

# The City of Miami Beach, Florida

Report to the Honorable Mayor and the Members of the  
City Commission

September 30, 2011



July 9, 2012

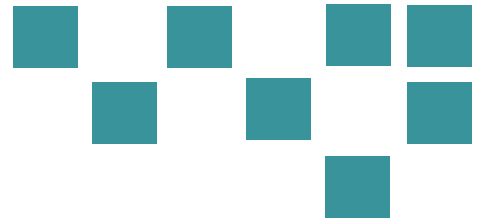
The City of Miami Beach, Florida  
1700 Convention Center Drive  
Miami Beach, Florida 33139

Attention: The Honorable Mayor and Members of the City Commission

We are pleased to present this report related to our audit of the financial statements of the City of Miami Beach, Florida (the "City") for the year ended September 30, 2011. In addition to our report on your financial statements which was modified to refer to the use of other auditors related to the City of Miami Beach Florida Employees' Retirement Plan, the City of Miami Beach Florida Pension Fund for Firefighters and Police Officers, the Firemen's Relief and Pension Fund, and the Policemen's Relief and Pension Fund (collectively, the Plans), the Visitor and Convention Authority and the Miami Beach Convention Center as managed by Global Spectrum, we have provided, under separate cover, a letter, dated March 30, 2012, concerning whether there were any significant deficiencies and material weaknesses in internal control that we noted during our audit of the City of Miami Beach, Florida's (the "City") basic financial statements for the year ended September 30, 2011. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the City's financial reporting process. Also included is a summary of recently issued accounting standards that may affect future financial reporting by the City.

This report is intended solely for the information and use of the Mayor and Members of the City Commission and management and is not intended to be and should not be used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to the City.

*McGladrey LLP*

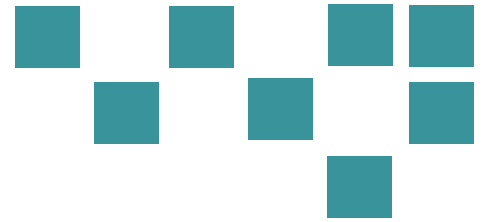


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# Required Communications

Statement on Auditing Standards No. 114 requires the auditor to communicate certain matters to keep those charged with governance adequately informed about matters related to the financial statement audit that are, in our professional judgment, significant and relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. The following summarizes these communications.

Area	Comments
<b>Auditor's Responsibility Under Professional Standards</b>	Our responsibility under auditing standards generally accepted in the United States of America <i>Government Auditing Standards</i> issued by the Comptroller General of the United States; the provisions of the Single Audit Act; OMB Circular A-133; OMB's <i>Compliance Supplement</i> ; has been described to you in our arrangement letter dated October 26, 2006.
<b>Accounting Practices</b>	<b>Adoption of, or Change in, Accounting Policies</b> Management has the ultimate responsibility for the appropriateness of the accounting policies used by the City. In the current year, the City did not adopt any new Governmental Accounting Standards Board (GASB) Statements.  <b>Significant or Unusual Transactions</b> We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.  <b>Alternative Treatments Discussed with Management</b> We did not discuss with management any alternative treatments within generally accepted accounting principles for accounting policies and practices related to material items during the current audit period.
<b>Management's Judgments and Accounting Estimates</b>	Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached "Summary of Accounting Estimates."
<b>Financial Statement Disclosures</b>	We did not identify any items relating to the neutrality, consistency, and clarity of the disclosures in the financial statements which we deemed are required to be discussed with the City's Management.

<b>Area</b>	<b>Comments</b>
<b>Audit Adjustments</b>	There were no audit adjustments.
<b>Uncorrected Misstatements</b>	There are no uncorrected misstatements.
<b>Disagreements with Management</b>	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.
<b>Consultations with Other Accountants</b>	We are not aware of consultations management had with other accountants about accounting or auditing matters.
<b>Significant Issues Discussed with Management</b>	No significant issues arising from the audit were discussed or were the subject of correspondence with management.
<b>Difficulties Encountered in Performing the Audit</b>	We did not encounter any difficulties in dealing with management during the audit.
<b>Certain Written Communications Between Management and Our Firm</b>	Copies of certain written communications between our firm and the management of the City are attached as Exhibit A.

# The City of Miami Beach, Florida

## Summary of Accounting Estimates

Year Ended September 30, 2011

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following describes the significant accounting estimates reflected in the City's September 30, 2011 financial statements:

Area	Accounting Policy	Estimation Process	Comments
<b>Depreciation of Capital Asset</b>	Depreciation on capital assets is provided using the straight-line method. Leasehold improvements are amortized on a straight-line basis over the shorter of the lease term or estimated useful life of the assets.	Capital assets are recorded at historical cost or estimated historical cost and depreciated using the straight-line method over the estimated useful lives of the related assets.	We have audited the underlying data supporting the estimate and believe the resulting estimate to be reasonable.
<b>Allowance for Doubtful Accounts</b>	All trade and other receivables are reported at net realizable value.	Receivables are analyzed for their collectability based on the creditors' ability to pay (i.e. financial condition, credit history, and current economic conditions).	We have audited the underlying data supporting the estimate and believe the resulting estimate to be reasonable.
<b>Other post-employment benefit</b>	The net OPEB obligation/(asset) reported for the difference between the annual required contribution and the actual contributions made by the City.	The City has informed us they used all the relevant facts available to them at the time to determine the assumptions used by the actuary in calculating the City's Annual Required Contribution and have approved the results of the actuarial determination.	We have audited the underlying data supporting the estimate and believe the resulting estimate to be reasonable.

Area	Accounting Policy	Estimation Process	Comments
<b>Risk Management</b>	The City is partially self-insured for general and auto liability, property, workers' compensation, and employees' health and dental. The accrued liability for estimated claims represents an estimate of the eventual loss on claims including claims incurred but not yet reported.	Management with input from its Risk actuary developed the actuarial assumptions based on relevant criteria. Management reviewed and approved the financial statement estimates derived from the Risk actuarial report.	We have audited the underlying data supporting the estimate and believe the resulting estimate to be reasonable.
<b>Pension Plans</b>	A net pension obligation/(asset) is reported for the difference between the annual required contribution and the actual contributions made by the City.	The City has informed us that they used all the relevant facts available to determine the assumptions used by the actuary in calculating the City's Annual Required Contribution and have approved the results of the actuarial determination.	We have audited the underlying data supporting the estimate and believe the resulting estimate to be reasonable.

# The City of Miami Beach, Florida

Year Ended September 30, 2011

## Recently Issued Accounting Standards

The GASB has issued several statements not yet implemented by the City. The City's management has not yet determined the effect these Statements will have on the City's financial statements. However, the City plans to implement all standards by the required dates. The Statements which might impact the City are as follows:

***GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements.***

This Statement, issued November 2010, will be effective for the City beginning with its year ending 2013 (effective for periods beginning after December 15, 2011.) This Statement addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into.

