

**CITY OF MIAMI SOUTHEAST OVERTOWN PARK WEST
REDEVELOPMENT AGENCY AND CITY OF MIAMI OMNI
COMMUNITY REDEVELOPMENT AGENCY
(COMPONENT UNITS OF THE CITY OF MIAMI, FLORIDA)**

Management Letter in Accordance With the
Rules of the Auditor General of the State of Florida

Year ended September 30, 2003

Executive Summary

Sanson, Kline, Jacomino & Company, LLP (SKJ) hereby submits this management letter to the City of Miami Southeast Overtown Park West Redevelopment Agency and City of Miami Omni Community Redevelopment Agency (the Agencies), Component Units of the City of Miami, Florida for the fiscal year ending September 30, 2003. The management letter is presented in accordance with the *Rules of the Auditor General* of the State of Florida. In accordance with *Government Auditing Standards*, we are required to consider the Agencies' internal control during our planning and performing of our audit of the financial statements in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. In fulfilling this responsibility, estimates, and judgments made by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives on internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of its financial statements in accordance with accounting principles generally accepted in the United States of America.

The management letter is organized in the following manner:

- Executive summary;
- Responses to the *Rules of the Auditor General* of the State of Florida;
- Current year's observations, recommendations, and management's responses; and
- Status of prior years' observations, recommendations, and management's responses.

Certain areas have been shaded gray or bolded to emphasize such areas to the readers of this report. We would be pleased to discuss these comments with you and, if desired, to assist you and management in implementing corrective action steps. SKJ appreciates the cooperation we received from the Agencies' staff and management, and is honored to serve the Agencies as its external auditors.

Sanson, Kline, Jacomino
& Company, LLP
Certified Public Accountants

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**Management Letter in Accordance with the
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To the Board of Directors of the
City of Miami Southeast Overtown Park West
Redevelopment Agency and City of Miami Omni
Community Redevelopment Agency:

We have audited the financial statements of the City of Miami Southeast Overtown Park West Redevelopment Agency and City of Miami Omni Community Redevelopment Agency, Component Units of the City of Miami, Florida (the Agencies), as of and for the fiscal year ended September 30, 2003, and have issued our report thereon dated February 6, 2004.

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. We have issued our Independent Auditors' Report on Compliance and Internal Control over Financial Reporting. Disclosures in that report, which is dated February 6, 2004, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, *Rules of the Auditor General*. Those rules (Section 10.554(1)(g)1.a.) require that we address in the management letter, if not already addressed in the auditors' report on compliance and internal controls, whether or not inaccuracies, shortages, defalcations, fraud, and violations of laws, rules, regulations, and contractual provisions reported in the preceding annual financial audit report have been corrected. We noted no inaccuracies, irregularities, shortages, defalcations, and violations of laws, rules, regulations, and contractual provisions disclosed in the preceding annual financial audit.

The *Rules of the Auditor General* (Section 10.554(1)(g)1.b.) require that we disclose in the management letter, if not already disclosed in the auditors' report on compliance and internal controls, whether or not recommendations made in the preceding annual financial audit report have been followed. **The recommendations made in the preceding annual financial audit report have been corrected, except for those reported in Appendix B, titled "Status of Prior Years' Observations, Recommendations, and Management's Responses."**

The *Rules of the Auditor General* (Section 10.554(1)(g)2.), state that a management letter shall include a statement as to whether or not a local governmental entity complied with Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the Agencies complied with Section 218.415, Florida Statutes, relating to local governmental investment policies.

The *Rules of the Auditor General* (Section 10.554(1)(g)3.) state that a management letter shall include recommendations to improve the local government entity's present financial management, accounting procedures and internal accounting controls. The recommendations made in the current year are reported in Appendix A, titled "Current Year's Observations, Recommendations, and Management's Responses."

The *Rules of the Auditor General* (Section 10.554(1)(g)4.) require disclosure in the management letter of the following matters if not already addressed in the auditors' reports on compliance and internal controls (1) violations of laws, rules, regulations, and contractual provisions that have occurred, or are likely to have occurred, and were discovered within the scope of the audit; (2) improper or illegal expenditures discovered within the scope of the audit that may or may not materially affect the financial statements; (3) improper or inadequate accounting procedures (for example, the omission of required disclosures from the financial statements); (4) failures to properly record financial transactions; and (5) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. **No such conditions were noted during the audit.**

The *Rules of the Auditor General* Section (Section 10.554(1)(g)5.) state that a management letter shall include the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements. Such disclosure is made in note 1 to the Agencies' financial statements.

