

**WEST PALM BEACH  
COMMUNITY REDEVELOPMENT AGENCY AUDIT  
Part 2**



WEST PALM BEACH

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Internal Audit

Audit No. 19-01  
May 6, 2021

**City of West Palm Beach  
Internal Auditor's Office**

Beverly Mahaso Esq., CIA, CFE  
Chief Internal Auditor

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# Executive Summary

COMMUNITY REDEVELOPMENT AGENCY AUDIT

Part 2 - AUD19-01

MAY 6, 2021



## OVERVIEW

- The CRA's annual budget process was designed to allocate appropriate financial resources to achieve the agency's strategic, operational, and financial objectives.
- All properties acquired by the CRA are purchased for strategic purposes. Once the CRA Board determines that the potential acquisition meets the agency's strategic goals, a property analysis, as well as an appraisal will be performed.
- Attracting new businesses and private investments is a critical component of redevelopment. The CRA offers various development incentive programs to stimulate positive redevelopment efforts within the City's CRA districts.

## SUMMARY FINDINGS

1. **Inadequate Controls and Oversight of CRA Expenditures:** Based on our review of a statistically valid sample of 610 expense transactions, we found that the CRA had approximately 127 expense items totaling \$1,212,398 in expenses that were not allocated to a project code over a six-year period. We extrapolated the results to the entire population and estimate that approximately \$4,383,809 in expenses stemming from about 1,504 expense items may not have been allocated to a project code. Further, we identified a duplicate payment totaling \$1,000 due to a duplicate supplier name.
2. **Insufficient Incentive Grant Program Documentation:** We reviewed reimbursement requests for 85 awarded grant projects and found the following discrepancies:
  - 13 projects totaling about \$12,596, were not approved by the CRA Board or RMA management.
  - The CRA Board approved a grant for \$16,700, however, the actual amount award was \$17,000.
  - RMA staff were not aware of a project between the CRA and the Economic Development Division. The amount award for this project was about \$24,700.
  - Five invoices totaling about \$247,395 had the general ledger account changed/corrected without documenting the reason for change or correction.
  - Grant funds totaling about \$9,842 were approved for reimbursement without sufficient supporting documentation.
3. **Fixed Assets Variances:** We found that the City had a balance of approximately \$85 million of land that was recorded as a lump sum value in the City's General Ledger; however, this amount was not reflected in the Fixed Asset Subledger. As a result, there is an approximately \$26 million difference between the Fixed Asset Subledger and the General Ledger.
4. **Lack of Tracking and Monitoring of CRA Owned Properties:** We found that the process to track CRA owned properties (valued at about \$43.9 million), was inadequate and ineffective. Specifically, key reconciliations and updates were not performed and the CRA does not track lots/properties that are disposed or transferred.

## SUMMARY RECOMMENDATIONS

1. The CRA Executive Director and the Finance Department should ensure that all costs are accurately allocated, capitalized, and reported by:
  - Assessing the current budget and actual cost structure to determine the cost and benefits of creating project codes for all expense items.
  - Establishing policies and procedures that provide criteria for the annual budget process.
  - Creating comprehensive cost analyses and projections to reflect the current year's expenditures more accurately.
  - Assigning project codes to expense items to accurately track total project costs.
  - Establishing on-going accountability for the budget process.
  - Providing training on the revised budget and cost allocation processes, policies, and procedures.The Procurement Department should perform a comprehensive review of the Supplier Master File and ensure that it contains updated information.
2. The CRA Executive Director and the Finance Department should ensure that grant programs and projects have appropriate oversight by ensuring that all approvals and reviews are obtained, reimbursements contain sufficient support and are accurate, and establish a tracking system for all projects.
3. The Finance Department should ensure the accuracy and completeness of Fixed Assets by:
  - Performing a complete reconciliation of Fixed Assets.
  - Establishing written policies and procedures that provide requirements for Fixed Assets.
  - Maintaining all source documents, including external sources used to record Fixed Assets.
  - Providing training to Finance Department personnel and other users of the policy.
4. The CRA Executive Director and the Finance Department should ensure that all CRA properties and transactions are accounted for by completing reconciliations and tracking all properties.

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Internal Audit

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May 6, 2021

Audit Committee  
City of West Palm Beach  
401 Clematis Street  
West Palm Beach, Florida

**RE: West Palm Beach Community Redevelopment Agency Audit Part 2, AUD19-01**

Dear Audit Committee Members:

Attached is the City of West Palm Beach's Internal Auditor's Office report on the City's Community Redevelopment Agency (CRA) audit.

We thank the staff at the CRA and the Finance Department for their time, assistance, and cooperation during this audit.

Respectfully Submitted,

s/ Beverly Mahaso  
Chief Internal Auditor

cc: Keith James, Mayor  
Faye Johnson, City Administrator  
Chris Roog, CRA Executive Director  
Mark Parks, Chief Financial Officer

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# Background

## **CRA Expenditures**

Budgetary cost allocations are integral components to the annual budget plan of all organizations. They indicate the level of financial resources a department is committing to carry out their core business operations and other departmental activities. The Community Redevelopment Agency's (CRA) annual budget process was designed to allocate appropriate financial resources to achieve the agency's strategic, operational, and financial objectives. This annual budget process includes ongoing project costs, salaries, contractor/consultant fees, general and administrative expenses, and other operating activities essential to meeting the agency's daily objectives.

