




Joseph M. Centorino, Inspector General

June 29, 2020

TO: Honorable Mayor and Members of the City Commission
FROM: Joseph M. Centorino, Inspector General 
RE: First Semi-annual Finance Review – Fiscal Year 2019/20
OIG No. 20-10

Executive Summary

Upon the discovery during 2016 of a \$3.6 million fraud involving its Treasury and ACH disbursements, the City Administration and Finance Department hired the independent firm of BDO USA, LLP (BDO) to perform an audit. BDO issued a report containing 60 findings with recommendations on how to mitigate the City's risk exposure on these disbursements.

The then-existing Office of Internal Audit was tasked with performing semi-annual reviews of selected BDO recommendations to ensure that these controls continued to be implemented. Following the transfer of the Internal Audit to the newly formed Office of Inspector General (OIG), these reviews have been continued. The focus of this review was to test City staff's compliance with BDO recommendations numbered 17, 27, and 38. The review revealed the following issues:

- A lack of segregation of duties was noted in four instances during a review of Account Payable transactions that occurred between November 1, 2017 and March 31, 2020.
- Six transactions equal to or more than \$100,00 were not dually approved.
- The authorization for one of the 12 sampled Role Assignment Changes was not documented by the Munis System Administrator in charge of performing these changes in the Munis system.



Joseph M. Centorino, Inspector General

TO: Honorable Mayor and Members of the City Commission

FROM: Joseph Centorino, Inspector General

DATE: June 29, 2020

AUDIT: First Semi-annual Finance Review – Fiscal Year 2019/20

OIG No. 20-10

PERIOD: October 1, 2019 to March 31, 2020

Upon the discovery of a \$3.6 million fraud involving its Treasury and ACH disbursements, the City Administration and Finance Department, among other responsive actions, hired the independent firm of BDO USA, LLP (BDO) to perform an audit. After extensive testing, interviews and analysis, BDO issued a report on May 17, 2017 containing 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 and Information Technology Departments worked together to take the corrective actions necessary to mitigate the associated risks and to attain the desired outcomes.

In response to the BDO audit report, the then-existing Office of Internal Audit was tasked with performing semi-annual reviews of selected recommendations to ensure that these outcomes continue to be achieved by the City. The Office of the Internal Audit was subsumed into the Office of the Inspector General (OIG) on November 1, 2019, which has opted to continue performing these semi-annual reviews for the foreseeable future. The focus of this review is to test City staff's compliance with BDO recommendations numbered 17, 27, and 38. A reporting of the sampled BDO recommendations, the results of OIG staff's current testing, and recommendations are separately listed below.

1. *BDO Recommendation #17* - *Munis should be modified to prevent the same accounts payable (A/P) employee from entering an invoice and also completed approving it. Alternatively, we recommend that the A/P employee who posts the batch of final approved invoices print a report that shows the A/P employee who entered the invoice and the A/P employee who approved the entry before the batch is posted to insure that the same employee did not enter and approve the invoice in A/P. In situations, where the same A/P employee entered and approved the invoice, the employee who posts the batch should review the invoice entry before posting the batch.*

Current Testing Results #17 – The OIG auditor contacted Finance Department management to inquire whether they had been performing these recommended tests and maintaining a listing of any shortcomings detected. Their response focused primarily on the fact that Accounts Payable staff with access to enter invoices were not in the approval workflow; however, no specific response was received regarding whether the Finance Department was performing the recommended tests.

Consequently, the OIG auditor assumed that these tests may not have been conducted. Therefore, all 71,587 approved accounts payable transactions that occurred between November 1, 2017 and March 31, 2020 were reviewed to determine the existence of any transactions where the same Finance Department employee entered and approved an invoice in the Munis system (the City’s enterprise resource planning system). In doing so, a lack of segregation of duties was noted for the following four transactions totaling \$1,036.33:

| Document Number | Entry Clerk (Employee Number) | Entry Date | Approver (Employee Number) | Approval Date | Transaction Amount |
|-----------------|-------------------------------|------------|----------------------------|---------------|--------------------|
| 193398 | 15842 | 8/7/2019 | 15842 | 8/8/2019 | \$ 75.00 |
| 198343 | 15842 | 9/6/2019 | 15842 | 9/6/2019 | \$ 253.33 |
| 198344 | 15842 | 9/6/2019 | 15842 | 9/6/2019 | \$ 354.00 |
| 198345 | 15842 | 9/6/2019 | 15842 | 9/6/2019 | \$ 354.00 |

