MIAMIBEACH

MEMORANDUM

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Office of Internal Audit
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TO: Jimmy L. Morales, City Manager
VIA: Mark D. Coolidge, Interim Internal Auditor MDC
FROM: Norman Blaiotta, Senior Auditor NB

DATE: April 19, 2019
SUBJECT: Follow-up Review of Selected BDO USA, LLP Audit Report Findings (First Semi-Annual Review for the 2018/19 Fiscal Year)
PERIOD(S): January 1, 2019 – March 31, 2019

In response to the Follow-up Review of Selected BDO USA, LLP Audit Report Findings dated October 30, 2017 and the Finance and Information Technology Departments' implemented corrective actions, the Office of Internal Audit agreed to perform semi-annual reviews of selected future transactions to help ensure that the desired outcomes continue to be attained. The purpose of this semi-annual review, as requested by City Administration, was to re-visit the findings identified during the Second Semi-Annual Review Report for the 2017/18 Fiscal Year issued on November 7, 2018 concerning BDO recommendations numbered 27, 29 and 31.

In the months that have passed, a Disbursement Workflow Policy was vetted, approved by all relevant parties and issued on January 22, 2019 which has become the new criteria. As a result, our testing focused on determining whether the Munis System approval configuration is aligned with the new Disbursement Workflow Policy for selected "*Accounts Payable Invoices*" or API transaction types, which are defined below:

1. Purchase Order Liquidation (3-way match): The act of liquidating amounts from a purchase order with the requirement of a receiver and invoice payment.
2. Contract Liquidation: Payments made for a contract that is project specific and for which a specific budget amount has been appropriated. Requisitions and Purchase Orders are not required to make payments pursuant to encumbered contracts.
3. Neither a PO nor a Contract: Payments for the purchase of goods or services that do not require competition and may be completed without a Purchase Order.
4. Direct Pay (DP): for Debt Services Only and API payroll related payments. Debt service payments are payments made for principal, interest, debt servicing fees and debt issuance costs. Employee deductions are payments made for deductions related payroll transactions in balance sheet accounts.
5. Balance Sheet Disbursement: Balance sheet disbursements are not considered expenses at the time of disbursement and thus has limited or special approvals. These items were previously approved through another type of workflow or the City is acting as an agent and making an on-behalf payment.
6. Revenue Accounts: Revenue accounts are accounts with object codes 3xx xxx, which exist in all funds and are used citywide. These object codes are primarily used for receding receipts. In cases where refunds are disbursed from revenue accounts, this workflow this used.

The above six (6) categories follow a similar approval matrix structure for transactions over $500,000, being that they require two (2) approvals at the Department Level and that items $1,000,000 and greater also require approval by the City Manager or an executive staff member designated by the City Manager.

In addition, the Grants Management Division Director or her designee are required to approve any grants related purchases. However, the main differences for the categories are as follows:

- The "*Direct Pay (DP)*" category does not require the City Manager's approval for transactions of $1 million or more. Instead, it requires approval from a Finance Department Manager and the Department Director or their designated employees.

- The "*Neither a PO nor a Contract*" category also requires the Office of Management and Budget's approval.

Testing Performed and Results Attained

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, and

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, and

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.

Current Testing Results – The Office of Internal Audit tested all thirty-seven (37) API transactions exceeding $500,000 occurring between January 1, 2019 and March 31, 2019 which was comprised of the following:

- Twenty-one (21) transactions that were categorized as "*Direct Pay (DP) for Debt Services and Payroll Related Items*" were all approved by the Finance Department's Treasury Manager and the Deputy Finance Director.
- From the remaining sixteen (16) transactions that were considered not to be under the "*Direct Pay (DP)*" category, all ten (10) that either equaled or exceeded $1 million were found to be approved by the City Manager. The remaining six (6) transactions under $1 million were approved by at least two Department Management employees and/or an Assistant City Manager. Also, six (6) of the sixteen (16) transactions that fell into the category "*Neither a PO nor a Contract*" were approved by Budget Department personnel as required by the Disbursement Workflow Policy.

As a result, it was determined that the selected transactions were approved in accordance with the Disbursement Workflow Policy and that they were properly aligned with the Munis approval configuration.

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cc: John Woodruff, Chief Financial Officer