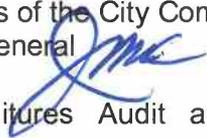




Joseph M. Centorino, Inspector General

March 4, 2021

TO: Honorable Mayor and Members of the City Commission
FROM: Joseph Centorino, Inspector General 
RE: Building Department Expenditures Audit and Follow-up Audit of Management Responses
OIG No. 21-11

Executive Summary

The Office of the Inspector General (OIG) conducted an audit of the Building Department's compliance with selected sections of the Florida Building Code related to their expenditure of sampled Building Department funds, which was initiated at the request of the current Building Official. The audit's scope was subsequently extended to include testing some transactions concerning the Restricted Building Operations Reserves and its reporting in the Notes to Financial Statements Section of the City's Comprehensive Annual Financial Report (CAFR). Lastly, a follow-up audit was also conducted on the management responses received, which included OIG staff's additional testing and analysis, to ensure that all findings have been addressed and that appropriate corrective action was taken.

Use of Building Department funds is restricted by state law to permissible uses in connection with the enforcement of the Florida Building Code. Due to the restrictions placed on Building Department funds under Florida Statutes, proper accounting and reporting of such funds is important to ensure that they are not used for unauthorized purposes. While it is permissible for Building Department funds to be included within the City's General Fund for reporting purposes, they may not be used for the funding of general government activities unrelated to the enforcement of the Building Code. The reservations of such funds for a designated usage should be made apparent to any inside or outside auditor.

The Florida Building Code strictly details the allowable expenditures of Building funds by local governments. It is imperative that the City's Building Official, who is tasked under state law with overseeing and controlling this function, always comply with Florida Statutes and ensure that the City Administration not expend funds for impermissible purposes unrelated to the Florida Building Code.

This audit has noted several occasions where the City has used Building Department funds to pay an excessive portion of shared expenditures with other City departments rather than determine a reasonable methodology and allocation process to charge each department based on its actual usage. Examples include, but are not limited to, the purchase, implementation and annual maintenance costs associated with the Munis and/or EnerGov systems.

The frequent and long-standing misapplication of Building Department funds noted in this audit, in apparent violation of the Florida Statutes, has occurred since at least 2003. In the years since, various Building Directors, Building Officials, Finance Directors/Chief Financial Officers, Budget Directors, etc. were aware of these improper practices, but did not take appropriate steps to terminate them.

Based on the results of this audit, it was noted that certain procedures and internal controls require enhancement due to the following identified deficiencies:

1. At least \$5,631,897.76 in restricted Building Department funds were used for unallowable activities, contrary to the Florida Building Code. In addition, the amounts charged to and paid by the Building Department for expenditures related to bank fees and E-Check fees were understated by an undetermined amount.
2. The Notes to Financial Statements on the City's Comprehensive Annual Financial Report (CAFR) incorrectly reported approximately \$6.2 million of the restricted Building Operations Reserves as Unrestricted Fund Balance.
3. Payroll and fringe benefits related to non-Building Department work performed by City employees totaling \$18,124.87 were incorrectly paid with restricted Building Department funds and have not been repaid.
4. The Building Department's cost allocation percentage has not been updated and is not accurate.

OIG staff would like to commend the current Office of Management and Budget, and Building Department staff for all the hours spent in researching historical transactions and revising the figures as more information became known. Although these shortcomings continued until being identified in this audit, most of the current employees, were not present or involved in the decision making when these unauthorized expenditures occurred. Yet, they were instrumental in its resolution, and we greatly appreciate their diligence and professionalism as we all strived to make the Building Department's fund balance accurate for its October 1, 2020 transition from the General Fund to an Enterprise Fund.

This report contains findings associated with our initial audit, as well as with our corresponding follow-up audit performed to confirm that appropriate corrective action was implemented. Typically, the results of both audits would be presented in separately issued reports, but they were combined into one, because of the complexities associated with these audits and the desire to make the corresponding adjustments only once. In addition, OIG staff received multiple proposed solutions from the affected departments to some findings, that were not shared beforehand and required additional research and analysis.

In the end, an amicable consensus was ultimately reached through the cooperation of all parties whereby an additional \$4,855,485.89 was credited to the Building Department fund balance, with another \$776,411.87 to be credited at fiscal year-end. Lastly, the corrective action implemented and verified by OIG staff will help prevent possible future unallowed expenditures from occurring.

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Website: www.mbinspectorgeneral.com



Joseph M. Centorino, Inspector General

TO: Honorable Mayor and Members of the City Commission
FROM: Joseph Centorino, Inspector General

DATE: March 4, 2021

PROJECT: Building Department Expenditures Audit and Follow-up Audit of Management Responses
OIG No. 21-11

The Office of the Inspector General (OIG) conducted an audit of the Building Department's compliance with selected sections of the Florida Building Code related to their expenditure of sampled Building Department funds, which was initiated at the request of the current Building Official. The audit's scope was subsequently extended to include testing some transactions concerning the Restricted Building Operations Reserves and its reporting in the Notes to Financial Statements Section of the City's Comprehensive Annual Financial Report (CAFR). Lastly, a follow-up audit was also conducted on the management responses received, which included OIG staff's additional testing and analysis, to ensure that all findings have been addressed and that appropriate corrective action was taken.

INTRODUCTION

The 1998 Legislature adopted the Florida Building Code Study Commission's recommendations and amended Chapter 553, Florida Statutes, Building Construction Standards, to create a single minimum standard building code that is enforced by local governments. As of March 1, 2002, the Florida Building Code, which is developed and maintained by the Florida Building Commission, supersedes all local building codes. The Florida Building Code is updated every three years and may be amended annually to incorporate judicial and administrative interpretations and clarifications.

The Florida Building Code incorporates all building construction related regulations for public and private buildings in the State of Florida, other than those specifically exempted. In addition to providing standardization of the design, construction, and compliance processes, it establishes regulations for the safety, health, and general welfare of building occupants. The purpose and intent of the Florida Building Code is to provide a mechanism for the uniform adoption, updating, amendment, interpretation, and enforcement of a single, unified state building code, consisting of a single set of standards that apply to the design, construction, erection, alteration, modification, repair, or demolition of public or private buildings, structures, or facilities in this state and to the enforcement of such requirements; and which will allow effective and reasonable protection for public safety, health, and general welfare for all the people of Florida at the most reasonable cost

to the consumer.

The City of Miami Beach Building Department currently has as its Director and its chief administrator a Building Official, who is responsible for direct regulatory administration and supervision of plan review, enforcement, and inspection of building construction, erection, repair, addition, remodeling, demolition, and alteration projects that require permitting for compliance with building, plumbing, mechanical, electrical, gas, fire prevention, energy, accessibility, and other construction codes, as required by state law or municipal or county ordinance.

OVERALL OPINION

Use of Building Department funds is restricted by state law to permissible uses in connection with the enforcement of the Florida Building Code. Due to the restrictions placed on Building Department funds under Florida Statutes, proper accounting and reporting of such funds is important to ensure that they are not used for unauthorized purposes. While it is permissible for Building Department funds to be included within the City's General Fund for reporting purposes, they may not be used for the funding of general government activities unrelated to the enforcement of the Building Code. The reservations of such funds for a designated usage should be made apparent to any inside or outside auditor.

The Florida Building Code strictly details the allowable expenditures of Building funds by local governments. It is imperative that the City's Building Official, who is tasked under state law with overseeing and controlling this function, always comply with Florida Statutes and ensure that the City Administration not expend funds for impermissible purposes unrelated to the Florida Building Code.

This audit has noted several occasions where the City has used Building Department funds to pay an excessive portion of shared expenditures with other City departments rather than determine a reasonable methodology and allocation process to charge each department based on its actual usage. Examples include, but are not limited to, the purchase, implementation and annual maintenance costs associated with the Munis and/or EnerGov systems.

The frequent and long-standing misapplication of Building Department funds noted in this audit, in apparent violation of the Florida Statutes, has occurred since at least 2003. In the years since, various Building Directors, Building Officials, Finance Directors/Chief Financial Officers, Budget Directors, etc. were aware of these improper practices, but did not take appropriate steps to terminate them. For example, it was subsequently confirmed through a Microsoft Teams meeting with the City's prior Building Director during OIG's follow-up audit testing, that he had initially approved the usage of Building Department funds to pay for the purchase, implementation and annual maintenance costs associated with the EnerGov system.

On a positive note, the Building Department fund's transition from the General Fund to a stand-alone Enterprise Fund, effective October 1, 2020, as a result of this audit, is a noteworthy improvement. Through all parties' assistance, \$18,490,000.00 was transferred to general ledger account number 410-8000-381100-00-313-367-00-00-00, which included \$4,855,485.89 in previously excluded expenditures. An additional \$776,411.87 is to be credited to the Building Department fund balance at fiscal year-end. OIG staff also confirmed that the needed corrective action has been implemented to address the deficiencies identified in this audit.

However, additional internal controls may be needed to prevent future abuses. One option that the Inspector General recommends is the creation of a Building Department Ombudsman pilot position, which is summarized in Exhibit A located at the end of this audit report.

Based on the results of this audit, it was noted that certain procedures and internal controls require enhancement due to the following identified deficiencies:

1. At least \$5,631,897.76 in restricted Building Department funds were used for unallowable activities, contrary to the Florida Building Code. In addition, the amounts charged to and paid by the Building Department for expenditures related to bank fees and E-Check fees were understated by an undetermined amount.
2. The Notes to Financial Statements on the City's Comprehensive Annual Financial Report (CAFR) incorrectly reported approximately \$6.2 million of the restricted Building Operations Reserves as Unrestricted Fund Balance.
3. Payroll and fringe benefits related to non-Building Department work performed by City employees totaling \$18,124.87 were incorrectly paid with restricted Building Department funds and have not been repaid.
4. The Building Department's cost allocation percentage has not been updated and is not accurate.

SCOPE, OBJECTIVES, AND METHODOLOGY

The scope of this audit was to determine whether the City's Building Department complied with the provisions set forth in Chapter 553 Part IV "Florida Building Code", Section 553.80, Florida Statutes, and to determine whether the funds collected were used for allowable activities related to enforcing the Florida Building Code for tested transactions. In general, the audit focused on the following objectives:

- a. To ensure that tested expenditures recorded in the Building Department's general ledger accounts are allowable pursuant to Florida Statutes.
- b. To validate that tested transactions recorded in the Office of Management and Budget's Excel spreadsheet that tracked the year-end balance of the amounts "Owed by the City" to the Building Department were accurately reported in the Building Restricted Operations Reserves.
- c. To confirm that the stated corrective actions have been implemented.
- d. Other audit procedures as deemed necessary.