While document number 193398 was also approved by an Accounting Manager, the presence of a second approver does not change the fact that Finance Department staff were acting in roles that should be separated. Meanwhile, the transactions pertaining to document numbers 198343, 198344, and 198345 were approved only by the same Financial Analyst III who had entered the transaction in the Munis system. Failure to implement an adequate segregation of duties increases the risk of fraud, as well as the risk that inadvertent mistakes may go undetected. Finally, the OIG auditor reviewed the supporting documentation for these four transactions, which did not appear to contain any irregularities.

Recommendations for Current Testing Results: - Since the Munis system does not detect and preclude an authorized user from performing both the entry and approval of a transaction, it is recommended that the City’s Chief Financial Officer instruct designated staff to review the approval privileges of all Accounts Payable employees and to perform the monthly tests recommended by BDO. These completed monthly tests should be sufficiently documented and maintained so that they can be timely provided to their supervisors or auditors to help substantiate the analysis performed and the results obtained.

Management Responses (Information Technology Department):

The Information Technology Department (I.T.) complied with BDO recommended #17 back in 2018 by removing Accounts Payable Staff from invoice workflow. I.T. is in the process of building a report to validate these changes.

Management Responses (Finance Department):

The transactions presented above are a combination of the Accounts Receivable Module (A/R) and the Accounting Payable Module (A/P) and are showing up this way due to the interfacing of the two modules when processing refunds to customers. While the Finance and I.T. team has modified the workflow process that will prevent this from recurring, note that adequate segregation of duties were in place. The transactions are refunds that originate in the A/R module that must be approved by either the Assistant Director or Deputy Finance Director. After the refund requests are approved in the A/R module, the refunds systematically flow to the A/P module where they follow the A/P workflow approval process, which at the time included employee 15842. The A/P approval workflow process was modified to exclude employees with access to create A/R refunds even though the refund requests are approved by the Assistant Director or Deputy Finance Director.

Finance is actively working with I.T. to create reports that would allow Finance to periodically review for duplicate approvals in all workflows as well as for individuals who are in the same

workflow more than once. This will allow for review of items from transaction entry to transaction posting.

The results of this audit had no findings of direct entry and approval by A/P staff. In addition, the 4 transactions above represent 0.0056% of the total approved accounts payable transactions that occurred between 11/1/2017 and 3/31/2020.

OIG’s Opinion on Finance Department’s Response:

The stated transaction is a refund for an overpayment received by the City. Although its origin involves the Account Receivable module, the testing performed and the identified shortcoming are specifically related only to the Accounts Payable (A/P) module. The A/P Invoice Tracking Report obtained from the Munis system and included in the working papers for this review, confirms the deficiency of the segregation of duties, which was the underlying reason for the identified finding.

2. BDO 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.*

Current Testing Results #27 – Since the approval of the Disbursement Workflow Citywide Procedure (Procedure) on January 22, 2019, and its subsequent update on December 3, 2019, in which two departmental approvals for the "Accounts Payable Invoices" or API transactions over \$100,000 are required, OIG staff have performed testing to (1) determine whether the Munis system configurations for approving API transactions are aligned with the Procedure and correctly configured; (2) whether transactions are being approved by at least two different designated supervisors at the departmental level.

