

# **City of Coral Gables, Florida**

Compliance Reports and Management Letter

Fiscal Year Ended September 30, 2016

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**Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial  
Statements Performed in Accordance With  
Government Auditing Standards**

**Independent Auditor's Report**

To the Honorable Mayor and Members of the  
City Commission  
City of Coral Gables, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Coral Gables, Florida (the City), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated **March XX, 2017**, which included a reference to other auditors who audited the financial statements of the City of Coral Gables Retirement Fund and Police Officers' Pension Fund, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The City of Coral Gables Retirement Fund was not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal controls over financial reporting or instances of reportable noncompliance associated with the City of Coral Gables Retirement Fund.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is intended solely for the information and use of the Honorable Mayor, member of the City Commission, management of the City, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Miami, Florida  
March XX, 2017

**Management Letter Required By  
Chapter 10.550 of the Rules of the  
Auditor General of the State of Florida**

To the Honorable Mayor and Members of the  
City Commission  
City of Coral Gables, Florida

**Report on the Financial Statements**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Coral Gables, Florida (the City), as of and for the fiscal year ended September 30, 2016, and have issued our report thereon dated **March XX, 2017**. Our report was modified to include a reference to other auditors. This report does not include the findings and recommendations of the other auditors' that are reported on separately by those auditors.

**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; and Chapter 10.550, Rules of the Auditor General. Other auditors audited the financial statements of the City of Coral Gables Retirement Fund and Police Officers' Pension Fund, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The City of Coral Gables Retirement Fund was not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal controls over financial reporting or instances of reportable noncompliance associated with the City of Coral Gables Retirement Fund.

**Other Reports and Schedule**

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*; and our Independent Accountant's Report on an examination conducted in accordance with AICPA Professional Standards, Section 601, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports and schedule, which are dated **March XX, 2017** 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 action was taken to address management letter comment 2015-01 related to user access controls noted in the proceeding annual financial audit report.

**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**

Section 10.554(1)(i)5.a., Rules of the Auditor General, require that we apply appropriate procedures and report 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 identification of 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. 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 the review of financial information provided by same.

### **Annual Financial Report**

Section 10.554(1)(i)5.b. and 10.566(7), Rules of the Auditor General, requires that we apply appropriate procedures and report the results of our determination as to whether the annual financial report for the City for the fiscal year ended September 30, 2016, 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, 2016. In connection with our audit, we determined that these two reports were in agreement.

### **Other Matters**

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. A recommendation is included in *Appendix A – Current Year's Recommendations to Improve Financial Management, Accounting Procedures and Internal Controls*.

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 have 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.

Miami, Florida  
March XX, 2017

**The City of Coral Gables, Florida**

**Appendix A – Current Year’s Recommendations to Improve Financial Management, Accounting Procedures and Internal Controls.**

**Fiscal Year Ended September 30, 2016**

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**ML 2016 - 01 User Access Administration**

**Criteria:** General Information Technology (IT) controls require that procedures are in place to ensure user accounts are added, modified and deleted in a timely manner to reduce the risk of unauthorized/inappropriate access to the organization’s relevant financial reporting applications or data.

**Condition:** We noted two terminated employees’ system access was not removed in a timely manner.

**Cause:** The active directory is not consistently disabled or removed in a timely manner for terminated employee, due to discrepancies in communication between the IT and Human Resources (HR) Departments.

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

**Recommendation:** We recommend that management ensure that system access rights for terminated employees are disabled or removed in a timely manner (typically within five business days from the employee’s termination date). Additionally, management should consider strengthening the communication between the Human Resources and IT departments to ensure that employee separations are communicated in a timely manner and that system access is disabled or removed promptly.

**Views of Responsible Officials and Planned Corrective Actions:**

In one of these two cases, IT did not receive an email from the HR department notifying that the employee was terminated (our standard change management process for terminations is triggered by the HR notification.) In the other case, IT was notified and a ticket was created, but the assignee did not complete the ticket and the ticket got lost during the migration to a new ticketing system. Both cases are unacceptable, and we are taking measures to correct and prevent it to happen again. Some of the measures are:

- IT will run an automated process in the network to identify AD accounts without activity for several days, and will validate that those users without activity are still active employees.
- IT will meet with HR to review the current process and improve the communication of terminations and promotions/moves.
- IT will proactively run reports of terminated employees to identify potential issues with accounts still active. The IT department is already running a weekly automated report to identify EDEN users with active accounts that belong to terminated employees, but the current report does not run for employees that don’t use EDEN or computers (e.g.: sanitation workers, Parks & Recreation seasonal employees, etc.)
- Increased employee training, awareness and supervisory actions to reinforce the process and best practices.

Other corrective and preventive measures to be determined with IT, HR and other City staff.

**The City of Coral Gables, Florida**

**Appendix A – Current Year’s Recommendations to Improve Financial Management, Accounting Procedures and Internal Controls.**

**Fiscal Year Ended September 30, 2016**

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**ML 2016-02 – Capital Asset Management**

**Criteria:** Organizations are required to adopt adequate internal controls to properly record, summarize, and report accounting transactions, including those associated with the acquisition and disposition of capital assets, to provide reasonable assurance that assets are properly safeguarded and the financial statements are not materially misstated.

**Condition:** We noted the City did not adhere to their capital asset disposal policy which requires a property disposal form to be completed and approved by the department head. While the City had a policy in place to account for capital asset disposals, the supporting documentation provided for the capital assets disposal that took place during the year, did not have evidence of segregation of duties between the initiator and approver (the department head).

**Cause:** The cause is due to a breakdown in the system of controls resulting from lack of effective supervisory oversight and review of capital asset disposals.

**Effect:** Capital assets represent a significant account balance for the City and improper accounting could result in a material misstatement of the financial statements. In addition, lack of segregation of duties can result in misappropriation of assets.

**Recommendation:** We recommend the City adhere to its internal control policies and procedures to provide reasonable assurance that the capital asset disposals are properly approved and disposed of.

**Views of Responsible Officials and Planned Corrective Actions:**

Each year, the City’s Automotive Fleet Management Division performs a fleet utilization review to determine replacement need. Then, in coordination with user departments and the Management & Budget Division of the Finance Department, a vehicle replacement plan is developed and included in the annual budget document as part of the Capital Matrix Funding Program. Surplus vehicles and equipment are auctioned through an authorized auction vendor to ensure independence in the bidding and awarding process of the sales. Although these procedures exist, we acknowledge that documentation of the disposal initiation process as well as segregation of duties can be improved.

Furthermore, we recognize that City-wide procedures over capital asset management can be strengthened. As a result, in August 2016, the City retained an external consultant to inventory and tag our capital assets, reconcile them to existing accounting records, and meet with key fixed asset personnel to develop a new property control manual including proper disposal of assets in accordance with best practices. The fixed asset management study has been authorized in order to assist with asset control, future capital budgeting, and financial reporting. The external consultant is in the process of finalizing the results of the inventory count and reconciliation with the accounting records. The “Capital Asset Accounting Policies and Procedures”, being drafted by the consultant, will be reviewed and approved by the Finance Department and will become the City’s formal written policy over capital asset management.



## Independent Accountant's Report

Honorable Mayor and Members  
of the City Commission  
City of Coral Gables, Florida

We have examined the City of Coral Gables, Florida's (the City) compliance with *Section 218.415, Florida Statutes, Local Government Investment Policies* during the year ended September 30, 2016. Management is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on the City's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. 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, 2016.

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.

Miami, Florida  
March XX, 2017