The audit methodology included the following:

- Reviewed applicable provisions of the Florida Building Code;
- Interviewed and made inquiries of staff to gain an understanding of internal controls, assess control risk, and plan audit procedures;
- Performed substantive testing consistent with the audit objectives, including, but not limited to, examination of applicable transactions and records;
- Drew conclusions based on the results of testing, made corresponding recommendations, and obtained auditee responses and corrective action plans; and
- Performed other audit procedures as deemed necessary.

FINDINGS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

1. **Finding: AT LEAST \$5,631,897.76 IN RESTRICTED BUILDING DEPARTMENT FUNDS WERE USED FOR UNALLOWABLE ACTIVITIES CONTRARY TO THE FLORIDA BUILDING CODE**

Florida Statutes Part IV, "Florida Building Code", Section 553.80 (7)(a) states "The governing bodies of local governments may provide a schedule of reasonable fees, as authorized by s. 125.56(2) or s. 166.222 and this section, for enforcing this part. These fees, and any fines or investment earnings related to the fees, shall be used solely for carrying out the local government's responsibilities in enforcing the Florida Building Code. When providing a schedule of reasonable fees, the total estimated annual revenue derived from fees, and the fines and investment earnings related to the fees, may not exceed the total estimated annual costs of allowable activities. Any unexpended balances shall be carried forward to future years for allowable activities or shall be refunded at the discretion of the local government. A local government may not carry forward an amount exceeding the average of its operating budget for enforcing the Florida Building Code for the previous 4 fiscal years. For purposes of this subsection, the term "operating budget" does not include reserve amounts. Any amount exceeding this limit must be used as authorized in subparagraph 2. However, a local government which established, as of January 1, 2019, a Building Inspections Fund Advisory Board consisting of five members from the construction stakeholder community and carries an unexpended balance in excess of the average of its operating budget for the previous 4 fiscal years may continue to carry such excess funds forward upon the recommendation of the advisory board. The basis for a fee structure for allowable activities shall relate to the level of service provided by the local government and shall include consideration for refunding fees due to reduced services based on services provided as prescribed by s. 553.791, but not provided by the local government. Fees charged shall be consistently applied.

1. As used in this subsection, the phrase "enforcing the Florida Building Code" includes the direct costs and reasonable indirect costs associated with review of building plans, building inspections, re-inspections, and building permit processing; building code enforcement; and fire inspections associated with new construction. The phrase may also include training costs associated with the enforcement of the Florida Building Code and enforcement action pertaining to unlicensed contractor activity to the extent not funded by other user fees.
2. A local government must use any excess funds that it is prohibited from carrying forward to rebate and reduce fees.
3. The following activities may not be funded with fees adopted for enforcing the Florida Building Code:
 - a. Planning and zoning or other general government activities.
 - b. Inspections of public buildings for a reduced fee or no fee.
 - c. Public information requests, community functions, boards, and any program not directly related to enforcement of the Florida Building Code.
 - d. Enforcement and implementation of any other local ordinance, excluding validly adopted local amendments to the Florida Building Code and excluding any local ordinance directly related to enforcing the Florida Building Code as defined in subparagraph 1.
4. A local government shall use recognized management, accounting, and oversight practices to ensure that fees, fines, and investment earnings generated under this

subsection are maintained and allocated or used solely for the purposes described in subparagraph 1.

5. The local enforcement agency, independent district, or special district may not require at any time, including at the time of application for a permit, the payment of any additional fees, charges, or expenses associated with:
 - a. Providing proof of licensure pursuant to chapter 489;
 - b. Recording or filing a license issued pursuant to this chapter;
 - c. Providing, recording, or filing evidence of workers' compensation insurance coverage as required by chapter 440; or
 - d. Charging surcharges or other similar fees not directly related to enforcing the Florida Building Code."

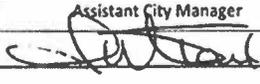
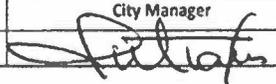
Florida Statute Section 125.56(5) provides as follows: "Any person, firm or corporation that violates any of the provisions of this section or of the Florida Building Code or the Florida Fire Prevention Code is guilty of a misdemeanor up to the second degree, punishable as provided in s. 775.082 or s. 775.083."

The OIG identified at least \$5,631,897.76 in unallowable expenditures that were improperly paid with Building Department funds instead of with other City funds. In addition, the amounts charged to and paid by the Building Department for expenditures related to bank fees and E-Check fees were understated by an undetermined amount. The following points provide more detail on each of these identified expenditures:

- A. Purchase and implementation of the EnerGov (\$1,055,400.50) and Munis (\$3,781,090.00) systems = **\$4,836,490.50** total unallowable expenditures

Resolution #2014-28706 dated July 30, 2014

As shown below, this adopted City Resolution transferred \$4,000,000 from the Building Department Reserve fund and \$1,700,000 from the Building Training & Technology account to Fund 301 Capital Projects Not Financed by Bonds, to pay the City's costs associated with the purchase and implementation of the Munis and EnerGov systems. Munis is the City's enterprise resource planning software, while EnerGov is the City's licensing and permitting software.

Financial Information:			
Source of Funds:		Amount	Account
	1	\$4,000,000	011- General Fund Balance (Building Department Reserve) to Fund 301 Capital Projects Not Financed by Bonds
	2	\$1,700,000	601-7000-229253 Building Training & Technology to Fund 301 Capital Projects Not Financed by Bonds
	3	\$50,000	Fund 307- NB QOL
	4	\$443,000	365- City Center RDA
OBPI	Total	\$6,193,000	
Financial Impact Summary:			
City Clerk's Office Legislative Tracking:			
Sign-Offs:			
Department Director	Assistant City Manager	City Manager	
			

Resolution #2014-28707 dated July 30, 2014

This adopted City Resolution authorized the City Manager to finalize negotiations and execute the contract with Tyler Technologies, Inc. for the replacement of the City's then existing enterprise resource planning (Eden) and permitting/licensing (Permits Plus) systems with Munis and EnerGov respectively; and with EMA, Inc. for a business process review and project management services related to these replacement systems; for a total project amount not to exceed \$7,200,000.

OIG staff found that the Building Funds transferred to Fund 301 Capital Projects Not Financed by Bonds (Resolution #2014-28706), were used to pay the implementation costs related to the Munis and EnerGov systems.

Advisory Board Recommendation:

Endorsed by the Finance and City-Wide Projects Committee on June 20, 2014.

Financial Information:

Source of Funds:	Amount	Account
1	\$5,700,000	Fund 301 – Capital Projects Not Financed By Bonds*
	\$1,500,000	Future fiscal year funding contingent on approved budget appropriations.

*Subject to approval of sixth budget amendment for FY2013/2014.

Financial Impact Summary:

City Clerk's Office Legislative Tracking:

Alex Denis, ext. 7490 or Mark Taxic, ext. 6829

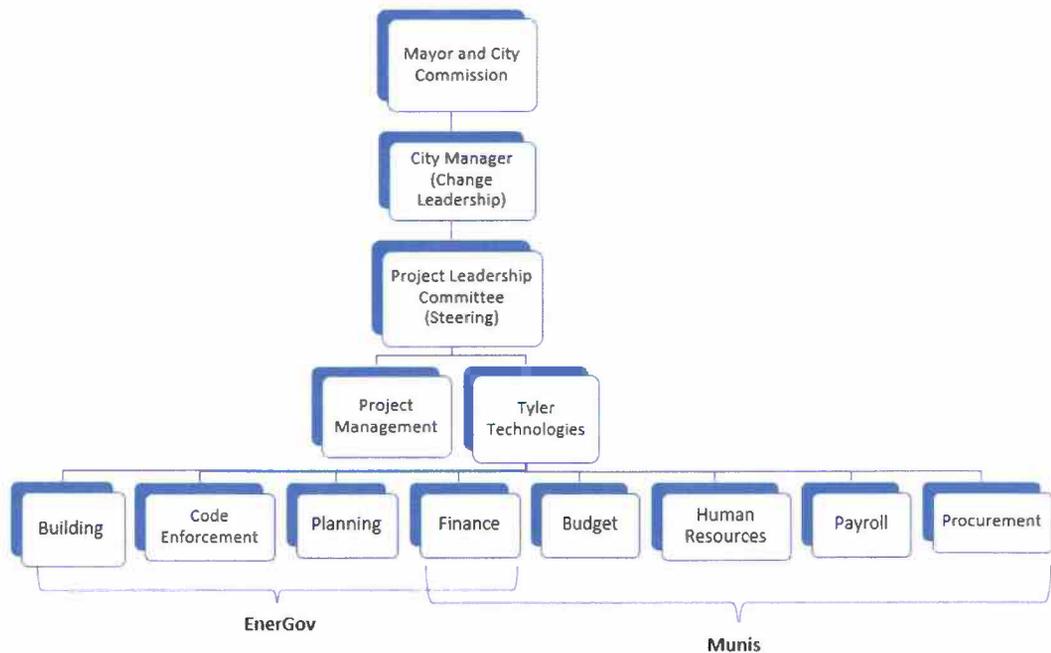
Sign-Offs:

Department Director	Assistant City Manager	City Manager
AD [Signature] AS [Signature]	MT [Signature]	JLM [Signature]

T:\AGE\DAI\2014\July Procurement July 30\Tyler Ema ERP SUMMARY.doc

The following project organizational chart shows the various City departments that use these two systems.

Project Organizational Chart



A better methodology would have been to allocate the systems' purchase and implementation costs based on each City department's projected or actual usage. Consequently, OIG staff requested that the City's former Information Technology (I.T.) Department Director and current Information Security Manager provide a detailed analysis of the different departments that used the EnerGov system and their proportional usage for the 2017/18 fiscal year. He responded via e-mail with the following maintenance fee distribution (see table below) calculated by tracking the use of the different modules in the EnerGov system (Permitting, Inspections, Violations/Code, Plan, Project, Request, and BTR).

