

Meeting Date: 10/27/2015

Agenda Item 27

REQUESTED COMMISSION ACTION:

Consent     Ordinance     Resolution     Consideration/Discussion     Presentation

SHORT TITLE    Summary Activity Report of Internal Audit projects for a 16 month period from June 2014 through September 2015.  
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\_\_\_\_\_

**Summary of Purpose and Why:**



Present summarized highlights of completed and on-going projects performed by Internal Audit Department for a 16 month period June 2014 through September 2015 to City Commission. The summary report provides a dashboard with risks, ratings and status of projects. Six of the audits performed were in the City's Strategic Plan for FY14 & FY15 including:

1. Strategic Plan 2.5.1 - FY15 Standard Operating Procedures of Engineering Division
2. Strategic Plan 3.1.4 - FY14 Compliance Audit: Debt Service Payments for FY14
3. Strategic Plan 3.1.4 - FY15 Compliance Audit: Debt Service Payments for FY15
4. Strategic Plan 3.1.6 - FY14 External Audit Assistance: Single Audit of Federal and State awards
5. Strategic Plan 2.5.1 - FY14 Standard Operating Procedures of Parks, Recreation & Cultural Arts Department
6. Strategic Plan 6.2.3 - Follow-Up For FY14 Information Technology Security Audit

- (1) Origin of request for this action: Barbara DeLeon, Internal Auditor
- (2) Primary staff contact: Barbara DeLeon    954 786-4690
- (3) Expiration of contract, if applicable: Not Applicable
- (4) Fiscal impact and source of funding: Not Applicable

DEPARTMENTAL COORDINATION	DATE	DEPARTMENTAL RECOMMENDATION	DEPARTMENTAL HEAD SIGNATURE
<u>Internal Audit</u>	<u>10/14/2015</u>	<u>Approval <i>10/15/14</i></u>	<u>Internal Audit Memo 15-03 <i>[Signature]</i></u>

*[Signature]*

City Manager

*[Signature]*

**ACTION TAKEN BY COMMISSION:**

<u>Ordinance</u>	<u>Resolution</u>	<u>Consideration</u>	<u>Workshop</u>
1 <sup>st</sup> Reading	1 <sup>st</sup> Reading	Results:	Results:
2 <sup>nd</sup> Reading			



**INTERNAL AUDIT DEPARTMENT  
Memorandum 15-03**



**Date: September 30, 2015**

**To: The Honorable City Commission**

**By: Barbara DeLeon, CIA, CISA, CMA, CFM, CGFO, Internal Auditor**

A handwritten signature in blue ink, appearing to be "BD".

**Re: Internal Audit Activity Report from June 2014 through September 2015**

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Internal Audit's Activity Report covered the sixteen month period of June 2014 through September 2015 for 20 projects totaling \$336.4 million.

Attachment I of the report provided an activity dashboard with risk ratings and status of each project. Attachment II provided summary information for each project.

We welcome and encourage your comments and feedback; especially should you have any questions regarding this report. You may reach the Internal Auditor directly at the Office at (954) 786-4690.

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- C: Dennis Beach, City Manager  
Gregory Harrison, Assistant City Manager  
Mark Beaudreau, Parks Programs Administrator  
Mark Berman, City Attorney  
A. Randolph Brown, Utilities Director  
Robert A. McCaughan, Public Works Director  
Fawn Powers, Assistant City Attorney  
Steven P Rocco, Air Park Manager  
John Sfiropoulos, City Engineer  
Suzette Sibble, Finance Director  
Michael Smith, Human Resources Director  
Otis Thomas, General Services Director  
Gene Zamoski, Information Technology Director

Attachments (2)



Section I. Activity Dashboard – Risk Ratings and Status - Internal Audit Activity Report

A. Completed Projects

#	Project Title	Risk Rating Before Recommendations	Risk Rating After Recommendations	# of Findings	# of Recommendations	Recommendations Implemented	Recommendations Not Implemented	Follow-Up	Project \$	Report Page #
1	J.P. Morgan Chase Banking Services Agreement Transition: Technical Assistance During Transition - Annual Activity of \$235 Million	Low	Low	5	5	5	N/A	N/A	\$235,000,000	6-7
 2	Strategic Plan 2.5.1 - FY15 Standard Operating Procedures of Engineering Division: CIP Expenditures of \$36 million for FY10 to 8/14	Moderate to High	Low	12	11	N/A	3	8	\$36,000,000	7-9
3	Airpark Memorandum Of Agreement With FAA for FY14	Low	Low	6	1	1	N/A	N/A	\$15,532,562	9-10
4	Payroll: Additional Pay Expenditures From FY11 to FY14	Low	Low	1	1	1	N/A	N/A	\$9,200,000	10-11
 5	Strategic Plan 3.1.4 - FY14 Compliance Audit: Debt Service Payments for FY14 of \$8.8 Million	Low	Low	3	2	2	N/A	N/A	\$8,782,256	11-12
 6	Strategic Plan 3.1.4 - FY15 Compliance Audit: Debt Service Payments for FY15 of \$8.2 Million	Low	Low	3	N/A	N/A	N/A	N/A	\$8,200,000	12
 7	Strategic Plan 3.1.6 - FY14 External Audit Assistance: Single Audit \$3.89 Million of Federal awards and \$307,710 of State awards	Low	Low	N/A	N/A	N/A	N/A	N/A	\$4,197,710	13
8	Parks and Recreation Various Agreements from 6/14 – 9/15	Low	Low	3	3	3	N/A	N/A	\$3,741,310	13-14
 9	Strategic Plan 2.5.1 FY14 Standard Operating Policies/Procedures: Parks, Recreation & Cultural Arts Department: FY15 Annual Revenues of \$1.2 Million	High	Low	23	23	22	N/A	1	\$1,200,000	15-16