The annual budget process also includes an estimate of operating, bond, tax, and Tax Increment Financing (TIF) revenues that the agency expects to receive for the budget year. The CRA's annual budget is achieved through various cost projections and is based on the availability of both current and historical data. Detailed budget worksheets are created by RMA staff assigned to the CRA and provided to the City's Finance Department liaison for entry into the City's budget system. As of December 31, 2019, approximately \$118 million in operational expenditures were recorded on behalf of the CRA.

## **CRA Fixed Assets**

All properties acquired by the CRA are purchased for strategic purposes. Prior to purchasing a property, the CRA collaborates with stakeholders (i.e. CRA Board) to make a determination as to why the property is being considered for purchase and the use of the property from a strategic standpoint. Once the CRA Board determines that the potential acquisition meets the agency's strategic goals, a property analysis, as well as an appraisal will be performed. The CRA also performs other due diligence procedures prior to presenting the acquisition details to the CRA board. All property acquisitions are required to be approved by the CRA Board prior to purchase.

As of November 12, 2020, the CRA identified a total of 95 properties with an approximate purchase price of \$44 million. Total properties owned within the districts are as follows:

<b>CRA Districts</b>	<b>Total Number of Properties</b>	<b>Total Purchase Price</b>
Downtown/City Center	9	\$13,939,331
Historic Northwest	56	\$21,849,944
Northwood/Pleasant City	30	\$8,151,709
<b>Total</b>	<b>95</b>	<b>\$43,940,984</b>

## **CRA Incentives**

As part of the CRA's overall strategy, attracting new businesses and private investments is a critical component of redevelopment. The CRA offers various development incentive programs to stimulate positive redevelopment efforts within the City's CRA districts. These programs are intended to assist with the cost associated with property renovation

or new development. CRA incentive programs are open to commercial businesses in the Downtown/City Center and the Northwood/Pleasant City CRA districts. It should be noted that incentive programs are created to meet the unique needs of each district. As of FY21, the incentives available within each CRA district were as follows:

CRA Districts	Incentive Program
Downtown/City Center	<ol style="list-style-type: none"> <li>1. Façade and Exterior Improvement</li> <li>2. Relocation and Development Assistance Incentive</li> <li>3. Real Estate Development Accelerator (REDA)</li> <li>4. Housing Investment</li> <li>5. Strategic Investment Streetscape Program (SISP)</li> <li>6. Strategic Investment Program (SIP)</li> </ol>
Historic Northwest Incentives	<ol style="list-style-type: none"> <li>1. Northwest Beautification Façade and Exterior Improvement</li> <li>2. Contributing Structure Rehabilitation Grant</li> <li>3. Merchant Assistance</li> <li>4. Paint, Plant, and Pave</li> <li>5. Light Up the Northwest</li> <li>6. Beautify Northwest</li> <li>7. Northwest Parking Lot Beautification</li> <li>8. Grand Opening Assistance</li> </ol>
Northwood/Pleasant City	<ol style="list-style-type: none"> <li>1. Façade and Exterior Improvement</li> <li>2. Real Estate Development Accelerator (REDA)</li> <li>3. Strategic Investment</li> <li>4. Strategic Investment Streetscape</li> <li>5. Relocation and Development Assistance</li> <li>6. Housing Investment Program (HIP)</li> <li>7. Beautify Northwood</li> <li>8. Paint, Plant, and Pave</li> </ol>

## Statement of Scope

The scope of the audit was from January 2014 through December 2019 (audit period) which is the period of time since the City outsourced the management and staffing of the CRA to Redevelopment Management Associates (RMA). Where possible, testing was conducted on the entire population using data analytic tools. All other testing was conducted based on statistically valid samples, random samples, or available data as indicated in the findings.

As mentioned in part one of the CRA audit, this report is the second part of the audit that was focused on assessing the management of CRA activities and projects designed to reduce or eliminate blight, improving the economic health of an area, and encouraging public and private investments.



We note that the CRA received about \$400,206,000 in revenues during the audit period of January 2014 through December 2019. Due to the high dollar amount under review, we are still completing the final element of the audit related to reviewing the budget process to include revenues from all sources and projections. The results will be reported in the final part of the CRA audit.

## **Statement of Objectives**

The objectives of the second part of this audit were to:

- a. Determine whether the CRA had sufficient controls and oversight over project related expenditures;
- b. Determine whether CRA funds were used for CRA activities and properly accounted for;
- c. Determine whether Fixed Assets owned by the CRA were adequately tracked and monitored; and
- d. Determine whether controls surrounding the CRA incentive grant award process were in place and operating effectively.

