COMPLIANCE

FEDERAL AND STATE SINGLE AUDIT

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*

To the Honorable Mayor and Members of the City Council
City of North Miami, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of North Miami, Florida, (the City) as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 30, 2014.

Our report includes a reference to other auditors who audited the financial statements of the Fiduciary Funds, as described in our report on City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items **2013-01;2013-02** and **2013-03.**

City of North Miami, Florida's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

MCT Certified Public Accountants & Consultants, LLC

Hollywood, Florida
June 30, 2014

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Honorable Mayor and Members' of City Council
City of North Miami, Florida

Report on Compliance for Each Major Federal Program

We have audited City of North Miami, Florida's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of North Miami, Florida's major federal programs for the year ended September 30, 2013. City of North Miami, Florida's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for each of City of North Miami, Florida's major federal programs based on our audit of the types of compliance requirements referred to above. 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 occurred. An audit includes examining, on a test basis, evidence about City of North Miami, Florida'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 on compliance for each major federal program. However, our audit does not provide a legal determination of City of North Miami, Florida's compliance.

Basis for Qualified Opinion on U.S. Department of Housing and Urban Development, Community Development Block Grant

As described in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding the U.S. Department of Housing and Urban Development, CFDA 14.218 Community Development Block Grant as described in finding numbers 2013-004 for basis of accounting used for reporting. Compliance with such requirements is necessary, in our opinion, for City of North Miami, Florida to comply with the requirements applicable to that program.

Qualified Opinion on U.S. Department of Housing and Urban Development, Community Development Block Grant

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on U.S. Department of Housing and Urban Development, Community Development Block Grant for the year ended September 30, 2013.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended September 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item **2013-04.** Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of City of North Miami, Florida, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 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 will not be prevented, or detected and corrected, on a timely basis.

We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items **2013-04** to be a material weakness.

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 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 response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

MCT Certified Public Accountants & Consultants, LLC

Hollywood, Florida
June 30, 2014

CITY OF NORTH MIAMI, FLORIDA
SCHEDULE OF EXPENDITURES AND FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPEND-ITURES
U.S. DEPT OF HOUSING AND URBAN DEVELOPMENT			
COMMUNITY DEVELOPMENT BLOCK GRANT ENTITLEMENT	14.218	B-10-MC-12-0039	$ 100,884
COMMUNITY DEVELOPMENT BLOCK GRANT ENTITLEMENT	14.218	B-11-MC-12-0039	896,972
COMMUNITY DEVELOPMENT BLOCK GRANT ENTITLEMENT	14.218	B-12-MC-12-0039	369,914
HOME INVESTMENT PARTNERSHIPS PROGRAM	14.239	M-12-MC-12-0231	20,631
HOME INVESTMENT PARTNERSHIPS PROGRAM	14.239	M-11-MC-12-0231	159,177
NEIGHBORHOOD STABILIZATION PROGRAM 1	14.264	B-08-MN-12-0019	563,571
NEIGHBORHOOD STABILIZATION PROGRAM 3	14.264	B-11-MN-12-0019	72,199
PASS THROUGH THE STATE OF FLORIDA DEPARTMENT OF COMMUNITY AFFAIRS			
PASS THRU MIAMI-DADE COUNTY:			
NEIGHBORHOOD STABILIZATION PROGRAM 2	14.264	07698-7692	300,000
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			2,483,348
U.S. DEPARTMENT OF JUSTICE			
COMMUNITY ORIENTED POL SVCS (Cops Hiring Recovery Program)			
PUBLIC SAFETY PARTNERSHIP AND COMMUNITY POLICING GRANT (ARRA)	16.710	2009RKWX0216	175,541
BULLETPROOF VEST PARTNERSHIP GRANT PROGRAM-03	16.607	N/A	10,853
EDWARD BYRNE MEMORIAL JUSTICE ASSISTANCE GRANT (JAG) PROGRAM/GRANTS TO UNITS OF LOCAL GOVERNMENT (ARRA)	16.804	2009-SB-B9-2540	41,279
EDWARD BYRNE MEMORIAL JUSTICE ASSISTANCE GRANT PROGRAM	16.738	2010-DJ-BX-0158	21,984
EDWARD BYRNE MEMORIAL JUSTICE ASSISTANCE GRANT PROGRAM	16.738	2011-DJ-BX-2394	10,613
EDWARD BYRNE MEMORIAL JUSTICE ASSISTANCE GRANT PROGRAM	16.738	2012-DJ-BX-0050	15,959
FEDERAL EQUITABLE SHARING AGREEMENT	16.922	N/A	125,408
PASS THROUGH THE STATE OF FLORIDA OFFICE OF THE ATTORNEY GENERAL			
VICTIM'S INTERVENTION PROGRAM GRANT (VOCA) FY12/13 CRIME VICTIM ASSISTANCE	16.575	V121285	52,052
PASS THROUGH MIAMI-DADE COUNTY	16.738	2010-ARRC-DADE-2-W7-118	9,000
EDWARD BYRNE MEMORIAL JUSTICE ASSISTANCE GRANT PROGRAM	16.738	2013-JJAGC-DADE-15-07-164	6,313
EDWARD BYRNE MEMORIAL JUSTICE ASSISTANCE GRANT PROGRAM			
TOTAL U.S. DEPARTMENT OF JUSTICE			469,002
U.S. DEPARTMENT OF TRANSPORTATION, NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION			
PASS THROUGH THE STATE OF FLORIDA DEPARTMENT OF TRANSPORTATION			
NORTH MIAMI POLICE DEPARTMENT OCCUPANT PROTECTION PROGRAM	20.600	OP-13-02-11	16,280
NORTH MIAMI IMPAIRED DRIVING ENFORCEMENT / ZERO TOLERANCE	20.601	K8-13-06-19	120,000
TOTAL U.S.DEPARTMENT OF TRANSPORTATION,			136,280
TOTAL EXPENDITURES OF FEDERAL AWARDS			$3,088,630