***GASB Statement No. 61, Financial Reporting Entity: Omnibus***

The Statement, issued November 2010, will be effective for the City beginning with its year ending 2013 (effective for periods beginning after June 15, 2012.) The objective of this Statement is to modify certain requirements for inclusion of component units in the financial reporting entity. This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset.

***GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements***

This Statement, issued December 2010, will be effective for the City beginning with its fiscal year ending September 30, 2013. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: (1) Financial Accounting Standards Board (FASB) Statements and Interpretations; (2) Accounting Principles Board Opinions; and (3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.



**GASB Statement No. 63, *Financial Reporting of Deferred Outflow, Deferred Inflows of Financial Resources and Net Position***

This Statement, issued June 2011, will be effective for the City beginning with its fiscal year ending September 30, 2013. The objective of this Statement is to provide a framework that specifies where deferred outflows of resources and deferred inflows of resources—as well as assets and liabilities—should be displayed. The Statement also discusses how net position—no longer net assets—should be displayed. Ultimately, this new framework will serve to standardize the presentation of deferred balances and their effects on a government’s net position and address uncertainty related to their display.

**GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB 53***

This Statement, issued June 2011, will be effective for the City beginning with its fiscal year ending September 30, 2012. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty’s credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied.

# Exhibit A – Certain Written Communications Between Management and Our Firm



# MIAMI BEACH

City of Miami Beach, 1700 Convention Center Drive, Miami Beach, Florida 33139, [www.miamibeachfl.gov](http://www.miamibeachfl.gov)

OFFICE OF THE CITY MANAGER

Ph: 305-673-7010

March 30, 2012

McGladrey & Pullen, LLP  
801 Brickell Avenue, suite 1050  
Miami, FL 33131

In connection with your audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Miami Beach, Florida, (the "City") as of and for the year ended September 30, 2011 we confirm that we are responsible for the fair presentation in the financial statements of financial position, changes in financial position, and cash flows in conformity with accounting principles generally accepted in the United States of America.

We confirm to the best of our knowledge and belief, as of the date of this letter, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America.
2. We have identified for you all organizations that are part of this reporting entity or with which we have a relationship, as these organizations are defined in Section 2100 of the Governmental Accounting Standards Board Codification of Governmental Accounting and Financial Reporting Standards that are Component units. The City's Blended Component Units and two Discrete Component Units are properly presented in the financial statements.
3. We are not a component unit of any other government, as this term is defined in Section 2100 of the Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards.
4. We do not meet the definition of an other organization, as defined in Section 2100 of the Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards.
5. We do not have a joint venture relationship with any other organization, as defined in Section 2100 of the Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards.

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6. We are not a jointly governed organization, as this term is defined in Section 2100 of the Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards.
7. We have identified for you all of our funds, governmental functions, and identifiable business-type activities.
8. We have properly classified all funds and activities.
9. We have properly determined and reported the major governmental and enterprise funds based on the required quantitative criteria.
10. We are responsible for compliance with laws and regulations applicable to the City including adopting, approving, and amending budgets.
11. We have identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts including legal and contractual provisions for reporting specific activities in separate funds.
12. We have made available to you:
  - a. All financial records and related data of all funds and activities, including those of all special funds, programs, departments, projects, activities, etc., in existence at any time during the period covered by your audit.
  - b. All minutes of the meetings of the governing board and committees of board members or summaries of actions of recent meetings for which minutes have not yet been prepared.
  - c. All communications from grantors, lenders, other funding sources or regulatory agencies concerning noncompliance with:
    - (1) Statutory, regulatory or contractual provisions or requirements.
    - (2) Financial reporting practices that could have a material effect on the financial statements.
13. We have no knowledge of fraud or suspected fraud affecting the entity involving:
  - a. Management or employees who have significant roles in the internal control.
  - b. Others where the fraud could have a material effect on the financial statements.
14. We have not received any communications from employees, former employees, regulators, vendors or others of any allegations of fraud or suspected fraud affecting the City.
15. We acknowledge our responsibility for the design and implementation of programs and controls to provide reasonable assurance that fraud is prevented and detected.
16. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the entity's ability to record, process, summarize, and report financial data, except as

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reported in your compliance and internal control letters.

17. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
18. We have no plans or intentions to engage in any activity that may materially affect the carrying value or classification of assets and liabilities.
19. The following have been properly recorded and/or disclosed in the financial statements, where applicable:
  - a. Related party transactions, including those as defined in Section 2100 of the Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards, and interfund transactions, including interfund accounts and advances receivable and payable, sale and purchase transactions, interfund transfers, long-term loans, leasing arrangements and guarantees, all of which have been recorded in accordance with the economic substance of the transaction and appropriately classified and reported.
  - b. Security agreements in effect under the Uniform Commercial Code.
  - c. Any other liens or encumbrances on assets or revenues or any assets or revenues which were pledged as collateral for any liability or which were subordinated in any way.
  - d. The fair value of investments.
  - e. Amounts of contractual obligations for construction and purchase of real property or equipment not included in the liabilities or encumbrances recorded on the books.
  - f. Any liabilities which are subordinated in any way to any other actual or possible liabilities.
  - g. Debt issue provisions and bond refunding amounts.
  - h. All leases and material amounts of rental obligations under long-term leases.
  - i. All significant estimates known to management which are required to be disclosed in accordance with the AICPA's Statement of Position 94-6, *Disclosure of Certain Significant Risks and Uncertainties*. Significant estimates are estimates at the balance sheet date which could change materially within the next year.
  - j. Risk financing activities.
  - k. Deposits and investment securities categories of risk.
  - l. Pollution remediation obligations as required under GASB Statement No. 49.
  - m. Defined benefit plans and other post employment benefit plans.
  - n. Line of credit or similar arrangements.
  - o. Authorized but unissued bonds and/or notes.

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20. We are responsible for making the accounting estimates included in the financial statements. Those estimates reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take. In that regard, adequate provisions have been made:

- a. To reduce receivables to their estimated net collectable amounts.
- b. For risk retention, including uninsured losses or loss retentions (deductibles) attributable to events occurring through September 30, 2011 and/or for expected retroactive insurance premium adjustments applicable to periods through September 30, 2011.
- c. For pension obligations, post-retirement benefits other than pensions and deferred compensation agreements attributable to employee services rendered through September 30, 2011.

No provision is required:

- a. To reduce obsolete, damaged, or excess inventories to their estimated net realizable values.
- b. To reduce investments, intangibles, and other assets which have permanently declined in value to their realizable values.

21. There are no:

- a. Material transactions that have not been properly recorded in the accounting records underlying the financial statements. For purposes of this representation, we consider items to be material, regardless of their size if they involve the misstatement or omission of accounting information that in light of surrounding circumstances makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.
- b. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency. In that regard, we specifically represent that we have not been designated as, or alleged to be, a "potentially responsible party" by the Federal Environmental Protection Agency or any equivalent state agencies in connection with any environmental contamination.
- c. Unasserted claims or assessments beyond what we included in the City's self insurance program, that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No. 5 and/or GASB Statement No. 10.
- d. Guarantees, whether written or oral, under which the Government is contingently liable.
- e. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances.