## **Statement of Methodology**

The methodologies used to meet the audit objectives included the following:

- Interviews and inquiries of personnel from various departments and entities;
- Reviews of contracts, policies, regulations, strategic plans, and annual plans;
- Data analysis on various records provided such as invoices, requests for payment, and/or purchase orders;
- Data analysis of CRA financial records; and
- Reviews of related reports.

## **Statement of Auditing Standards**

We conducted this audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## **Audit Conclusions and Summary of Findings**

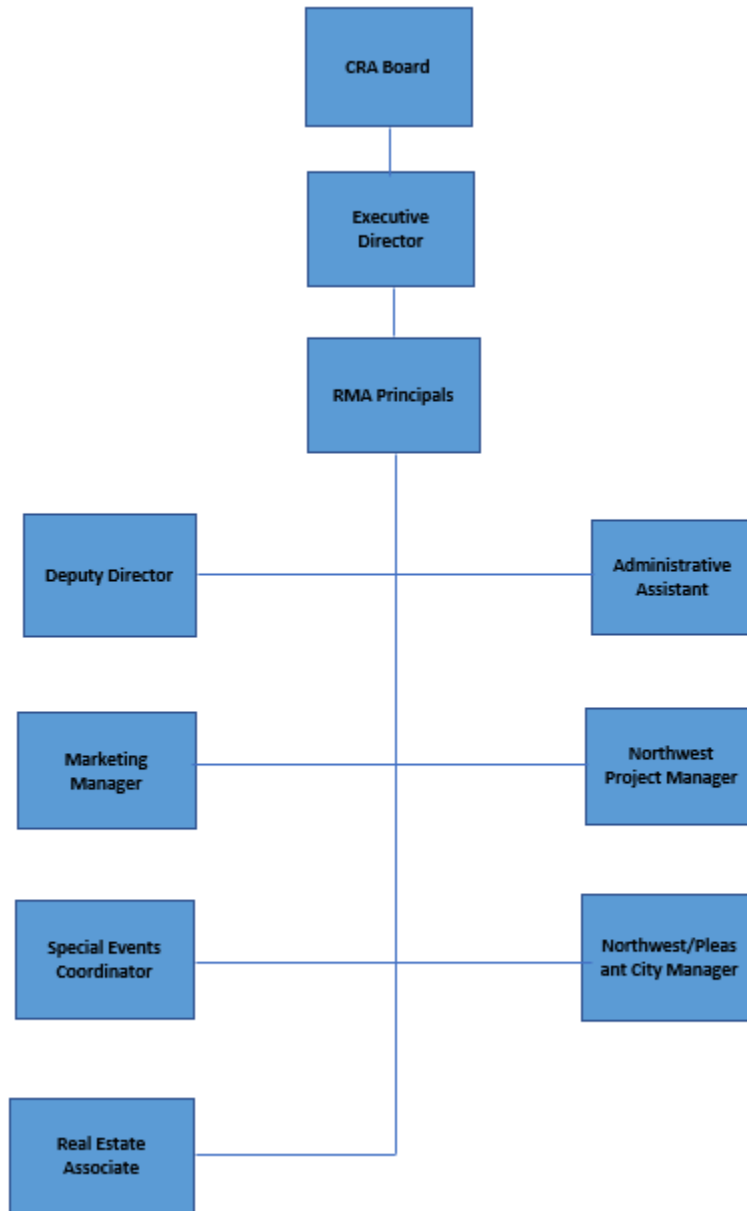
We concluded that there were opportunities to improve internal controls and management oversight of the CRA operations in the following areas:

1. We found that there was inadequate oversight over the recording of CRA expenditures such that some expense items were improperly allocated or not allocated to a project code;
2. There was inadequate oversight of the CRA incentive grant award process. Specifically, we found that there were inadequate document reviews of the CRA incentive grant applications and invoices submitted for reimbursement; and
3. We found that Fixed Assets owned by the CRA were not adequately tracked or monitored. We also found that controls over the recording of Fixed Assets were inefficient and ineffective.

## **Noteworthy Accomplishments**

We found employees were responsive and receptive to our recommendations for improvement. We also note that the new Executive Director has already taken steps to review the operations and has requested a new position for a budget manager.

# CRA Organization Chart



We note that the CRA structure has changed and the new Executive Director is now a City employee. All other personnel are employed by Redevelopment Management Associates (RMA) and are assigned to the City's CRA by RMA.

# Opportunities for Improvement

## 1. Inadequate Controls and Oversight of CRA Expenditures

### Condition

We performed a review of CRA expenses using a statistically valid sample size of 610 expense transactions with a confidence level of 96% and a margin of error of 3.99%. We utilized a higher confidence level than the standard and we also used a lower margin of error to provide greater assurances regarding what may have occurred throughout the entire population. Based on our review of the statistical sample, we found that the CRA had approximately \$1,212,398 in expenses that were not allocated to a project code over a six-year period. This amount represented about 127 expense transactions.