CITY OF NORTH MIAMI, FLORIDA

NOTES TO THE SCHEDULE OF EXPENTURES OF FEDERAL AWARDS

FISCAL YEAR ENDED SEPTEMBER 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) Pass-through entity identifying numbers are presented where available.

NOTE 2 – BASIS OF PRESENTATION

The accompanying Schedule includes the federal and state grant activities of the City. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133 Audit of States, Local Governments, and Non-Profit Organization. For purposes of the Schedule, federal and state assistance include all grants and contracts entered into directly between the City and agencies and departments of the federal government and pass-through agencies, as applicable.

CITY OF NORTH MIAMI, FLORIDA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FISCAL YEAR ENDED SEPTEMBER 30, 2013

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of Auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ____ Yes X No
- Significant deficiency(ies) identified that is (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 programs:

- Material weakness(es) identified? X Yes ____ No
- Significant deficiency(ies) identified that is (are) not considered to be material weakness(es)? ____ Yes X No

Type of auditors' report issued on compliance for major federal programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? X Yes ____ No

Identification of major programs:

Federal Program	Federal CFDA
Community Development Block Grant	14.218
Neighborhood Stabilization Program	14.264
Homeless Prevention and Rapid Re-Housing Program Technical Assistance - ARRA (Homeless Prevention & Re-Housing)	14.262

Dollar threshold used to distinguish between Type A and Type B Federal Programs: $300,000

Auditee qualified as low-risk auditee for federal award programs? ____ Yes X No

SECTION II - PRIOR YEAR FINANCIAL STATEMENT FINDINGS

Matters that are repeated in the accompanying Schedule of Findings and Questioned Costs

- 2012-01 – Balance Sheet Supporting Schedules (revised and included in 2013-01)
  We recommend the City determine the appropriate level of financial staffing resources and software application training required to support compliance requirements and financial reporting.

  Status: Not Implemented

- 2012-03 - Timeliness of Financial Reporting (revised and included in 2013-03)
  We recommend the finance department implement a process to present either monthly or quarterly financial statements to the City Council during regular council meetings. The reports should include key performance measures to understand the financial condition of the City.

  Status: Not Implemented

Matters that are not repeated

- 2012-02 - Program Income
  We recommend program income be recorded separately for each grant and by each fiscal year.

  Status: Implemented

PRIOR YEAR FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

There were no federal awards findings and questioned costs reported in fiscal year ended September 30, 2012.

SECTION III – FINANCIAL STATEMENT FINDINGS

CONTROL DEFICIENCY

2013-01 Balance Sheet Schedules (Repeat Finding)

Condition

Certain cash, accounts receivable and current liability schedules were adjusted after being made available. Additionally, interim monthly reports have not been prepared on a regular basis as a result of these reconciling processes.