The *Rules of the Auditor General* (Section 10.554(1)(g)6.a.), state that a management letter shall include a statement as to whether or not a unit of local government is in a state of financial emergency as a consequence of conditions described in Section 218.503(1), Florida Statutes. Section 218.503(1) states that a local governmental entity is in a state of financial emergency when any of the following conditions occur:

- a. Failure, within the same fiscal year in which due, to pay short-term loans from banks or failure to make bond debt service payments when due.
- b. Failure to transfer at the appropriate time, due to lack of funds: (1) taxes withheld on the income of employees; or (2) employer and employee contributions for a) federal Social Security, or b) any pension, retirement, or benefit plan of an employee.
- c. Failure for any one period to pay, due to lack of funds: (1) wages and salaries owed to employees; or (2) retirement benefits owed to former employees.
- d. An unreserved or total fund balance or retained earnings (deficit) for which sufficient resources of the local government entity are not available to cover the deficit for two successive years.
- e. Noncompliance of the local government retirement system with actuarial conditions provided by law.

Section 218.503(2) states that local government entity shall notify the Governor and the Legislative Auditing Committee when one or more of the conditions specified in Section 218.503(1), Florida Statutes have occurred or will occur if action is not taken to assist the local governmental entity.

Nothing came to our attention that caused us to believe that the Agencies are, or during the fiscal year were in a state of financial emergency as a consequence of conditions in Section 218.503(1), Florida Statutes.

As required by the *Rules of the Auditor General* (Sections 10.554(g)(6)c. and 10.556(8)), we applied financial condition assessment procedures. It is management's responsibility to monitor the Agencies 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.

With respect to the financial report for the fiscal year 2003 required to be filed with the State of Florida Department of Banking and Finance pursuant to Section 218.32 Florida Statutes, the Agencies do not file a separate report with the State of Florida Department of Banking and Finance. The financial operations of the Agencies are included in the basic financial statements of the City of Miami, Florida for the year ended September 30, 2003.

This management letter is intended solely for the information and use of the board of directors, management of the Agencies, the State of Florida Office of the Auditor General, and 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.

Sansa, Kline, Jacorino & Company, LLP

February 6, 2004

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**Current Year's Observations, Recommendations
and Management's Responses**

Summary

No.	Current Year's Observation
2003-1	Capital Assets Additions and Disposals
2003-2	Line Item Expenditure Classifications
2003-3	Maintaining Authoritative Accounting Literature

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2003-1 CAPITAL ASSETS ADDITIONS AND DISPOSALS

Criteria/Specific Requirements

An updated listing of all capital assets held by the Agencies is integral in determining the accuracy and existence of its capital asset balances.

Condition Found

Updating the capital assets listing (i.e. updating additions and disposals) is not performed throughout the year, but instead is performed at the end of the year through a search of invoices paid. We noted several items that were not included on the capital assets listing at year-end.

Perspective

The condition noted is considered to be systemic in nature.

Effect

Updating the capital assets listing at year-end may not capture all additions or disposals that occurred during the year, due to the voluminous transactions that occur. This could result in the understatement or overstatement of the capital asset balances.

Recommendation

We recommend that the Agencies consider creating line item expenditure accounts for purchases of all furniture and equipment, land, and infrastructure greater than \$1,000. This will assist the Agencies in updating the capital assets listing, including the calculation of any applicable depreciation / accumulated depreciation, as the assets are purchased or disposed of throughout the year.

Management's Response

Management agrees with the observation. A procedure has been instituted whereby all capital purchases in the amount of \$1000 or more go through the office of the Agencies' Financial Officer to be added to the capital assets listing (current inventory) at the time of delivery, rather than waiting for the annual inventory update.

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2003-2 LINE ITEM EXPENDITURE CLASSIFICATIONS

Criteria/Specific Requirements

Properly recording expenditures in the correct line item classification ensures the accuracy of the Agencies' expenditure balances reported to management, and assists management in making informed business decisions.

