MIAMIBEACH

# INTERNAL AUDIT REPORT

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TO: Jimmy L. Morales, City Manager

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DATE: November 5, 2018

SUBJECT: **FINANCE DEPARTMENT RECONCILIATIONS ANNUAL RESULTS SUMMARY**

PERIOD(S): August 1, 2017 – July 31, 2018 (Bank Reconciliations)
October 1, 2017 – September 30, 2018 (Daily Debit Transaction Reports)

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Upon the discovery of a $3.6 million fraud involving its Treasury and ACH disbursements, the City Administration and Finance Department, among other implemented changes, hired the independent firm of BDO USA, LLP (BDO) to perform an audit. After extensive testing, interviews and analyzation, they issued a report on May 17, 2017 containing sixty (60) findings with recommendations on how to mitigate the City's risk exposure on these disbursements which also affected other Finance Department functions including payroll and accounts payable.

The City's Finance Department took a proactive approach and had already begun making needed changes prior to BDO's report issuance but the report identified additional measures. In addition, the Information Technology Department began reviewing the Munis System's internal controls (permissions, user roles and work flows). Binders were subsequently prepared by the Finance Department of the supporting documentation maintained for each of the recommendations and the corresponding work performed to mitigate the associated risks.

Based on our review of this provided documentation and additional testing performed on the Munis System, Office of Internal Audit (Internal Audit) staff verified whether the corrective actions taken were sufficient in attaining the desired outcomes. Over the next year, Internal Audit conducted extensive testing which verified that the City was either in the process of implementing or had already implemented sufficient corrective action in response to the 60 findings previously identified by BDO. Lastly, all the misappropriated monies were recovered by the City and the convicted perpetrator has begun serving his prison sentence.

Included among the internal control changes implemented was the extension of positive pay and/or check block to all City bank accounts reconciled by the Finance Department. Positive pay is a fraud prevention system offered by most commercial banks to protect the companies against forged, altered and counterfeit checks. Meanwhile, check block eliminates the risk of check fraud by restricting the checking account to electronic activity only and all paper based transactions are automatically rejected and returned.

As part of the resolution process, Internal Audit agreed to (1) review the approximately sixty (60) bank reconciliations performed either monthly or quarterly by designated Finance Department staff to verify that they were completed timely, promptly reviewed/approved and that all outstanding transactions were

appropriately cleared; (2) confirm that all entries on the Daily Debit Transaction Report were deemed valid by Finance Department staff; and (3) that there is a credit in the general depository account and a corresponding debit transaction in another City bank account for all ZBA (zero-balance account) transactions. The testing performed and the results attained are summarized in the following separately identified sections for the listed periods.

1. MONTHLY BANK RECONCILIATIONS ANALYSIS

The Finance Department is tasked with performing bank reconciliations of all known City bank accounts under their purview and/or in which they receive bank statements. Although the actual number of bank accounts may vary slightly, they typically complete approximately 59 monthly bank reconciliations. In addition, they reconcile the Regions Bank MBPD CID-OAF account quarterly as it was reviewed in September 2017, December 2017, March 2018 and June 2018 during the audit period.

Per the Finance Department's approved procedures, all bank reconciliations (excluding the pooled cash account) are to be completed within thirty (30) days following the end of the month in which the transactions occurred. For example, August 2017's transactions are to be completed by September 30, 2017, September 2017's transactions by October 30, 2017 and so on. Meanwhile, Finance Department staff have 45 days following the end of the applicable month to complete the pooled cash bank account's reconciliation due to its complexity and large volume of transactions. Consequently, the September 2017 pooled cash's bank account reconciliation is to be completed by November 14, 2017 and so on. As a result, Internal Audit's assigned audit period for bank reconciliations covered August 2017 (October 15, 2017 completion due date for the pooled cash account) through July 2018 (September 15, 2018 completion due date for the pooled cash account).

Testing found that one (1) bank reconciliation reviewed in May 2018 was not updated with the month and date of completion so there was no means to verify that it was completed timely. In addition, it was determined that two (2) reconciliations in June 2018 were not signed by the preparers so it could be confirmed that they were not also the reviewer. There was sufficient documentation present to verify that all the remaining reviewed bank reconciliations were timely and properly completed; however, the following observations were noted for the listed months:

- Three (3) bank accounts in November 2017 and two (2) more in December 2017 were missing their completion dates but they were determined to be finished timely based on the corresponding reconciliation review date reported.
- The bank statement for the State of Israel bond was not present for April 2018 but Finance Department staff still completed the reconciliation. Subsequent inquiries found that bank statements were only being sent to the City for months in which the account's balance changed due to the purchase or maturation of the bonds. At Internal Audit's request, Finance Department management received read-only on-line access to the bank statements starting with May 2018 which is now printed and attached to the reconciliation so that the purported figures can be verified.
- Despite not affecting the Finance Department's bank reconciliation completion process, the Police Department was found to have issued a $6,000 check payable to cash in May 2018 which is not a recommended practice. If this check was inadvertently misplaced or lost, then anyone who found the check could access the funds unless a stop-payment request was timely placed with the bank. Going forward, all issued checks should be payable to an individual, business, etc. and not to cash.
- Two (2) June 2018 reviewed bank reconciliations pre-printed names were different from the employees that performed the task as shown by their signatures. One involved the

preparer of the Gulf Breeze – 85B bank account and the other involved the reviewer of the Fiduciary Trust – RDA CCHCV bank account.

FINANCE DEPARTMENT'S MANAGEMENT RESPONSE

Since the BDO audit, the Finance Department has added two (2) new positions to work on the bank reconciliation and daily banking transactions functions. This along with timely month end closing, enhanced communication amongst department staff and better knowledge and customization of the Munis software (implemented May 2016), has contributed to the timeliness of the bank reconciliations. Finance staff will continue to work diligently on safeguarding city assets and producing timely and accurate reconciliations. The Department also has a process in place to continuously review safeguards on bank accounts and other banking activities.

The Finance Department will exercise more care in dating, reviewing and signing the bank monthly reconciliations. All reconciliations without date or signature were completed in a timely manner. It should also be noted that the Finance Department does not fully track or reconcile the Police Department bank accounts. Audits of the Police Department bank accounts should include an examination of the records that are maintained at the Police Department. This is due to the fact that Police financial transactions are confidential and not shared with the Finance Department. Communication with the Police Department and an understanding of the nature of their transactions will help Internal Audit to ascertain what is an appropriate recommendation, if any.

2. DAILY DEBIT TRANSACTION REPORT ENTRIES VALIDATION

All Daily Debit Transaction Reports generated from the City's operating accounts between October 1, 2017 and September 30, 2018 furnished to Internal Audit contained notations indicating that they were valid transactions according to designated Finance Department staff. Any transactions that needed to be researched with the bank, were properly followed-up with and were cleared within the next day or two. Internal Audit relied solely on Finance Department staff's transaction reviews and corresponding approvals as no additional testing was performed to determine their legitimacy.

3. ZERO BALANCE ACCOUNTS TRANSACTIONS REVIEW

A zero-balance account or ZBA can be defined as a checking account in which a balance of zero is maintained by automatically transferring funds from a master account in an amount only large enough to cover the checks presented. A ZBA is used to help eliminate excess balances in separate accounts and to maintain greater control over disbursements.

As part of the Daily Debit Transaction Report, Finance Department staff includes both the debit and the corresponding credit of the ZBA transaction. In reviewing these transactions for the twelve (12) month audit period, no exceptions were noted.

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