When using a statistically valid sample, results can be extrapolated to the entire population within the confidence level (96%) and margin of error (3.99%) established, without reviewing all items in the entire population. In this case, extrapolating the results to the entire population would result in approximately \$4,383,809 in expenses stemming from about 1,504 expense transactions that may not have been allocated to a project code over the six-year period under review.

Finally, we identified a duplicate payment in the amount of \$1,000. The following is a more detailed summary of our review and analysis.

### Improper Cost Allocation

We reviewed CRA expenses for the period of January 1, 2014 through December 31, 2019, and noted that 7,225 expense transactions, valued at approximately \$118 million, were recorded on behalf of the CRA. Expense items were assigned and accounted for in five different CRA funds as follows:

**Table 1**

<b>Fund</b>	<b>Expense Amount</b>
105	\$100,579,080
107	\$11,728,964
350	\$1,301,077
351	\$86,681
356	\$4,661,038
<b>Total</b>	<b>\$118,356,840</b>

As mentioned above, we analyzed a statistically valid sample of 610 expenses totaling about \$32,733,087 and noted the following:

- Expenses Without A Project Code: 93 (15%) expense items were not allocated to a project code. We found that the project code assigned to these items was zero, instead of being allocated to a project code where costs could be tracked and accounted for. The CRA paid approximately \$731,341 for the invoices related to these expenses.

- Capitalized Expenses: Of the 93 expense items without a project code, we found that 36 (39%) totaling about \$259,210 were directly related to CRA redevelopment projects where the cost associated with these expense items should have been capitalized. Costs that should have been capitalized, and were not, resulted in an understatement of actual redevelopment costs of approximately \$259,210 over the six-year period.

Table B displays the expense transaction amounts by specific projects and project related services that should have been capitalized.

**Table 2**

<b>Project/Service</b>	<b>Cost</b>
Contractor Billings - WPB Tamarind Streetscape	\$14,705
Contractor Billings - Clematis Streetscape	\$91,237
Contractor Billings/Design Services - American Legion Post 199	\$16,430
Contractor Billings - Disposition of Old City Hall	\$14,726
Contractor Billings - Disposition of Tent Site	\$4,981
Contractor Billings - Demolition of 630 5th St Real Duplex	\$19,139
Appraisal Service - Multiple Properties	\$10,000
Design Services - Multiple Properties	\$82,992
Property Recording Fees - Multiple Properties	\$5,000
<b>Total</b>	<b>\$259,210</b>

Due to the above issues, projects that were deemed as being completed within the budgeted amount were understated and were not fully disclosed as they should have been.

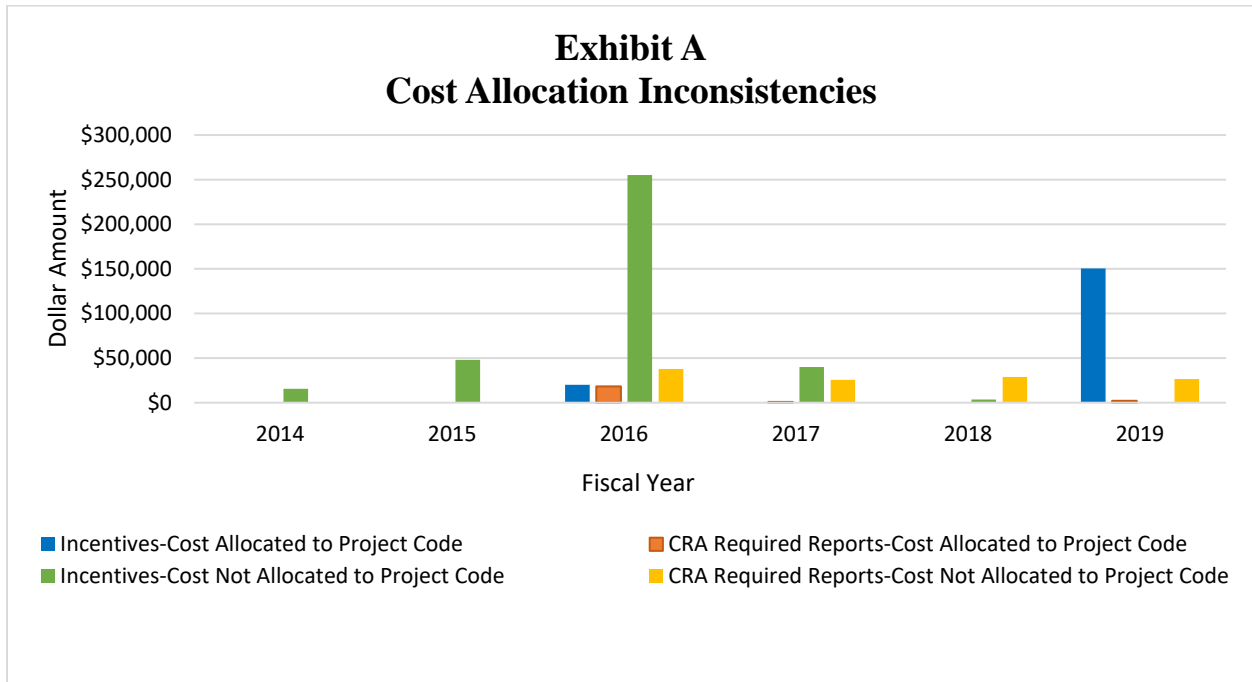
Inconsistent Cost Allocation

During our review of the 610 expense transactions, we identified inconsistencies with the allocation of expenses related to incentive reimbursements and fees paid to RMA in connection with the completion of CRA required reports. We noted the following inconsistencies:

- 24 (4%) expenses were recorded for CRA incentive reimbursements.
  - Of the 24 incentive reimbursement transactions, 19 (79%) incentive reimbursements were not allocated to a project code, thereby resulting in the CRA reimbursing approximately \$362,297 towards incentives that were not allocated to a project code. The remaining five incentive reimbursements were allocated to a project code. We found that all 24 items, whether allocated to a project code or not, were for the same type of assistance and should have been allocated to a project code for more accurate accounting.
- 21 (3%) expenses were recorded for fees paid to RMA for the preparation of CRA required reports.

- Of the 21 report expenses, we identified 15 (71%) report fees that were not allocated to a project code. The CRA paid RMA approximately \$118,760 for the preparation of CRA required reports that were not allocated to a project code. The remaining six report fees were allocated to a project code and the CRA paid RMA approximately \$21,322 for the preparation of these reports. It should be noted that all CRA required reports prepared by RMA, whether allocated to a project code or not, were recurring and were the same types of reports. All of them should have been allocated to a project code for accurate accounting of costs.

Exhibit A displays the inconsistencies identified above by Fiscal Year and Dollar Amount.



Due to the above inconsistencies, we found that expense transactions processed for incentive reimbursements and fees paid to RMA for the preparation of CRA required reports were not properly tracked and monitored for the proper allocation and accounting of costs.

### Duplicate Payments

The City’s Enterprise Resource Planning (ERP) system includes built-in controls to detect and prevent duplicate payments.

We conducted an analysis of the 7,225 expense items using data analytics with defined search criteria, to identify possible duplicate invoice payments. Payments for invoices that were identified as possible duplicates were sent to Finance Management for review. Based on analytical procedures performed, in addition to confirmation from Finance, we identified one invoice, in the amount of \$1,000 paid to a vendor, that resulted in a duplicate payment in 2016. We reviewed the invoices in the City’s ERP system and found that there

were two different variations of the vendor's name with one version having a "-X1" at the end of the name. This addition to the vendor's name defeated the controls in the system that were designed to prevent duplicate vendor names and allowed the duplicate payment to be processed. We identified similar concerns in our Accounts Payable Audit.

## **Criteria**

### Cost Allocation

Government Accounting Standards (GAS) state that project costs clearly associated with the acquisition, development, and construction of a real estate project should be capitalized as a cost of the project. GAS also states that indirect project costs that relate to several projects should be capitalized and allocated to the projects related to the costs.

RMA's contract states in part that RMA shall prepare the CRA budget and finance plans for CRA Board approval and RMA shall facilitate the structure of comprehensive financial plans for development projects that provides for maximum leveraging of CRA TIF resources.

To ensure accurate budgeting and forecasting, the annual budget process that RMA utilizes should be based on accurate historical expenditure patterns, budget to actuals, cost projections, and benchmarks. On-going monitoring and allocation of expenditures is essential to ensure that projects remain within budget or within an amount that the CRA Board approves. Good financial management systems and processes for tracking resource utilization are essential for organizations to efficiently and effectively use resources.

### Duplicate Payment

Accounts Payable (AP) is responsible for ensuring that payments to the City's vendors are made timely and accurately. In addition, as of December 2020, the Procurement Department took responsibility of the Supplier Master File and is responsible for ensuring that the Supplier Master File remains updated with accurate records.

## **Cause**

The conditions above were as a result of the following:

- RMA management assigned to the CRA did not properly allocate all project related costs.
- There are no policies or procedures in place outlining the requirements for the budget allocation process for projects, incentives, and other CRA activities.
- For some projects, RMA Management at the time, did not set up project codes within the budgets that were disclosed to Finance. This resulted in project costs that were not appropriately allocated and/or capitalized.
- For meetings where multiple projects were discussed, RMA Management at the time, assigned the cost of conducting the meetings to a zero-project code instead of separating the costs and allocating them to each individual project.

- The CRA assists in funding City department capital projects that are sometimes requested mid-year. As a result, a budget transfer or a shift of financial resources may be required to assign all project related costs to the correct accounts. We were informed that creating a project code and allocating all the proper costs for projects that are requested mid-year, could result in inefficiencies.
- We found that poor communication between the various personnel involved was a contributing factor to the issues identified.
- Defeating the controls in place to prevent duplicate payments resulted in a duplicate payment being issued.
- Finally, there was inadequate oversight and monitoring of the Supplier Master File to prevent the creation of duplicate vendors.

### **Effect**

Allocation of expenditures is intended to reflect the actual cost of the various CRA activities. When expenses are not allocated accurately or consistently, it misrepresents information that is critical to decision makers and stakeholders. In addition, it erodes public trust, transparency, and accountability.