Criteria

Account balances should be supported and thoroughly documented as part of required evidential matter. Additionally, interim monthly reports should be prepared on a regular basis to be submitted to those charges with governance for review.

Cause

Personnel resources and general ledger system constraints did not allow for the appropriate research and organization of data.

Effect

Reporting requirements for compliance and audit purposes could be hindered and contribute to inefficient use of resources.

Recommendation

We recommend the City determine the appropriate level of financial staffing resources and software application training required to support compliance requirements and financial reporting.

View of Responsible Officials and Planned Corrective Actions

Schedules were prepared during the closing process to support all material balances reported on our balance sheets. Some schedules needed additional explanations or re-work from a different aspect that was warranted considering the newness of the system, and amid time and staff constraints, is not indicative of the quality or timeliness of the information provided.

SECTION III – FINANCIAL STATEMENT FINDINGS (CONTINUED)

OTHER MATTERS (CONTINUED)

2013-02 Interfund and Transfer Activity With Related Entity

Condition

The procedure whereby the City pays most of the project costs for the City or North Miami Community Redevelopment Association (CRA) and provides an invoice and a related adjustment to be made in the CRA ledger, presents a control weakness. During the year ended September 30, 2013 there was a discrepancy that was not resolved until June 2014.

Criteria

Accounts should be managed for the CRA in just one ledger system and included only one approval system.

Cause

Separately identified and approved tax revenues and expenditures were recorded in two separate general ledger systems. This process led to expenditures as charged to a redevelopment project to exceed budgeted amounts. Even though the same principal individuals are involved in the governance for both the City and the CRA, the purposes as set forth in those meetings may not necessary address all the goals of CRA.

Effect

Improper recording and reporting of CRA revenue and expenditures could occur.

Recommendation

We recommend recording all CRA activity in only one ledger system.

View of Responsible Officials and Planned Corrective Actions

The City agrees with this finding and will implement procedures as described above.

SECTION III – FINANCIAL STATEMENT FINDINGS (CONTINUED)

OTHER MATTERS (CONTINUED)

2013-03 Monthly Financial Statements

Condition

During our audit, we inquired of finance personnel regarding the presentation of financial statements to the City Council during the regular council meetings and noted no presentation was being performed.

Criteria

Those charged with governance are responsible for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process, subject matter, or program under audit including related internal controls.

Cause

Financial statements are not being presented at the regular council meetings.

Effect

Presenting financial statements to the Council will ensure they are informed of the City finances during the course of the fiscal year which will also allow for proper decision making regarding the City's finances and assist in the budgeting process for the next fiscal year.

Recommendation

We recommend the finance department implement a process to present either monthly or quarterly financial statements to the City Council during regular council meetings. The reports should include key performance measures to understand the financial condition of the City.

View of Responsible Officials and Planned Corrective Actions

Management has begun presenting actual-to-budget reports on a quarterly basis to the citizens and to the elected officials at the regular City Council meetings. Other financial reports will be prepared by the finance department and presented monthly to the City's Council starting end of fiscal year 2014. However, the measurement focus that will be used to prepare the monthly reports may differ from the year end audited financial statements where the full accrual or modified basis of accounting is mandated.

SECTION IV – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

CONTROL DEFICIENCY

2013-04 Improper method of accounting used for expenditure reporting

Condition

Certain cash, accounts receivable and current liability schedules were adjusted after being made available. Additionally, interim monthly reports have not been prepared on a regular basis as a result of these reconciling processes.

Criteria

For the year ended September 30, 2013, expenditures were filed on a quarterly basis for the Department of Housing and Urban Development Community Block Grant CFDA # 14.218 on a basis other than the accrual method used in the preparation of the financial statements.

Cause

Delays in certain City departments providing the proper documentation with proper levels of approval for expenditures under this grant delayed the submission of the expenditure reimbursement request reports into the next reporting period(s). Those expenditures from the prior quarters were then submitted in the later period.

Effect

Not reporting the grant program expenditures both delays the receipt of funds the City has already expended, and presents a timing issue for the grantor agency if the City's grant program is selected for any kind of review.

Recommendation

We recommend that the City provide the necessary tools to all the involved department personnel that will enable the process to run as required to file timely.

View of Responsible Officials and Planned Corrective Actions

We agree with the finding and will take the necessary actions with all departments involved to file on the accrual basis.