MIAMIBEACH

MEMORANDUM

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Office of Internal Audit
Tel: 305-673-7020, Fax: 305-673-7519

TO: Jimmy L. Morales, City Manager

VIA: Mark D. Coolidge, Interim Internal Auditor MDC

FROM: Norman Blaiotta, Senior Auditor NB

DATE: November 7, 2018

SUBJECT: Second Semi-annual Review Report for the 2017/18 Fiscal Year

PERIOD(S): October 1, 2017 – June 30, 2018

In response to the BDO USA, LLP (BDO) audit report dated October 30, 2017, the Office of Internal Audit agreed to perform semi-annual reviews of selected Finance Department transactions to help ensure that the desired outcomes continue to be attained. The focus of this semi-annual review was to perform testing to verify that BDO recommendations numbered 27, 29 and 31 are continuing to be followed by City staff. In addition, the Deputy Finance Director raised concerns about City department/division's designated payroll approvers which was not addressed in the BDO report. Where applicable, a summary of BDO's recommendations, the City's responses and the results of the Office of Internal Audit's current testing for each of these four (4) analyses are separately listed below.

1. *Recommendation #27 – Munis should be modified so as not to allow significant payments to be issued unless the approvals of at least two different City officers have been documented in the system. Further, Munis should be modified so as not to allow payments exceeding $1,000,000 to be issued unless the approval of the City Manager has been documented in the system.*

   City Response #27 – The City amended the workflow approval policy to say that the City Manager approves disbursement over $1 million except for debt service payments (principal, interest, and fees on bonds, loans and notes). These items are approved by the CFO (Chief Financial Officer), Deputy Finance Director or Assistant Finance Director. The debt service workflow was revised in April 2017.

   Internal Audit's 10/30/17 Comments - The workflow approval policy is in draft form and is expected to be approved during the 2017/18 fiscal year.

   Current Testing Results #27 - The workflow approval policy still has not yet been finalized as of November 7, 2018.

   Financial Services Response (IT, Budget, Finance and Procurement) - A hard draft of the Disbursement Workflow Policy will be put into circulation in November 2018. Finance, Budget, Procurement and Information Technology Departments worked together in conjunction with Office of Internal Audit staff to validate that the workflows in the policy are in the Munis System and all disbursements should be in compliance with this draft. The hard draft will be routed through the Office of Organizational Development and Performance Initiatives for review and final approval no later than March 2019.

Internal Audit Observation – Although the Finance, Budget, Procurement and Information Technology Departments are working under a draft of the Disbursement Workflow Policy, it is still in the process of being revised as necessary and the tested transactions occurred between October 1, 2017 and June 30, 2018.

2. *Recommendation #29 - The Munis System (the City's integrated enterprise resource planning system) should be modified so as not to permit payments exceeding $1,000,000 to be issued unless the approval of the City Manager has been documented in the system.*

City Response #29 – Effective May 2017, all payments exceeding $1 million must be approved by the City Manager or his designee, except for debt service payments which are approved by the CFO (Chief Financial Officer) or the Deputy Finance Director.

Current Testing Results #29 – The Office of Internal Audit tested all 67 payments exceeding $1 million occurring between October 1, 2017 and June 30, 2018 whereby it was noted that twenty-eight (28) were not approved by the City Manager in the Munis System. More specifically, these twenty-eight (28) payments were comprised of the following:

- Eight (8) were related to debt service payments as they were all found to be approved by the City's Chief Financial Officer or the Deputy Finance Director in adherence to the Finance Department's stated City Response #29 above.
- Sixteen (16) were related to recurring payroll payments to the Internal Revenue Service. When questioned, the Deputy Finance Director stated that these payments are currently being approved through the same process as debt service payments since the perceived risk on these transactions is low. Although the Office of Internal Audit may agree that the City Manager's approval might not be necessary for these recurring payroll payments or that a designated Assistant City Manager may approve payments over $1 million in the absence of the City Manager, it is important to state that these and other exceptions were not approved by BDO and the workflow approval policy concerning these recurring payroll payments has not been finalized and adopted.
- Four (4) were non-debt/payroll payments made to Miami-Dade County for water and sewer.

Exhibit A located at the end of this report provides a listing of the twenty-eight (28) exceptions noted and discussed above.

Recommendations for Current Testing Results - These or any other exceptions, regardless of their reasonableness, should be stated in an approved workflow policy to be accepted as a valid criterion by the Office of Internal Audit. Until the corresponding policy is finally approved, the Office of Internal Audit will adopt BDO recommendation as criteria and all payments exceeding $1 million should be approved in the system by the City Manager.