Further, failure to appropriately capitalize project expenditures may result in capital assets being understated in the General Ledger.

Finally, defeating controls designed to prevent duplicate payments, results in inappropriate payments being made that could have been prevented and may represent a loss of taxpayer funds that cannot be easily recovered.

### **Recommendation 1**

The CRA's Executive Director and the Finance Department should ensure that all costs are accurately allocated, capitalized, and reported by:

- Assessing the current budget and actual cost structure to determine the cost and benefits associated with creating project codes for all expense items. Personnel performing this assessment should consider reevaluating how the budget is built for each CRA District. This information should be utilized to refine the budget process such that there is greater accountability and transparency, project codes are established and used consistently, and exceptions are clearly defined;
- Establishing written policies and procedures that provide criteria for the annual budget process and updates throughout the year;
- Creating comprehensive cost analyses and projections to more accurately budget for future years; Cost analyses and projections should take into consideration cost drivers and factor in projects that are requested by other City Departments after the annual budget has been adopted;
- Assigning project codes to expense items to accurately track total project costs. The CRA should also track and monitor all types of expenses, even if the costs are not project related to ensure that all costs are accounted for in the correct expense categories. This would assist in better forecasting and developing more accurate budgets for various expenses in the following years;



- Performing an assessment of one-time services to determine the driver of these services and whether these costs require their own project code;
- Establishing on-going accountability for the budget process; and
- Providing training on the revised budget and cost allocation processes, policies, and procedures.

The Procurement Department should perform a comprehensive review of the Supplier Master File to identify vendors with different name variations, remove inactive vendors, and ensure the file includes the most up-to-date vendor information. Procurement should also create a process that includes routine reviews of the Supplier Master File. This process should include standardization of data entered into the Supplier Master File.

**Responses can be found on page 20.**

## 2. Insufficient Oversight of the Incentive Grant Program

### Condition

The CRA offers various Incentive Grant Programs that have specific guidelines and an application process that must be followed. Each Incentive Grant Award must be approved by the CRA Board. We reviewed all 85 awarded grant projects that were provided to us by the CRA including all 101 invoices submitted for reimbursement, and found the following discrepancies:

#### Applications:

1. Seven (7) Beautify Northwood Projects and six (6) Grand Opening Projects were not approved by the CRA Board and did not have an approval signature from RMA Management assigned to the CRA at that time. We note that each program was under \$3,500 and the combined total expended on all 13 projects was about \$12,596;
2. Sunshine REO Grant Award – The CRA Board approved a grant in the amount of \$16,700, however, the actual amount awarded was \$17,000 which exceeded the approved amount; and
3. L.A. Vina’s Spa Grant Award – RMA staff assigned to the CRA were not aware of this project between the CRA and the Economic Development office. The amount expended for this grant award was about \$24,700.

#### Invoice Reimbursements:

4. Five (5) invoices for reimbursement totaling about \$311,968 had the general ledger account changed/corrected without documenting the reason for the change or correction;
5. Personal Residence Improvements – The balance of about \$9,842 in grant funds was approved for reimbursement for a personal residence without sufficient supporting documentation to validate the expense. Specifically, we found that:
  - a. The applicant submitted a personal invoice with the description “Paint, Plant, and Pave Program Contract #24138 resolution 19-47” in the amount of \$9,842. To support this invoice was a note stating, “remaining amount paid to grantee = \$9,842” and a handwritten receipt by the applicant for a fence and concrete. We noted that the reimbursement amount was the exact total of the remaining balance of the grant funds.
  - b. The handwritten receipt was not supported by payment stubs, bank statements, or a company invoice from where the materials were purchased or whomever provided labor.
  - c. We noted that the permit records in the file stated that the applied value of the fence was \$6,000. RMA staff assigned to the CRA advised that the permit in the file was used by the project manager to conclude that the project was completed within regulatory requirements and that they were not instructed to use information from permits to support reimbursements. As such, we found that the reimbursement request did not contain sufficient support to validate the expense.

## **Criteria**

CRA Eligibility/Application Requirements Step 1 states that staff will review the application and submit it to the CRA Board for formal approval. It does not have a dollar amount threshold for submitting the applications to the CRA Board for approval. Step 3 states that reimbursement for grant proceeds shall be presented to the CRA to include all receipts, invoices, canceled checks, and any other documents the CRA may require as proof of payment.

The Government Finance Officers Association (GFOA) recommends that governments maintain a process to ensure that costs charged to grants are allowable, necessary, and reasonable.

