

**City of Miami, Florida
Management Letter in Accordance
With Chapter 10.550, *Rules of the
Florida Auditor General* and
Independent Accountant's Report
on the Examination of the City's Compliance
with Section 218.415, Florida Statutes**

Fiscal Year Ended September 30, 2017

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RSM US LLP

**Management Letter in Accordance with
Chapter 10.550 of the Rules of the
Florida Auditor General**

Honorable Mayor and Members of the
City Commission
City of Miami, Florida

Report on the Financial Statements

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Miami, Florida (the City), as of and for the fiscal year ended September 30, 2017, and have issued our report thereon dated March 30, 2018. Our report includes a reference to other auditors who audited the financial statements of the following component units and funds:

Component Units / Funds	Classification
<ul style="list-style-type: none">• Southeast Overtown Park West Redevelopment Agency• Omni Community Redevelopment Agency• Midtown Community Redevelopment Agency• Virginia Key Beach Park Trust• Liberty City Community Revitalization District Trusts	nonmajor special revenue fund nonmajor special revenue fund nonmajor special revenue fund nonmajor special revenue fund nonmajor special revenue fund
<ul style="list-style-type: none">• Firefighters' and Police Officers' Retirement Trust• General Employees' and Sanitation Employees' Retirement Trust and Other Managed Trusts	aggregate remaining fund information aggregate remaining fund information
<ul style="list-style-type: none">• Miami Sports and Exhibition Authority• Downtown Development Authority• Bayfront Park Management Trust• Coconut Grove Business Improvement District• Wynwood Business Improvement District	discretely presented component unit discretely presented component unit discretely presented component unit discretely presented component unit discretely presented component unit

This management letter does not include the results of the other auditors' testing of compliance and other matters that are reported on separately by those auditors.

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Auditor's Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; we also conducted our audit of each major federal program and state project in accordance with the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance) and Chapter 10.550, *Rules of the Auditor General*.

Other Reports and Schedule

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*; Independent Auditor's Report on Compliance for Each Major Federal Program and State Project and Report on Internal Control over Compliance; Schedule of Findings and Questioned Costs; and Independent Accountant's Report on an examination conducted in accordance with AICPA Professional Standards, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, *Rules of the Auditor General*. Those reports and schedule are dated March 30, 2018, except for the examination report on the City's compliance with *Section 218.415, Florida Statutes, Local Government Investment Policies*, the report on compliance for each major federal program and state project and report on internal control over compliance, for which the date for those reports are April 30, 2018. Disclosures in those reports and schedule should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)1., *Rules of the Auditor General*, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions taken to address the findings and recommendations made in the preceding annual financial audit report are disclosed in Appendix A – *Status of Prior Years' Findings and Recommendations to Improve Financial Management*.

Official Title and Legal Authority

Section 10.554(1)(i)4., *Rules of the Auditor General*, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. This is disclosed in Note 1 of the financial statements.

Financial Condition and Management

Sections 10.554(1)(i)5.a. and 10.556(7), *Rules of the Auditor General*, require us to apply appropriate procedures and communicate the results of our determination as to whether or not the City has met one or more of the conditions described in Section 218.503(1), *Florida Statutes*, and to identify the specific condition(s) met. In connection with our audit, we determined that the City did not meet any of the conditions described in Section 218.503(1), *Florida Statutes*.

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), *Rules of the Auditor General*, we applied financial condition assessment procedures for the City. It is management's responsibility to monitor the City's financial condition, and our financial condition assessment was based in part on representations made by management and review of financial information provided by same.

Section 10.554(1)(i)2., *Rules of the Auditor General*, requires that we communicate any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

Annual Financial Report

Sections 10.554(1)(i)5.b. and 10.556(7), *Rules of the Auditor General*, require that we apply appropriate procedures and communicate the results of our determination as to whether the annual financial report for the City for the fiscal year ended September 30, 2017, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2017. As of the date of this letter the 2017 annual financial report for the City was not filed.

Additional Matters

Section 10.554(1)(i)3., *Rules of the Auditor General*, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not note any such findings.

Purpose of this Letter

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, the Mayor, City Commissioners, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

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Miami, Florida

March 30, 2018, except for the examination report on the City's compliance with *Section 218.415, Florida Statutes, Local Government Investment Policies*, the report on compliance for each major federal program and state project and report on internal control over compliance, for which the date of each report is April 30, 2018

City of Miami, Florida

Appendix A – Status of Prior Years’ Findings and Recommendations to Improve Financial Management

Finding No	Finding Title	Current Year Status
2016-01	Financial Integrity Ordinance	Repeated
2015-01	Use of Restricted Resources	Repeated
2015-02	Accounts Receivable	Repeated
2014-03	Password Configurations	Corrected
2014-04	User Access Reviews	Repeated
2014-05	Data Restoration	Corrected
2014-06	Change Management	Corrected

City of Miami, Florida

Appendix A – Current Year Findings and Recommendations to Improve Financial Management

ML 2016-01 – Financial Integrity Ordinance

Criteria: City Ordinance No. 11890 – *Financial Integrity Ordinance* (the Ordinance) requires that the City individually retain assigned and unassigned fund balance reserves equal to at least ten percent of the average General Fund revenues (excluding transfers) for the prior three fiscal years.

