shirts, mugs and duffle bags; emergency aid for destitute individuals; prizes for contest winners; monies for Take Your Child to Work Day; holiday presents for police officers; food/beverages for meetings; etc.

PAL expended an additional \$11,076.77 for Miami Beach Police Department sponsored and operated programs like DARE, Junior Police Academy and Goodwill Ambassadors during the audit period. These identified expenditures purchased trophies, supplies, food, clothing, etc. for the participating individuals.

Recommendation(s)

The City Administration should closer scrutinize the relationship between the Police Chief's Office and PAL to determine the optimal working environment. Currently, the possibility exists that the Police Chief's Office could exert considerable influence over PAL's operations. PAL's monies should not be used as a supplement to the Police Chief's Office budget as they should only be used to pay for legitimate PAL expenditures.

Current Status

This finding is similar to number 9 in the current audit report and was expended to include payments on behalf of the City's Parks & Recreation Department.

8. Finding – Outside Employment Statement

All full-time City employees are required to file a form entitled "Outside Employment Statement" with the City Clerk's Office if they engage in any outside employment. This form is due annually on July 1 for any work performed during the preceding calendar year. Upon reviewing the City Clerk's records, it was discovered that a Recreation Program Supervisor who also worked part-time at PAL did not submit the required forms for 2002 and 2003.

Recommendation(s)

City employees should submit "Outside Employment Statements" timely to the City Clerk's Office as necessary.

Current Status

This finding is similar to number 13 in the current audit report.

9. Finding – Building Maintenance

Section 3 of PAL's lease agreement states "The Lessee (PAL) accepts the premises in their present 'as is' condition, and is responsible for all interior modifications and maintenance." The PAL building has been identified as containing such deficiencies as water damage in the walls, broken treads in stairwells, stacked items due to the shortage of available storage space, etc. These items if not repaired or resolved timely could result in injury or illness to the building's inhabitants.

Recommendation(s)

Although the facilities are costly to maintain as time progresses and the resident children are

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hard on the building, the inhabitants' safety should be a top priority and the listed items should be repaired as soon as possible.

Current Status

This finding is similar to number 3 in the current audit report. This continues to be an on-going issue as the building ages and the children attending PAL are hard on the facility. In addition, the finding was expanded to include the \$31,143 outstanding balance originating from the cleaning of the building by Diamond Contract Services, Inc.

10. Finding – Insurance

Section 31 of PAL's lease agreement discusses their insurance requirements and is monitored by the City's Asset Manager. Review of PAL's actual insurance coverage with the City's Risk Manager found that workers' compensation coverage was not maintained despite the apparent need as they have in excess of four employees. PAL management was notified of the omission whereby they claimed that it is not needed as these employees are contracted laborers but the City's Risk Manager disagreed. Therefore, they requested additional time to research the matter and will provide the City with either proof of workers' compensation coverage or supported rationale as to why it is not necessary.

In addition, the City's Redevelopment Specialist (Asset Management) received the organization's certificates of insurance. However, the certificate was apparently reviewed and approved internally without being furnished to the City's Risk Manager. Other completed internal audits over the last several years have discovered similar findings.

Recommendation(s)

PAL should comply timely with all the terms listed in the lease agreement's section 31. In addition the certificate should be forwarded to the City's Risk Management Department its review and approval.

Current Status

This finding is no longer applicable based on recent inquiries with the City's Risk Manager. He claims that the City could not be held liable in the event that one of PAL's workers is inadvertently injured.

11. Finding – Utilities Payments

Resolution No. 96-21987 requires PAL to maintain the facility and pay all utilities throughout the term of the Lease Agreement. Meanwhile, section 2 of PAL's corresponding lease agreement states "Lessor {City} agrees to pay for all utilities used within the premises including, but not limited to, electric, water, gas, telephone and garbage disposal." In reality, the City has paid the water and sewer charges while PAL paid the electric, and telephone invoices.

Recommendation(s)

The City's Legal Department should investigate further and determine who is responsible for making the utilities payments.

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Current Status

This finding is similar to number 2 in the current audit report. The City's Legal Department has opined on the contradictory terms claiming that it was a scrivener's error and PAL is therefore responsible for paying the building's utilities. Additionally, a Memorandum of Understanding was recently signed by the City Manager and the PAL Board President agreeing to terms whereby the City would contribute a one time \$50,000 payment plus an off-duty quarterly surcharge to be used to pay future utilities expenses.

12. Finding – Leave Time

Two Recreation Department employees traveled on PAL sponsored overnight trips and their City paychecks were not adjusted to reflect this time spent away from their job. Payroll entries were not found that either reduced their salary or accrued leave time.

Recommendation(s)

City employees should only be paid by the City for hours worked on behalf of the City. Otherwise, they should use accrued leave time or be charged Leave Without Pay to compensate for the hourly void.

Current Status

This finding is similar to number 12 in the current audit report, except that MBPD employees were noted participating rather than Parks & Recreation Department employees.