Condition Found

On several occasions, we noted expenditures that were recorded in the incorrect line item classification. For example, we noted:

- a forgivable loan (grant) incorrectly recorded in the membership dues expenditure line item account.
- a forgivable loan (grant) incorrectly recorded in the promotional activities line item account.
- construction-in-progress (services performed by HJ Ross) incorrectly recorded in the professional services line item account.

Perspective

The condition noted is considered to be systemic in nature.

Effect

For year-end financial statement purposes, this is not a significant issue, as expenditures are reported by function (e.g., general government, community redevelopment and capital outlay). However, for internal reporting purposes and project monitoring, recording expenditures in the incorrect line item classification would not accurately reflect the total expenditure balance for that particular line item classification, and potentially affect the budgeting of that particular line item classification for the next year.

Recommendation

We recommend that the Agencies ensure that all expenditures are properly recorded in the correct line item classification.

Management's Response

Management agrees with the observation. A procedure has been instituted whereby all expenditures are entered in both the City's GEMS system and in the Agencies' in-house computerized accounting system. On a monthly basis, the Agencies' system will be reconciled against the City's financial system to capture any inconsistencies and allow for a more accurate recording of all expenditures in the proper line item classification.

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2003-3 MAINTAINING AUTHORITATIVE ACCOUNTING LITERATURE

Criteria/Specific Requirements

The use of government accounting literature for reference and guidance, in addition to attending periodic training on government accounting issues and updates, will help to ensure the accuracy and propriety of the Agencies' accounting of its financial transactions.

Condition Found

The Agencies' Finance Department does not maintain any government accounting literature for reference and guidance.

Perspective

The condition noted is considered to be systemic in nature.

Effect

Without the proper government accounting reference and guidance material and the appropriate training, the accounting of financial transactions of the Agencies may be inaccurate and/or improper, in accordance with government accounting standards.

Recommendation

Although the external auditors can be used as a source for determining proper government accounting, we recommend that the Agencies' Finance Department maintain the appropriate government accounting literature for reference and guidance (e.g. the GASB Codification, the Governmental Accounting, Auditing, and Financial Reporting book, a.k.a. the "Blue Book", and any new GASB Pronouncements issued), in addition to attending periodic training on government accounting issues and updates.

Management's Response

Management agrees with the observation. The Agencies' Financial Officer in concert with the Agencies' external CPA consultant will establish an in-house library of appropriate accounting literature, either through printed material or available computerized subscription.

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**Status of Prior Years' Observations, Recommendations,
and Management's Responses**

Summary

No.	Prior Year's Observations	Comment Partially Addressed or No Longer Relevant	Comment is Still Relevant at 9/30/03
<u>REPORTABLE CONDITIONS:</u>			
2002-1	Grants Management and Accounting	X	
2002-2	Contract Agreements	X	
2001-1	Level of Staff Within the Finance Department	X	
2001-3	Encumbrance Accounting	X	
2001-4	Payroll File Maintenance	X	
2001-5	Project Cost Accounting	X	
2000-1	Establishing Controls Over General Ledger	X	
2000-2	Timely Preparation of Financial Statements	X	
99-1	Leased Properties		X
<u>OTHER OBSERVATIONS:</u>			
2002-3	Improper Use of Tax Increment Funds	X	
2002-4	Loan Administration	X	
2001-6	Operational Review	X	
2001-8	Budgetary Accounting		X

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REPORTABLE CONDITIONS

2002-1 GRANTS MANAGEMENT AND ACCOUNTING

Criteria/Specific Requirements

The Agencies provide grant funding, as grantor, to various organizations for the purpose of encouraging and fostering economic and cultural stimulus within the Agencies' boundaries. Grantor organizations should be able to readily provide information relating to the organizations funded, the amount funded, the expected outcomes and goals, and the status/monitoring of expected goals.

Condition Found

The Agencies do not maintain adequate records that allows for readily available information with respect to the names of organizations funded along with the amounts granted, purpose, and status of the grant.

Perspective

The condition noted is considered to be systemic in nature.

Effect

The inability to access this information in a timely manner hampers management from making a determination if amounts granted have been funded and if they properly complied with the intended requirements.

Recommendation

The Agencies should establish a database system that allows it to set up and track grants awarded and funded. The database system should be able to identify the Board resolution authorizing the grant, amount and date funded, purpose of grant and a narrative indicating that there was some type of monitoring done to help ensure that the grantee complies with the stated objectives.