Finance Department management should determine if there are any additional payments exceeding $1 million that were not approved by the City Manager that occurred after June 30, 2018. If so, these transactions should be immediately sent to the City Manager for his approval unless specifically addressed in the finalized workflow approval policy.

Financial Services Response (IT, Budget, Finance, Procurement) - The eight (8) items relating to debt service were approved by Finance Department staff. This is documented in Section II (F) of the Disbursement Workflow Policy. The sixteen (16) items relating to payroll and payroll related transactions were approved by Finance Department staff which is documented in Section II (F) of

the Disbursement Workflow Policy. The four (4) non-debt payroll items for Miami-Dade County payments were approved by the City Manager's designee during the City Manager's absence. It is documented in the policy that the City Manager can designate executive staff to approve items over $1 million in his absence.

Internal Audit Observation – Although the Finance, Budget, Procurement and Information Technology Departments are working under a draft of the Disbursement Workflow Policy, it is still in the process of being revised as necessary and the tested transactions occurred between October 1, 2017 and June 30, 2018.

3. *Recommendation #31 – Munis should be modified so as not to allow payments exceeding $500,000 to be issued without having the invoice entry approval of at least two employees with approval levels between 40 and 55 documented in the system.*

City Response #31 – The necessary workflow analysis and modification in Munis has been completed.

Current Testing Results #31 – The Office of Internal Audit tested all payments exceeding $500,000 that occurred between October 1, 2017 and June 30, 2018 and verified that it was supported by at least two City employees with approval levels between 40 and 55 as documented in the Munis System. From a total of one-hundred-forty-four[1] (144) transactions reviewed, it was found that 66 or 45.8% were not properly approved by two (2) City employees with approval levels between 40 and 55 which includes one transaction that was approved by the City Manager (level 60). Exhibit B located at the end of this audit report provides more detailed information on the exceptions noted.

It was frequently noted that payments were approved through the usage of the approval level 99 instead of by someone with an approval level between 40 and 55. The Deputy Finance Director stated that this step is used as a "catchall" way to approve payment types that do not have an established workflow. Those City employees with the approval level 99 in the reviewed transactions typically include only the Deputy Finance Director, three Information Technology Department employees responsible for the system administration and occasionally the City Manager.

Recommendations for Current Testing Results: The finalized workflow approval policy should include what Munis System approval levels are required for transactions to be processed. It should also address the appropriateness of the usage of the approval level 99 so that it can be properly vetted. In the absence of a finalized workflow approval policy, the Finance Department should closely follow BDO's recommendation that the system only allows payments exceeding $500,000 to be issued if at least two (2) employees with approval levels between 40 and 55 approve the transaction.

The 66 noted exceptions in Exhibit B located at the end of this audit report should be individually reviewed by Finance Department management, independent of the Deputy Finance Director who was the approver of most of these transactions, to help ensure their validity. Similarly, Finance Department management should review all similar transactions exceeding $500,000 that occurred after June 30, 2018 to help ensure that the approval levels specified by BDO were in existence and followed.

1 - This amount includes the sixty-seven (67) transactions mentioned above in "Current Testing Results #29" and it represents the total amount of transactions of over $500,000 between 10/1/2017 and 6/30/2018.

Financial Services Response (IT, Budget, Finance, Procurement) - The City has updated the BDO recommendation and documented them into the hard draft of the Disbursement Workflow Policy. The Disbursement Workflow Policy like the BDO recommendation requires two (2) approvers for items over $500,000, except for transactions documented in Section II F, G and H. All exceptions in this audit report are occurring under Section II, F, G or H. The hard draft will be routed through the Office of Organizational Development and Performance Initiatives Improvement for review and final approval no later than March 2019.

A level 99 workflow is in place to ensure that no unapproved disbursements are made. There are multiple reasons including unknown systematic glitches that an item will be directed to a level 99 workflow. Level 99 serves as a detective control to prompt corrective action such as adding workflow to a cost center or rejecting erroneous items. This workflow includes IT, Procurement and Finance staff who will review the item, approve it as permitted, reject it if appropriate, forward it to the appropriate approver and/ or correct the workflow for future items. Items found in the level 99 workflow can be approved therein or forwarded to the appropriate approver. Over time, this workflow should see a decreasing amount of transactions as evident by the less than 50 transactions in the 2018 calendar year when compared to the over 600 transactions in the 2017 calendar year.