#	Project Title	Risk Rating Before Recommendations	Risk Rating After Recommendations	# of Findings	# of Recommendations	Recommendations Implemented	Recommendations Not Implemented	Follow-Up	Project \$	Report Page #
10	Loan activity for Microenterprise Loan Program for Northwest Community Redevelopment Agency as of 9/14	Low	Low	1	1	1	N/A	N/A	\$1,051,000	16-17
11	JP Morgan Chase Purchase Card Services: Pilot Program Review	Moderate	Low	8	5	5	N/A	N/A	\$500,000	17-18
12	\$300,000 Change Order For City Hall Third Floor Renovation Project	High	Low	11	8	N/A	1	7	\$300,000	18-20
13	Public Works – Technical assistance Sovereignty Land Lease - Pier	Low	Low	0	0	N/A	N/A	N/A	\$67,525	20
13	<b>Completed Projects Total # Projects &amp; Dollars</b>			<b>76</b>	<b>60</b>	<b>40</b>	<b>4</b>	<b>16</b>	<b>\$323,772,363</b>	<b>1-20</b>



**B. Prior Audit Follow-up**

#	Project Title	Risk Rating Pending Recommendations	# of Findings	# of Outstanding Recommendations	Status
 <p>1</p>	Strategic Plan 6.2.3 FY14 Information Technology (IT) Security Audit - Software Systems - Physical Security Controls and Back-Up, Transactions of \$2,900,000	Low	9	2	2 outstanding recommendations were followed up in 3/15 with target implementation estimated by end of first quarter of 2016 (1) EOC Electronic Badge, (2) EOC Wiring & Locks by IT.
2	CGCS (Cypress Golf Course Services) Annual Report For Golf Course-Vendor Report \$2,413,500 Prior Audit of Expenditures	Low	8	1	1 outstanding recommendation was implemented for a periodic, written assessment report to be done at least annually by the new vendor. Report to keep the City Administration apprised of resolving problems cited in prior assessment report by vendor. Management stated an annual, written assessment report of condition of the golf courses would be done by an independent consultant. <ul style="list-style-type: none"> <li>Report was completed in 8/15</li> </ul>
3	Follow Up: Controls on E-Payables Implementation of Electronic Funds Transfer Payment To Vendors for FY12-14 of \$427,000	Low	4	1	1 outstanding recommendation was being considered. Given the low acceptance of the E-Payables program by City's vendors, Finance management should analyze additional work load for payments to determine if the program should be continued. <ul style="list-style-type: none"> <li>Recommendation was not implemented. The E-payables program was discontinued during process of new bank transition and was effective 5/16/2014. Since transition to JP Morgan Chase, Finance Department is now reconsidering the potential future use of E-Payables. An initial survey of similar Cities</li> </ul>



					regarding their respective successes with E-Payables, has been completed, but the results are yet to be analyzed. E-Payables is one of Finance's Lean Six Sigma (LSS) projects. Discussion of future use of E-Payables is scheduled for 1/16.
4	Public Works: Technical Assistance re: Sand & Spurs Rentals \$200,588	Low	4	2	<p>2 outstanding recommendations had a target implementation date of 6/05/14. As of 8/15, two recommendations were implemented.</p> <ol style="list-style-type: none"> <li>1. Use of miscellaneous receipts system for stalls rentals</li> <li>2. Monitor large dollar delinquent stall customers to curtail delinquency growth.</li> </ol> <p>Public Works used a stand-alone Quick Books software. Instead, the use of the City's integrated miscellaneous receipts system was recommended. The miscellaneous receipts system has the ability to provide for cumulative, past due (unpaid) balances.</p>
5	Backflow Solutions Inc. (BSI) Online Subscription Agreement: Reported Revenues, Vendor Data and Code Compliance - \$72,000	Low	5	1	<p>1 outstanding recommendation was to be implemented due to new BSI system enhancements during 6/15. Prior procedures for this remaining recommendation were completed: however, with the new system enhancement, there remained a need for updated SOP procedures. The new target date for completion of these new procedures is 12/15. A follow up was scheduled for 3/16.</p>
5	<b>Prior Follow-Up Recommendations</b>		<b>30</b>	<b>7</b>	<b>\$6,013,088</b>

**C. Current and Future Audit Projects – Risk Ratings To Be Determined**

#	Project Title	Project \$	Page #
1	Retroactive Revenue for Communications Service Taxes: \$4.5 Million from 2001 to 2008 for Comcast of Greater Florida/Georgia from Deerfield Beach to Pompano Beach	\$4,500,000	20
2	Strategic Plan 6.2.3 FY15-FY16 Information Technology Security Audit: Identity and Access Management Processes. Project was started in FY14-15, but rescheduled due to other higher priority audit requests	\$2,100,000	21
2	<b>Total Current and Future Project Dollars</b>	<b>\$ 6,600,000</b>	<b>20-21</b>
20	<b>Total All Work: Projects And Dollars</b>	<b>\$336,385,451</b>	<b>1-21</b>

## Section II. Summary Detail - Completed Projects

### 1. J.P. Morgan Chase Banking Services Agreement Transition: Technical Assistance during Transition - Annual Activity of \$235 Million

#### Summary

Technical assistance was provided as a member of the implementation team. The adequacy of accounting and operational controls were evaluated.

#### Scope

Annual activity estimated at \$235 million with \$90.7 million in revenues and \$144.2 million in expenditures. Areas covered included:

- Utilities payments (eLockbox, and image cash letter)
- Parking Meters (including pay-by-phone/Passport parking)
- Payroll (direct deposits and physical checks)
- Vendor payments (wire transfers, physical checks, E-Payables)
- Implementation of Purchase Card (P-Card) Services
- Uploading bank transactions into City's Financial Accounting system

#### Standards

Complete and accurate transactions recording, processing, and reporting in the respective Financial Systems, e.g. Smart Data, Naviline, etc. after implementation of the relevant services.