FY2017-2018		
Department	COUNT	PERCENTAGE
BUIL	145,858	45.00%
CODE	47,358	15.00%
FIRE	34,142	11.00%
PLAN	31,857	10.00%
WORK	22,315	7.00%
FINA	21,536	7.00%
PING	9,921	3.00%
CLER	3,950	1.00%
SANI	3,905	1.00%
ENVR	1,438	0.00%
COMP	129	0.00%
TRAN	34	0.00%
POL	29	0.00%
INFO	8	0.00%
Total	322,480	

Using the 45.00% percentage listed as "BUIL" in the table above (rounded to the nearest whole number), the amount related to the Building Department for its implementation was recalculated as shown below:

APPENDIX A



City of Miami Beach

**ERP
Gap Analysis
&
Planning, Permitting,
and Licensing Software**

June 2014



Table 3.4: EnerGov Quote

EnerGov Quote	
Software License	
EnerGov Software License	\$ 1,244,955
Less: Discount	\$ (239,545)
Total EnerGov Software License	<u>\$ 1,005,410</u>
Professional Services	
EnerGov Professional Services	\$ 859,100
EnerGov Estimated Travel	\$ 54,400
Total Professional Services Cost	<u>\$ 913,500</u>
Total Implementation Cost	<u>\$ 1,918,910</u>

\$1,918,910.00 EnerGov implementation cost based on Table 3.4 EnerGov Quote
(\$ 863,509.50) Allowable expense (\$1,918,910 x 45.00% Building = \$863,509.50)
 \$1,055,400.50 Unallowable EnerGov expenditures paid with Building funds

Applying the same methodology to recalculate the amounts paid with Building Department funds for the Munis system purchase and implementation, OIG staff requested that Finance Department and Office of Management and Budget (OMB) personnel provide the corresponding invoices. In response, they furnished an Excel spreadsheet containing 284 invoices paid to Tyler Technologies, Inc. totaling \$7,981,477.55, but they were unable to identify those paid specifically with Building Department funds. OMB's explanation was that the amount paid to Tyler Technologies, Inc. regarding the EnerGov/Munis system (\$7,981,477.55) was higher than the difference between the total paid with Building Department funds minus the amount paid for the EnerGov system (\$5,700,000.00 – \$1,918,910.00 = \$3,781,090.00), so they assumed that the remainder or \$3,781,090.00 was used for the Munis purchase and implementation.

B. Planning Study = \$269,000.00 unallowable costs

Account #011-1510-000312-21-401-201-00-00-00 (Professional Services)

A \$269,000.00 planning study was prepared by Miller Legg & Associates Inc. of 444 structures in the Flamingo Park Historic District and 86 structures in the Collins Waterfront Historic District. The study created guidelines for the raising, and redevelopment of areas within the City of Miami Beach susceptible to the impacts of sea level rise.

The Building Department was invoiced for all \$269,000.00 associated with this planning study. The Building Department Director objected in an e-mail to the City's Chief Financial Officer (CFO) based on Section 553.80 (7)(b), which specifically states that planning and zoning or other general government activities may not be funded with fees adopted for enforcing the Florida Building Code.

The CFO replied in a January 22, 2018 email that "...Since it is very difficult to identify a different funding source for this amount of cost at this point in time, please approve the item to be spent up front out of the Building Department budget and we will net out the \$269,000 for the study at year-end. The mechanics will be to adjust the calculation you can see in the attachment called "FY2017 Building Rev Exp History Reconciliation." This spreadsheet is used at year-end to determine how much of the General Fund Reserve is restricted for Building purposes in the City's annual CAFR (Comprehensive Annual Financial Report). The calculation takes the Building Department's revenues, backs out expenditures, and adds indirect costs to determine Building's "net income" on an annual basis. We would simply provide a "credit" in the expenditures line (B) of \$269,000. The total amount available at the end of FY 2017 is \$11.9 million."

The Building Department Director then responded via email, "Thanks for the quick reply. Can I have clarification on the item below: General Fund Reserve is restricted for Building purposes in the City's annual CAFR. I want to understand the financial question fully. This is not a building issue this is a planning issue can the general reserve fund items indicate "planning refund to building department". I am not sure the exact wording, but I know that the contract is signed by planning. I just want to make sure it's completely clear."

The Building Department Director subsequently approved the transaction in the Munis system, and the planning study was paid completely with restricted Building Department funds as shown in the table below. In addition, a note was to be added to the tracking spreadsheet maintained by OMB that is further addressed in finding #2. However, this transaction was not followed up on at the 2018/19 fiscal year-end, until OIG staff determined during this audit that a journal entry had not been completed to credit the Building Department's general ledger account for the \$269,000.00 as stated in the CFO's e-mail. Although timely reimbursement to the Building Department would have improved the optics of this situation, the use of Building Department funds in the first instance to pay for an unallowed expenditure was inappropriate.

Date	Invoice	Amount
10/10/2017	1700055-00001	\$16,301.89
12/12/2017	1700055-00002	\$97,405.66
02/09/2018	1700055-00003	\$55,698.11
03/13/2018	1700055-00004	\$43,200.00
03/13/2018	1700055-00005	\$14,594.34
04/05/2018	1700055-00006	\$13,000.00
09/01/2018	1700055-00007	\$28,800.00

Total unallowable payments \$269,000.00

C. EnerGov Support Maintenance = \$465,421.37 unallowable costs

Account #011-1510-000325-21-401-501-00-00-00 (Contract Maintenance)

Tyler Technologies, Inc. through invoice #045-199362 dated September 1, 2017 billed the City a total of \$310,275.33 for EnerGov support related to e-Reviews, Permitting & Land Management, License & Regulatory Suite, Advanced Server Extensions, GIS, Citizen Access Portal + MyGovPay, IVR Telephony and IG Workforce Mobile Module (Unlimited).

The City's Finance Department invoiced the Building Department in the amount of \$310,275.33, which was initially rejected by the Building Official who sent the following email to the City's Procurement Director in response to a request to approve or reject the requisition: *"This is not an oversight or an avoidance of payment. I have requested clarification. The invoice presented is to the finance department not the building department. The state rules (FC 553.80) that govern the Building Department and their finances indicate the Building funds cannot be used for city projects or to pay for other departments."* As stated previously, the City's former I.T. Department Director determined that the Building Department's EnerGov usage rounded rate is 45.00% as they are not its only users, and therefore are not responsible for funding 100.00% of the system's annual maintenance costs.

Once again, the CFO responded via an April 12, 2018 email that it was very difficult to identify a different funding source and requested approval for the item to be paid out of the Building Department's budget, stating that Building would receive a "credit" of \$135,367.00. The email also stated as follows: *"...there is not much flexibility once the budget is adopted. To be crystal clear, we don't have any other*

way to deal with the impacts to the current year's budget. This is the work around until next year's budget, which will reflect your requests." The Building Department Director relented, and the \$310,275.33 transaction was paid in full on April 10, 2018 with restricted Building Department funds.

OIG staff verified that journal entry #12-111 for \$135,367.00 was processed to credit the Building Department's funds at the end of the 2017/18 fiscal year. However, upon recalculation of the credit adjustment, with the Building Department being responsible for 45.00% of the EnerGov system's annual maintenance costs, it was concluded that journal entry 12-111 crediting (\$135,367.00) to the Building Department Fund for Tyler Technologies, Inc. invoice #045-199362 dated September 1, 2017, related to the EnerGov's annual maintenance for October 1, 2017 to September 30, 2018, was overstated by \$35,284.33 as shown in the table below. Applying the same methodology, it was determined that the Building Department fund was similarly overcharged for invoices numbered 045-158269, 025-160649, 045-169103, 045-168189, 045-235884, 045-141457 and 045-274564 resulting in a total of \$465,421.37 improperly paid with restricted Building Department funds for the tested period (see the table below).

Invoice No.	Date	Amount Paid with Building funds	Building Responsibility 45%	Munis Credit	Unallowable
045-158269	5/1/2016	\$ 42,000.00	\$ -	\$ -	\$ 42,000.00
025-160649	6/22/2016	\$ 3,500.00	\$ 1,575.00	\$ -	\$ 1,925.00
045-169103	8/26/2016	\$ 29,800.00	\$ 13,410.00	\$ -	\$ 16,390.00
045-168189	9/1/2016	\$ 274,511.48	\$ 123,530.17	\$ -	\$ 150,981.31
045-199362	9/1/2017	\$ 310,275.33	\$ 139,623.90	\$ 135,367.00	\$ 35,284.43
045-235884	9/1/2018	\$ 183,654.00	\$ 146,605.10	\$ -	\$ 37,048.90
045-141457	9/1/2015	\$ 261,439.50	\$ 117,647.78	\$ -	\$ 143,791.73
045-274564	9/1/2019	\$ 195,000.00	\$ 157,000.00	\$ -	\$ 38,000.00
Total unallowable payments					\$ 465,421.37

D. Matrix Consulting Group, Ltd. Study = \$38,474.00 unallowable costs

Account #011-1510-000312-21-401-501-00-00-00 (Professional Services)
Pursuant to Request For Qualifications (RFQ) 2018-074-KB, the Matrix Consulting Group, Ltd. was hired effective November 6, 2018 to provide consulting services for a review of the City's regulations and processes relating to private development projects. Although this project involved several City departments other than the Building Department, Building Department funds were used to pay for the entire cost of the analysis (\$69,950.00) according to the Munis system entries in the table below.

Invoice Number	Invoice Date	Amount Paid	Check Number	Check Date
18-771	11/19/2018	\$8,416.00	435914	02/19/2019
18-772	12/11/2018	\$9,523.00	435915	02/19/2019
18-773	01/11/2019	\$12,958.00	435916	02/19/2019
18-774	02/14/2019	\$16,120.00	437813	04/11/2019
18-775	03/05/2019	\$8,410.00	437561	04/04/2019
18-776	04/16/2019	\$9,948.00	438124	04/23/2019
18-777	07/19/2019	\$4,575.00	450631	04/07/2019
Total		\$69,950.00		

A journal entry should have been completed to allocate the \$69,950.00 project cost among the other departments (Planning, Fire, Public Works, Environmental, Transportation and Parking); however, confusion arose over who was to complete this journal entry and it was not done. OIG staff became aware of this oversight and informed the Building Department in January 2021. As a result, the needed journal entry is currently being processed to charge these other departments and to credit the Building Department the rounded difference of \$38,474.00 (\$69,950.00 - (\$69,950.00 x 45.00%)).

E. Temporary Labor = \$1,909.60 unallowable costs

Account #011-1510-000311-21-401-501-00-00-00 (Temporary Labor)

A temporary employee's labor costs were charged to the Building Department for the weeks ending September 16th, 23rd, and 30th of 2018, but the employee in question was not assigned to Building Department during that period. As a result, a total of \$1,909.60 was incorrectly billed to the Building Department and paid with restricted funds.

F. Incomplete Documentation = \$20,602.29 unallowable costs

Account #011-1510-000367-21-401-501-00-00-00 (Training and Awards)

As per Florida Statute Section 553.721, the unit of government shall retain ten percent of the surcharge collected to fund the participation of building departments in the national and state building code adoption processes and to provide education related to enforcement of the Florida Building Code. Also, per Section 553.80(7)(a)1, the phrase "enforcing the Florida Building Code" may also include training costs associated with the enforcement of the Florida Building Code.

OIG staff noted that there are charges totaling \$6,955.30 for which proper supporting documentation was not provided (sign-in sheets listing the attendees, explanation of the topics discussed, etc.) to justify being charged to the Training and Awards general ledger account. Examples of the trainings noted include Team Development for the High-Achieving Organization (Team Building), Conflict Resolution meeting, Zoning and Land Use webinar and an Excel webinar.