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- f. Agreements to repurchase assets previously sold.
  - g. Debt issue repurchase options or agreements, or sinking fund debt repurchase ordinance requirements.
  - h. Special and extraordinary items.
  - i. Impairment of capital assets.
  - j. Material losses to be sustained in the fulfillment of, or from the inability to fulfill, any service commitments.
  - k. Material losses to be sustained as a result of purchase commitments.
  - l. Arbitrage liabilities.
  - m. Derivative financial instruments.
  - n. Material environmental clean-up obligations.
22. In connection with your audit, conducted in accordance with Government Auditing Standards, we confirm:
- a. We are responsible for:
    - i. Compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the City.
    - ii. Establishing and maintaining effective internal control over financial reporting.
  - b. We have identified and disclosed to you:
    - i. All laws, regulations, and provisions of contracts and grant agreements that have a direct and material effect on the determinations of financial statement amounts or other financial data significant to audit objectives.
    - ii. Violations (and possible violations) of laws, regulations, and provisions of contracts and grant agreements whose effects should be considered for disclosure in the auditor repository or noncompliance.
  - c. We have no violations of provisions of contracts or grant agreements that have been reported.
  - d. We have a process to track the status of audit findings and recommendations.
  - e. We have identified for you previous financial audits, performance audits, or other studies related to the objectives of the audit being undertaken and the corrective action taken to address significant findings and recommendations.
23. We have no direct or indirect, legal or moral, obligation for any debt of any organization, public or private or to special assessment bond holders that is not disclosed in the financial statement.
24. We have satisfactory title to all owned assets.

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25. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
26. Net asset components (invested in capital assets, net of related debt; restricted included and not limited to excess building permit fees; and unrestricted) are properly classified and, if applicable, approved.
27. GASB 54 establishes fund balance classifications (nonspendable, restricted, committed, assigned and unassigned) that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Fund balance for governmental funds in each of the aforementioned categories is properly classified and disclosed in accordance with GASB 54 and if applicable, approved.
28. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
29. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.
30. Capital assets, including infrastructure assets, are properly capitalized, reported, and depreciated.
31. Required supplementary information is properly measured and presented.
32. There are no unasserted claims or assessments that our lawyers have advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No. 5 and/or GASB Statement No. 10.
33. We are responsible for and have reviewed and approved the proposed adjustments to the trial balances identified during the audit and will post all adjustments accordingly.
34. The City has complied with the provisions of Section 218.415, Florida Statutes regarding the investment of public funds.
35. The City is not in a state of emergency based upon the conditions described in Section 218.503(1), Florida Statutes.
36. Management has assessed the financial condition of the City and noted no deteriorating financial condition.

Except for the issuance of Stormwater revenue bonds and refunding bonds on December 7, 2011, and the issuance of General Obligation Bonds on December 1, 2011, there are no events or transactions that have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements.

During the course of your audit, you may have accumulated records containing data


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which should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

The City of Miami Beach, Florida

  
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Jorge M. Gonzalez  
City Manager

  
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Patricia D. Walker  
Chief Financial Officer

  
\_\_\_\_\_  
Allison R. Williams  
Chief Accountant

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# MIAMI BEACH

City of Miami Beach, 1700 Convention Center Drive, Miami Beach, Florida 33139, [www.miamibeachfl.gov](http://www.miamibeachfl.gov)

## FINANCE DEPARTMENT

Tel: 305-673-7000 Fax: 305.673.7795

June 7, 2012

McGladrey & Pullen, LLP  
801 Brickell Avenue, suite 1050  
Miami, FL 33131

In connection with your audit of federal awards and state projects as of and for the year ended September 30, 2011 conducted in accordance with OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and Chapter 10.550, Rules of the Auditor General, we confirm:

1. a. We are responsible for complying, and have complied in all material respects with the requirements of Circular A-133 and Chapter 10.550, *Rules of the Auditor General*.
- b. We have prepared the schedule of expenditures of federal awards and state projects in accordance with Circular A-133 and Chapter 10.550, *Rules of the Auditor General* and have included expenditures made during the period being audited for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance).
- c. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs and state projects that provides reasonable assurance that the City is managing federal awards and state projects in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on our federal programs and state projects.
- d. We are responsible for complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of the City's federal programs and state projects and have complied, in all material respects, with those requirements.
- e. We have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major program.
- f. We have provided you with our interpretations of any compliance requirements that have varying interpretations.
- g. We have made available all contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies or pass-through entities

related to federal programs and state projects.

- h. We have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal awards and state projects, including those resulting from other audits or program reviews.
  - i. We have charged costs to federal awards and state projects in accordance with applicable cost principles.
  - j. We have made available to you all documentation related to the compliance requirements, including information related to federal program and state projects financial reports and claims for advances and reimbursements.
  - k. Federal program and state projects financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared.
  - l. The copies of federal program and state projects financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the federal and state agency or pass-through entity, as applicable.
  - m. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by Circular A-133 and Chapter 10.550, *Rules of the Auditor General*.
  - n. We have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
  - o. We have accurately completed the appropriate sections of the data collection form.
  - p. We have disclosed all contracts or other agreements with service organizations.
  - q. We have disclosed to you all communications from service organizations relating to noncompliance at those organizations.
  - r. We have disclosed any known noncompliance occurring subsequent to the period for which compliance is audited.
  - s. We have disclosed whether any changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies (including material weaknesses), have occurred subsequent of the date as of which compliance is audited.
  - t. We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of Circular A-133 and Chapter 10.550, *Rules of the Auditor General*.
  - u. We have issued management decisions on a timely basis after our receipt of subrecipients' auditors reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements, and we have ensured that subrecipients have taken the appropriate and timely corrective action on findings.
2. Unless disclosed to you, there have been no complaints filed with or concerning our compliance with the provisions of:

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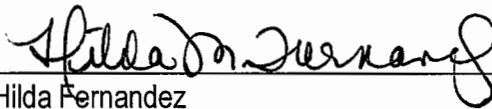
- a. Davis-Bacon Act relative to payment of prevailing wage rates.
  - b. Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 relative to acquisition or real property and the relocation of occupants of acquired property.
3. We have acknowledged the findings as described in the single audit report and the management letter and have provided responses and planned corrective actions accordingly.

The City of Miami Beach, Florida



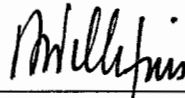
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Patricia D. Walker  
Chief Financial Officer



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Hilda Fernandez  
Assistant City Manager



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Allison R. Williams  
Chief Accountant

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Exhibit B – Single Audit Reports in Accordance with OMB-Circular A-133 and the Florida Single Audit Act and management Letter in Accordance with the *Rules of the Auditor General of Florida*.