The City uses the cost center segment of the general ledger account number to direct the workflow process through the Munis software. There are several balance sheet accounts that has not been designated with a specific cost center or workflow because it is used Citywide or should not be used at all for disbursements. These transactions show a 0000 cost center in the general ledger account. Any transaction entered into a 0000 cost center will be routed to the 99 workflow and action will be taken as described therein.

Internal Audit Observation – Although the Finance, Budget, Procurement and Information Technology Departments are working under a draft of the Disbursement Workflow Policy, it is still in the process of being revised as necessary and the tested transactions occurred between October 1, 2017 and June 30, 2018.

4. Current Testing Results – Although there is no current documented written Citywide policy, both the Deputy Finance Director and the Assistant Human Resources Director stated that they believe that each City department or division's payroll approver should be either the Director, Assistant Director or some similar responsible position. Consequently, a report was generated in August 2018 listing each department and/or division's payroll approver and their corresponding City position. In reviewing this report, it was noted that an Office Associate III in the Public Works Department and an Office Associate V in the Parking Department are payroll approvers which does not satisfy the above criterion. Once a Citywide policy is drafted and approved going forward, then Finance and Human Resources Department management should review this listing to determine if other stated approvers need to be similarly replaced.

Furthermore, a listing of each department's payroll coordinators and their back-ups was received from the Human Resources Department whereby each had a named back-up except for the Fleet Management Department. It is imperative that each department/division have a stated back-up in case that they are out of the office for whatever reason as the bi-weekly payroll needs to be approved in a timely manner.

Finally, it was noted that several of the named payroll coordinator back-ups are in other departments and/or other buildings and would have to rely solely on the leave documents

submitted for accuracy and completeness. For example, the back-up payroll coordinator for the Office of Emergency Management located at Fire Station #2 on Dade Boulevard is an employee in the Public Safety Communications Unit located in the Police Department at 1100 Washington Avenue. More concerning is that the back-up coordinator for the Office of Organizational Development and Performance Initiatives Department is a Transportation Department employee that does not know how to print the necessary reports used to determine the hours worked by the assessors based on inquiries. Therefore, it is recommended that the designated payroll coordinator back-up be located within the department/division whenever possible and adequately trained on any nuances of the department/division to better ensure the accuracy of its payroll.

Finance, Human Resources and Information Technology Departments' Response

- The City Human Resources Department is working on drafting a policy on payroll approvers. The policy will be finalized by March 2019.
- The Fleet Department has a backup payroll coordinator.
- Staffing limitations does not allow for all departments or divisions to have a payroll coordinator and a backup coordinator in the same department or building. As such, the management of certain departments elected to have backup payroll coordinators be any person coming under their chain of command and not necessarily from the same department. All backup payroll coordinators and backup coordinators are trained by the Human Resources and Finance Departments on how to perform tasks associated with the payroll function. When there are nuances in a department's payroll, the payroll coordinators are trained by the Department's management.

Office of Emergency Management Response

- This was the case when Public Safety Communications Unit (PSCU) was a division of the Office of Emergency Management. However, since PSCU was moved under the Fire Department, the employee (Communications Manager) has been replaced by a Financial Analyst III in Emergency Management. The Communications Manager's name should have been removed.

Organizational Development and Performance Initiatives Response

- Both Transportation and Organizational Development and Performance Initiatives (ODPI) report to the same Assistant City Manager. Since appropriate staff is limited, the payroll coordinators for these departments, Transportation's Office Associate IV and ODPI's Program Supervisor were assigned as back-up coordinators for each other.
- ODPI payroll instructions were shared with Transportation's Office Associate IV.
- Transportation's Office Associate IV has not expressed issues supporting ODPI and has not expressed any concerns regarding payroll administration as suggested in the auditor's report.

Internal Audit Observation – The listing of each department's payroll coordinators and their back-ups that was received from the Human Resources Department on August 3, 2018 did not contain a back-up for the Fleet Management Department. Internal Audit is unsure if this omission was an oversight or not; however, this deficiency has since been corrected. Human Resources with each department's assistance should ensure that the names on this listing remain up-to-date and accurate.

Prior inquiries found that Transportation's Office Associate IV was trained on ODPI's payroll over a year ago. Furthermore, this Transportation employee has not had to utilize this training and perform ODPI's payroll in the months since. ODPI has provided updated documented payroll instructions which include detail on how to generate reports on the assessors' activities to the Office Associate IV. Therefore, it is recommended that any back-ups from other departments retain detailed documented up-to-date

procedures on their payroll function and/or be periodically re-trained as it may have been a significant amount of time since they have utilized those skills.