It was also determined that \$13,646.99 in food and beverage expenses, including gratuities, were paid with City approved procurement credit cards (P-cards) during the 2017/18 fiscal year and were charged to the Training and Awards general ledger account. Examples include food and beverage purchases related to Lunch & Learn meetings, Lunch and Walk meetings, community meetings and the City of Wellington-EnerGov presentation.

P-cards allow the cardholder to purchase approved commodities directly from vendors that accept the Visa credit card, while at the same time reducing the time and effort normally associated with ordering and paying for these types of purchases. Citywide Procedure FL.16.01 specifically provides guidelines concerning their usage.

When questioned, the Building Department Director stated that the training funds related to the enforcement of the Florida Building Code were commingled with other unrestricted monies. Therefore, OIG staff is unable to identify the revenue source(s) used to pay for these \$20,602.29 (\$6,955.30 + \$13,646.99) Training and Awards expenditures.

- G. Bank Fees: unable to quantify how much the Building Department was undercharged

Account #011-1510-000313-21-401-501-00-00-00 (Bank Fees)

The Finance Department used merchant account numbers to identify the bank fees, including E-check fees, associated with the Building Department. However, OIG staff noted that this method is not optimal because the merchant accounts change frequently, and identification of the fees depends on a manual list of merchant accounts and human memory. The questioned Financial Analyst III stated that when they are unsure as to which of the merchant accounts is applicable, such as for when the transaction was processed at the Central Cashier or by the Customer Service Division, the charges are entered in the miscellaneous (City Hall) account and are paid completely from General Fund revenues. Consequently, Building Department's incurred bank charges may be incorrectly reported in the miscellaneous account and not paid with restricted Building funds. OIG staff was unable to determine the corresponding amount of bank fee expenditures that the Building Department was undercharged.

Recommendation(s):

The City's Building Official should comply with the Florida Statutes which restrict usage of Building Department Funds, and members of the City Administration should not place undue pressure on the Building Official to deviate from its restrictions.

- A. The Building Department should be reimbursed for the \$4,836,490.50 in unallowable expenditures related to the Munis and EnerGov systems purchase and implementation.
- B. The Finance Department should create an adjusting journal entry to reimburse the Building Department for the \$269,000.00 improperly used to pay for the planning study.
- C. The Building Department should be credited in the amount of \$465,421.37 for the annual EnerGov maintenance fees paid with restricted Building funds. In addition, the I.T. Department should annually re-calculate all City department's EnerGov usage and use this updated percentage in its future maintenance fee calculations.
- D. The Finance Department should create an adjusting journal entry to reimburse the Building Department for the \$38,474.00 improperly used to pay for the Matrix study.
- E. The Building Department should be credited in the amount of \$1,909.60 for the temporary labor costs incorrectly paid with restricted Building funds.

- F. The Building Department should request the creation of a separate general ledger account to record the funds related to the Training and Awards expenditures subject to the Florida Building Code. Furthermore, the transactions paid with unrestricted funds using issued City p-cards should always comply with the terms listed in Citywide Procedure entitled Procurement Card (P-Card) Guidelines (FI.16.01). Finally, sufficient documentation should always be maintained in support of any amounts expended with restricted Building Department funds to avoid further questions about the legality of such expenditures.
- G. Finance Department staff should determine a reasonable methodology and allocation process to charge all involved City departments based on actual usage for bank fees, E-check fees, etc.

Building Department's Response:

Finding 1.A: On July 30, 2014, Resolution #2014-28706 authorized the appropriation of \$5,700,000 of Building Department funds as a funding source for the Tyler EnerGov/Munis ERP system implementation. The Building Department's response to finding 1.A. is based on the following assertions: 1) in alignment with Tyler working papers and the proposal attached to Resolution #2014-28706, the OIG, Building Department, and Finance Department agreed that the Building Department was not part of the Munis implementation, and, therefore, had no responsibility to contribute to the Munis implementation costs; 2) the I.T. Department calculated, and the Building Department agreed, that based on the number of Building Department transactions in the EnerGov system, the appropriate share of EnerGov system costs for the Building Department is 45.00%, making the Building Department the largest user of EnerGov in the City; and 3) the exact cost to implement the EnerGov system alone was difficult to determine because the Munis and EnerGov invoices were commingled. Therefore, the OIG, Building Department, and Finance Department agreed to use the \$1,918,910 amount stated in the Tyler EnerGov/Munis ERP proposal as the cost to implement the EnerGov system.

Based on foregoing assertions, \$4,836,490.50 should be returned to the Building Department fund (*i.e.*, the \$5,700,000 of Building Department funds appropriated for the Tyler EnerGov/Munis ERP system implementation, minus 45.00% of the Building Department's share of EnerGov implementation equal to \$863,509.50). To date, \$4,063,000 has already been credited to the Building Department fund balance through the creation of a stand-alone Building Department fund. As of the writing of this response, the remaining balance to be credited to the Building Department fund for the Tyler EnerGov/Munis ERP system implementation is, \$773,490.50.

Finding 1.B: Included in the actualizing of Building Department fund balance and creation of a Building enterprise fund as of October 1, 2020, was the repayment of \$269,000.00 for the Planning Study.

Finding 1.C: The Building Department has reviewed the invoices identified in this finding and the unallowable amount of \$465,421.37 presented by the OIG and agrees with this unallowable amount. As part of the reconciling of Building Department fund balance and creation of a stand-alone fund, the Finance Department reconciled payments made for EnerGov maintenance and credited the Building Department fund for over payments from FY 2016 – FY 2020 in the amount of \$462,500. However, a rounding discrepancy was identified by the OIG whereas 45.23% was applied during the reconciliation and crediting of EnerGov maintenance overpayments versus the agreed percentage for Building's proportionate share of EnerGov of 45.00%. Finance Department has agreed to

additionally credit the difference of \$2,921.37 due to this percentage discrepancy.

Finding 1.D: The study procured on November 6, 2018 performed by the Matrix Consulting Group, Ltd., pursuant to Request For Qualifications (RFQ) 2018-074-KB, for the City's regulations and processes relating to private development projects, was a City Manager's Office initiated and managed project. The Assistant City Manager (ACM) at the time over the Planning Department and Building Department asked that staff from Planning Department and Building Department assist with coordination of the study and contract deliverables, and also instructed the use of available funds in the Building Department to request the purchase order for the consultant in order to move the project forward more expediently, and the costs would later be redistributed to the appropriate departments included in the study. On Wednesday, February 13, 2019 1:58 PM the ACM at the time sent an email including the Budget Office, directing that at the forthcoming budget meeting the appropriate means to reimburse the Building Department be discussed. At this point the Building Department assumed the Budget Office would facilitate the transaction to allocate the expenses to all the departments involved given that 1) the email sent included the Budget Office, 2) the allocation of funds(see breakdown below) for the study were 45% Building, and 55% from other non-Building departments, 3) that the Building Department was not the owner of this study, and 4) the Budget Office is the City's central station for funding allocations and has the budget/general ledger account numbers for all the departments.

Apparently, this was a misunderstanding and inversely the Budget Office assumed the Building Department would prepare and submit the journal entry request to debit the funds from other departments.

Upon being alerted by the OIG of this finding, the Building Department reached out to the Budget office, realized that there was a miscommunication, and worked together to submit the journal entry. The Budget Office prepared the journal entry and emailed it to Building Department staff on January 15, 2021, and Building Department forwarded the email the same day to the Finance Department to process. The email referenced in this response is attached herein.

Allocation of the costs for the study

Planning 45%
Building 45%
Fire 2%
Public Works 4%
Urban Forestry / Environmental 2%
Transportation 1%
Parking 1%

Finding 1.E: Building Department agrees the 1,909.60 which was incorrectly paid due to transferring of temporary staff from Finance Department to the Building Department made it difficult to confirm the time period of the temporary staff in the Building Department. The Finance Department initiated a journal entry on 12/17/20 and is pending to be credited/posted to the Building Department account at the writing of this memo.

Finding 1.F: \$20,602.99 in unallowable costs from Training & Awards account. Regarding proper documentation, numerous samples of agendas and explanations of events were provided, the titles of the examples of trainings listed in the audit finding is

also indicative of the topics discussed at these trainings. The sign in for the trainings and registration was noted and sent to the professional doing the training. Often the training sign-in for department wide trainings is the daily timesheets.

The training and awards account are funded through 4 sources:

10% Retained earnings from two Surcharges for State – 553.721 & 468.631 *“The unit of government shall retain 10 percent of the surcharge collected to fund the participation of building departments in the national and state building code adoption processes and to provide education related to enforcement of the Florida Building Code.”*

1.5% Retained earnings from Surcharge for County - Miami-Dade County Code Section 8-12 If a governmental authority (City of Miami Beach Building Department) remits the funds on or before the due date set forth, such authority shall be entitled to retain a portion of the remittance due to Miami-Dade County, which represents its cost of collection of this code administration fee, not to exceed 1.5 percent of the total remittance due for that period. In the event that the remittance is not made when due, the governmental authority shall remit to Miami-Dade County the entire balance of fees collected pursuant to this section to defray Miami-Dade County’s additional costs incurred in connection with that government’s delay in remitting the amount.

6% City Training & tech surcharge section 14-69, provides as follows: “A surcharge to building, electrical, mechanical, plumbing and demolition permits will be added for training, education and safety of building department employees, and to procure and implement the latest technologies available for enhancement of services provided by the department, according to the schedule specified in Appendix A.” The discussion and ruling from the city legal department is that those funds can be used for trainings and awards.

All retained amounts and the 6% City training & tech surcharge have been comingled in one account 601-7000-229253(state, county, and city) making it difficult to differentiate revenue sources to determine restricted and non-restricted uses. As of 12/8/2020 the balance in that account is \$2,913,659.95. A reconciliation of the balance as of FY 2018 ending (performed on 6/25/2020) found that the following breakdown of the sources of these revenues is applicable for 2018. While it was a practice in previous years to combine all retained earnings into this one account, it may be in the departments best interest to undue the co-mingling of these retained earnings and put them into the segregated accounts in order to properly identify the sources and their allowable uses.

SUMMARY for FY 17/18	Backup available (93 printed pages)
Total FY 2018 Year End Balance	\$ 2,178,023.16
Rollover Balance from previous year	-\$ 1,690,150.78
Transferred in from retained State and County surcharge	-\$ 69,808.71
Transferred Out to cover Training & Tech expenses	\$ 141,591.29
Actual collected from City Ordinance 6% Training & Tech Fee for FY 2018	\$ 559,654.96

The Building Department Director has provided the breakdown in the accounts previously to the OIG audit staff that information was not included in this report. Prior to this audit the department requested that Finance create additional accounts to better differentiate these revenue sources. And while none of the governing legislations for the surcharges

explicitly omit the use of funds for food and beverage at training events, the department will ensure that only City collected funds be used for food & beverage and employee recognition in accordance with City policy and p-card policy including closer review and additional documentation for P-card purchases.