- PCI DSS for Payment Processing Vendors (Chase Paymentech, TSYS®)
- Bank Confirmation that transactions/check files (Paperless Check Deposits) are received
- Client Access Security (Entitlements) to City accounts is available to designated staff
- NSF/Rejected Transaction Emails received by designated staff
- Positive Pay/Direct Deposit and Checks are cashed as necessary
- Limited Automatic Clearing House (ACH) Debit transactions/access to City Bank Account
- Credit Card Transactions are completed with minimal hardship/errors
- Purchase Card Policy
- Credit Card Processing Policy
- Remote Parking transactions are completed and recorded accurately
- Segregation of Duties

#### **Results: 5 Findings And Recommendations Result In Low (Green) Risk Ratings**

Transition of banking services started in 8/14 and was completed in 11/14. After a successful pilot P-Card program, City wide use was recommended.

- Banking Services were transferred in 8/14 and enabling equipment (Check Imaging) was provided to the City
- Designated City Personnel and Vendors have access on and off-line banking services
- Access to City bank account through ACH transactions was limited to pre-authorized parties

- As of 12/14, the City was compliant with Data Security (PCI-DSS) Standards compliant including Chase Paymentech, TSYS®, and Plug & Pay which were credit Card payment processors; Credit Cards were accepted at all desired locations
- 120 Purchase Cards were in use by General Services, Building Maintenance, Public Works, and other Departments. Routine P-Card transactions' processing worked as designed
- As of 11/14. Purchase Card Policy was approved
- As of 8/15, a revised policy was approved for City-wide roll out of the P-card program
- E-Payables were discontinued. Potential use of E-Payables will be reconsidered 1/16
- Five findings noted the need to test different bank modules before implementation
- Five tests were recommended and completed, and the results were reviewed:
  1. Credit card acceptance transactions
  2. P-Card transactions with job/work order detail
  3. Image cash letter/Image direct deposit transmission
  4. Limited ACH access to City accounts
  5. Checks issued by JPMC

<p><b>2.  Strategic Plan 2.5.1 FY15 Standard Operating Procedures of Engineering Division: Capital Projects Expenditures of \$36 million for FY10 – 8/14</b></p>
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### Summary

As part of the City's Strategic Plan for FY15, Internal Audit would perform audit of a City division annually. Procedures of Engineering and Purchasing Divisions were audited for (CIP) Capital Improvement Projects.

Formerly, the Engineering Division was primarily responsible for CIP management. On 12/3/14, CIP management responsibilities were transferred to a new CIP division and the Utilities Department. Now CIP staff report to the recently appointed City Engineer.

- Twelve findings resulted with risk ratings ranging from yellow (moderate) to red (high).
- Eight of eleven recommendations will be implemented in the future
  - Future implementation of recommendations will rest with the new CIP Division and Utilities Department
  - A follow-up of recommendation implementation was scheduled for 2/16
  - Three recommendations will not be implemented

### Scope

CIP Procedures were evaluated for CIP projects from FY10 through 8/14. Five CIP projects were selected which represented 12% of the \$36 million in CIP expenditures.

The audit was done to evaluate:

- Fair and competitive procurement processes for consultants, contractors
- Accurate, complete, and transparent information for City projects
- Compliance with the State's Consultants Competitive Negotiations Act (CCNA)
- Compliance with Purchasing Policies related to City CIP procurement

- Engineering Operating procedures and practices as City safeguards/protections

**Standards**

- Florida statutes for Consultants' Competitive Negotiation Act (CCNA)
- City's General Services Procedures' Manual for fair and competitive procurement
- Contract General Conditions for change order approval by City Commission
- Engineering Division Policies and Procedures Manual for accurate, complete and transparent information

**Results: Yellow (moderate) to Red (high) Risk Rating Assigned**

- Policies and procedures supported fair and competitive procurement
- Policies and procedures complied with State regulations for the CCNA
- Non-compliance was found for prior Commission's approval for a change order
- Internal controls weaknesses were found including documentation and retention of files and supervisory review

**11 Recommendations Made: 8 To Be Implemented and 3 Will Not Be Implemented**

1. Criteria for consultants/contractors evaluation was adequate. For future, consider evaluation enhancements from best practices handbook. Recommendation will not be implemented
2. Written policies and procedures failed to distinguish discretionary guidance from mandatory requirements. Policies and procedures should be timely updated and specify mandatory requirements. Recommendation will be implemented
3. Non-compliance with policy for electronic documentation and retention for project files result in missing documents or more time to respond to public records requests. Complete document support for project files and project close-out checklist recommended. Recommendation will be implemented
4. Backlog existed for transfer of completed projects. Projects should be timely transferred to city clerk's software. Recommendation will be implemented
5. From RFP inception through completion of CIP projects, key summary information was not compiled and stored in one centralized electronic database for effective retrieval/analysis. An electronic database should be created to capture and store key summary information in shared drive for CIP projects. Recommendation will be implemented
6. Three projects had five change orders totaling \$216,592 and required prior City Commission approval. Four change orders had prior City Commission approval. For fifth change order, non-compliance resulted as Commission approval occurred five months after project's completion. Additional training on change order policy should be done. Recommendation will be implemented
7. For Palm Aire Park project, City Commission was not informed change order did not comply with City policy and contract requirements. Project management should promote compliance with City policy and justifications should be provided. Recommendation will be implemented