# City of Miami Beach, Florida

Single Audit Reports in Accordance With OMB Circular A-133 and  
Chapter 10.550, Rules of the Auditor General of the State of Florida  
September 30, 2011



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**Independent Auditor's 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***

The Honorable Mayor and City Commissioners  
City of Miami Beach, Florida

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Miami Beach, Florida (the "City") as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 30, 2012. Our report included references to other auditors. We conducted our audit in accordance with 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. Other auditors audited the financial statements of the Visitor and Convention Authority; the Miami Beach Convention Center as managed by Global Spectrum ("Global Spectrum"); the City of Miami Beach Florida Employees' Retirement Plan; the City of Miami Beach Florida Pension Fund for Firefighters and Police Officers; the Firemen's Relief and Pension Fund; and the Policemen's Relief and 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 controls over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of Global Spectrum, the City of Miami Beach Florida Employees' Retirement Plan; the City of Miami Beach Florida Pension Fund for Firefighters and Police Officers; and the Miami Beach Policeman's Relief and Pension Fund, audited by other auditors, were not audited in accordance with *Government Auditing Standards*.

***Internal Control Over Financial Reporting***

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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.



Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

*Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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*.

We noted certain matters that we reported to management of the City in a separate letter dated March 30, 2012.

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

*McGladrey LLP*

Miami, Florida  
March 30, 2012



**Independent Auditor's Report  
on Compliance With Requirements That Could Have a Direct  
and Material effect on Each Major Program and State Project  
and on Internal Control Over Compliance in Accordance  
With OMB Circular A-133 and Chapter 10.550,  
*Rules of the Auditor General, State of Florida***

The Honorable Mayor and City Commissioners  
City of Miami Beach, Florida

***Compliance***

We have audited the City of Miami Beach, Florida (the "City") compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* and the requirements described in the Department of Financial Services' State Projects Compliance supplement, that could have a direct and material effect on each of the City's major federal programs and each of its major state projects for the year ended September 30, 2011. The City's major federal programs and state projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs and state projects is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance 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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.550, *Rules of the Auditor General*, State of Florida. Those standards, OMB Circular A-133 and Chapter 10.550, *Rules of the Auditor General*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or major state project occurred. An audit includes 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 audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs and its major state projects for the year ended September 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and Chapter 10.550, *Rules of the Auditor General*, and which are described in the accompanying schedule of findings and questioned costs as items CF 2011-01, CF 2011-02 and CF 2011-03.

### ***Internal Control Over Compliance***

The Management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs and state projects. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program or major state project to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and Chapter 10.550, *Rules of the Auditor General*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program or state project on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program or state project will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs, as items IC 2011-01 and IC 2011-02. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program or state project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

### ***Schedule of Expenditures of Federal Awards and State Financial Assistance***

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of and for the year ended September 30, 2011 and have issued our report thereon dated March 30, 2012. Our report was modified to include a reference to other auditors. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by OMB Circular A-133, and Chapter 10.550, *Rules of the Auditor General*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

*McGladrey LLP*

Miami, Florida  
June 7, 2012, except for the Schedule of Expenditures  
of Federal Awards and State Financial Assistance which is dated March 30, 2012.

City of Miami Beach, Florida

Schedule of Expenditures of Federal Awards and State Financial Assistance  
Year Ended September 30, 2011

Federal/State Grantor/Pass-Through Entity Program Title	CFDA/ CSFA Number	Grant/Contract Number	Expenditures
Federal Grants:			
U.S. Department of Housing and Urban Development:			
Direct Programs:			
Community Development Block Grant/ Entitlement Grants	14.218	B-XX-MC-12-0014	\$ 2,126,545
Community Development Block Grant/ Entitlement Grants (NSP3)	14.218	B-11-MN-12-0039	33,775
Home Investment Partnership Program	14.239	M-XX-MC-12-0014	1,394,906
Community Development Block Grants_Section 108 Loan Guarantees	14.248	B-94-MC-12-0014	5,411
ARRA-Community Development Block Grant Recovery ARRA Entitlement Grants (CDBG-R) Recovery Act Funded	14.253	B-09-MY-12-0014	325,486
ARRA-Homeless Prevention and Rapid Rehousing Program	14.257	S09-MY-12-0007	213,735
Pass-through Dept. Community Affairs – Pass through – Miami Dade County:			
Supportive Housing Program	14.235	FL0177B4D000802 & FL0177B4D001003	59,080
Community Development Block Grant-DRI-Villa Maria	14.228	08DB-D3-11-23-01-A01	42,244
Community Development Block Grant-DRI Flamingo Park Neighborhood Improvements	14.228	08-DB-D3-11-23-01-A01	1,441,100
Pass-through Department of Community Affairs:			
Community Development Block Grants-Neighborhood Stabilization Program	14.228	10DB-4X-11-23-01-F16	<u>351,070</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<u><b>5,993,352</b></u>
U.S. Department of Justice:			
Direct Program:			
Part E – Developing, Testing and Demonstrating Promising New Programs – Juvenile Justice and Delinquency Prevention – Teen Club	16.541	2008-JL-FX-0481	45,198
Part E – Developing, Testing and Demonstrating Promising New Programs – Juvenile Justice and Delinquency Prevention – Teen Club Salary	16.541	2009-D1-BX-0291	<u>7,721</u>
			52,919
Congressionally Recommended Awards – Teen Club 2010	16.753	2010-DD-BX-0435	159,008
Edward Byrne Memorial Justice Assistance Grant Program – JAG	16.738	2010-DJ-BX-0161	61,500
ARRA – Edward Byrne Memorial Justice Assistance (JAG – CAD/RMS)	16.804	2009-SB-B9-2634	228,067
Federal Equitable Sharing Agreement	16.000	FL0130700	127,736
Community Oriented Policing Services:			
Public Safety Partnership and Community Policing Grants-Child Sexual Predator Program	16.710	2009CSWX0004	178,213
National Institute of Justice:			
National Institute of Justice Research, Evaluation, and Development-Police Homicide Cold Case	16.560	2009-DN-BX-K009	106,074
Bulletproof Vest Partnership/Body Armor Safety Initiative			
Bulletproof Vest Partnership Program	16.607	OMB# 1121-0235	15,182
Pass-Through State of Florida/Miami-Dade County:			
Edward Byrne Memorial Justice Assistance Grant Program – Byrne Criminal Justice Records	16.738	N/A	<u>14,707</u>
<b>Total U.S. Department of Justice</b>			<u><b>943,406</b></u>

(Continued)

City of Miami Beach, Florida

Schedule of Expenditures of Federal Awards and State Financial Assistance  
Year Ended September 30, 2011

