



MIAMIBEACH

BUDGET AND PERFORMANCE IMPROVEMENT
Internal Audit Division

INTERNAL AUDIT REPORT

TO: Jorge M. Gonzalez, City Manager
VIA: Kathie G. Brooks, Budget and Performance Improvement Director
FROM: James J. Sutter, Internal Auditor *JJS*

DATE: October 28, 2008
AUDIT: North Beach Development Corporation Audit
PERIOD: October 1, 2006 through March 31, 2008

This is a regularly scheduled audit of a non-profit agency receiving monies annually from the City's General Fund Citywide accounts.

INTRODUCTION

The North Beach Development Corporation or NBDC was first founded in 1983 as Normandy Isle/71st Street Association; it was incorporated as a non-profit 501(c)3 entity under its present name in 1988. Since its inception, NBDC has been dedicated to promoting the commercial and residential development of North Beach, encouraging physical revitalization of the area, and enhancing and improving the quality of life for its residents. The specific geographical location of the community is described as being bounded by 63rd Street on the south, 87th Terrace on the north, the Atlantic Ocean on the east, and Biscayne Bay on the west.

NBDC numbers among its achievements the North Beach Façade Renovation Program, which provided financial assistance to property and business owners to refurbish the physical appearance of their properties. The Façade Renovation Program ran from 1993 to 2005 and assisted approximately fifty owners, providing a total of \$5,000,000 over the duration of the program.

NBDC also played a vital role in the renovation of the Byron-Carlyle Theatre, which reopened in 2004 as a multi-use performance space. They were also active in supporting the construction of the North Shore Youth Center and is working to position the North Beach Band Shell as a vital performance space for the community. Finally, NBDC also works with developers, providing community feedback and support for new construction in North Beach.

The NBDC is governed by a Board of Directors with its corporate offices presently located at 7455 Collins Avenue, suite #207. Membership is open to all persons 18 years of age and older who reside, own property, own a business or work in the North Beach area. There shall be an annual meeting of members to elect directors and conduct any other business as might come before the meeting. Board meetings shall be held at least four times each year.

The Miami Beach Festival of the Arts established in 1974 was produced by the City's Fine Arts Board until 2004. At that time production was outsourced to NBDC, which staged the next four events with the help of an annual \$75,000 allocation from the City. However, the 2008 Festival of the Arts was produced by the City due to NBDC's financial difficulties and the loss of their President and Executive Director prior to the event's start.

NBDC received monies from a grant with the Miami-Dade County Tourist Development Council, as well as from donations, memberships and fundraisers during the audit period. In addition, the City provided NBDC with the following grant revenues:

We are committed to providing excellent public service and safety to all who live, work, and play in our vibrant, tropical, historic community.

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	FY 2006/07	FY 2007/08	Total
NBDC	\$20,000	\$20,000	\$40,000
Festival of the Arts	\$75,000	\$0	\$75,000
Total	\$95,000	\$20,000	\$115,000

The City provided NBDC with the above funds through the City Budget's General Fund Citywide Accounts under the City Service expenditure category (Special Projects). There is no written funding agreement with the City specifying how the supplied funds should be spent and what corresponding reports are to be filed. To receive the funds for the annual grant, they must first submit an invoice to the City's Finance Department requesting payment. The check is subsequently issued and the monies are deposited into the NBDC's main bank account to pay general operating expenditures. For the Festival of the Arts grant, invoices were submitted for partial amounts and the monies were deposited into a separate bank account to pay for expenses relating to the Festival. The agency does not have an annual audit performed by an independent accountant.

OVERALL OPINION

North Beach Development Corporation (NBDC) has experienced difficult financial times, the disconnecting of members and several changes in leadership during the last few years. As a result the non-profit organization has had to reduce its offered services and programs as it struggles to maintain financially solvent. New leadership emerged in December 2007 and is trying to reinvent the organization but first it needs to correct the past's shortcomings. Debts are being paid; trust is being restored, etc. but it will take time. The following items were noted during testing and are in need of improvement:

- The accounting records maintained were not always complete thereby hindering accountability and the audit trail.
- The non-profit organization did not adequately document their expenditures' business purpose and some payments included late charges and/or exempt taxes.
- Annual for 990 tax returns and certified financial statements were not prepared by an independent accounting firm during the audit period.
- The City does not presently require non-profit organizations receiving citywide funds to sign grant agreements to specify how the monies are to be spent, what records should be provided, etc.

PURPOSE

To determine whether grantee's revenues and expenses related to the City grant were properly accounted for, recorded and reported.

OBJECTIVES

1. Confirm that grant revenues received from the City were deposited intact, properly documented and correctly recorded.
2. Confirm that tested monies were expended for the grantee's specified programs.

3. Confirm that annual certified financial statements (if required) were timely submitted, and the amounts reported therein agree with corresponding amounts previously reported to reports submitted to the City.

FINDINGS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

1. Finding: Accounting Records Maintenance

North Beach Development Corporation or NBDC's maintained accounting records were occasionally incomplete. For example, check registers were not always supported by the accompanying invoices or they did not detail the expenditures' business purpose, names of attendees, etc. for less obvious purchases like meals, rooms, etc. It was difficult and time consuming to reconstruct this data due to the amount of elapsed time and the departure of the previous officers.