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cc: John Woodruff, Chief Financial Officer
Michael Smith, Human Resources Department Director
Ariel Sosa, Information Technology Department Director
Tameka Otto Stewart, Office of Budget and Performance Improvement Director
Alex Denis, Procurement Department Director
Leslie Rosenfeld, Chief Learning Development Director

Exhibit A

Key Value	Vendor Name	Invoice Number	Amount
Debt Service Payments (8)			
API 035038 100081 INBOX	US BANK, NA	100081	$1,165,288.08
API 035038 100083 INBOX	US BANK, NA	100083	$1,438,362.49
API 035038 100091 INBOX	US BANK, NA	100091	$4,577,250.00
API 035038 100093 INBOX	US BANK, NA	100093	$1,465,300.00
API 035038 100094 INBOX	US BANK, NA	100094	$2,051,009.38
API 035038 91041 INBOX	US BANK, NA	91041	$4,366,032.53
API 035038 93737 INBOX	US BANK, NA	93737	$1,843,150.63
API 035038 93741 INBOX	US BANK, NA	93741	$2,849,036.25
Payroll Related Payments (16)			
API 009415 100308 INBOX	INTERNAL REVENUE SERVICE (DED)	100308	$1,018,334.88
API 009415 108904 INBOX	INTERNAL REVENUE SERVICE (DED)	108904	$1,063,433.20
API 009415 111918 INBOX	INTERNAL REVENUE SERVICE (DED)	111918	$1,069,343.75
API 009415 113302 INBOX	INTERNAL REVENUE SERVICE (DED)	113302	$1,031,768.46
API 009415 116655 INBOX	INTERNAL REVENUE SERVICE (DED)	116655	$1,049,975.91
API 009415 123847 INBOX	INTERNAL REVENUE SERVICE (DED)	123847	$1,126,280.10
API 009415 127096 INBOX	INTERNAL REVENUE SERVICE (DED)	127096	$1,036,538.20
API 009415 128425 INBOX	INTERNAL REVENUE SERVICE (DED)	128425	$1,119,164.44
API 009415 84847 INBOX	INTERNAL REVENUE SERVICE (DED)	84847	$1,130,986.20
API 009415 86668 INBOX	INTERNAL REVENUE SERVICE (DED)	86668	$1,123,685.37
API 009415 89660 INBOX	INTERNAL REVENUE SERVICE (DED)	89660	$1,115,964.95
API 009415 90593 INBOX	INTERNAL REVENUE SERVICE (DED)	90593	$1,165,857.84
API 009415 93913 INBOX	INTERNAL REVENUE SERVICE (DED)	93913	$1,426,811.34
API 009415 94710 INBOX	INTERNAL REVENUE SERVICE (DED)	94710	$1,232,101.04
API 009415 98210 INBOX	INTERNAL REVENUE SERVICE (DED)	98210	$1,200,012.83
API 009415 99273 INBOX	INTERNAL REVENUE SERVICE (DED)	99273	$1,209,536.87
Non-Debt/Payroll Payments (4)			
API 000758 112578 INBOX	MIAMI DADE WATER & SEWER DEPT.	112578	$1,101,383.65
API 000758 126670 INBOX	MIAMI DADE WATER & SEWER DEPT.	126670	$1,168,081.43
API 001582 112579 INBOX	MIAMI DADE W.A.S.A (SEWER)	112579	$1,645,617.67
API 001582 126671 INBOX	MIAMI DADE W.A.S.A (SEWER)	126671	$2,432,970.14