## **Cause**

The above conditions appear to be the result of poor documentation, insufficient oversight, lack of transparency, and insufficient knowledge of requirements. The RMA staff assigned to the CRA provided the following explanations for the above conditions:

1. The CRA Board verbally communicated to them that programs of \$3,500 or less did not require Board approval. However, they could not provide any meeting minutes/recordings to support this. We reviewed various CRA Board meetings and could not locate this verbal communication.
2. The grant that exceeded the approved resolution amount was an oversight.
3. The L.A. Vinas Spa Grant was handled at the Executive Director level and the project managers did not know it existed until the auditors brought it to their attention during the audit.
4. RMA staff assigned to the CRA advised that changes to general ledger accounts are typically noted and communication is usually by telephone or email. Finance staff advised that the original general ledger accounts provided by RMA staff assigned to the CRA were not correct.
5. RMA staff assigned to the CRA advised that they believed that the documentation for the release of funds for the personal residence improvements were in accordance with grant agreement requirements.

## **Effect**

Insufficient oversight, monitoring, and/or knowledge of projects, combined with poor supporting documentation, significantly increases the risk of inappropriate transactions occurring as identified in the condition. Further, it raises concerns related to poor accountability and transparency of taxpayer funds which erodes the public's trust.

Finally, performance under these conditions may be inefficient or ineffective to meet intended objectives when standards are not being adhered to or communicated by management.

## **Recommendation 2**

The CRA's Executive Director and the Finance Department should ensure that grant programs and projects have appropriate oversight, are transparent, and are managed consistently by:

- a) Ensuring that all fund approvals and appropriate authorizing signatures are obtained as required during the application process.
- b) RMA staff assigned to the CRA along with Finance staff should verify that all fund reimbursements are coming out of the correct general ledger accounts. All changes should be in writing, contain an explanation of the change, contain verification of funds in both accounts that are reviewed and approved by Finance, and contain appropriate approvals from the CRA's executive management.
- c) Ensuring that reimbursements contain sufficient documentation to support the reimbursements such as receipts from third parties (i.e. receipts for materials, labor, etc.).
- d) Ensuring that in instances where projects or programs are managed at the executive level, there is documentation of what is being managed. Communication about the projects or programs should be provided to staff whose budgets may be impacted by the expenditures.
- e) If exceptions are needed, then there should be a written process in place for exceptions that the CRA Board approves. Further, the CRA Board should be provided with periodic reports on the total exceptions, the associated dollar amounts, and the CRA areas impacted and ensure that the CRA Board is in support of continuing the exceptions or revising the structure of exceptions.
- f) Establishing a standardized tracking log to monitor and track all programs and projects from inception through completion.
- g) Establishing policies and procedures to address the above recommendations, and
- h) Ensuring that training is provided on all processes, policies and procedures as well as other applicable rules and requirements of the various programs.

**Responses can be found on page 21.**

### 3. Fixed Assets Variances

#### Condition

During our review of the CRA’s fixed assets, we identified an area of concern related to the City’s fixed assets. While CRA properties are included in the total of the City’s fixed assets, this issue was not related to the CRA. However, due to the high dollar value, this issue was included in this report to ensure a timely resolution as follows.

The purpose of maintaining a Fixed Asset Subledger is to accurately report the book value of the City’s assets and depreciations (if applicable) that are charged over a period of time. The Fixed Asset Subledger is also a useful means of easily identifying the items owned by City departments and assigning each item a unique identifier. Furthermore, the Fixed Asset Subledger is a useful tool for recording property acquisitions, splits, transfers, and dispositions at a detailed transaction level. In contrast, items recorded in the General Ledger are recorded at a high level and amounts are summarized. Fixed Asset amounts, whether recorded in the General Ledger or the Fixed Asset Subledger, should be consistent.

As of September 30, 2020, the City had a balance of approximately \$85 million of land recorded in the General Government and the balance included all departments that own land as well as the CRA. We found that \$26 million (32%) of the \$85 million was recorded as a lump sum value in the City’s General Ledger around 1998. However, there were no detailed reports that were readily available to determine the dollar value of land owned by each department for the \$26 million. We also found that the \$26 million land balance has not been reconciled in recent years by Finance or City departments, to the amounts included in this balance. Additionally, for all capital asset items recorded as a lump sum value, we were informed that land is the only variable that does not directly reconcile to the Fixed Asset Subledger. As a result, there is an approximately \$26 million difference between the Fixed Asset Subledger and the General Ledger. (Refer to **Table A** provided by Finance for a summary of Land recorded in the General Ledger).

Table A

	Beginning Balance 9/30/2020	Additions	Retirements	Transfers	GL Ending Balance 9/30/2020	Difference	Subledger Ending Balance 9/30/2020
Governmental Activities							
Governmental Fund							
<i>Capital assets not being depreciated:</i>							
Land	\$ 85,050,624	\$ 44,973	\$ -	\$ -	\$ 85,095,597	\$ 26,833,861	\$ 58,261,736

#### Criteria

The Committee of Sponsoring Organization (COSO) Framework states that Internal Control is a process, effected by an entity’s management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives related to operations, reporting, and compliance. COSO provides objectives to allow organizations to focus on differing aspects of Internal Controls. The COSO Reporting Objectives pertain to internal and external financial and non-financial reporting, and encompasses reliability, timeliness, transparency, or other terms as set forth by regulators, recognized standard setters, or the entity’s’ policies.