U.S. Department of Energy:			
Direct Program:			
ARRA-Energy Efficiency and Conservation Block Grant	81.128	DE-SC0003489	<u>\$ 552,742</u>
<b>Total U.S. Department of Energy</b>			<u>552,742</u>
Pass-through State of Florida:			
Office of Attorney General			
Crime Victim Assistance – VOCA	16.575	V09027	<u>58,220</u>
<b>Total Office of Attorney</b>			<u>58,220</u>
U.S. Department of Interior:			
Pass-through State of Florida:			
Department of State, Division of Historical Resources	15.904	F1007	<u>9,200</u>
<b>Total Historic Preservation Grants-In-Aid</b>			<u>9,200</u>
U.S. Department of Transportation:			
Federal Transit Administration			
Direct Program:			
Federal Transit – Capital Investment Grants – Electrowave Shuttle Service	20.500	FL-03-0245	<u>22,049</u>
			<u>22,049</u>
Pass-through State of Florida:			
Florida Department of Transportation			
Highway Planning and Construction-Middle Beach Recreational Corridor Phase 1	20.205	APG78	11,600
Highway Planning and Construction-Middle Beach Recreational Corridor Phase 2	20.205	APT97	125
Highway Planning and Construction-Venetian Causeway	20.205	APG95	350,537
Highway Planning and Construction-West Avenue Bridge	20.205	APJ33	226,375
Highway Planning and Construction-South Beach Neigh. Trail	20.205	APH49	275,211
Highway Planning and Construction-Dade Boulevard Bike	20.205	AP817	39,704
Highway Planning and Construction-Collins Canal Seawall	20.205	AP718	25,100
ARRA-Highway Planning and Construction-Sunset Dr. Bridge	20.205	426501-1 (AP060)	860
ARRA-Highway Planning and Construction-Sunset Dr. Bridge	20.205	426502-1 (AP061)	1,430
ARRA-Highway Planning and Construction-Henedon Ave. Bridge	20.205	426497-1 (AP062)	920
ARRA-Highway Planning and Construction-Dickens Avenue Lap Project	20.205	426629-3 (APS 85)	17,344
ARRA-Highway Planning and Construction-Byron Avenue	20.205	426629-4 (APS 86)	1,500
ARRA-Highway Planning and Construction-Indian Creek Drive	20.205	426500-1 (APO37)	213,248
			<u>1,163,954</u>
<b>Total U.S. Department of Transportation</b>			<u>1,186,003</u>
U.S. Department of Homeland Security:			
Direct Program:			
Emergency Food and Shelter National Board Program – EFS Phase 28	97.024	159400-076	9,299
Emergency Food and Shelter National Board Program – EFS Phase 29	97.024	159400-076	575
Assistance to Firefighters Grant-Fire Grant	97.044	EMW-2009-FO-10767	<u>62,000</u>
<b>Total U.S. Department of Homeland Security</b>			<u>71,874</u>

(Continued)

City of Miami Beach, Florida

Schedule of Expenditures of Federal Awards and State Financial Assistance (Continued)  
Year Ended September 30, 2011

Federal/State Grantor/Pass-Through Entity Program Title	CFDA/ CSFA Number	Grant/Contract Number	Expenditures
Pass-through State of Florida:			
Florida Department of Community Affairs			
Pass-through Miami Dade County			
Office of Domestic Preparedness			
Homeland Security Grant Program – Urban Areas			
Security Initiative 2007	97.067	09DS-24-11-23-02-011	\$ 69,813
Homeland Security Grant Program – Urban Areas			
Security Initiative 2008	97.067	10DS-48-11-23-02-195	<u>118,351</u>
			<u>188,164</u>
Pass-through State of Florida:			
Florida Department of Community Affairs			
Disaster Grants-Public Assistance-FEMA-Disaster Relief Funding Agreement			
Hazard Mitigation Grant	97.036	06-WL-&K-11-23-02-567&	52,252
	97.039	08HM-6G-11-23-02-060	452,636
Emergency Preparedness Demonstration Program (EOC Grant)	97.001	11DS-37-11-23-02-198	<u>188,208</u>
<b>Total State-Pass-Florida Dept. of Community Affairs</b>			<u><u>693,096</u></u>
National Endowment for the Arts:			
Direct Program:			
Promotion of the Arts Grants to Organization and Individuals	45.024	11-6200-7031	<u>39,612</u>
<b>Total National Endowment for the Arts</b>			<u>39,612</u>
<b>Total Expenditures of Federal Awards</b>			<u><u>9,735,669</u></u>
State Grants:			
Florida Department of Health:			
Pass-Through Miami-Dade County:			
Emergency Prev/Prep/Response-EMS County Grants	64.005	C-9013	2,472
Florida Department of State:			
Division of Historical Resources:			
Historic Preservation Grant-Fire Station No 2	45.031	SC114	147,029
Division of Cultural Affairs:			
Cultural and Museum Grants/Culture Builds Florida	45.062	12.5.0004	19,150
Florida Department of Environmental Protection:			
Florida Recreation Development Assistance Program-Flamingo Park Tennis Renov.	37.017	A08187	68,353
Florida Housing Finance Corporation:			
State Housing Initiatives Partnership Program	52.901	NA	461,976
Florida Department of Transportation			
State Highway Project Reimbursement-Indian Creek SR A1A 41st-26th Street	55.023	AOY 48	<u>490,387</u>
<b>Total Expenditures of State Financial Assistance</b>			<u>1,189,367</u>
<b>Total Expenditures of Federal Awards and State Financial Assistance</b>			<u><u>\$ 10,925,036</u></u>

N/A – Not Available

See Notes to Schedule of Expenditures of Federal Awards and State Financial Assistance.

City of Miami Beach, Florida

Notes to the Schedule of Expenditures of  
Federal Awards and State Financial Assistance

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1. General

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance (the "Schedule") presents the expenditure activity of all federal awards and state projects of the City of Miami Beach, Florida (the "City") for the year ended September 30, 2011. The City's reporting entity is defined in Note 1 of the City's basic financial statements. All federal awards and state financial assistance received directly from federal and state agencies, as well as amounts passed through other government agencies are included in the accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance. Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position or changes in net assets of the City.

2. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance is presented using the modified accrual basis of accounting for grants which are accounted for in the governmental fund types and on the accrual basis of accounting for grants which are accounted for in the proprietary fund types. The information in the Schedule of Expenditures of Federal Awards and State Financial Assistance is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Chapter 10.550, *Rules of the Auditor General*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

3. Sub-recipient Awards

Of the federal awards and state financial assistance presented in the Schedule of Expenditures of Federal Awards and State Financial Assistance, the City provided the following amounts to sub-recipients:

Name of Program/Projects	CFDA/CSFA Number	Amount Provided to Subrecipient
Federal:		
Community Development Block Grant	14.218	\$ 1,527,216
Community Development Block Grant – DRI	14.228	42,244
Community Development Block Grant – Neighborhood Stabilization Grant	14.228	242,194
Home Program	14.239	1,289,904
<b>Total Federal</b>		<b>\$ 3,101,558</b>
State:		
State Housing Initiatives Partnership Program	52.901	<b>\$ 435,547</b>



City of Miami Beach, Florida

Schedule of Findings and Questioned Costs  
Federal Awards Programs and State Projects

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Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?	_____ Yes	_____ X _____	_____ No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____ Yes	_____ X _____	_____ No
Noncompliance material to financial statements noted?	_____ Yes	_____ X _____	_____ No

Federal Awards

Internal control over major program:

Material weakness(es) identified?	_____ Yes	_____ X _____	_____ No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____ X _____	_____ Yes	_____ None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

	_____ X _____	_____ Yes	_____ No
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Identification of major program:

<u>Federal CFDA No.</u>	<u>Name of Federal Program or Cluster</u>
14.218 and 14.253	U.S. Department of Housing and Urban Development: ARRA - Community Development Block Grant
14.228	U.S. Department of Housing and Urban Development: Community Development Block Grants-Neighborhood Stabilization Program
16.738 and 16.804	U.S. Department of Justice: ARRA- Edward Byrne Memorial Justice Assistance
20.205	U.S. Department of Transportation: ARRA-Highway Planning and Construction
81.128	U.S. Department of Energy: ARRA-Energy Efficiency and Conservation Block Grant Program
97.039	Pass-through State of Florida Department of Community Affairs: Hazard Mitigation Grant

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee?

	_____ X _____	_____ Yes	_____ No
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City of Miami Beach, Florida

Schedule of Findings and Questioned Costs (Continued)  
 Federal Awards Programs and State Projects

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State Financial Assistance

Internal control over major projects:

Material weakness(es) identified?	_____ Yes	_____ X _____	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____ Yes	_____ X _____	None reported

Type of auditor's report issued on compliance for major projects:

Any audit findings disclosed that are required to be reported in accordance with Chapter 10.550, <i>Rules of the Auditor General</i> ?	_____ Yes	_____ X _____	No
		Unqualified	

Identification of major projects:

<u>State CSFA No.</u>	<u>Name of State Projects</u>
52.901	Florida Housing Finance Corporation: State Housing Initiatives Partnership Program
55.023	Florida Department of Transportation: State Highway Project Reimbursement – Indian Creek SR A1A 41st-26th Street

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Schedule of Findings and Questioned Costs (Continued)  
Federal Awards Programs and State Projects

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Section II – Financial Statement Findings

- A. *Internal Control*  
None reported.
  
- B. *Compliance*  
None reported

Section III – Federal Awards and State Financial Assistance Findings and Questioned Costs

- A. *Internal Control over Compliance*

Federal Awards

IC 2011-01 Allowable Costs

U.S. Department of Housing and Urban Development (HUD) –  
Community Development Block Grant “CDBG” (CFDA No. 14.218 & 14.253)

Criteria: OMB Circular A-87 requires that in situations where employees work on multiple grants, their salary distribution must be supported by personnel activity reports or similar documents delineating the hours worked on each grant and other activities. In addition, the personnel activity reports should be prepared at least monthly and must include the employee's signature. In situations where all of an individual's salary is charged to a federal program, certifications should be prepared at least bi-annually to support the amounts charged to the federal program. In addition, 2 CFR part 215 requires that non-federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

Condition: We noted that there were no procedures in place over payroll to monitor and ensure that personnel activity reports delineating the hours worked by employees on each grant or certifications for those employees that work solely on one grant, are completed. We noted individuals whose salaries were charged to the federal program did not have certifications completed. In addition, we noted that there were no personnel activity reports or similar documents delineating the hours worked on each grant and other activities for employees that worked on multiple grants.

Questioned costs: \$25,868

Context: For all 33 salaries and wage selections selected for testing we noted the City did not complete the required certifications for employees working solely on one Federal program. For those employees working on multiple grants, we noted the City did not have authorized personnel activity reports delineating the hours worked on each grant.

Effect: Failure to maintain complete certifications could result in disallowance by the grantor of payroll expenditures. Without adequate internal controls over program costs, management faces the risk of submitting reimbursement requests for unallowable costs.

**Schedule of Findings and Questioned Costs (Continued)**  
**Federal Awards Programs and State Projects**

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Cause: The City does not have a formal process in place to ensure that all individuals whose salaries are charged to federal programs are included in the certifications. Further, there does not appear to be effective internal controls over payroll to ensure compliance with Federal requirements.

Recommendation: We recommend that the City establish a formal policy and procedure relating to the payroll certification process. The policy should include notifying division heads of the process and ensuring that they are aware of the provisions, which includes the following: (1) If only a portion of the individual's salary is charged to the program, an after-the-fact payroll distribution should be maintained. (2) If all of the employee's salary is charged to the program, the required certification should be prepared at least semi-annually.

Views of responsible officials and planned corrective action: The City has recently established a Policy and Procedure for the payroll certification process which states:

1. Charge for salaries and wages for employees expected to work solely on a single Federal award or cost objective will be supported by payroll certifications. Certifications will cover the period worked solely on the program by the employee and prepared at least semi-annually.
2. Employees working on multiple activities or cost objectives, a distribution of their salary and wages will be supported by payroll timesheets which include the following:
  - Multiple activities portion/percentage of the employee salary charged to the programs
  - Sole activity 100% of the employee's salary charged to the program, and if so a certification sheet will be filed semi annually
  - Training, vacation and sick days accounted for the employee

**IC 2011-02 – Sub-recipient Monitoring**

**U.S. Department of Housing and Urban Development  
Community Development Block Grants-Neighborhood Stabilization Program (NSP) (CFDA No. 14.228)**

Criteria: Per review of the sub-recipient grant agreement, it was noted that monthly reports are to be submitted by the subrecipient to the City, by the 10<sup>th</sup> of the following month. The City must ensure that internal control policies are adhered to on a timely basis by the sub-recipient.

Condition: Monthly reports were not submitted in a timely manner by the sub-recipient to the City.

Questioned costs: Undeterminable.

Context: In fiscal year 2011, the City received the November 2010, December 2010 and January 2011 reports late from the sub-recipient.

Effect: Sub-recipients may not be administering the activities funded by the program in accordance with the provisions of the program requirements and grant agreements.

Cause: The City did not track the timely submission of the sub-recipient reporting requirements to ensure contract compliance requirements are being adhered to by the sub-recipient.

Schedule of Findings and Questioned Costs (Continued)  
Federal Awards Programs and State Projects

---

Recommendation: We recommend the City track the timely submission of the reports from the sub-recipient and ensure that all policies and procedures implemented by the City are adhered to by the sub-recipient.

Views of responsible officials and planned corrective action: A Policy and Procedure for Monitoring of Sub-recipients was created in April 2010, along with an Outlook calendar for program monitors. While the original NSP sub-recipient grant agreement between the City and MBCDC included a monthly reporting provision, monthly sub-recipient reports are neither required by the HUD NSP rules nor by the State of Florida rules. Therefore, the monthly reporting provision was amended to quarterly reports by Amendment No. 5 to the sub-recipient agreement, executed on August 22, 2011.