8. Lack of documentation for non-utilization of selected firms approved by City Commission for professional services. Non-utilization of selected firms should be documented and rotation among approved firms considered. Recommendation will not be implemented
9. RFP deadline extended for Palm Aire Park for technical questions about materials for tennis courts' base. Design plans changed and materials substitutions occurred within weeks after bid opening. Materials substitution questioned. Justification and costs for substitutions should be timely documented. Recommendation will be implemented
10. Project management over gross maximum price (GMP) contracts did not appear to be different from non-GMP contracts. Project management should be tailored to cost basis. Recommendation will not be implemented
11. Engineering division does not do formal consultants/contractors evaluations after project completion. Formal consultants'/contractors' evaluations should be done after project completion. Recommendation will be implemented

### **3. Airpark Memorandum Agreement With FAA for FY14 - \$15.5 Million Net Position**

#### **Summary**

An annual audit report was timely submitted and one compliance exception was noted.

#### **Scope**

This audit was performed in accordance with Paragraph 3.I, Development with Net Proceeds; Memorandum of Agreement (MOA) with the Federal Aviation Administration. The internal audit report was sent to the F.A.A. and the recommendation implemented.

#### **Standards**

- Integrity of data for FY14 for Airpark Enterprise and Improvement Funds
- Funding sources, funding uses for expenditures and reasonableness of interest revenue for Airpark Capital Improvement Fund (Paragraph 3A)
- Rent payment to Airpark Enterprise Fund (Paragraphs 2.A.1, 2.B.1 and 2.A.3)
- Expenditures from FY08 to FY14 per Exhibits B and D of MOA for Airpark Capital Improvement Fund (Paragraphs 3A, 3.G.1 and 3.G.2)
- City's Capital Improvement Plan for expenses of Airpark Capital Improvement Fund (Paragraphs 3A, 3.G.1 and 3.G.2)
  - Agreement reached to replace expenditures in Exhibits B and D of MOA with City's CIP Plan. An annual project status report was due 12/31
- Annual municipal services to the Airpark Enterprise Fund (Paragraph 8)

#### **Results: Low risk rating (green) assigned. 1 exception for late report submission**

1. Airpark Enterprise and Improvement Funds was fairly presented:
  - Net Position of \$15.5 million; revenues, grants and transfers of \$2,115,503; expenses of \$2,112,399. Airpark Improvement Fund expenditures were \$301,543
2. Sources and Uses for Cash for Airpark Construction Fund complied with MOA

- Per Paragraph 3A, Development with Net Proceeds, immaterial pooled interest earnings \$4,222 and method for allocation has remained consistent. Beginning cash of \$1,121,805 and ending cash of \$346,079 were verified
- 3. Annual Rent Payments to Airpark Enterprise Fund for Category B Land Parcels for FY14 of \$372,382 complied with paragraphs 2.A.1, 2.B.1 and 2.A.3
- 4. Actual Capital Project Expenditures were compared to Estimated Expenses in Exhibits B and D for Airpark Capital Improvement Fund from FY08 to FY14
  - Actual expenditures of \$10,461,623 were for 11 projects:
    - \$8 million of expenditures for 5 projects with estimated expenditures of \$10,043,666 in Exhibit B which met the \$8 million amount in Exhibit D.
    - \$2.41 million in expenditures for 6 projects were approved in City's adopted/recommended CIP Plans and were not in project list for Exhibit B.
- 5. Project expenses for CIP Plans and annual project status report were reviewed.
  - The Airpark Improvement Fund had budgets in CIP Plan: 4 projects with expenses of \$301,543
  - Project status report was sent 3 months late to F.A.A. by City staff which was a reporting exception
- 6. Municipal Fees of \$283,746 for Airport Enterprise Fund complied with the MOA

#### 4. Payroll: Additional Pay from FY11 through FY14 of \$9.2 Million

##### **Summary and Scope**

During the interim review of FY14, the external auditor firm reviewed segregation of duty controls over the additional pay component of the payroll system. From FY11 through FY14, additional pay expenditures were \$9.2 million or 4% of estimated payroll expenses of \$264,850,668. The external auditor firm recommended that Internal Audit staff perform an audit of additional pay. The audit was completed in 10/14.

##### **Standards**

- Code of Ordinances, City Policy, Personnel Rules and Regulations, section 34.106(F), Personnel Director, provide forms and procedures
- Code of Ordinances, City Policy, Police and Firefighters' Pension, section 34.061, contributions, (a)(1)
- Code of Ordinances, City Policy, Police and Firefighters' Pension, section 34.055 (B) (4)(f) – firefighters' normal retirement benefit for 11.6% employee contribution, firefighters(4)4.061, contributions, (a)(1)
- Code of Ordinances, City Policy, Personnel Rules and Regulations, section 34.108, (A) (1), temporary assignment increases of 5% to 15% over base rate of pay
- Code of Ordinances, City Policy, Personnel Rules and Regulations, section 34.108, (A) (2), special assignment increase of 15% over base rate of pay
- Code of Ordinances, City Policy, Personnel Rules and Regulations, section 34.107, (C) (4) and (C) (6), position classification plan for biweekly assignment pay of 5% for EMT I including lifeguards or 15% for EMT II
- Code of Ordinances, City Policy, Personnel Rules and Regulations, section 34.107, (C) (7), position classification plan - biweekly assignment pay of a) \$50 for water plant operator certified as a "B" operator or b) \$100 for an "A" operator

- Florida Statutes, Chapter 633.382(3) (a) and (3) (b), Firefighters' supplemental compensation of \$50 monthly for associate's degree or \$110 monthly for bachelor's degree
- City Ordinance 2014-40, Fire Contract for FY14 through FY16, Article 15(5) – supplemental compensation of \$90 monthly for bachelor's degrees
- Annual city budget for monthly allowances or an annual employee award