The department is working on segregating all the funds and clear legal direction on the appropriate use of the funds was provided. Thus, dividing into separate accounts will allow for better tracing of the restricted funds. See attached Exhibit A for further explanation of surcharge accounts and retained earnings. The amount collected from City ordinance is approximately 9 times that collected from State and County legislation. Using this formula, the amount attributed to City Ordinance Training and Tech collections would be approximately \$1,960,220. However, for the sake of brevity and fiscal responsibility the amount being segregated as a starting balance for Building Department - City ordinance training and tech funds will only be the amount reconciled for 2018 of \$559,654.96, plus the amount for the "Transferred Out to cover Training & Tech expenses" of \$141,591.29. Leaving \$1,759,959 in the more constrained state and county account and will be dealt with in the more restrictive manner.

Finance Department and OMB's Response:

We agree that the tracking mechanism used to segregate Building funds from the rest of the General Fund that was created in 2003 (18 years ago) by individuals who are no longer with the City was less than ideal and contributed to confusion during the audit process. This is why a new stand-alone fund was created in FY 2020 for Building to avoid any similar issues in the future. We appreciate the assistance of the OIG and Building staff in reviewing and adjusting the multi-year tracking spreadsheet to ensure that the beginning fund balance that was moved to the new Building fund in FY 2020 was as accurate as possible. To date, all credits have been made to the multi-year tracking spreadsheet except for \$776,411.87 of remaining credits that will be processed at FY 2021 year-end.

- A. EnerGov is the City's current permitting system which replaced the Permits Plus system. The Building Department is by far the largest user of the system, by at least 45%. At the time that funds were budgeted for the project, the prior Building Official who is no longer employed with the City represented that since the Building Department could not operate without the system, it was appropriate for the Building Department to bear the entire one-time cost of the system, as well as the recurring maintenance. It was not possible to purchase a portion of the system and the cost of the system would not be meaningfully less if Building were a stand-alone business purchasing the system. The Building Official's representation was relied upon since, as the OIG report points out, under Florida law, the determination of building eligible costs is determined by the Building Official.

Given that the current Building Official had a difference of opinion than the prior Building Official, it was agreed to by all parties during the audit that a more equitable way to allocate the costs would be on a percentage basis, based on usage of the system.

Given that Building was also included in the General Fund prior to the creation of the new stand-alone fund in FY 2020, a multi-year tracking sheet was used to track how much of the funds within the General Fund were attributable to Building. Adjustments totaling \$1,050,910 were made in the spreadsheet for the

adjustments above. An additional \$4,490.50 credit will be processed at FY 2021 year-end to address rounded amounts.

The Munis system is the City's current enterprise resource system that replaced the Eden system. Munis includes several modules including financial, procurement, and human resource functions. All of these modules were, and are, used by or on behalf of the Building Department. As a result, \$4.0 million of Building Reserves and \$1.7 million of Building Training and Technology Funds were used for the Tyler Implementation project. However, given that the current Building Official had a difference of opinion than the prior Building Official, it was agreed to by all parties that the Building Department would not be charged for a portion of the Munis implementation costs and a portion of the EnerGov implementation costs resulting in adjustments of \$4,063,000 being made in the spreadsheet to reimburse the Building Department for Munis-related implementation costs. An additional \$769,000 credit will be processed at FY 2021 year-end to address the \$1.7 million of Building Training and Technology Funds used for the Munis portion of the Tyler implementation project.

- B. As mentioned in Response 1.A., under Florida law the Building Official is the sole determiner if an expense is building eligible. When the planning study was approved during the budget process, the prior Building Official (who is no longer with the City) represented that the study was eligible for building funds. The current Building Official had a different opinion and notified the Office of Budget & Management to that effect, after the budget had already been finalized. Since the amount of the study was \$269,000 and alternative funding was difficult to identify mid-year, the direction provided was to move forward with the expense and at year end make an adjustment to the multi-year tracking sheet used to track how much of the funds within the General Fund were attributable to Building. We agree that the adjustment was missed at year-end by both Budget and Building staff, which both review the tracking sheet each year, but the adjustment was eventually made during the audit process.
- C. As mentioned in Response 1.A., the prior Building Official had also determined that it was appropriate for Building to bear the entire cost of the recurring maintenance since it is not possible to purchase a portion of the system and the cost of the system would not be meaningfully less if Building was a stand-alone business purchasing the system. Once the current Building Official expressed a different opinion, it was agreed by all parties during the audit that a more equitable way to allocate the costs would be on a percentage basis based on usage of the system and a \$462,500 adjustment was made to the multi-year tracking sheet which was used to track how much of the funds within the General Fund were attributable to Building. An additional \$2,921.37 credit will be processed at FY 2021 year-end to address an additional invoice as well as rounded amounts.
- D. It appears that although the P.O. was entered by Building in Munis, their intent was for a journal entry to be done after-the-fact to charge the other departments for their share of the costs which was not submitted due to some sort of misunderstanding and/or miscommunication. Building assumed the journal entry was going to be processed for them although there had not been any discussion that we were going to handle. As a result, we worked with Building last week to

prepare the journal entry to reimburse Building for the portion that pertained to the other departments which Building submitted last Friday to Finance.

- G. Going forward, the Finance Department will work with the I.T. Department to develop a new EnerGov report identifying total receipts received monthly by department. This report will be used to more accurately allocate bank fees to each department that utilizes the EnerGov merchant account.

OIG's Response to the Building Department, and the Finance Department and OMB's Response:

Based on the CFO's management responses, a February 23, 2021 meeting was held on Microsoft TEAMS with the former Building Director and his attorneys, whereupon OIG staff was able to obtain the following account from him:

- a. He gave approval for the Building Department to bear the entire one-time cost of the EnerGov system, not Munis system.
- b. Although he ultimately approved the expenditure's full payment in the Munis system's approval queue, he raised strong objections to the expenditure, but was overridden by the Assistant City Manager at the time.
- c. He said the high annual maintenance costs were not presented to him initially. However, he acknowledged that when you implement a new system that there will be subsequent maintenance costs. Consequently, he approved the payments during his tenure.

In addition, the City's CFO provided on January 25, 2021 an email dated January 24, 2018 whereby the former Assistant City Manager requested the approval of Building Department funds for the \$269,000 study to be performed by Miller Legg & Associates Inc. The email stated that the project involved existing older and historic buildings with the elevation data housed in the Building Department with the Floodplain Manager. Therefore, she felt that it was not a Planning study but that the Planning Department would manage the project for her as Chief Resiliency Officer. The designated parties in the Munis system queue approved the payment with Building Department restricted funds.

The OIG agrees with the Finance Department and the Building Official that this was a Planning study and should not have been paid from Building funds. The completion of the October 1, 2020 actualizing of Building Department fund balance and creation of a Building enterprise fund included the repayment of the \$269,000.00.

2. **Finding: THE NOTES TO FINANCIAL STATEMENTS ON THE CITY'S COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) INCORRECTLY REPORTED A PORTION OF RESTRICTED BUILDING OPERATIONS RESERVES AS UNASSIGNED RESIDUAL FUND BALANCE**

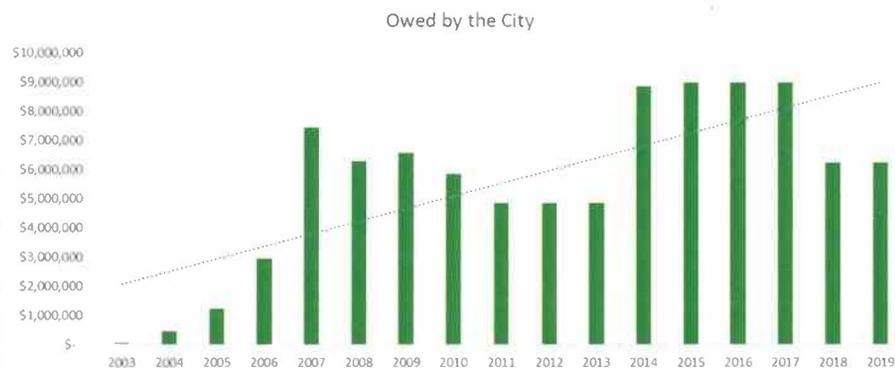
The City of Miami Beach implemented Government Accounting Standard (GASB) 54, Fund Balance Reporting and Governmental Fund Type Definitions for the fiscal year ending September 30, 2009, which states: "*The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Amounts in the assigned fund balance classification are intended to be used by the government for*

specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. Unassigned fund balance is the residual classification for the government’s general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications. Governments also are required to classify, and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required.”

When questioned, OMB staff provided an Excel spreadsheet entitled “Schedule of Actual Building Department Revenues and Expenditures”, maintained since 2003 to determine the restricted Building operation reserves balances and the “Owed by the City” amount. The term “Owed by the City” is defined by OMB as an outstanding Building Department receivable (money owed by the General Fund to the Building Department).

The “Owed by the City” total, according to the Schedule of Actual Building Department Revenues and Expenditures original version provided on December 6, 2019 has increased significantly from its September 30, 2003 unaudited initial balance of \$55,183 to its September 30, 2018 balance of \$6,242,679 as portrayed graphically in Table 1 below.

Table 1



OIG staff spoke with OMB and Finance Department personnel on several occasions to gain an understanding of their methodology as to how some of the figures in the Schedule of Actual Building Department Revenues and Expenditures spreadsheet were calculated. During the audit process and based on questions from OIG staff, they submitted and then revised the figures several times before arriving at their current amounts as they became aware of additional information and/or inaccuracies. For example, some figures were deleted, only to be added back later following discussions with Building Department and OIG staff.

In sum, OIG staff did not verify the accuracy of the calculated final figures, as they were determined solely through a collaborative effort of Finance, OMB and Building Department

personnel and, as such, we do not express an opinion as to their accuracy. The age of the transactions dating back to 2003 created difficulties because many of the responsible individuals are no longer employed with the City, and the supporting documentation is not readily available from the data stored in various City Financial Systems in use during the past 17 years.

The City's Note 11 to Financial Statements, as reported in the CAFR for the fiscal year ending September 30, 2018, reported only \$11,447,181 in Building Operations Reserves as shown below, which did not reconcile accurately with OMB's Schedule of Actual Building Department Revenues and Expenditures figures.