Similar testing was performed in the last semi-annual report issued on October 25, 2019 for transactions in amounts equal to or greater than \$100,000 but less than \$500,000. All 264 applicable API transactions that occurred between March 1, 2019, and August 31, 2019 were tested, and their results summarized in the following table.

| Type of Issue | Number of Instances | Amounts of Invoices and Overall Total |
|--|---------------------|--|
| (1) The Munis system configuration is not aligned with the Procedure as transactions equal to or over \$100,000 are released for payment with only one department approval. | 3 | 1) \$ 332,315.67 2) \$ 104,822.90 3) \$ 204,000.00 Total \$ 641,138.57 |
| (2) The Munis system is correctly configured to request two departmental approvals on transactions equal to or over \$100,000, but both approvals were made by the same department official. | 4 | 1) \$ 180,238.99 2) \$ 106,137.40 3) \$ 104,745.78 4) \$ 201,400.00 Total \$ 592,522.17 |

The OIG staff opted to re-perform this test and expand the scope to all transactions that are equal to or more than \$100,000, to determine whether shortcomings continue to exist. As a result, all 437 API transactions that satisfied these criteria and occurred between September 1, 2019 and March 31, 2020 were tested, in which it was noted that the following six were not approved by two separate officials:

| Type of Issue | Number of Instances | Amounts of Invoices and Overall Total |
|--|---------------------|--|
| (1) The Munis system configuration is not aligned with the Procedure as transactions equal to or over \$100,000 are released for payment with only one department approval. | 2 | 1) \$ 204,000.00 2) \$ 110,000.00 Total \$ 314,000.00 |
| (2) The Munis system is correctly configured to request two departmental approvals on transactions equal to or over \$100,000, but both approvals were made by the same department official. | 4 | 1) \$ 117,714.65 2) \$ 906,887.45* 3) \$ 375,117.79 4) \$ 125,867.76 Total \$1,525,587.65 |

*The transaction with the highest dollar amount (\$906,887.45) was also approved at level 55 (Granted to the Assistant City Managers, Executive Staff or the City Manager), as required by the Procedure for transactions between \$500,000 but less than \$1,000,000; however, this does not satisfy the two required departmental approvals.

Exhibit A located at the end of this report provides more detail on these six exceptions that occurred between September 1, 2019 and March 31, 2020.

In sum, the last two semi-annual reviews have identified five transactions, with a combined amount of almost \$1 million that were released for payment with only one departmental approval due to an incorrect workflow configuration and eight other transactions where the combined amounts exceeded \$2.1 million that were approved by the same department official. During the previous semi-annual report, the OIG auditor was informed by the Munis System Administrator that the Munis system is not equipped to flag transactions over \$100,000 that were released with only one approval, or to detect and preclude a sole authorized user performing both approvals. The OIG considers this an internal control weakness that may jeopardize the legitimacy of a transaction, as well as facilitate mismanagement or even fraud, and for this reason requires prompt corrective action.

Recommendations for Current Testing Results

For all thirteen noted deficient transactions:

- a. The Chief Financial Officer should instruct his staff to promptly review their validity and correctness.

For the two transactions released for payment with only one approval, the City's Chief Information Officer should instruct the Munis System Administrator to:

- b. Amend each of the four departments' configuration as noted in Exhibit A, with the approval of their Directors, so that the Munis system requires at least two department approvals for all transactions equal to or more than \$100,000.
- c. Review all remaining City departments' configuration for approvals and make the necessary corrections to prevent similar deficiencies from occurring in the future.

For the four transactions where each was twice approved by the same department official:

- d. The Chief Financial Officer, together with the Chief Information Officer, should contact Tyler Technologies (the parent company of the Munis system) to explore the possibility of incorporating additional internal controls to the disbursement process. These controls should not be limited to API transactions, but to any approval process in the Munis system.
- e. Until this shortcoming can be rectified, the Finance Department should review all transactions \$100,000 or higher to ensure that they include at least two different authorized departmental approvers before the payment is issued.
- f. All department officials with approval privileges should be aware of the Disbursement Workflow Citywide Procedure and the requirement of two different departmental approvals on transactions \$100,000 or higher and act accordingly.

Management Responses (Information Technology Department):

Deputy Finance Director contacted the Munis System Administrator to discuss the said findings and developed a plan of action to update the workflow business rules for all cost centers so that (1) approvers are only assigned to approve at one step in the workflow except for level 5 which is not an approval authority; and (2) at least 2 department approvers are assigned to approve transactions \$100,000 and above. Task completed in early April. We are currently working on building a report to validate these changes.