Access to prior year's QuickBooks data was initially hindered by confusion over the system password and the location of needed files. However, this problem was subsequently rectified and much of the requested data was provided.

In addition, NBDC management did not maintain separate accounting records indicating how their main revenue sources were spent. This practice is important for grant monies and other restricted private contributions or future monies may be lost and any misspent monies may have to be repaid.

Recommendation(s):

Detailed accounting records should be properly maintained in both QuickBooks and their hard copy files. All invoices should clearly indicate the expenditures' business purpose, the names of attendees, etc. to facilitate the audit trail. Furthermore, NBDC should prepare operating policies and procedures as soon as possible which properly explain the accounting and reporting processes. Policies and procedures serve as an instruction manual in the event employees leave the organization. Finally, separate accounting files should be maintained to show how any grant monies and large contributions received were expended.

Management Response:

Current NBDC management has taken steps to correct the shortcomings of previous administrations. The organization has been streamlined as there are no longer any full time employees as we presently depend on dedicated volunteers, including our active and passionate Executive Board. All current accounting records are properly maintained both in QuickBooks and in hard copy files and can be reviewed by the City at any time.

2. Finding: Questionable Program Expenditures

NBDC provided sufficient expenditures to justify the receipt of the City funds during the audit period. However, uncertainty existed over the business purpose of an additional fourteen checks totaling \$5,644, written during the period 10/10/06 to 2/22/07 which lacked supporting documentation. Seven of these checks were payable to individuals, four to an event planner, one to a film production company, one to a restaurant and one to cash.. The \$1,690 cash withdrawal on 02/02/07 had nothing present to indicate how it was spent or by whom.

Reviewed invoices showed that penalties and/or interest were frequently incurred and paid.

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In fairness to NBDC's current management, these debts were inherited from previous management but portions were paid by City donated grant revenues. Financial agreements were made with such vendors as La Gorce Country Club, Sun Sentinel, Pitney Bowes, Office Depot, etc. whereby reduced amounts were negotiated and paid. Current expenses have been greatly reduced to compensate for NBDC's smaller revenue intake and recent invoices are being paid timely to prevent the levying of additional late charges.

NBDC is also exempt from remitting state sales and/or county taxes but several instances were noted whereby these taxes were inadvertently charged and paid. For example, state and county taxes were paid on three individuals' room rentals at the Days Inn North Beach during the 2007 Miami Beach Festival of the Arts.

Recommendation(s):

NBDC management should ensure that all future expenditures are business related, paid timely, net of taxes and properly supported with documentation.

Management Response:

Again, the previous individuals that were responsible for these expenditures and the corresponding lack of documentation are no longer associated with NBDC. The current Administration is closely scrutinizing all monies spent as it attempts to become economically viable. New agreements are being reached with vendors whereby old debts are being paid off and more favorable terms are selected for the future.

3. Finding: Annual Tax Returns and Audits Not Prepared

Form 990 is an annual reporting return that NBDC must file with the Internal Revenue Service. It provides information on the filing organization's mission, programs, and finances and is due on the 15th day of the fifth month after the end of their accounting period unless extensions were requested and granted.

Inquiries revealed that NBDC has not filed these tax returns for the past four years as of the conclusion of this audit. Therefore, they may be subject to a penalty of \$20 a day for each day the return is not filed. The maximum penalty for any one return is the lesser of \$10,000 or five percent of the organization's gross receipts for the year. Information has recently been provided to an independent accounting firm so that these delinquent 990 forms can be prepared and filed with the Internal Revenue Service.

Similarly, annual financial statement reviews were not performed by an independent accounting firm during the audit period. Questioned NBDC staff were unsure of the last one completed but believe it to be circa 2005.

Recommendation(s):

The delinquent form 990s should be filed with the Internal Revenue Service as soon as possible. Similarly, any late charges levied by the Internal Revenue Service should be paid promptly. NBDC should also have an independent accounting firm perform annual reviews of their financial statements which should be submitted to the City within ninety days following the conclusion of their fiscal year.

Management Response:

NBDC is presently working with a CPA firm to have all the previous IRS form 990s filed.

4. Finding: Absence of a Grant Agreement

The City provides grant monies to NBDC annually but does not require a signed agreement detailing how the funds are to be spent, what reports are to be filed, is an audit or review required and by when, etc. Therefore, the City has little voice once the funds are disbursed other than to withhold future contributions and is unsure if the monies were spent properly. Other organizations like Miami-Dade County and the Miami Beach Visitor and Convention Authority require that the non-profit organizations sign a grant agreement before issuing any grant monies.

Recommendation(s):

The City should research the possibility of securing procure a signed grant agreement detailing the desired terms that it wants enforced prior to disbursing the designated monies.

Management Response:

The City is researching the options available to formalize the grant process for non-profit agencies receiving funds through the citywide accounts. NBDC is receptive to this as long as it applied universally to all organizations receiving monies.

EXIT CONFERENCE

The draft audit report was sent electronically to NBDC's Carol Housen for review and to solicit management responses. NBDC's responses were received on 10/28/08 and are included in this report.

JS:MC:mc

(Audit performed by Mark Coolidge, Senior Auditor)

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cc: Carol Housen, President, North Beach Development Corporation
Jose Cruz, Budget Officer