Prior Year's Management's Response

The Administration engaged the CPA firm of Harvey, Branker & Associates on February 24, 2003, at the direction of the Board of Directors, to address concerns of this nature and to develop policies and procedures for staff to follow to prevent similar occurrences.

Current Year's Status

This observation has been addressed in fiscal year 2003. The Agency has developed a process to manually track all grants awarded to third-party organizations. In addition, the Agency is in the process of formalizing policies and procedures with regards to the grants management and accounting process.

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2002-2 CONTRACT AGREEMENTS

Criteria/Specific Requirements

The Agencies have established policies by which professional services are procured and contracted for. Such policies include, but are not limited to, approved resolutions and signed agreements, which includes the terms and conditions of the services to be provided, for services procured over a certain dollar threshold.

Condition Found

We noted that the Agencies paid numerous third-party contractors for services in fiscal year 2002. However, in several instances a formal agreement between the contractor and the Agencies has not been executed and/or approved resolutions could not be located.

Perspective

The condition noted is considered to be systemic in nature.

Effect

The absence of an executed agreement and approved resolutions does not provide evidence that all terms, conditions and expectations are properly outlined between the parties and authorized by the appropriate individuals.

Recommendation

Management should enforce its policy of ensuring that all third party contracts are properly executed and approved resolutions provided prior to the commencement of any work.

Prior Year's Management's Response

The current Administration is reviewing all contracts and agreements to determine if Board action was required and, if so, if it took place. Those found to be lacking Board approval are being evaluated and, if deemed necessary or required, are being scheduled for Board action. In addition, some contracts and agreements have been found to have Board approval, but no funding identified or in place to allow the execution of said contract or agreement. Again, if found to be necessary or required, funding is being identified and brought back to the Board for approval as required.

Current Year's Status

This observation has been addressed in fiscal year 2003. The Agency has implemented a process to ensure that all third party contracts and agreements are properly executed and resolutions provided prior to the commencement of work, as applicable. In addition, the Agency is in the process of formalizing policies and procedures with regards to the contract management process.

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2001-1 LEVEL OF STAFF WITHIN THE FINANCE DEPARTMENT

Observation

The Agencies' Finance Department is presently short-staffed of the qualified personnel required to manage and maintain the accounting processes of the agencies. The absence of qualified staff has significantly delayed the financial reporting process, and the progress of the current year's audit, because most if not all of the analysis and reconciliation of general ledger accounts are not performed on a timely basis.

Recommendation

The Agencies' Finance Department is responsible for maintaining the general ledger, which is the official record of the Agencies' financial activities and serves as the basis for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America. Accordingly, providing complete and accurate financial information in a timely manner is crucial, in order to effectively manage the operations of the Agencies.

The Department should be staffed with a qualified person who should be responsible for the accounting and financial reporting process. The Finance Director's duties should include, but not be limited to, the following:

The design and implementation of an internal control system that provides for the processing and recording of accounting transactions:

- The review and approval of all accounting journal entries;
- The reconciliation of subsidiary accounts and other detail account listing to that of the general ledger;
- The proper maintenance of the Agencies' operating budget; and
- The preparation of monthly and annual financial reports for both internal and external presentation.

Prior Year's Management's Response

Management has engaged the CPA firm of Harvey, Branker & Associates to evaluate the Agencies' financial operations, policies and procedures, and to submit a written report of their findings along with recommended solutions

Current Year's Status

This observation has been addressed in fiscal year 2003. The Agency contracted a Financial Consultant during the fiscal year to perform the functions of the Finance Director in the interim. In addition, we noted that the Agency hired a full time Financial Officer subsequent to year-end.

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2001-3 ENCUMBRANCE ACCOUNTING

Observation

We noted that the Agencies do not use a purchase order system to encumber the purchase of goods and services.

Recommendation

We recommend that a purchase order (PO) system be implemented, whereby a PO document is created for each expenditure. The PO document should provide information which includes a description of the goods and services being purchased, the name of the authorized vendor, the balance of available budgeted amounts, and the signature of the appropriate personnel authorizing the purchase.

Additionally, the Agencies should utilize an encumbrance accounting system. Under the encumbrance system, purchase order contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. The encumbrance outstanding should be reported as reservation of fund indicating that portion of fund balance that may not be used for additional appropriations.