Response for recommendation b. - *In place since March 2020*

Response for recommendation c. – *Completed*

Response for recommendation d. – *I.T. has been in conversation with Tyler Technologies regarding the Auditing features which are not available or greyed out. The Munis Administrator has submitted a ticket and Tyler has acknowledged this. The next step is to schedule down time to apply a script which will open up the Business Rule Audit feature. At that point, we can assess the full capabilities.*

Response for recommendation e. - *Created a report to address the need for verification. Finance to test.*

Management Responses (Human Resources Department):

The Human Resources (HR) Department, in coordination with I.T. and Finance, reviewed all approvers. We adjusted the HR/Risk approvers and backup approvers so that no person was an approver on more than one level in Munis. This will ensure that two distinct approvers will review in the case of a transaction that requires more than one approver. This was reviewed in February and was completed by March 9, 2020.

Management Responses (Tourism and Culture Department):

The Tourism and Culture Department is aware, confirms and approved the invoices reviewed. The invoice for \$110,000 is the final payment for the City of Miami Beach commissioned work of art by Joseph Kosuth as part of the Art in Public Places collection for Miami Beach Convention Center. The Kosuth work was a five (5) year project, approved by the City Commission pursuant to Resolution 2016-29480. The payments were disbursed via purchase order pursuant to executed agreement signed by the Mayor. The second invoice for \$375,117.79 is a monthly funding - cash flow payment to Spectra Management pursuant to our Miami Beach Convention Center management agreement. Tourism and Culture continues to work with the Finance and I.T. departments to identify and implement effective, efficient and productive workflows consistent with City internal controls. Unfortunately, as we work to perfect the workflows, a couple of invoices were approved twice or required a secondary department approval. This is not how the workflow should operate and occurred inadvertently, without intent or knowledge.

Management Responses (Capital Improvement Projects):

An invoice for the Pride Park Project in the amount of \$906,887.45 was processed by the Office of Capital Improvements and final approval was done on September 12, 2019. Munis is configured to request two departmental approvals for transactions equal to or over \$100,000. The Office of the Inspector General (OIG) performed a test on Munis approvals and found that the transaction did not meet the required workflow approval queues. CIP is refuting the finding and providing the following explanation.

The transaction met the Munis workflow requirement of having two approvals at the department level. First approval was performed by Aida Rodriguez and the second approval by Maria Cerna.

The Pride Park Project is part of the Convention Center Project and it is being managed by CIP. The Convention Center Project is managed by Convention Center Staff in the City Manager's office. The accounts for the Convention Center Project were setup with their budget code 0821. Munis approvals are separately configured for each budget code, as requested by each separate department. Some departments may have more than two workflow approvals. For this particular project, and because the accounts were configured using budget code 0821, each time an invoice was processed, we had to request Convention Center staff to forward the invoice back to CIP. On this particular transaction, the invoice was forwarded from Tracy Hejl to Aida Rodriguez (first CIP approval), the invoice was then forwarded from Thais Vieira to Maria Cerna (second CIP approval), because the Convention Center approval workflow has a third approval, Maria Hernandez forwarded the invoice to Maria Cerna again. The approval the second time was not intentionally performed. On this project, the department is always careful to have that third approval performed by David Martinez. After the receipt of this finding, the Finance Department was able to change the budget code to 0820 so that this issue does not happen again.

OIG's Opinion on Capital Improvement Projects Response:

Ms. Rodriguez's action in the approval queue for transaction number 199315 was at level 5 or "reviewer", which is not an approval authority. Please refer to the Information Technology Department's management response on finding two in this report for more clarification. The two approvals in this transaction correspond to the levels 38 and 40, both being performed by Ms. Cerna, which were the underlying reasons for the identified finding.

3. BDO Recommendation #38 - *An employee independent of I.T. and with no rights to request or make changes to the approval queues (workflow) should be responsible for reviewing an audit trail with the history of approval queue activity to verify whether changes to the invoice approval queues are authorized.*

Current Testing Results #38 - The OIG auditor requested the authorizations for 12 sampled Role Assignment Changes performed between January 1, 2019 and December 31, 2019 to determine whether the Munis System Administrator kept records of changes in roles and permissions made in the Munis system. OIG staff did not assess the appropriateness of the role/permission change, but only whether it was authorized, and the supporting documentation maintained.