**CITY OF MIAMI BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018
(Continued)**

NOTE 11 - Governmental Fund – Fund Balance

Below is a table of fund balance categories and classifications at September 30, 2018 for the City's governmental funds:

	General	Resort Tax	Miami Beach Redevelopment Agency	Capital Projects	Other Governmental
Fund balances:					
Non-spendable:					
Prepays	\$ 23,255	\$	\$	\$ 22,806	\$ 1,612
Total Prepaid	<u>23,255</u>			<u>22,806</u>	<u>1,612</u>
Restricted:					
General government				26,321,736	853,290
Building operations reserves	11,447,181				
Public safety				756,200	2,470,722
Human services					492,970
Physical environment				2,561,446.00	1,701,145
Economic environment			65,933,523		1,895,682
Quality of Life Improvement					23,681,542
Transportation				6,212,348	56,097,782
Culture and recreation		28,195,208		80,559,335	1,709,768
Sewer improvement				81,683	
Street improvement				2,422,927	
Infrastructure				20,938	
Communications				78,488	
RDA City Center Improvement				3,218,443	
Capital improvements				8,429,546	
Neighborhood Improvement				4,436,277	
South Pointe Improvement				20,640,207	
Debt service					1,510,531
Total Restricted	<u>11,447,181</u>	<u>28,195,208</u>	<u>65,933,523</u>	<u>155,739,574</u>	<u>90,413,432</u>
Unassigned:					
Non-funded Capital				(97,695)	
Reimbursable grants funds				(15,172,670)	(3,872,177)
Reimbursable boardup/ Relocation charges					(6,405)
Non reimbursable grant funds					(1,458,832)
Residual fund balance	30,871,817				
Total Unassigned	<u>30,871,817</u>			<u>(15,270,365)</u>	<u>(5,337,414)</u>
Total Fund Balance	\$ <u>89,449,460</u>	\$ <u>28,195,208</u>	\$ <u>65,933,523</u>	\$ <u>165,494,262</u>	\$ <u>101,539,031</u>

The City's Deputy Finance Director subsequently provided documentation, as shown below, that the \$6.2 million "Owed by the City" on OMB's maintained September 30, 2018 Schedule of Actual Building Department Revenues and Expenditures was included in the Unassigned Fund Balance of \$30,871,817.

See below for the rollforward (comparison from PY to CY)

	<u>09.30.18</u>	
<u>Total fund balance at 9-30-2018</u>	88,449,480.00	CAFR
6% Reserves goal	(19,851,000.00)	D See attachment (Tab reser Not committed - 2 months emergency reserve
11% Reserves	(36,393,500.00)	B See attachment (Tab reser Reserved for Public Safety and Health
City's sale of 1748 Jefferson Ave. - Reso. 99-23396	(46,725.00)	B Reso. 99-23396
Reserves public safety radios	(500,000.00)	C original budget - FY 2016
Reserve - set aside	(935,000.00)	B Reso. 2018-30609 and related L.T.C
Appropriations carried forward	(2,786,000.00)	B Reso. 2018-30609 and related L.T.C
Encumbrances	(1,383,000.00)	B Reso. 2018-30609 and related L.T.C
Building Operations	(11,447,181.00)	A See tab building reserves for schedule provided by budget
Unassigned fund balance	(11,044,072.00)	D Excess
Funal budget - FY 18 - 1 Time Use of FB	(1,073,000.00)	B Reso. 2018-30609 and related L.T.C
Pay-Go Transfer & Storm Pumps	(1,458,000.00)	B Reso. 2018-30609 and related L.T.C
loans receivable	(1,532,002.00)	B Reso. 2016-29273

Check 1

Nonspendable	(23,255.00)
Restricted A	(11,447,181.00)
Committed B	(45,607,227.00)
Assigned C	(500,000.00)
Unassigned D	(30,871,817.00)
	(88,449,480.00)

Consequently, OIG staff concluded that the Restricted Building Operations Reserves were underreported as they did not include the "Owed by the City" balance, which was instead included in the General Fund's Unassigned Residual Fund Balance. The primary difference between the two is that restricted funds can only be used for specific purposes, while unassigned funds have no such restrictions. The impact of the Finance Department's decision to overstate the General Fund's Unassigned Residual Fund Balance, and, conversely, to understate the Restricted Building Operations Reserves is difficult to measure as others may have relied on this information's accuracy in making decisions. Therefore, OIG staff met with various professionals to help determine any effect that this incorrect reporting may have caused. A summary of these conversations is contained in the following paragraphs.

When questioned as to the reasons for this reporting, the Chief Financial Officer acknowledged that it was not best practice, and was more likely an attempt by previous decision-makers many years ago to make the City's financial position look better. This is the likeliest explanation for this practice, which continued until the audit that produced this report. Notably, the City's current Building Department Director/Building Official claimed that she was unaware of the additional Building Department monies included in the Unrestricted Residual Fund Balance.

OIG staff met with supervisors from Crowe LLP, the independent firm hired to perform the City's annual financial statement audit for the 2013/14 through 2017/18 fiscal years, who did not recall being informed about additional Building Department Reserve Funds being restricted other than the \$11.4 million included in the September 30, 2018 financial statements. In an email received on January 17, 2020, Crowe LLP staff stated "Management is responsible for the preparation and fair presentation of the financial statements. We have had no communications with management in regard to this matter."

Since we have not audited the differences noted in the information that was provided to them in a meeting with OIG staff on December 19, 2019 and the subsequent e-mail on December 23, 2019, I cannot speak to the appropriateness of any correction. That said, I feel the adjustment shown on the Schedule of Actual Building Department Revenues and Expenditures provided to me is immaterial to the Financial Statements as a whole for the City of Miami Beach for the year ended September 30, 2018, and as such, would not treat this matter as a restatement.”

OIG staff also conveyed this information to the City's current external auditors, RSM US LLP, so that they could perform specific testing to determine the accuracy of the applicable 2018/19 fund balance reporting. As such, RSM US LLP did not identify any significant deficiencies during their audit related to the Restricted Building Operations Reserves reported fund balance as the City's Finance Department had made the necessary corrections.

OIG staff then met with an RBC Capital Markets, LLC employee, Julie Santamaria, who stated that the identified \$6.2 million incorrect reporting would not adversely affect the City's bond rating. She stated that the amount is immaterial considering all the other factors and their assigned weights that Moody's and Standard & Poor's review in determining their ratings.

Upon being notified by OIG staff, the City's CFO initially indicates that, instead of refunding the \$6.2 million "Owed by the City" to the Building Department, the Building Department would be charged rent back to 2003, which would eliminate much of this balance. However, this idea was not supported by the City Manager, and it was not pursued further.

Next, the City's CFO told OIG staff that instead of refunding the \$6.2 million "Owed by the City" to the Building Department, since this amount included monies related to elevator operations and it would not be subject to the Florida Building Code. Therefore, he requested that OMB staff calculate the amounts related to elevator operations from 2003 through 2015, since those operations were transferred from the Building Department to the Public Works Department in 2016. As a result, OMB calculated that \$5,072,469 of the \$6.2 million "Owed by the City" was related to elevator operations, and Finance decided to leave that amount in the Unassigned General Fund after receiving the approval of the City's Building Official.

The OIG does not agree with the decision to include the annual surplus stemming from elevator operations in the General Fund from 2003 through 2015 because its staff and operations were completely under the control of the Building Department until it was transferred to the Public Works Department in 2016. Also of concern are the timing and reasons for that determination, the accuracy of that transaction, compliance with Florida Statutes, the use of that money, and whether the funds will be restricted for elevator operations. For these reasons, the OIG is planning to conduct a future review of Elevator Division operations.

Florida Statute Section 553.80(7)(a) provides that a local government may not carry forward an amount exceeding the average of its operating budget for enforcing the Florida Building Code for the previous four fiscal years. Any excess funds prohibited from being carried forward must be used to rebate and reduce Building Department fees charged for permits applications, etc. Therefore, OIG staff calculated the four-year average for the period starting on October 1, 2015 through September 30, 2019, and noted that the

Restricted Building Operations Reserves exceeded the four-year average by approximately \$1.7 million, as shown below.

Operating Budget	
FY 2016	\$ 15,624,000
FY 2017	\$ 17,143,000
FY 2018	\$ 17,395,000
FY 2019	\$ 16,865,000
	\$ 67,027,000
	\$ 16,756,750 Average
	Restricted Building Operations Reserves as of September 30, 2019
	\$ 18,489,336
	\$ 1,732,586

Recommendation(s):

Restricted Building Department funds should only be expended in accordance with Florida Statute Section 553.80, and they should not be used to pay for any unallowed expenditures. All Restricted Building Operations Reserves should be properly reported as such in the CAFR, so that persons relying on this data in their decision-making are accurately informed. Lastly, the City's Building Official, in consultation with the City Manager, should decide how to utilize excess funds ineligible to be carried forward for either rebate or reduction of fees.

Building Department's Response:

The Building Department contacted Miami-Dade County concerning the elevator section and its funds. The call to the County and follow-up with the head of Miami Dade County Elevator section indicated that the Elevator section was removed from the County Building Department in 2003, for the sake of uniformity with the County and their practice, the elevator revenues and employee expenses were placed with the City of Miami Beach Public Works Department to manage this does not include the state 553.80 fees which remain with the Building Department. This audit assisted in the record clean-up to keep consistent with Miami Dade County.

Additionally, the funds in excess as defined by statutes of being any amount over the average operating of the last 4 fiscal years was reported as \$1,732,586 in this audit. In order to maintain an allowable fund balance, fees were lowered in 2017 and moreover did not increase by the CPI increase which all other departments participated in the Building department did not participate in order to mitigate any excess revenue.

Finance Department and OMB's Response:

As shown in the City's financial statements as of September 30, 2019, the Building Department, operating out of the General Fund, reported \$18.5 million of restricted fund balance in the General Fund. This amount represents the multi-year cumulative fund balance for Building operations, following several adjustments resulting from the audit process to the multi-year tracking spreadsheet used for this purpose since 2003.

The following language is also presented on page 85 of the City's Comprehensive Annual Financial Report (CAFR) for fiscal year ending 2019.

The City's building operations is accounted for and reported in the General Fund as of and for the period ended September 30, 2019. The General Fund balance included \$18,489,336 in restricted funds from the Building Department operations in accordance with Chapter 553 section 80 of the Florida Statutes.

The above disclosure and restrictions were made based on conversations with the OIG, Office of Management & Budget, and RSM external auditors. For the period ending September 30, 2020, and in the 2020 CAFR, the Building Department will be accounted for and reported in a new Enterprise Fund and shown as a stand-alone column under the supplementary information.

Prior to September 30, 2020, the activities of the Building Department were accounted for in the General Fund. The Building fund balance was separated into restricted and unassigned in the GASB 54 required footnote disclosures. \$11.5 million represented a balance owed and set aside to the Building operations reported as restricted, and \$6.2 million represented a balance owed and not set aside to the Building operations, reported as unassigned and included in the \$30.9 million unassigned fund balance. The reported balances were technically correct, as both Building and non-Building operations were both included in the General Fund. However, an additional footnote disclosure would have better explained the specific details of the set asides.