Prior Year's Condition: As of September 30, 2016, the current measurement date, the City failed to retain assigned fund balance reserves equal to at least ten percent of the average General Fund revenues for the prior three fiscal years (fiscal years 2013, 2014 and 2015) of \$56.5 million, as required by the Ordinance. General Fund assigned and unassigned fund balance reserves as of September 30, 2016 was \$21.1 million and \$56.5 million, respectively.

Current Year's Condition: As of September 30, 2017, the current measurement date, the City failed to retain assigned fund balance reserves equal to at least ten percent of the average General Fund revenues for the prior three fiscal years (fiscal years 2014, 2015 and 2016) of \$59.8 million, as required by the Ordinance. General Fund assigned and unassigned fund balance reserves as of September 30, 2017 was \$25.4 million and \$59.8 million, respectively.

Cause: Lack of effective planning and budgeting resulted in noncompliance with the Ordinance.

Effect: Noncompliance with City Ordinance.

Recommendation: September 30th is the measurement date, as per the Ordinance, that is used to assess compliance. Consequently, the City failed the financial test of the Ordinance and management is not able to cure the noncompliance as of fiscal year-end September 30, 2016. Therefore, we recommend that management incorporate the financial requirements of the Ordinance in its budgeting process and monitor actual operating results during each period.

Prior Year's Views of Responsible Officials and Planned Corrective Actions: The administration is aggressively exploring ways to improve revenues and reduce expenditures and is working towards a recovery plan to replenish the General Fund reserves. The City administration has made significant efforts during FY 2016-17 to project year-end results in order to mitigate the findings in future periods. Additionally, the City administration will work to revise related ordinances to ensure they are in accordance with government financial reporting standards.

Current Year's Views of Responsible Officials and Planned Corrective Actions: The new policy for restricting funds and the subsequent finding for FY 2015-16 came after the FY 2016-17 Budget was adopted. As such, the administration implemented appropriate effective planning and budgeting to ensure future compliance with the Ordinance in the first new budget, the FY 2017-18 Budget. Additionally, City administration drafted a revision to the Ordinance to ensure the general fund designated fund balance reserve – defined as either restricted, committed, or assigned fund balance – aligns with government financial reporting standards as well as the original intent of the reserve requirements outlined in the Financial Integrity Principles. The proposed revisions have been presented to the City's Finance Committee and are currently being sponsored by a Commissioner for approval.

City of Miami, Florida

Appendix A – Status of Prior Years’ Findings and Recommendations to Improve Financial Management (Continued)

ML 2015-01 – Use of Restricted Resources

Criteria: The City should establish a funding timeline for capital project related expenditures prior to obtaining debt financing to fund such projects. This will result in the timely utilization of debt financing proceeds for funding projects. Also, it is the City’s policy to use restricted resources first as they are needed, followed by the use of unrestricted resources.

Prior Year’s Condition: We noted that the City is not expending available capital project bond proceeds in a timely manner. As of September 30, 2016, the City had \$22.4 million of available bond proceeds restricted for capital projects related to debt issued between fiscal years 2009 and 2010.

Current Year’s Condition: We noted that the City is not expending available capital project bond proceeds in a timely manner. As of September 30, 2017, the City had \$13.5 million of available bond proceeds restricted for capital projects related to debt issued between fiscal years 2009 and 2010.

Cause: Lack of effective planning, budgeting and funding of capital projects with available bond proceeds.

Effect: Possible non-compliance with bond indentures, applicable covenants under the City’s bond resolution, and tax compliance certificates related to the respective bonds. Additionally, the City is paying interest expense on related bonds and not utilizing the available proceeds to fund City projects.

Recommendation: We recommend that management develop a plan and budget appropriately to allow for the utilization of available bond proceeds to fund allowable City projects. Additionally, the City should establish defined funding timelines for individual capital projects, prior to obtaining debt financing to fund such projects.

Prior Year’s Views of Responsible Officials and Planned Corrective Actions: The City continues to spend-down remaining unspent proceeds. The City has had project status/funding meetings including the City Attorney’s Office, the Budget Department, the Capital Improvement Department, and the Finance Department to continually assess projects and the progress of the spend down. The City will continue to spend down as quickly as possible and work with bond counsel regarding its circumstance.

Current Year’s Views of Responsible Officials and Planned Corrective Actions: The City continues to aggressively spend-down remaining unspent proceeds. The City is now issuing Declarations of Intent to Reimburse early in the process, spending the funds, and then issuing the debt to minimize the risk of this recurring. The timing of expenditures is now factored into the timing of issuing the debt.