Prior Year's Management's Response

Management has engaged the CPA firm of Harvey, Branker & Associates to evaluate the Agencies' financial operations, policies and procedures, and to submit a written report of their findings along with recommended solutions. On this particular item of concern, Harvey, Branker & Associates has already instituted a manual encumbrance system and is working with the City's Finance Department to tie into the on-line encumbrance system available in the City's Financial System, SCI.

Current Year's Status

This observation has been addressed in fiscal year 2003. The Agency implemented a manual encumbrance system during fiscal year 2003 and, subsequent to year-end, implemented the GEMS procurement and encumbrance system.

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2001-4 PAYROLL FILE MAINTENANCE

Observation

We noted several instances in which documentation supporting staff salaries and pay rates were not included in the employee personnel file.

Recommendation

Each employee personnel file should immediately be updated to include appropriate documentation to support current payroll rates and salaries. Each subsequent payroll adjustment should be accompanied by a pay rate adjustment form which should be maintained in their respective payroll file.

Prior Year's Management's Response

Management concurs with this finding and agrees it is still relevant for FY 2002. Management is in the process of updating or providing required documentation in all personnel files as identified by the external auditor, KPMG, as well as the City's Internal Auditor.

Current Year's Status

This observation has been addressed in fiscal year 2003. The Agency has properly updated all personnel files to include the appropriate documentation to support current payroll rates and salaries.

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2001-5 PROJECT COST ACCOUNTING

Observation

The Agencies do not have a formal system to account for ongoing capital projects. As a result, there is no readily available information regarding the financial status of each capital project.

Recommendation

We recommend that the Agencies develop a project costing accounting system. Such system should be able to account for the initial estimated project cost, identify project-to-date expenditures and an estimate of expenditures remaining to complete each project. Each project should be reviewed periodically to ensure compliance with contractual terms and conditions and status/percentage of project completion.

Prior Year's Management's Response

Management concurs with this finding and agrees it is still relevant for FY 2002. Management has engaged the CPA firm of Harvey, Branker & Associates to evaluate the Agencies' financial operations and policies and procedures, and to submit a written report of their findings along with recommended solutions.

Current Year's Status

This observation has been addressed in fiscal year 2003. The Agency has implemented a process with the City to ensure that all projects are properly coded in the SCI System, giving the Agency the capability to adequately monitor the project. In addition, the Agency is utilizing the QuickBooks accounting software, which gives them the ability to track expenditures for each on-going project. Detailed files are maintained for each on-going project, including items such as contracts, resolutions, cost / expenditure detail, and correspondence.

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2000-1 ESTABLISHING CONTROLS OVER GENERAL LEDGER

Observation

The City of Miami, Florida (the City) performs certain key accounting functions on behalf of the Agencies, which includes the recording and summarization and processing of accounting transactions, including cash disbursements and cash collections. The City provides the Agencies with detailed general ledger reports that summarize the accounting transactions. The Agencies rely only on the general ledger reports prepared by the City, and do not perform an independent reconciliation of account balances and activity, including cash balances.

Recommendation

We recommend that the Agencies develop appropriate accounting controls to monitor and reconcile account balances reported by the City. This should include a review of the account activity and analysis of ending account balances. Such review and analysis should be performed monthly, and significant differences and exceptions should be investigated and resolved in a timely manner. The completeness and accuracy of the financial statements are the responsibility of the respective Agencies' management and this process will help to meet such responsibility.

Prior Year's Management's Response

Management concurs with this finding and agrees it is still relevant for FY 2002. Management has engaged the CPA firm of Harvey, Branker & Associates to evaluate the Agencies' financial operations and policies and procedures, and to submit a written report of their findings along with recommended solutions.

Current Year's Status

This observation has been addressed in fiscal year 2003. The Agency is utilizing the QuickBooks accounting software to input its financial transactions, paralleling the City's SCI system. On a monthly basis, the Agency reconciles their accounting records with the City's SCI system to determine completeness and accuracy.

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2000-2 TIMELY PREPARATION OF FINANCIAL STATEMENTS

Observation

The Agencies do not have a formalized year-end financial reporting process to facilitate the preparation of their financial statements. The current financial reporting system is not adequate to provide management with complete, accurate, and timely information needed to prepare the financial statements in accordance with accounting principles generally accepted in the United States of America.