OIG's Response to the Finance Department and OMB's responses:

Although OIG staff reviewed a significant number of transactions, we did not review all transactions dating back to 2003, and, as such, we will not express an opinion on whether the total transfer balance is accurate.

3. **Finding: PAYROLL AND FRINGE BENEFITS RELATED TO NON-BUILDING DEPARTMENT EMPLOYEES TOTALING \$18,124.87 WERE INCORRECTLY PAID WITH BUILDING DEPARTMENT FUNDS AND HAVE NOT YET BEEN REPAID**

Florida Statutes require that building funds shall be used solely for carrying out the local government's responsibilities in enforcing the Florida Building Code. Only those personnel services costs including salary and related employee benefit costs, incurred by the local government to enforce the Florida Building Code, may be charged to the Building Department.

During the audit process, it was noted that a few employees from the Sanitation Department, Fire Ocean Rescue and Public Works Department were improperly paid with Building Department funds during the audit period by a total of \$18,124.87, shown as follows:

Department	Amount
SANITATION	\$ (17,110.79)
OCEAN RESCUE	\$ (972.78)
PUBLIC WORKS	\$ (41.30)
TOTAL	\$ (18,124.87)

When asked specifically for the details concerning these amounts, the OIG received the following explanations:

- The \$17,110.79 payout charged to salaries and fringe benefits involved a vacation and sick payout for a terminated Sanitation Department employee that was misidentified as a Building Department employee.
- No explanation was received from the Finance Department regarding the \$972.28 incorrectly paid to an Ocean Rescue employee despite several requests. Consequently, it may have been improperly paid with restricted Building Department funds.
- Regarding the Public Works Department employee, Finance Department staff stated that it was a timing issue. The employee was a Building Department employee, who transferred to the Public Works Department on September 10, 2017, but the system was not updated until October 13, 2017. This timing difference resulted in \$41.30 being incorrectly charged to the Building Department.

In addition to the indirect costs applied to the Building Department for Finance Services, there are five Finance Department employees who are paid 100% and two who are paid 50% with Building funds. The OIG staff questioned whether the services were provided solely to the Building Department, as well as how the Finance Department keeps track of the hours worked.

Finance Department staff replied that instead of tracking hours, which would be a significant administrative burden, various data sources were used to estimate the amount of time or activity attributable to Building from the mix of services offered in Finance. Based on their calculations and the use of estimates, OIG could not be sure if the time and salary payments spent on five Finance Department employees are commensurate with the work performed.

Recommendation(s):

Any City employees who are paid from Building Department funds, but work in other departments, should work at least proportionately on Building Department related projects. It is recommended that these individuals prepare daily timesheets recording their work hours that should be forwarded to the Building Official. This practice should allow the Building Department Director to be aware of any necessary funding adjustments, without creating an unacceptable administrative burden.

In addition, the methodology used by the Finance Department to justify its employees being paid with Building Department funds should be presented to the Building Official for her approval. Once received, the approved methodology should be followed at least through the current fiscal year. However, this methodology should be revisited annually and approved by the City's Building Official, as the amount of time or activity attributable to the Building Department may change which should be reflected in the corresponding funding.

Building Department's Response:

Payroll for non-Building Department employees \$18,124.87. Some of the employees incorrectly charged to Building were reported to Human Resources in June 2019 and while some incorrect entries were corrected the \$18,124.87 are still pending to be corrected.

The number of Building Department funded employees in other departments has decreased over the years.

- a. There are two in the IT Department who work on Building related EnerGov functions. IT would need to provide pay period updates and time sheets for the staff. The Building Department has discussed this with the current IT Director and the previous Director.
- b. There is one Environmental position that verifies construction site protection for dust control and proper permitting for underground tanks. The Environmental Department would need to provide pay period updates and time sheets for the staff.
- c. The Finance Department staff was reduced over time at present there are three full time and two 1/2-time employees for a total count of 4 employees. This includes cashiering, and customer service to offset the calls that their call. The phone tracking (ACD) system which is being implemented will assist in better defining which calls are Building Department calls to provide the clear picture of who does what and determine staffing levels and payment which would be appropriate.

Finance and OMB's Response:

We reviewed the three specific instances when employees were mistakenly paid from Building Department funds. The first instance (\$17,110.79) was a leave payout for a Sanitation employee separating from the City. Leave payouts are calculated and entered in the system by the Human Resources Department through a manual process. It appears that an incorrect general ledger account was used for the payout. The second instance (\$972.28) was an incorrect payroll adjustment initiated by the Finance Department. The third instance (\$41.30) was a timing issue involving an employee transferring to a different department between the end of FY 2017 and the beginning of FY 2018. Based on these findings, a credit was processed on December 11, 2020 to reimburse the Building Department for a total of \$18,124.87 for the 3 items above.

To avoid similar situations in the future, we recommend that the payroll coordinator in the Building Department (as well as all departments) run periodic payroll processing reports or validate the general ledger payroll posting detail to identify any similar items.

The methodology used by the Finance Department to justify its employees being paid with Building Department funds is reviewed periodically with the Building Official. The previous Building Official reviewed and approved the methodology prior to the current individual becoming the Building Official in May 2018. A few months later, during the FY 2019 budget

process, the methodology was reviewed thoroughly by the current Building Official when two call-taking positions were transferred from the Finance Department's Customer Service Center to the Building Department. As part of the reorganization, the Finance Department conducted an analysis using the number of calls that were Building-related (32% of all calls) to determine the number of positions needed to cover the anticipated number of calls (two call-taker positions). This is a valid methodology that is, in our opinion, a more accurate reflection of time spent than the use of daily timesheets.

There are currently three Full-Time Equivalents (FTE's) funded by Building funds in the Finance Department, including 1.5 FTE's for Cashiering and 1.5 FTE's at the Customer Service Center.

- Building funds 1.5 FTE's or 30% of the Cashier team of 5. An analysis of monthly transactions in October and November 2019 show that the percentage of building transactions processed by the cashiers ranged from 35% to 31%. Based on these figures, Building-related transactions of 35% to 31% are higher than the amount of positions being funded at 30%.
- Building also funds 1.5 FTE's at the Customer Service Center. The justification for funding the 1.5 FTE's includes:
 - Building-related calls at lunchtime and after hours when the Building Department is closed as well as times when no one can be reached at the Building Department.
 - The Finance Department also prepares Certified Lien Searches for customers, in which there is an entire section dedicated to Building Department liens and open permits. In FY 2019, 4,972 certified lien statements were prepared. These lien statements often lead to customer inquiries, for our Lien Section, regarding building violations and open permits.
 - Our staff also handles questions regarding the Business Tax Receipt applications. These applications are routed to the following regulatory review departments: Planning & Zoning; Building; and Fire. There is routine and constant follow-up with the regulatory departments, including the Building Department, regarding their reviews.
 - The Building Department also accounts for 19% of documented phone complaints.

We believe that the information above provides adequate justification for the Building funded positions in the Finance Department. We are currently implementing an Automatic Call Distribution System with the help of the I.T. Department that will more easily provide the information necessary to facilitate an accurate update to the methodology on a periodic basis. We recommend updating the methodology on an annual basis as part of the budget development process.

4. **Finding: THE BUILDING DEPARTMENT COST ALLOCATION PERCENTAGE WAS NOT UPDATED AND WAS INACCURATE**

During the audit process, OIG staff noted that the City hired an external firm, Maximus, to perform the Fiscal Year 2016 Full Cost Allocation Plan (FCAP) based on actual expenditures for the fiscal year ended September 30, 2014. However, the Office of Budget and Performance Improvement (which is now the OMB) did not update the cost allocation percentage as per the Maximus Report on the Excel spreadsheet entitled "Schedule of

Actual Building Department Revenues and Expenditures, "The corresponding schedule (1st Version), provided to OIG staff by the Budget and Performance Improvement Director on December 6, 2019, included the line item "Overhead Percentage" as follows:

City of Miami Beach Schedule of Actual Building Department Revenues and Expenditures Fiscal year ending September 30, 2019					
	2015	2016	2017	2018	2019
	Actual	Actual	Actual	Actual	Projected
REVENUES					
INDIRECT COSTS/ADJUSTMENTS					
OPEB expense allocation	\$ (126,146)	\$ -	\$ -	\$ -	\$ -
Revised Total Expenditures	\$ 12,390,632	\$ 12,610,049	\$ 13,393,638	\$ 13,740,892	\$ 13,208,000
INDIRECT COSTS					
Overhead Percent	13.18%	13.18%	13.18%	10.64%	8.73%
Overhead Rate	\$ 1,633,085	\$ 1,662,004	\$ 1,765,281	\$ 1,462,031	\$ 1,153,058
Total Indirect Costs	\$ 14,023,717	\$ 14,272,053	\$ 15,158,919	\$ 15,202,923	\$ 14,361,058

On January 15, 2020, OIG staff received an updated Schedule of Actual Building Department Revenues and Expenditures from the OMB, which agreed that the percentage for the study completed by Maximus should be applied from 2015 to 2018, OMB updated the spreadsheet as follows:

City of Miami Beach Schedule of Actual Building Department Revenues and Expenditures Fiscal year ending September 30, 2019					
	2015	2016	2017	2018	2019
	Actual	Actual	Actual	Actual	Projected
REVENUES					
INDIRECT COSTS/ADJUSTMENTS					
OPEB expense allocation	(126,146)	\$ -	\$ -	\$ -	\$ -
Revised Total Expenditures	12,390,632	12,610,049	13,393,638	13,740,892	13,208,000
INDIRECT COSTS					
Overhead Percent	10.64%	10.64%	10.64%	10.64%	8.73%
Overhead Rate	1,318,363	1,341,709	1,425,083	1,462,031	1,153,058
Total Indirect Costs	13,708,995	13,951,758	14,818,721	15,202,923	14,361,058

When OIG staff examined the Maximus Cost Allocation Plan, it was noted that Admin Svcs (Building Dept.) of \$452,700 were included on the Building Cost Allocation Plan (see Exhibit B located at the end of this audit report). When questioned as to why the Building Department should be billed for their own administrative services, OMB staff was unsure, so they sent a request to the consultant that prepared the 2014 Cost Allocation study, but the Maximus consultant never responded.

On February 4, 2020, OIG staff directly contacted Khushboo Hussain from Matrix Consulting Group, the cost expert hired by the City to perform the Fiscal Year 2019 Full Cost Allocation Plan, and asked, based on her expertise, if it was correct to include the \$452,700 in question, charged as administrative services to the Building Department. She replied "In our review of the previous cost plan (2014 cost allocation plan), our assumption was that the Administrative Services (Building Department) was included in the plan to

allocate support from building division staff (director and administrative staff) to building staff and code compliance. It is our understanding that this is not how the city's current operations for the Building Department or Code Compliance are structured, therefore, we did not include these costs in the current allocation methodology. Since there was no support to be allocated this central service was not included in the current cost plan. Hopefully this helps provide some insight on what is typically allocated and not allocated in cost plans”.