City of Miami, Florida

Appendix A – Status of Prior Years’ Findings and Recommendations to Improve Financial Management (Continued)

ML 2015-02 – Accounts Receivable

Criteria: Allowances for uncollectible receivables should be based upon historical trends and the periodic aging of receivables. Additionally, management should assess the collectability of receivables on a periodic basis and write-off balances not deemed to be collectible at a future date.

Prior Year’s Condition: The City’s allowance for uncollectible receivables was \$33.4 million as of September 30, 2016. Management should assess the collectability of the allowed receivable balances and write-off amounts not deemed to be collectible at a future date, after all reasonable collection efforts have been exhausted.

Current Year’s Condition: The City’s allowance for uncollectible receivables was \$35.1 million as of September 30, 2017. Management should assess the collectability of the allowed receivable balances and write-off amounts not deemed to be collectible at a future date, after all reasonable collection efforts have been exhausted.

Effect: Gross receivable balances reported in the financial statements may not be collectible at a future date.

Cause: Management has been assessing the collectability of the outstanding receivable balances over time however, formal action has not been taken to write-off amounts not deemed to be collectible at a future date.

Recommendation: We recommend that management assess the collectability of outstanding receivables and take formal action to write-off balances for financial statement reporting purposes, which are not deemed to be collectible at a future date.

Prior Year’s Views of Responsible Officials and Planned Corrective Actions: The City is drafting legislation to provide for write-offs of accounts that are deemed uncollectible. The City anticipates having the item before the City Commission prior to the 2017 fiscal year end.

Current Year’s Views of Responsible Officials and Planned Corrective Actions: The City concurs with the recommendation and drafted legislation, via an update to the City’s Financial Integrity Principles (FIP) Ordinance, to provide for write-offs of uncollectible accounts as part of the City’s basic financial policies. The proposed FIP revisions have been presented to the City’s Finance Committee and are currently being sponsored by a Commissioner for approval.

City of Miami, Florida

Appendix A – Status of Prior Years’ Findings and Recommendations to Improve Financial Management (Continued)

ML 2014-04 – User Access Reviews

Criteria: User access rights to an organization’s relevant financial reporting applications or data should be reviewed periodically by management.

Prior Year’s Condition: We noted periodic user access reviews are not being performed for the network and Oracle to validate that employee system access rights are appropriate based on the employee’s roles and responsibilities.

Current Year’s Condition: We noted periodic user access reviews are not being performed for the network (active directory) to validate that employee system access rights are appropriate based on the employee’s roles and responsibilities. Additionally, we noted in fiscal year 2017, management implemented a process to review Oracle user access rights however, such reviews were not completed as of the fiscal year ended.

Cause: The City does not have established policies and procedures in place requiring the review of user access rights on a periodic basis.

Effect: Risks include unauthorized use, disclosure of proprietary information, modification, damage or loss of data.

Recommendation: We recommend that management establish formal policies and procedures to allow for the proper administration of user access rights on an ongoing basis. Such policies and procedures should address the proper provisioning, modifying, removing, and periodic review of access rights assigned to employees. Management should determine as part of the user access review that configured access rights are appropriate based on the employee’s roles and responsibilities. This review should indicate who performed the review, when the review was performed, and if any access changes are required.

Prior Year’s Views of Responsible Officials and Planned Corrective Actions: A report to validate user access in the Financial System will be sent to Department Directors by June 30th every year starting in 2017.

Current Year Views of Responsible Officials and Planned Corrective Actions: We have processes in place to ensure that access to Oracle Financial Data is granted only authorized employees. We have a formal process in place to determine who can request access to Financial Data. Oracle Responsibilities associated with data access are only assigned after the requestor’s department and Process Owners approve. We are also generating a Responsibility Matrix Report that is sent to the Directors of departments that manage core functionality to validate user access. Regarding conducting network access reviews to control access to financial information, having access to the network or the windows domain does not automatically grant access to Oracle EBS. There is no integration between the environments to transparently login to one from the other. A second account from Oracle EBS is required to access the financial reporting applications. Moreover, the Oracle EBS system is installed on a separate Linux platform that also requires a different, non-Windows, account to have system level access. We currently do not have an automated process that would allow us to conduct network user access reviews. We have requested funding to implement an Identity Management System for FY 18/19.



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Independent Accountant's Report

The Honorable Mayor, Members of the
City Commission, and City Manager
City of Miami, Florida

We have examined the City of Miami, Florida's (the City) compliance with *Section 218.415, Florida Statutes, Local Government Investment Policies* during the year ended September 30, 2017. Management is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on the City's compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the City complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the City complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risk of material noncompliance, whether due to fraud or error. We believe that our examination provides a reasonable basis for our opinion.

Our examination does not provide a legal determination on the City's compliance with specified requirements.

In our opinion, the City complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2017.

This report is intended solely for the information and use of the Florida Auditor General, the Honorable Mayor, Members of the City Commission, the City Manager, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

RSM US LLP

Miami, Florida
April 30, 2018

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