**State Awards**

None reported

*B. Compliance Findings*

**Federal Awards**

**CF 2011-01 Allowable Costs**

**U.S. Department of Housing and Urban Development (HUD) –  
Community Development Block Grant “CDBG” (CFDA No. 14.218 & 14.253)**

See IC 2011-01

Views of responsible officials and planned corrective actions: See IC 2011-01 for detailed views of responsible officials and planned corrective action.

Schedule of Findings and Questioned Costs (Continued)  
Federal Awards Programs and State Projects

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CF 2011-02 Procurement

U.S. Department of Housing and Urban Development (HUD) –  
Community Development Block Grant “CDBG” (CFDA No. 14.218 & 14.253)

Criteria: As stated in the terms and conditions of the American Recovery and Reinvestment Act of 2009 (ARRA) award agreement, all ARRA funding Recipients are required to comply with the Buy American provisions of ARRA (Section 1605 of Title XVI). The Buy American provisions of ARRA require that all iron, steel and manufactured goods used in projects funded by ARRA for the construction, alteration, maintenance or repair of a public building or public work must be produced in the United States unless one of three listed exceptions applies – non-availability, unreasonable cost, or inconsistent with the public interest – and a waiver is granted by the United States Department of Energy (DOE). The Buy American provisions of ARRA are implemented by guidance issued by the Office of Management and Budget (OMB) found at 2 Code of Federal Regulations, Part 176, Subpart B.

Condition: We observed that the City did not comply with the provisions of the American Recovery and Reinvestment Act of 2009 (ARRA) to include language within the contract between their sub-recipient, who received ARRA funding under the Community Development Block Grant (14.253) to state that they must comply with the Buy American provisions of ARRA (Section 1605 of Title XVI).

Questioned costs: Undeterminable.

Context: The City's contract with one sub-recipient did not have a disclosure indicating that the funding Recipient is required to comply with the Buy American provisions of ARRA (Section 1605 of Title XVI).

Effect: City's non compliance with grant requirements may result in repayment of award monies.

Cause: The City has not developed a procedure to ensure compliance requirements are being adhered to.

Recommendation: We recommend the City establish a formal policy and procedure to perform a review of contracts with sub-recipients containing ARRA grant monies to ensure that all provisions, including the Buy American provisions of ARRA (Section 1605 of Title XVI) disclosure be included in the agreement. Such procedure could be created in the form of a checklist that is completed and reviewed prior to the execution of the subrecipient's contract.

Views of responsible officials and planned corrective action: The City will establish a formal Policy and Procedure to perform a review of contracts with sub-recipients containing ARRA grant monies to ensure that all provisions, including the Buy America provisions of ARRA (Section 1605 of Title XVI) disclosure be included in the agreement.

Schedule of Findings and Questioned Costs (Continued)  
Federal Awards Programs and State Projects

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CF 2011-03 – Reporting

**U.S. Department of Transportation  
ARRA Highway Planning and Construction (CFDA No. 20.205)**

Criteria: Pursuant to the reporting requirements for the American Recovery and Investment Act 2009 (ARRA): “Contractors and consultants must report their required monthly employment data for employees, hours, and payroll wages, as well as for their subcontractors/subconsultants.” The said employment data must be entered into Florida Department of Transportation (FDOT)’s ARRA Employment Reporting system by the 10<sup>th</sup> of each month for the prior month.

Condition: We noted that the monthly reports for March 2011 and May 2011 were not submitted timely for one project.

Questioned costs: Undeterminable.

Context: Out of the three monthly reports selected for testing, we noted that the reports due April 10, 2011 and June 10, 2011 were not submitted timely.

Cause: Although the City has procedure in place to ensure reporting requirements under ARRA Section 1512 are being adhered to, there was a misunderstanding on whether monthly employment data was required to be filed in the event there was no construction activity for the period.

Recommendation: We recommend that grant personnel responsible for ARRA report submission become fully knowledgeable of the reporting and submission requirements.

Views of responsible officials and planned corrective action: The City has procedure in place to ensure all required reports are filed in a timely manner. The procedure was not followed due to some misunderstanding on whether filing was necessary if there was no construction activity during that period. Additionally, the ARRA reporting for these projects and the Notice to Proceed (NTP) were not finalized by FDOT until June 9, 2011. Subsequent to this audit, the City has taken steps to ensure monthly employment data are filed with FDOT even if there was no construction activity for the period and all subsequent reports were filed in a timely manner.

City of Miami Beach, Florida

Schedule of Prior Year Audit Findings  
Federal Awards Programs and State Projects

Finding #	Finding Title	Status	Explanation
Findings related to financial statements:			
IC 2010-01	<b>Subrecipient Monitoring (CFDA No.14.218 and 14.228)</b>  Monthly and/or quarterly reports were not prepared and/or submitted in a timely manner by the subrecipients to the City.	Corrected	The City corrected the specific finding in fiscal year 2011.
IC 2010-02 and CF 2010-01	<b>Reporting (CFDA No.14.218)</b>  There were no procedures in place to monitor and ensure compliance with the reporting requirements of the CDBG Program. As a result, the required report for one quarter was submitted late by the City to the Department of Housing and Urban Development.	Corrected	The City corrected the specific finding in fiscal year 2011.
IC 2010-03	<b>Procurement, Suspension &amp; Debarment (CFDA No.14.218)</b>  The City did not have a system in place to verify whether vendors under contract were suspended or debarred.	Corrected	The City corrected the specific finding in fiscal year 2011.
IC 2010-04 and CF 2010-02	<b>Davis Bacon Act (CFDA No.14.218)</b>  Wages for three work classifications were noted to be under the Miami-Dade County minimum requirement.	Corrected	The City corrected the specific finding in fiscal year 2011.
IC 2010-05	<b>Subrecipient Monitoring (CSFA No.52.901)</b>  There were no procedures in place to monitor and ensure compliance with the subrecipient requirements of the SHIP Program. As a result, monthly reports were not prepared and or submitted in a timely manner by the subrecipient, Miami Beach Community Development Center, to the City as required by the subrecipient's agreements.	Corrected	The City corrected the specific finding in fiscal year 2011.



City of Miami Beach, Florida

Schedule of Prior Year Audit Findings  
Federal Awards Programs and State Projects (Continued)

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IC 2010-06 Reporting (CSFA No.52.901)  
and CF 2010-03

There was no procedure in place to monitor and ensure compliance with the reporting requirements of the SHIP Program. As a result, the required report was submitted two days late by the City to FHFC.

Corrected

The City corrected the specific finding in fiscal year 2011.