As a result, OIG staff recommended the revision of the cost allocation percentage for the Building Department, which was then recalculated to exclude the \$452,700. The final Building Department allocation percentage calculation provided by the OMB is as follows:

City of Miami Beach Schedule of Actual Building Department Revenues and Expenditures Fiscal year ending September 30, 2019					
	2015	2016	2017	2018	2019
REVENUES	Actual	Actual	Actual	Actual	Projected
INDIRECT COSTS/ADJUSTMENTS					
OPEB expense allocation	(126,146)	0	0	0	0
Revised Total Expenditures	12,390,632	12,610,049	13,393,638	13,740,892	13,208,000
INDIRECT COSTS					
Overhead Percent	12.69%	12.69%	12.69%	12.69%	8.73%
Overhead Rate	1,572,371	1,600,215	1,699,653	1,743,719	1,153,058
Total Indirect Costs	13,963,003	14,210,264	15,093,291	15,484,611	14,361,058

It was noted that the overhead percentage, instead of decreasing from 10.64% as reflected in the prior schedule on page 28, increased from 10.64% to 12.69%. The calculation of the Building Department cost allocation percentage changed at least three different times during this audit process and there remains confusion as to the correct figure to be used. As a result, OIG staff is unsure as to the accuracy of the amounts that were billed to Building Department funds from year 2015 to 2018.

Recommendation(s):

It is recommended that the City more closely review the accuracy of the cost allocation study's results prior to the completion and issuance of the report. Also, the City should carefully review the costs included as part of the cost allocation for Building Department to ensure that the amounts are reasonably associated with review of building plans, building inspections, re-inspections, building permit processing, building code enforcement, and fire inspections associated with new construction. In addition, the Building Official or his/her designee should meet with the consultant to review and reach agreement on the costs included for the Building Department as part of the allocation study prior to its final approval, in order to ensure its compliance with the Florida Building Code Statutes.

Building Department's Response:

An independent team performs the cost allocation study and determines the % due by each department. Maximus performed the 2015-2018 study and Matrix conducted the most recent review and study. We are available to meet with the cost allocation team and discuss the exact percentage that the Building Department needs to pay.

Upon discussion and explanation from OMB on the Building Department Cost allocation percentage applied, the Building Department was comfortable with the explanation on the methodology for determining the cost allocation amount.

Finance Department/OMB's Response:

The Office of Management & Budget periodically engages a consultant to update the City's cost allocation plans. These plans establish the method of allocating indirect and direct costs across the City's various departments and funds to ensure that the respective funds are fairly and accurately paying for the General Fund services they receive.

During each update, the Office of Management & Budget and the consultant meet with each department to discuss the most relevant allocation factors or methodology for distributing their costs. Once this is determined, the consultant allocates the costs using the allocation factor or methodology and produces a cost allocation plan document or spreadsheet. This information is then used by the Office of Management & Budget to develop the annual budget.

The Full Cost Allocation Plan that was completed back in 2015 by Maximus was not clear on what the Indirect Cost percentage should have been for General Fund services provided to the Building Department. Therefore, the 10.64% was calculated based on the limited information that was gathered and the data reported in the Maximus Full Cost Allocation Plan. To ensure that an accurate Indirect Cost percentage was used for Building based on the Full Cost Allocation Plan completed by Maximus back in 2015, the information was sent to Matrix Consulting, which is the City's current cost allocation consultant, to review and provide a recommendation. Based on the recommendation from Matrix, the Indirect Cost percentage that should have been used was 12.69%, which excluded the \$452,700 and reflected the administrative share of General Fund costs allocated to Building.

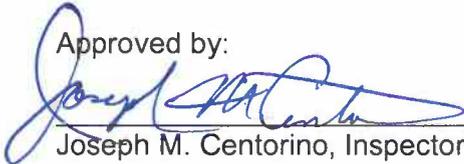
We agree that the Office of Management & Budget, Building Department, and every other City department should review the accuracy of the cost allocation plan before the plan is finalized. In practice, there are normally very few questions regarding the methodologies used for development in the plan. If questions do come up, the Office of Management & Budget works with the consultant to address the questions or concerns. For example, when the new Building Official had questions regarding Building's cost allocation, the Office of Management & Budget discussed the questions with the City's consultant and sent responses in an email dated October 23, 2018. There was no indication provided to the Office of Management & Budget at that time or until the time of the audit that there were any further concerns with the cost allocation methodology. Going forward, the Office of Management & Budget will add a specific step in the cost allocation process for all departments to formally submit any questions or concerns regarding the proposed cost allocations, before they are allocated to develop the annual budget.

Developing cost allocation plans is a complex endeavor which is why it is normal for cities to use third-party consultants who also incorporate best practice allocation methods from organizations across the country. During the audit process, OIG staff questioned the cost allocation percentages used for the years during which the cost allocation plans were not updated annually and recommended that the more conservative percentages be used whenever possible instead of using the same percentage as the year before, which is also an acceptable practice. These changes were made to the multi-year tracking sheet as

requested by the OIG. The Office of Management & Budget has implemented annual updates of the cost allocation plan, including FY 2019 and FY 2020, except for FY 2021 as a COVID-19 cost saving measure, to include the most accurate allocation percentages possible in the development of the annual budget.

- cc: Raul Aguila, Interim City Manager
Eric Carpenter, Assistant City Manager
Mark Taxis, Assistant City Manager
Ana Salgueiro, Building Department Director and Building Official
John Woodruff, Chief Financial Officer
Tameka Otto Stewart, Budget and Performance Improvement Director
Chris Sarandos, Chief Information Officer, Information Technology Department
Julie Santamaria, Director, RBC Capital Markets, LLC
John Weber, CPA, Partner, Crowe LLP
Valerie Colimon, RSM US LLP
Khushboo Hussain, Senior Consultant, Matrix Consulting LLC

Approved by:



Joseph M. Centorino, Inspector General

03/04/2021
Date

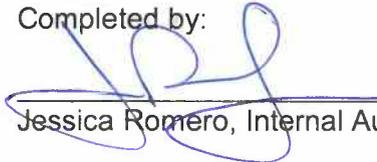
Reviewed by:



Mark Coolidge, Chief Auditor

03/04/2021
Date

Completed by:



Jessica Romero, Internal Auditor

3/4/2021
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Exhibit A - Proposed Building Department Ombudsman Pilot Position

In view of the issues raised by this audit in connection with irregularities in the expenditure of Building Department funds, as well as the current issues that have been raised by complainants to the City administration, the OIG and other City Officials, regarding the efficiency and fairness of the City's permitting processes and enforcement of the Building Code, we recommend the creation of a pilot position of Building Department Ombudsman, to be created for a period of one to two years, structured as follows:

- The Ombudsman pilot position will be created for the purpose of establishing an independent full-time position within the Building Department for the monitoring of Building Department expenditures, and the compilation and evaluation of serious complaints about efficiency, fairness and integrity in all phases of permitting and Building Code enforcement;
- The Ombudsman pilot position will be funded through restricted Building Department funds, subject to the approval of the Building Official;
- The Ombudsman pilot position will be filled and accountable to an authority outside of the Building Department, as designated by the City Manager and approved by the City Commission;
- The Ombudsman will be required to have prior experience in the permitting field at the municipal level; will have a thorough knowledge of the Florida Building Code; and have, at a minimum, a Bachelor Degree from a four-year accredited college or university;
- The Ombudsman will be provided with information documenting all complaints made to the Building Department and the resolution or other disposition of such complaints by the Building Department, and, while not authorized to direct any action by the Building Department, shall be authorized to act as an advocate for businesses and consumers in connection with the efficiency and responsiveness of permitting activity within the Building Department;
- The Ombudsman will act as a consultant to the Building Official, the City Manager, and Inspector General in connection with ideas for improving the efficiency of permitting operations, as well as in the proper expenditure of Building Department funds in accordance with Florida law;
- The Ombudsman will report to the Inspector General any perceived corruption or serious misconduct by any public employee or private person or entity in connection with Building Department functions;
- At the conclusion of the designated term for the Ombudsman pilot position, the City Manager shall make recommendations to the City Commission regarding whether the position should be continued or alternative actions taken to provide continued oversight of expenditures and the permitting process in the Building Department and/or other permitting departments in the City.

Building Department Response to the Creation of the Ombudsmen Position

The Building permitting process involves various departments and agencies the actual Building Department comprises less than 50% of the permitting process, while being the face of construction permitting. The Matrix Consultant was hired to review the permitting process and was funded by both Building and Planning to study the permitting process study which included DERM, Environmental, Fire prevention, Public Works, and provide recommendations for process improvements.

In addition, the Building Department became ISO-9001 (management process certification) Certified in 2018 and has maintained the certification.

Exhibit B

MaxCars - Cost Allocation Module
02/26/2016 10:47:40 AM

Miami Beach, Florida
Full Cost Allocation Plan (FCAP)
for the Fiscal Year Ended September 30, 2014
Schedule .2 - Costs To Be Allocated
For Department Admin Svcs (Building Dept.)

Miami Beach, Fl (FYE 2014) FCAP v2.0
Fiscal Yr Ended 2014 Version 2.0001-2

	1st Allocation	2nd Allocation	Sub-Total	Total
Expenditures Per Financial Statement:	11,555,101			11,555,101
000674 Machinery & Equipment	(12,059)			
Total Deductions:	(12,059)			(12,059)
Depreciation Expense	49,946		49,946	
Mayor & Commission	30,071	11,238	41,309	
Office of the City Clerk	122,973	77,691	200,664	
City Manager's Office	87,736	18,876	106,612	
Emergency Management	10,005	572	10,577	
Office of Internal Audit	60,062	2,828	62,890	
Organizational Development	33,240	2,651	35,891	
Office of Management & Budget	15,326	3,147	18,473	
Media Relations	28,107	2,975	31,082	
Revenue Management	(24,881)	10,799	(14,082)	
Treasury Management	10,637	1,051	11,688	
General Accounting & Reporting Mgmt.	4,985	591	5,576	
Expenditure & Capital Management	5,793	428	6,221	
Human Resources	58,858	27,086	85,944	
Procurement	27,514	5,416	32,930	
Office of the City Attorney	178,667	8,761	187,428	
Admin Svcs (Building Dept.)		452,700	452,700	
External Audit & Management Interns		1,944	1,944	
Special Projects		9,948	9,948	
Lobbyist & Tuition Reimbursement		6,922	6,922	
Accumulated Leave Settlement		86,577	86,577	
415 Excess Pension Plan		27,536	27,536	
Total Allocated Additions:	699,039	759,737	1,458,776	1,458,776



All Monetary Values Are \$ Dollars
MAXCars © 2016 MAXIMUS, INC.
Report Output Prepared By Agency