Exhibit B

Key Value	Vendor Name	Invoice Number	Amount
Payroll Related Payments (40)			
API 000738 100297 INBOX	CITY OF MIAMI BEACH	100297	$560,678.68
API 000738 107225 INBOX	CITY OF MIAMI BEACH	107225	$536,975.38
API 000738 108892 INBOX	CITY OF MIAMI BEACH	108892	$563,609.60
API 000738 111907 INBOX	CITY OF MIAMI BEACH	111907	$571,985.36
API 000738 113291 INBOX	CITY OF MIAMI BEACH	113291	$591,328.18
API 000738 116644 INBOX	CITY OF MIAMI BEACH	116644	$583,358.76
API 000738 117905 INBOX	CITY OF MIAMI BEACH	117905	$543,118.78
API 000738 119240 INBOX	CITY OF MIAMI BEACH	119240	$548,273.49
API 000738 122516 INBOX	CITY OF MIAMI BEACH	122516	$548,627.24
API 000738 123836 INBOX	CITY OF MIAMI BEACH	123836	$587,675.19
API 000738 127084 INBOX	CITY OF MIAMI BEACH	127084	$553,779.19
API 000738 128414 INBOX	CITY OF MIAMI BEACH	128414	$571,691.09
API 000738 84838 NBOX	CITY OF MIAMI BEACH	84838	$513,804.29
API 000738 86659 INBOX	CITY OF MIAMI BEACH	86659	$510,858.53
API 000738 89515 INBOX	CITY OF MIAMI BEACH	89515	$512,533.46
API 000738 90583 INBOX	CITY OF MIAMI BEACH	90583	$528,098.48
API 000738 93902 INBOX	CITY OF MIAMI BEACH	93902	$545,244.74
API 000738 94699 INBOX	CITY OF MIAMI BEACH	94699	$553,841.62
API 000738 98201 INBOX	CITY OF MIAMI BEACH	98201	$536,028.90
API 000738 99262 INBOX	CITY OF MIAMI BEACH	99262	$568,291.34
API 009415 100308 INBOX	INTERNAL REVENUE SERVICE (DED)	100308	$1,018,334.88
API 009415 107237 INBOX	INTERNAL REVENUE SERVICE (DED)	107237	$955,814.23
API 009415 108904 INBOX	INTERNAL REVENUE SERVICE (DED)	108904	$1,063,433.20
API 009415 111918 INBOX	INTERNAL REVENUE SERVICE (DED)	111918	$1,069,343.75
API 009415 113302 INBOX	INTERNAL REVENUE SERVICE (DED)	113302	$1,031,768.46
API 009415 116655 INBOX	INTERNAL REVENUE SERVICE (DED)	116655	$1,049,975.91
API 009415 117916 INBOX	INTERNAL REVENUE SERVICE (DED)	117916	$975,958.65
API 009415 119251 INBOX	INTERNAL REVENUE SERVICE (DED)	119251	$990,517.57
API 009415 122527 INBOX	INTERNAL REVENUE SERVICE (DED)	122527	$987,435.10
API 009415 123847 INBOX	INTERNAL REVENUE SERVICE (DED)	123847	$1,126,280.10
API 009415 127096 INBOX	INTERNAL REVENUE SERVICE (DED)	127096	$1,036,538.20
API 009415 128425 INBOX	INTERNAL REVENUE SERVICE (DED)	128425	$1,119,164.44
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API 035038 100085 INBOX	US BANK, NA	100085	$621,034.38
API 035038 100091 INBOX	US BANK, NA	100091	$4,577,250.00
API 035038 100093 INBOX	US BANK, NA	100093	$1,465,300.00
API 035038 100094 INBOX	US BANK, NA	100094	$2,051,009.38
API 035038 100113 INBOX	US BANK, NA	100113	$658,781.25
API 035038 123283 INBOX	US BANK, NA	123283	$675,000.00
API 035038 91041 INBOX	US BANK, NA	91041	$4,366,032.53
API 035038 93737 INBOX	US BANK, NA	93737	$1,843,150.63
API 035038 93741 INBOX	US BANK, NA	93741	$2,849,036.25
API 035038 93743 INBOX	US BANK, NA	93743	$675,000.00
Non-Debt/Payroll Payments (14)			
API 047411 109464 INBOX	PERSHING LLC	109464	$539,278.84
API 052270 101224 INBOX	CLARK CONSTRUCTION GROUP	101224	$873,266.38
API 052270 86121 INBOX	CLARK CONSTRUCTION GROUP	86121	$864,167.88
API 052270 95183 INBOX *	CLARK CONSTRUCTION GROUP	95183	$1,020,861.93
API 052850 86281 INBOX	LINCOLN ROAD BUSINESS IMPROVEMENT DISTRICT INC	86281	$627,481.00
API 006224 91419 INBOX	GREATER MIAMI CONV & VISITORS	91419	$592,251.43
API 017103 107405 INBOX	SUNTRUST	107405	$536,010.76
API 017103 114189 INBOX	SUNTRUST	114189	$634,120.89
API 017103 118330 INBOX	SUNTRUST	118330	$598,230.26
API 017103 122383 INBOX	SUNTRUST	122383	$612,749.29
API 017103 83914 INBOX	SUNTRUST	83914	$631,725.91
API 017103 88849 INBOX	SUNTRUST	88849	$731,291.34
API 017103 94009 INBOX	SUNTRUST	94009	$902,167.78
API 017103 99836 INBOX	SUNTRUST	99836	$587,421.36
* Approved by the City Manager using step 60			