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Office of Internal Audit
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TO: Jimmy L. Morales, City Manager 

FROM: Mark D. Coolidge, Interim Internal Auditor 

DATE: September 30, 2019

SUBJECT: **FINANCE DEPARTMENT RECONCILIATIONS ANNUAL RESULTS SUMMARY**

PERIOD(S): August 1, 2018 – July 31, 2019 (Bank Reconciliations)
October 1, 2018 – September 30, 2019 (Daily Debit Transaction Reports and Zero-Balance Accounts)

Upon the discovery of a \$3.6 million fraud involving its Treasury and ACH disbursements, the City Administration and Finance Department, among other implemented changes, hired the independent firm of BDO USA, LLP (BDO) to perform an audit. On May 17, 2017, BDO issued a report containing sixty (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.

As a result, the Office of Internal Audit (Internal Audit) was subsequently tasked with performing a follow-up review to verify whether the recommendations made to correct the deficiencies noted had been implemented or were in the process of being implemented. Although testing found that the specified corrective actions were being taken, Internal Audit has continued to (1) review the bank reconciliations performed either monthly or quarterly by designated Finance Department staff to verify that they were completed timely and promptly reviewed/approved; (2) confirm that all entries on the Daily Debit Transaction Report were deemed valid by Finance Department staff; and (3) that there is a credit in the general depository account and a corresponding debit transaction in another City bank account for all ZBA (zero-balance account) transactions. The results of the testing performed during the specified periods are summarized below:

1. Monthly Bank Reconciliations Analysis

Although the actual number of bank accounts may vary, the Finance Department typically completes between 55 and sixty (60) monthly bank reconciliations plus they also reconcile the Regions Bank MBPD CID-OAF account on a quarterly basis. Per their approved procedures, all bank reconciliations (excluding the pooled cash) are to be completed within thirty (30) days following the end of the month in which the transactions occurred. For example, August 2018's bank reconciliations are to be completed by September 30, 2018, September 2018's by October 30, 2018 and so on.

Meanwhile, Finance Department staff have 45 days following the end of the month to complete the pooled cash bank account's reconciliation due to its complexity and large volume of transactions. Consequently, the August 2018 pooled cash's bank account reconciliation is to be completed by October 15, 2018, September 2018's by November 14, 2018 and so on.

Internal Audit's testing found that all bank accounts were timely reconciled and reviewed/approved each month except for the following three (3) instances:

- One (1) bank reconciliation was completed seven (7) days late as the Finance Department received the needed November 2018 documents on December 27, 2018 or three (3) days prior to the bank reconciliation's due date. As a result, the Finance Department stated via email that the 5th and Alton Road Garage's bank account reconciliation due date was extended going forward to 45 days due to frequent delays in receiving the required documents from Edens (the independent company which owns 54% of the garage and is responsible for handling the lease rental income, tenant contributions and all related expenses).
- One (1) bank account's March 2019 reconciliation was completed one (1) day late on May 1, 2019. The Finance Department provided an email showing that the bank statement was not received from the Police Department until earlier that day to support its late completion date.
- One (1) bank account's March 2019 reconciliation was originally completed and reviewed timely; however, a subsequent revision was made and was not completed until May 2, 2019.

Management Response (Finance Department):

The 5th and Alton Road Garage's bank account reconciliation is now completed within 45 days of the end of the month.

Improved communication with the Police Department and better due diligence has allowed the Finance Department to complete all subsequent reconciliations for this account within 30 days.

The Health Facilities Authority March 2019 bank reconciliation was originally completed and reviewed within 30 days. In a subsequent review, it was noticed that the Trial Balance Report date was inadvertently ran for an extra period (period Oct-Apr). An updated Trial Balance Report and bank reconciliation were completed in May. Subsequent to this event, a discussion with staff regarding diligence on reporting periods and special attention by the reviewer to this report has been in place.

2. Validation of Daily Debit Transaction Report Entries

All Daily Debit Transaction Reports generated from the City's operating accounts between October 1, 2018 and September 30, 2019 furnished to Internal Audit contained notations indicating that they were valid transactions according to designated Finance Department staff. Any transactions that needed to be researched with the bank as to their validity were properly followed-up with and were typically cleared within the next day or two. Internal Audit relied solely on Finance Department staff's transactional reviews and corresponding approvals as no additional testing was performed to determine their legitimacy.

3. Review of Zero-Balance Accounts Transactions

A zero-balance account or ZBA can be defined as a checking account in which a balance of zero is maintained by automatically transferring funds from a master account in an amount only large enough to cover the checks presented. A ZBA is used to help eliminate excess balances in separate accounts and to maintain greater control over disbursements.

As part of the Daily Debit Transaction Report, Finance Department staff includes both the debit and the corresponding credit of the ZBA transaction. In reviewing these daily transactions for the twelve (12) month audit period, no exceptions were noted.

INTERNAL AUDIT REPORT

FINANCE DEPARTMENT RECONCILIATIONS ANNUAL RESULTS SUMMARY September 30, 2019

Reviews Performed by Mark Coolidge, Interim Internal Auditor and Coral Delgado, Auditor

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cc: John Woodruff, Chief Financial Officer
Allison Williams, Deputy Finance Department Director