CF 2009-01 Subrecipient Monitoring(CFDA No.14.218)

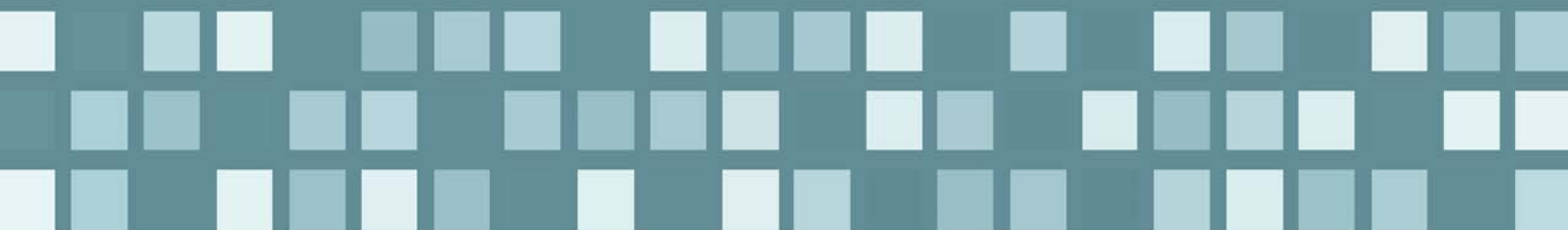
Monthly reports were not prepared and/or submitted in a timely manner by the subrecipients to the City as required by the subrecipient agreements. In addition, no evidence of monitoring visits were found in several subrecipient's files.

Corrected

The City corrected the specific finding in fiscal year 2011.

# City of Miami Beach, Florida

Management Letter in Accordance with the Rules of the  
Auditor General of the State of Florida  
September 30, 2011



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## Management Letter in Accordance with the Rules of the Auditor General of the State of Florida

To the Honorable Mayor and City Commissioners  
City of Miami Beach, Florida

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Miami Beach, Florida (the "City") as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 30, 2012. Our report was modified to include a reference to other auditors.

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 OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. 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 Financial Statements Performed in Accordance with *Government Auditing Standards* dated March 30, 2012, and Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Federal Program and State Project and on Internal Control over Compliance and Schedule of Findings and Questioned Costs dated March 30, 2012. Disclosures in those reports and schedule should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which governs the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's reports or schedule:

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 have been taken to address findings and recommendations made in the preceding annual financial audit report, except for those reported below under the heading "Prior Year's Recommendations to Improve Financial Management, Accounting Procedures and Internal Controls" listed in Appendix B.

Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, *Florida Statutes*, regarding the investment of public funds. In connection with our audit, we determined that the City complied with Section 218.415, *Florida Statutes*, relating to local government investment policies.

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. The recommendations to improve the City's financial management have been addressed in Appendix A – Current Year's Recommendations to Improve Financial Management, Accounting Procedures and Internal Controls to this report.

Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of 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 more than inconsequential. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)5., Rules of the Auditor General provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)6., 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. The information is disclosed in Note 1A to the financial statements.

Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition 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.

Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the City for the fiscal year ended September 30, 2011 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, 2011. In connection with our audit, we determined that these two reports were in agreement.

Pursuant to Sections 10.554(1)(i)7.c. and 10.556(7), 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.

Pursuant to Chapter 119, Florida Statutes this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of the Honorable Mayor, City Commissioners, management of the City, the State of Florida Office of the Auditor General, federal and state awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*McGladrey LLP*

Miami, Florida  
March 30, 2012

Appendix A  
Current Year's Recommendations to Improve Financial Management,  
Accounting Procedures and Internal Controls  
Year Ended September 30, 2011

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No.	Current Year's Observations
2011-1	Self-Insurance Fund Deficit and Actuarial discount rate of the Self-Insurance Program

**2011-1 Self-Insurance Fund Deficit and Actuarial discount rate**

Criteria: Proprietary funds (which include internal service funds) should be accounted for on a cost reimbursement basis. Also, actuarial assumptions used to estimate the City's self insurance liability should be reasonable and reflect current market related conditions.

Condition: The City's self-insurance fund reported a net asset deficit of approximately \$7.9 million, as of September 30, 2011. Additionally, it was noted, it may not be appropriate for the City to use a 4% rate for discounting the loss reserves, since the City's self-insurance fund has no assets and does not earn any investment income.

Cause: The rates established to charge each participating fund of the City were not adequate enough to reimburse the cost of insurance.

Effect: The City's may not have enough resources accumulated to fully liquidate insurable liabilities as they become due. In addition, by not properly allocating these charges to the various funds and functions, the City might not incorporate all of the City's cost that would be applicable in order to accurately establish rates and fees for services that are charged by the City to external parties.

Recommendation: We recommend that the City evaluate its self-insurance program, to not only help ensure that the level of amounts charged to user funds are sufficiently balanced to sustain the self-insurance program, but to help ensure that reserves will be replenished in order to fund the growing deficit. The total charge by the internal service fund to the other funds should be based on a systematic method and adjusted over a reasonable period of time so that internal service fund revenue and expenses are approximately equal.

Views of responsible officials and planned corrective actions: The deficit in the Risk Management self insurance fund increased from \$6.811 million at September 30, 2010 to \$7.927 million at September 30, 2011, an increase of \$1.116 million. This net increase was driven by the actuarial determined liability which increased by \$1.947 million for pending insurance claims and \$1.528 million for Incurred by not reported claims (IBNR).

At September 30, 2011, the City had \$14.875 million in IBNR liabilities and \$11.798 million in pending insurance claims liabilities. The cash balance available for paying claims at September 30, 2011 was \$ 17.5 million. The City feels that this is sufficient to liquidate any insurable liabilities that become due within the next fiscal year.

It is the City's intention to continue to increase revenues and thus reduce the deficit in future years. In addition, the City considers, subject to commission budget approval, an annual contribution to reduce the Fund's deficit.

**Appendix A**  
**Current Year's Recommendations to Improve Financial Management,**  
**Accounting Procedures and Internal Controls (Continued)**  
**Year Ended September 30, 2011**

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As with all other local governments, the last several fiscal years have been challenging due to continued declines in property values through January 2010 and increased pension contribution requirements primarily because pension investments have not met actuarial assumptions in the three of the last four years. As a result, while the City has increased funding for the Risk Management Fund in its annual operating budget for the short-term, the City has elected to use year-end surplus in the General Fund as carry-forward to future fiscal years, rather than to fund deficit increases in the self insurance fund. It is anticipated that property values will stabilize in the coming years and then resume normal historical increases and that investment returns will return to historical levels, thereby reducing the stress on the budget. It is therefore anticipated that, in the longer term, the City will once again be in the position to reduce the risk deficit as it has done in prior years.

In FY 2010 the City decreased the rate for discounting loss reserves from 6% to 5% and in FY 2011 from 5% to 4%. The City plans to consider further decreasing the rate to 3.5% in FY 2012.

City of Miami Beach, Florida

Appendix B  
Prior Year's Recommendations to Improve Financial Management,  
Accounting Procedures and Internal Controls  
Year Ended September 30, 2011

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No.	Prior Years' Observations	Observation is Still Relevant	Comment No Longer Relevant
2002-2	Self-Insurance Fund Deficit see current year's comment at 2011-1	X	