**Results: Compliance With City Regulations Resulted In Low (Green) Risk Rating**

- Retro-additional pay was vouched and complied with standards
- Assignment additional pay was vouched and complied with standards
- Annual additional pay for shoe allowance was vouched and complied with standards
- Additional pay for college degrees and certifications was vouched and complied with standards
- Except for an immaterial exception, additions and deletions of additional pay for new hires, promotions, terminations and retirements was vouched and complied with standards
- The majority of continuing additional pay payment for fire staff was sampled and was supported by the salary history file for new hires and promotions

**5.  Strategic Plan 3.1.4 - FY14 Compliance Audit: Debt Service Payments of \$8.8 Million**

**Summary**

As part of the City's Strategic Plan for FY14, Internal Audit would perform a bi-annual audit of debt service payments. General obligations or enterprise obligations were audited in alternating years. Finance Department was responsible for management of City debt. For FY14, \$8.8 million in debt service payments were made timely.

Management of City debt included:

- Amortization schedules for bonds, note principal and interest payments
- Debt payments made by check or wire transfer by bond or by the City
- Debt service payment files of Finance Department
- Long term debt data in the Notes to City's Financial Statements

**Scope**

Internal Audit staff vouched long term debt principal and interest payments of \$8,782,256. Payments, dates of payment, and budgeted amounts for debt were compared to amortization schedules, and debt payment spreadsheets.

**Standards**

- City Ordinance 36.052, Revenue Bonds, Certificates - Details the issuance and use of revenue bonds
- City Ordinance 32.35, Establishment - Director: Describes the role and responsibilities of the Finance Director

- Tax Exempt/Tax Credit Debt and Post-Issuance Compliance Policies and Procedures, approved 9/12
- Accounting Procedures Manual, Debt Policy 11-B, revised 10/13
- Debt Covenants of source banking and/or financial institutions

**Results: Low (green) risk rating assigned to annual debt service payments**

There were 28 payment transactions (16 checks and 12 wire transfers) in FY14. Based on our review:

- Payments were made timely, a day or two before their due dates
- Long term debt complied with reporting requirements
- Amortization schedules were complete

**Recommendations: 2 Prior Recommendations Implemented**

During our FY14 audit, two recommendations were made to update the Accounting Policy and Procedures Manual for debt service and to also incorporate wire transfers. The two recommendations were implemented by 10/13.

**6.  Strategic Plan 3.1.4 - FY15 Compliance Audit of Debt Service Payments of \$8.2 Million**

**Summary**

As part of the City's Strategic Plan for FY15, Internal Audit Internal Audit would perform a bi-annual audit of debt service payments.

**Scope**

Internal Audit staff vouched long term debt principal and interest payments of \$8.2 million. Payments, dates of payment, and budgeted amounts for debt were compared to amortization schedules, and debt payment spreadsheets.

**Standards**

- City Ordinance 36.052, Revenue Bonds, Certificates - Details the issuance and use of revenue bonds
- City Ordinance 32.35, Establishment - Director: Describes the role and responsibilities of the Finance Director
- Tax Exempt/Tax Credit Debt and Post-Issuance Compliance Policies and Procedures, approved 9/12
- Accounting Procedures Manual, Debt Policy 11-B, revised 10/13
- Debt Covenants of source banking and/or financial institutions

**Results: A low (green) risk rating was assigned to annual debt service payments**

There were 23 payment transactions (17 checks and 6 wire transfers) in FY15. Based on our review of FY15:

- Payments were made timely, a day or two before their due dates
- Long term debt complied with reporting requirements
- Amortization schedules were complete

**7.  Strategic Plan 3.1.6 FY14 External Audit Assistance: Single Audit \$4.2 Million of Federal and State awards**

**Summary and Scope**

Internal Audit staff provided annual assistance to external auditors for their FY14 audit. Controls were tested or questionnaires prepared for Federal and State grants programs.

**Standards**

- State and Federal Grants program requirements

**Results: low (green) risk rating for compliant CDBG, NSP, SHIP programs & CAPER Report.**

- For CDBG, NSP, Aviation and U. S. Department of Justice Federal awards, compliance tests were performed. Payments complied with controls and regulations, \$3.89 million or 66% of \$5.9 million in Federal expenditures were vouched
- Consolidated Annual Performance Evaluation Report (CAPER) for FY14 was timely filed by HUD deadline of 12/14. Of \$6,250,809 in CDBG resources, expenditures excluding section 108 repayments were \$1,637,709 with unexpended balance of \$4,613,100
- Immaterial differences of 1% resulted from vouching cumulative Federal drawdowns of \$2,910,087 and current year Federal drawdown reimbursements of \$1,637,709. Immaterial differences resulted from comparison of the FY14 CAPER reported expenditures to City's general ledger
- For SHIP State award, compliance tests were performed. Payment complied with controls and regulations, \$307,710 or 36% of \$849,060 in state expenditures were vouched
- The SHIP annual report was timely filed on 9/14 to comply with the State's deadline of 9/14
- For SHIP State award, Statute's minimum of 65% for homeownership and 75% for homeownership/construction were met by comparing total available funds to State distribution trust funds

**8. Parks & Recreation Agreements: Technical Assistance - \$3.7 Million**

**Summary and Scope**

Parks, Recreation and Cultural Arts Department requested technical assistance from Internal Audit staff during the period of 6/14 through 9/15 for various draft agreements, projects and internal control processes to protect City interests.

**Standards**

- Records access controls and internal controls
- Financial recordkeeping and reporting
- Records retention

**Results: Low (green) risk rating assigned to agreements.**

Technical assistance was provided to Parks, Recreation and Cultural Arts Department. For Department Agreements, a revised checklist was done to streamline the process. The checklist was a white belt project from City training for Lean Six Sigma methods for total quality improvement services.