Recommendation

The Agencies' management is responsible for the preparation of its financial statements. We recommend that a financial reporting system be established which will ensure the timely compilation of the financial statements. These should include detailed closing procedures, the assignment of each area to specific personnel and timeline for the completion of each assigned task. The development and implementation of a formal financial reporting system will improve the timeliness and accuracy of financial information and thereby assist management in meeting their reporting requirements, and provide them with a reliable tool for monitoring the Agencies' progress and making informed financial decisions.

Prior Year's Management's Response

Management concurs with this finding and agrees it is still relevant for FY 2002. Management has engaged the CPA firm of Harvey, Branker & Associates to evaluate the Agencies' financial operations and policies and procedures and to submit a written report of their findings along with recommended solutions.

Current Year's Status

This observation has been addressed in fiscal year 2003. The Agency has developed a year-end financial reporting process to facilitate the preparation of their financial statements. In addition, the Agency is in the process of formalizing policies and procedures with regards to the year-end financial reporting process.

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99-1 LEASED PROPERTIES

Observation

The Agencies, through its operations, leases various properties to third parties. However, the Agencies do not have a system that allows for the identification of all properties held for lease. As a result, the Agencies are not in a position to properly enforce the timely collection of rental revenue from its tenants. In fact, the Agencies recently discovered, through the receipt of a payment subsequent to the Agency's year-end, lease revenue that was due from a developer.

The Agencies are not able to determine if other properties are leased and the nature of the lease agreements.

Recommendation

We recommend that the Agencies perform extensive research of all of their available records (for example, minutes, resolutions, lease agreements, development agreements, other contracts/agreements, and so on) in order to identify all properties held for leasing.

In addition, the Agencies should attempt to locate all agreements and contracts associated with the leased properties and establish procedures for monitoring and enforcing all the terms of the contract.

Without the proper knowledge of all revenue that is due to the Agencies, the Agencies revenue could be understated, thus understating fund balance.

Prior Year's Management's Response

Management concurs with this finding and agrees it is still relevant for FY 2002. Management has engaged the CPA firm of Harvey, Branker & Associates to evaluate the Agencies' financial operations and policies and procedures, and to submit a written report of their findings along with recommended solutions.

Current Year's Status

This observation is still relevant in fiscal year 2003. The Agencies have not yet performed the necessary research to determine that all Agency-owned properties, including those that are being leased out to third parties, are included on the Agencies' capital assets / leased properties accounting records.

Current Year's Management's Response

Management is currently reconciling its known real estate holdings against the entire universe of properties in both the SEOPW and Omni CRA areas. The result will allow comparing what is assumed to be the total holdings against what may be found. This is the last element in assuring that the Agencies have accounted for all real estate holdings and from that point, we can assure that we are accounting for any revenues due to the Agencies.

**CITY OF MIAMI SOUTHEAST OVERTOWN PARK WEST
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REDEVELOPMENT AGENCY
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OTHER OBSERVATIONS

2002-3 IMPROPER USE OF TAX INCREMENT FUNDS

Criteria/Specific Requirements

The Community Redevelopment Agency Interlocal Cooperation Agreement (the Interlocal Agreement) between the agencies and Miami-Dade County, Florida, (the County) requires that tax increment funds be used in accordance with the redevelopment plan and the budget as approved by the County.

Condition Found

The City of Miami Omni Community Redevelopment Agency (the Omni) has been charged with the responsibility of the redevelopment of various projects within the corporate limits of the Omni. We noted a project (Margaret Pace Park) was paid from tax increment funds (TIF) collected by and earmarked for the City of Miami Southeast Overtown Park West Redevelopment Agency (SEOPW).

Perspective

The condition noted is considered to be systemic in nature with regard to the Margaret Pace Park project (i.e. multiple payments were made on this project using tax increment funds).

Effect

The use of SEOPW TIF to finance projects not within its own district or for items not within its approved budget is a violation of the Interlocal Agreement.

Recommendation

We recommend that proper financial management policies be adopted that allow for the proper segregation and use of TIF for each of the redevelopment districts.

Prior Year's Management's Response

Administrative procedures have been put in place to ensure multiple signatory approvals in the use of TIF funding. The processing of the budget "Financial Information Form" requires approval by the Agencies' in-house budget/finance staff, the Agencies' CPA firm, as well as the Executive Director. This form must accompany all agenda items requiring funding and Board approval. In addition, the CPA firm of Harvey, Branker & Associates was engaged on February 24, 2003, at Board direction to establish policies and procedures as required by Section 163, Florida Statute as well as industry standards.