Copies of 18 different emails were received to support the changes, since the Information Technology Department regularly handles change approvals on an email-based workflow. Testing determined that the authorization for one of the 12 Role Assignment Changes was not documented by the Munis System Administrator in charge of performing these changes in the Munis system. This document's omission could mean that an unauthorized change went undetected, which could result in an employee being given an overbroad access level that compromises the segregation of duties principle.

Recommendations for Current Testing Results

The Chief Information Officer should:

- Instruct the Munis System Administrator to enforce the requirement that changes in the system roles and permissions should not be performed unless they are properly authorized, and the supporting documentation maintained.
- The applicable department head and Munis Access Request should promptly vet the one identified undocumented Role Assignment Change to determine whether it should have been implemented or needs to be revoked.
- Explore the possibility of replacing the current email-based approval workflow with a ticket-based system like the existing "MB Assist" to ensure better control and custody of the authorizations.

Although it was not tested during this analysis, it is important to note that the Munis Access Request should thoroughly vet the department's request to proactively ensure that it does not result in an improper segregation of duties.

Management Responses (Information Technology Department):

To our knowledge the emails provided to OIG provided proof of authorization for the role assignment changes.

Response for recommendation a. - *The Munis administrator is aware and is following the appropriate (Current) process for approvals and auditing.*

Response for recommendation b. - *Incorporated in our current processes.*

Response for recommendation c. – *I.T. is currently developing an application (intelligent form using workflows) for City Wide user access requests and approvals for every software platform which will be incorporated into the I.T. Service Desk system. Estimated time for delivery is October 2020.*

OIG's Opinion on Information Technology Department Response:

None of the emails received from the Information Technology Department included a clear authorization approving the aforementioned employee's role assignment change.

cc: John Woodruff, Chief Financial Officer
Chris Sarandos, Chief Information Officer
Heather Shaw, Assistant Director - Tourism & Cultural Development Department
Michael Smith, Human Resources Department Director
David Martinez, Capital Improvement Projects Director

Conducted by: Norman Blaiotta, Deputy Chief Auditor

Reviewed by: Mark D. Coolidge, Chief Auditor

First Semi-annual Finance Review – Fiscal Year 2019/20
 June 26, 2020

Exhibit A

| # | Doc Num | Approval Step | Approver Position | Department | Amount | Approval(s) Date | Check Date | Check/Wire Number |
|----|---------|---------------|-------------------------------|--------------------------------|---------------|------------------|------------|-------------------|
| 1) | 198944 | 38 | HUMAN RESOURCES ASST DIRECTOR | HUMAN RESOURCES | \$ 117,714.65 | 9/6/2019 | 9/11/2019 | 3671 |
| | | 40 | HUMAN RESOURCES ASST DIRECTOR | | | | | |
| 2) | 199315* | 38 | DIVISION DIRECTOR - CIP | CAPITAL IMPROVEMENT PROJECTS | \$ 906,887.45 | 9/12/2019 | 9/13/2019 | 443360 |
| | | 40 | DIVISION DIRECTOR - CIP | | | | | |
| 3) | 201014 | 38 | ADMIN SERVICES MANAGER | TOURISM & CULTURAL DEVELOPMENT | \$ 375,117.79 | 9/25/2019 | 9/27/2019 | 3756 |
| | | 40 | ADMIN SERVICES MANAGER | | | | | |
| 4) | 206177 | 38 | PLAN DEPT DEPUTY DIRECTOR | PLANNING | \$ 204,000.00 | 10/21/2019 | 10/22/2019 | 444785 |
| 5) | 218201 | 38 | HUMAN RESOURCES ASST DIRECTOR | HUMAN RESOURCES | \$ 125,867.76 | 1/3/2020 | 1/8/2020 | 4095 |
| | | 50 | HUMAN RESOURCES ASST DIRECTOR | | | 1/6/2020 | | |
| 6) | 231745 | 38 | ASST DIRECTOR TOURISM & CUL | TOURISM & CULTURAL DEVELOPMENT | \$ 110,000.00 | 3/25/2020 | 3/27/2020 | 4389 |

* This transaction was also approved at level 55 (Granted to the Assistant City Managers, Executive Staff or the City Manager) as required by the Citywide Disbursement Workflow Procedure.