1. Eta Nu Educational Foundation License Agreement FY15 - \$40,000
2. Brazilian Festival Agreement FY14 with LS Events LLC - \$19,339
3. Brazilian Festival Agreement FY15 with LS Events LLC - \$22,617
4. Concessionaire Services RFP T-59-13, \$11,100 annually
5. Golf Pro Agreement for 2015 Bob Loring Enterprises, Inc., \$612,170
6. Russell Life Skills and Reading Foundation, Inc. Agreement
7. Seafood Festival Corporation
8. School Crossing Guards (The Butler Group) \$605,409
9. National Flag Football Association, Inc.
10. Pompano Piranhas, Inc. \$17,880
11. Hola Mundo!, LLC, Summer Camp
12. Living Water Surf School LLC
13. Proserve Concepts Inc.
14. Bluewater Movements, Inc., \$24,610
15. Oceanside Beach Service Inc.
16. Instructor Agreement
17. RecTrac Controls for Front Line Menus/Four Fields
18. Pompano Chiefs, Eagles and Cowboys Booster Clubs

**Creative City Collaborative of Pompano Beach Inc. Agreement – 10/15 through 9/16 with \$2,359,305 estimated budget****3 findings were made and 3 recommendations were implemented**

Internal Audit staff reviewed the renewal agreement with Exhibits for internal controls, recordkeeping, inspection and audit procedures, and financial accountability reporting requirements. This review was to promote sufficient controls.

1. The prior agreement did not require a separate corporation to ensure separate financial statements for Pompano Beach's contract. A recommendation was implemented to require creation of a new corporation exclusively for City of Pompano Beach for transparency and accountability of City funds
2. Although the prior agreement specified the creation of a foundation, the foundation had not been established. A recommendation was implemented to move forward to establish Pompano Beach Arts Foundation, Inc.
3. The prior agreement did not require a separate corporation to ensure separate financial statements for Pompano Beach's contract. A recommendation was implemented to require separate, annual audited financial statements and also require compiled financial statements for the new foundation

**9.  Strategic Plan 2.5.1 – Standard Operating Policies/Procedures of Parks, Recreation & Cultural Arts Department: FY15 Annual Revenues of \$1.2 Million**

**Summary**

As part of the City's Strategic Plan for FY14, Internal Audit would perform an audit of a City division annually. An audit of Administrative Policies and Procedures of the Parks, Recreation and Cultural Arts Department was done. Parks staff and Treasury staff questioned non-compliance with procedures by a former Recreation Manager.

Compliance irregularities were found due to violations of the department's policies and procedures by a former Recreation Manager. Timely corrective action was taken by the Parks and Recreation Administrator and City Administration.

- 23 recommendations were made to administrative policies and procedures
  - 22 recommendations were implemented
  - 1 recommendation will be implemented with follow-up scheduled for 1/16

**Scope**

At request of Recreation Programs Administrator, Internal Audit staff reviewed:

- Compliance controls and eligibility for summer camp grant
- Deposits, receipts and reports for daily cashier settlements and transactions
- Customers' "cash refunds now" and program cancellations by customers

**Standards**

- Administrative Policy Procedures, Financial Internal Controls
- 2014 summer camp tuition grant, eligibility requirements
- Second Amended Memorandum of Understanding for Funding/Acceptance of
- Funds

**Results and Risk Rating: A high (red) rating was assigned due to non-compliance by a former Recreation Manager with department written procedures**

- Former Recreation Compliance Manager who was responsible for compliance
- violated policies, procedures and controls
- \$925 found for these compliance irregularities
- Compliance irregularities resulted from: retro-dating deposits, removal of cash from sealed cashiers' envelopes, unsupported corrections and delays in redeposit of customers' payments
- Inadequate support for grant eligibility questioned for potential loss of \$4,375

**Recommendations: 23 Recommendations For Compliance Irregularities For Policy & Grant - Risk rating reduced to low (green) after implementation**

1. Additional language for City's credit card policy should state failure to follow procedures can result in termination or discipline
2. Approval of Parks Recreation Administrator or designee should be required for additions or deletions of safes for temporary storage of daily receipts or City assets

3. Recreation leaders or supervisors (depositors) at each location should timely deliver the bank deposits by 1:00 p.m. the next business day of the Treasury Division. The accounting clerk or designee should also maintain an exception spreadsheet
4. Adjustment should be prohibited after cashier's signed settlement of daily receipts
5. "Cash refunds now" must be done on same day before cashier's daily settlement and timely reviewed by accounting clerk or her designee
6. "Cash refunds now" must have approval of supervisor or her designee, a supporting form with customer's signature. Exceptions should be considered a serious matter
7. Accounting clerk or designee should sign weekly comparison of forms to refund report.
8. Accounting clerk or designee should do periodically contact customers to verify customer's receipt of proceeds for refund now transactions. Forms should be filed
9. At no time shall any subsequent payments be recorded to cash receipts system and shown as subsequent transaction(s) to cashier's cash journal after uploading all cashier's journals to the general ledger system for Treasury Division review
10. Accounting clerk should maintain a spreadsheet of dates of uploading daily deposits to general ledger for processing by Treasury Department
11. Additional language recommended for procedures for change funds
12. Additional language recommended for storage and security of cash drawers and authorized use
13. Additional language recommended for customer signed receipts and forms for cash now refunds at the Pier location to be sent to Accounting Clerk for review
14. Cashiers will use standardized cash journal form of the Treasury Division to promote accuracy and completeness of daily balancing of daily cash receipts
15. Cross-reference City's credit card policy recommended as exhibit to procedures
16. In the future, update policy and procedures for tennis court reservation module
17. For segregation of duties section, additions or language recommended for system codes, journal refunds, cash refunds now, refunds by Finance staff, payment reversals, and a legend for all tender types including account numbers from 01 to 99
18. Require training and documented sign-off of tier access security revisions, policy and procedures revisions with signed approval by Park and Recreation Administrator's with effective date for updated policy and procedures
19. Require documented sign-off of Parks and Recreation staff after training
20. Revise security tiered access and prohibit the retro-dating of transactions
21. In future, policy and procedures updated procedures for procurement cards
22. Revise safe logs to record pick-up dates
23. Finance refunds should be mailed to customers and not returned to Parks staff