Current Year's Status

This observation has been addressed in fiscal year 2003. The Agency has implemented a process to ensure the proper segregation and use of TIF.

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2002-4 LOAN ADMINISTRATION

Criteria/Specific Requirements

The Agencies occasionally provide loans to various organizations in an effort to encourage business development. Proper administrative procedures require readily available information and the status of outstanding loans.

Condition Found

The Agencies do not have information on the status of outstanding loans. In some instances, the Agencies do not have a complete inventory of all loans that have been disbursed to recipients.

Perspective

The condition noted is considered to be systemic in nature.

Effect

The Agencies inability to properly track the status of outstanding loans could result in the Agencies inability to collect funds that are due and therefore, lose resources that are pivotal to their operation.

Recommendation

The Agencies should establish a loan database system. The database should also be able to identify the Board resolution authorizing the loan, key terms of this loan and amortization schedule. Management should monitor the status of each loan, at least monthly, to help ensure that principal and interest agreements are timely and accurately recorded in the accounting ledgers. The Agencies should also maintain a record file system of all outstanding loan indenture agreements.

Prior Year's Management's Response

The Administration engaged the CPA firm of Harvey, Branker & Associates on February 24, 2003, at the direction of the Board of Directors to address concerns of this nature and to develop policies and procedures for staff to follow to prevent similar occurrences.

Current Year's Status

This observation has been addressed in fiscal year 2003. The Agency has contracted with NDC for Grow Miami Fund to perform its loan administration function.

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2001-6 OPERATIONAL REVIEW

Observation

The City of Miami, Florida has experienced significant population growth and economic development over the past decade. The mission and importance of the Agencies has become increasingly important with respect to redevelopment activities pertaining to residential and commercial areas. Accordingly, the present organizational structure does not support the demands on staff to maintain an efficient and effective operation.

Recommendation

We recommend that a comprehensive review of the operations of the Agencies be performed. The review should focus on the organizational structure of the Agencies and provide recommendations for operational improvements. The review would include but not limited to the following:

1. *Staffing requirements* – An assessment of and evaluation of staff levels including job description, qualifications, and pay structure and benefits;
2. *Services provided* – An assessment and evaluation of the current level of services provided by the Agencies, including the use of performance measures and benchmarking against peer groups; and
3. *Legal compliance* – A review of state and local laws and regulations including the various inter-local and contractual agreements to ensure compliance, and a design of a system to monitor compliance with such provisions.

Prior Year's Management's Response

Management concurs with this finding and agrees it is still relevant for FY '02. Management has engaged the CPA firm of Harvey, Branker & Associates to evaluate the Agencies' financial operations and policies, and procedures, and to submit a written report of their findings along with recommended solutions. In addition, the Agencies' General Counsel has physically reassigned the Assistant General Counsel for the Agencies to operate out of the Agencies' offices and has also assigned a legal assistant to work with him at the Agencies office location. Also, current management has become active with the Florida Redevelopment Association, a state-wide association made up of Community Redevelopment Agencies throughout the State with common problems and goals. Management has attended two Board workshops in recent months and plans on attending the annual conference to be held in September '03 in Tampa.

Current Year's Status

This comment has been addressed in fiscal year 2003. See response above.

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2001-8 BUDGETARY ACCOUNTING

Observation

The Agencies currently use the governmental fund accounting model for external financial reporting purposes, which includes a general fund, special revenue fund, debt service fund and a capital projects fund. However, the Agencies prepare their annual budget on a combined entity-wide basis, as opposed to a fund basis.

Recommendation

We recommend that the Agencies adopt a separate annual budget for the general fund, special revenue fund and the debt service fund. This will provide financial information on a more comprehensive level to aid in the evaluation of operating results.

Prior Year's Management's Response

In fiscal year 2002-2003, the budgets were prepared at the project level of accounts, which represented the required governmental funds. In fiscal year 2003-2004, the Agency will prepare budgets on the project level and by governmental funds including general, special revenue, capital projects and debt service funds.

Current Year's Status

This observation was still applicable in fiscal year 2003. However, we noted that management addressed this observation for the fiscal year 2004 budget, which was prepared at the governmental fund level as recommended.

Current Year's Management's Response

This item was corrected in the preparation of the fiscal year 2004 budget documents, as noted above.