<b>10. City Attorney: Technical Assistance Agreement for NW CRA Microenterprise Loans – Revenue \$1.1 Million</b>
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### **Summary and Results**

At request of Assistant City Attorney, technical assistance was performed to verify disbursements for original loans of \$1,021,550, payments of \$345,212 and outstanding loan balances of \$786,436 at 9/14 for NW CRA microenterprise loans. Microenterprise

loans on excel spreadsheets for annual balances was reconciled to actual general ledger disbursements. The outstanding loan balances appeared to be understated by \$30,000 or 3% for two loans of \$15,000 for loans 60 and 61. With the additional \$30,000 for loans, initial loan balances was corrected to \$1,051,000 in FY15.

<p><b>11. JP Morgan Chase Purchase Card Services: Pilot Program Review – Estimated Annual Expenditures \$ 500,000</b></p>
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### Summary

As part of the transition of banking services to JP Morgan Chase (JPMC), Purchasing and Finance decided to implement a Procurement Card Program (P-Card). Procurement cards were credit cards issued to employees for the purchase of City goods and services. The P-Card program was expected to replace 75%-80% of small purchase transactions between \$1 and \$5,000 leading to efficiencies and time savings.

### Scope

A sample of transactions for the period 9/14 through 3/9/15 was reviewed to evaluate:

- Current policy and procedures dated 11/14
- Transactions of \$75,000 during the pilot program period
- Data transfer from the bank (SmartData) to City's Financial System
- Reconciliation process between the bank and City's Financial System
- Dollar thresholds for daily and monthly expenditures for operating needs
- Percentage of materials expenditures for Building Maintenance repairs versus recorded material expenditures for work orders for five months from 10/14 to 2/15
- Percentage of materials expenditures for Building Maintenance repairs versus recorded material expenditures for work orders for five months for FY12
- Audit trail for new stand-alone work order system in Public Works as of 8/15

### Standards

- Procurement Card Policies and Procedures – Effective 11/14
- General Services Purchasing Policy – Effective 2/13
- P-Card training by General Services Staff was a key control
- Finance P-Card Procedures
- General ledger expenditures for materials for building maintenance repairs versus recorded materials in work order system for five months from 10/14 to 2/15
- General ledger expenditures for materials for building maintenance repairs versus recorded materials in work order system for five months for FY12
- Written Policies and Procedures of 8/15 for new stand-Alone Work Order System

### **Results: 8 Findings Resulted in Risk Ratings From Yellow (Moderate) To Red (High). 5 Recommendations Implemented & Reduced Risk To A Green Rating.**

1. All transactions reviewed complied with city procurement policy
2. Current policies and procedures were adequate for the pilot program; revisions to minimize identified risks were implemented as of 8/15 given City-wide roll out of P-Card program

3. Data transfer from SmartData to Naviline has been successful for transactions through 3/15; recommendation implemented for automation of manual reconciliation as of 10/15
4. The review process for transactions posted in SmartData was not done by the department head or designee. Equivalent control recommended for department review by P-card envelope sign-off prior to submission of P card transactions to Finance Department at month end. Recommendation implemented as of 7/15
5. Automatic data transfer between Naviline general ledger and work order sub-system was posting incorrect ledger account. Recommendation implemented to post correct account as of 6/15
6. From 10/14 to 2/15, comparison of general ledger materials expense for building maintenance repairs showed only 21% or \$18,705 were recorded on City work orders, use of 79% or \$69,124 was unknown. For P-cards' material purchases, 52% or \$16,016 were recorded on City work orders while actual use of remaining 48% or \$14,682 in City expenditures was unknown
7. For FY12, purchase order expenditures for materials for repairs shipped to building maintenance division was \$82,072. 46% or \$35,509 were recorded on work orders while actual use of remaining 57% or \$46,563 in City expenditures was unknown
8. As of 8/15, stand-alone work order system replaced City's integrated system so automated audit trail does not longer exist. New system purchased to provide management reports not available in prior system. Recommendation was implemented to document audit trail. As of 8/15, work order number on vendor invoices/receipts will be recorded and scanned on a daily basis

## 12. Change Order For Engineering And Third Floor Renovations - \$300,000

### Summary and Scope

At the request of the City Manager, an internal audit was done on the City Hall third floor renovation which was a CIP. The request was made to determine how the \$300,000 change order occurred. The change order was approved at the 7/28/15 City Commission meeting. The detailed audit report was issued on 9/25/15.

Contractor's submitted job order cost modifications and total costs for four phased renovations, so four change orders should have been submitted from 2/15 to 7/15.

11 findings resulted in a high (red) risk rating and 8 recommendations were made to reduce the risk rating to low (green). With the exception of recommendation #6, the recommendations will be implemented from 9/15 through 1/16. A follow-up of the implementation status of the recommendations will be done in 3/16. Recommendation #6 will not be implemented. Instead,

- A future simplification of job titles was planned to produce two categories: Engineering Project Managers or Engineering Inspectors
- Staff would acquire exposure to vertical and horizontal construction via future mentoring. Projects would be rotated so staff would become versatile in all facets

**Results: 11 Findings: A red (high) risk rating assigned due to non-compliance with policy**

1. Pricing tests indicated compliance with the contract. Credits within the change order were reasonable
2. Architect's oversight for contract administration was weakened. Significant turnover occurred among five project managers with responsibilities for project coordination
3. Effective 12/3/14, a re-organization transferred CIP management from the Engineering Division to the new CIP division. However, an apparent lack of clarity existed after the re-organization which resulted in break-downs in CIP project management, budgetary control, supervisory reporting and non-compliance with City's change order policy
4. Also, non-compliance with City's change order policy was reported to result from lack of prior experience and training with the change order processes and policy
5. Throughout the third floor renovation, the City's Construction Manager requested the Contractor to obtain written approval from the Development Services Director. Timely approvals were obtained from 10/14 through 2/15 and subsequent approvals were obtained from 6/15 to 7/15. However, written approvals were reported as client submittal approvals as opposed to budgetary approvals. This approval process failed to provide adequate budgetary controls and written budgetary approval of Construction Manager's supervisor for change order compliance
6. Construction Manager was assigned to this project and a Civil Engineer was not assigned as the third floor renovation project was deemed a non-complex project. Policies/procedures did not exist for staff assignments which were based on judgment.
7. Non-compliance was found due to expiration of contract construction days
8. Increased risks for non-compliance with change order policy existed for job order contracts for unprocessed change order given the prior approval of unit cost prices
9. Increased risks existed for contract payments for base contract when Contractor's cost for completed, additional work for unprocessed change order exceeded the amount of available project contingency
10. Although Code of Ordinances permitted contracts with national cooperatives, the Purchasing manual did not provide procedures for national cooperative contracts
11. At times, the City's plans for third floor were incorrect. The amount of Contractor's base contract would have been higher if these inaccuracies had not occurred

**8 Recommendations Made To Reduce Risk Rating To Low (Green) And Enhance Policy And Promote Training And Compliance With Policy**

1. The City should review change order policy and, if deemed appropriate, update dollar thresholds for City Commission's approval to minimize after the fact change orders
2. To promote compliance with change order policy, all Civil Engineers, Project Managers, Construction Managers, Purchasing staff and department heads should be trained in change order policy and change order form should be revised, as needed
3. To document completion of training, all current and future Civil Engineers, Project Managers and Construction Managers should formally sign training forms
4. Given the 12/14 re-organization of CIP management, existing Engineering/CIP policies and procedures should be transferred, completed and updated
5. Written policies and procedures should be created by new CIP and Utilities CIP divisions to provide written guidance for assignment of personnel to CIP projects

6. Written policies and procedures should be created by new CIP and Utilities CIP Divisions to provide written guidance for project management of non-complex versus complex CIP projects and staff assignments. Scope of work and number of sub-contractors should be considered
7. Written policies and procedures should be created by General Services Director for future use of job costing contracts through national purchasing cooperatives
8. Written policies and procedures should be created for timely monitoring of contract construction days, non-compensatory time extensions and assessment of liquidated damages for contract non-compliance

### **13. Public Works -Technical Assistance - \$67,525**

#### **Summary and Scope**

Technical assistance given to provide State report.

#### **Standards**

- Records access controls and records retention
- Financial recordkeeping and reporting

#### **Results: Low (green) risk rating assigned because report was filed timely**

Report submitted for Pier Submerged Land Lease # 060129546 - \$67,525 Expenses

- Land lease agreement with Florida Department of Environmental Protection
- Florida Administrative Code Chapter 18-21.011, (1)(b)(7) for waived fees
- Compliance audit for 4/13 to 3/14 for City as lessee of wet slip at municipal pier
- Certified revenues of zero dollars and depreciation expenses of \$67,525

### **Section III. Current and Future Projects**

#### **1. Retroactive Revenue for Communications Service Taxes (CST) 2001 - 2008 for Comcast, Deerfield Beach Comparison to Pompano Beach - \$4.5 Million**

Internal Audit staff will review the CST adjustment due to the City of \$4.5 million. Also, a bi-annual audit will be scheduled in the future.

- By request of Finance Director, Internal Audit will schedule a bi-annual review of communications service taxes. Comparison of large payments by providers to abutting jurisdictions and to the City will anticipate payment errors
- 5/14, the Finance Director notified Internal Auditor of \$4.5 million annual adjustment for 2014
- 5/14, Internal Audit staff forwarded the State's request to execute a new confidentially agreement to the Finance Department. The prior agreement was expired. Internal Audit staff and Treasury staff will review the \$4.5 million annual adjustment
- State informed City 11/14 that an adjustment amount of \$4.5 million would be distributed in monthly payments beginning 3/15 or 4/15. This monthly adjustment amount will be added to the regular monthly revenue received for City CST

**2.  Strategic Plan 6.2.3: FY15-FY16 Information Technology (IT) Security and Controls Audit – IT Operating Budget of \$2.2 Million**

As part of the City's Strategic Plan for FY15, Internal Audit committed to a strategic objective to perform an IT control and security audit annually. An audit of IT controls and security was started, but later rescheduled for FY15-16, due to a higher priority audit requested. IT Department has an operating budget of \$2.2 million.

Internal Audit staff will work with IT and other departments to review the Identity and Access management processes relating to access to City Network(s). This audit will include Naviline (Financial System) and review of security reports for network breaches.

The audit will cover:

- Administration – how the identity and access policy and procedures are developed and maintained for the Network and Naviline
  - Provisioning and De-provisioning – how access is granted, monitored, and/or removed in the operating environment
  - Enforcement – how the process prevents, detects, and manages attacks and actual breaches
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