## **Cause**

The conditions above were as a result of the following:

- There were no policies and procedures in place outlining the requirements for recording Fixed Assets;
- The Finance Department Management did not prioritize reconciling Land values recorded in the Fixed Asset Subledger to the amounts recorded in the General Ledger; and
- The Finance Department personnel who recorded the lump sum value did not generate a detailed Land report so that each property could be traced to the General Ledger.

We acknowledge that the Finance Department has hired a Fixed Asset Accountant that will be tasked with updating the Land values recorded as a lump sum. We were informed that this task includes reconciling the Land amount recorded in the General Ledger to the Fixed Asset Subledger, PAPA (Property Appraiser Public Access), and the Property Settlement Statements. We were also informed by Finance Management that this task is set to take place in the of Summer 2021.

## **Effect**

The current Land balance of \$85 million is a significant value to the total Capital Assets recorded in the City's General Ledger. The City looks to the Finance Department for the availability of reliable financial data to support strategic objectives. It is difficult and time consuming for the Finance Department to properly identify assets and reconcile those assets when there are inconsistencies and inaccuracies in the accounting ledgers.

## **Recommendation 3**

The Finance Department should ensure the accuracy and completeness of Fixed Assets by:

- Performing a complete reconciliation of the Fixed Assets including confirmation of actual assets on hand and ensuring that variances are addressed and resolved.
- Establishing written policies and procedures that provide requirements for the recording, reconciling, monitoring, and accountability of Fixed Assets;
- Ensuring that the process for reconciling the Fixed Asset Subledger to the General Ledger is utilized consistently and all land acquisitions, transfers, dispositions, retirements, and transfers can be easily identified for each department;
- Maintaining all supporting documents including external sources that are used to record and reconcile land values; and
- Providing training to the Finance Department personnel, City Departments, and other stakeholders on the requirements outlined in the Fixed Asset policy.

**Responses can be found on page 22.**

## 4. Lack of Tracking and Monitoring of CRA Properties

### Condition

We found that the process to track CRA owned properties was inadequate and ineffective. As such, the CRA could not confirm with certainty that the list of 95 properties that they identified as CRA owned properties was inclusive of all CRA properties. We reviewed the processes and documents available to determine if the list of 95 properties could be relied upon as a complete list of CRA owned properties and found the following breakdowns in internal controls.

### Master Property List

The CRA provided a "CRA Property Inventory List" (Property List) that is used to track the properties owned by the CRA. The Property List contained 95 properties valued at about \$44 million. The Property List included the property location, Property Control Number (PCN), and the acquisition price. We were advised that the information contained in the Property List was obtained from the County's Property Records System, PAPA. We conducted reviews and analyses to determine the validity and accuracy of the Property List and found that:

1. A reconciliation to the City's Fixed Asset Subledger is not being performed to ensure the accuracy of the data recorded in PAPA.
2. When deeds are signed to acquire property, the Property List is updated. However, the CRA does not keep track of lots/properties disposed or transferred.
3. The Finance Department records CRA properties based on the property settlement statement; however, a reconciliation of the property settlement statement to the Property List is not being performed by Finance or the CRA.
4. The Property List did not distinguish between properties acquired, properties held for resale/disposals, and properties that have been transferred.
5. The Property List did not include a unique identifier (i.e. an asset number), that could be easily reconciled back to the properties recorded in the Fixed Asset Subledger.

We were informed that there is no clear listing of City vs. CRA owned properties. We note that there is a physical binder of City owned properties that includes CRA owned properties, located in the Finance Department. However, we were informed by Finance Management that the information in the binder has not been updated for several years. Further, it does not distinguish properties by department nor is it being utilized by the CRA to reconcile properties owned.

Due to the issues identified above, performing a reconciliation in the current state would be extremely difficult for the CRA and Finance. We found that the CRA and Finance are unable to verify the starting list of properties, activities that occurred during the year (i.e. dispositions, transfers), and the ending list of properties owned by the CRA. As such, we cannot independently confirm that the listing of 95 properties that was provided is accurate or inclusive of all properties owned by the CRA.

## **Criteria**

Government Auditing Standards state that internal controls, in the broadest sense, encompasses the plan, policies, procedures, methods, and processes adopted by Management to meet its mission, goals, and objectives. Internal controls include the processes for planning, organizing, directing, and controlling program operations. It also includes systems for measuring, reporting, and monitoring program performance. An effective internal control structure is one that provides reasonable assurance regarding operational efficiency and effectiveness, accurate financial reporting, and compliance with laws and regulations.

Management deploys control activities through policies that establish what is expected and procedures that put policies into action. This includes policies and procedures designed to meet Management's objectives, responsibilities, and accountability in a timely manner, and taking corrective actions for any breakdowns in controls.

## **Cause**

The conditions above were a result of the following:

- There are no written policies and procedures in place requiring the tracking and monitoring of CRA fixed asset transactions;
- The CRA Property List is not shared with Finance department personnel;
- The RMA staff assigned to the CRA were unaware of the physical binder of City owned properties;
- There is no accountability for reconciling the CRA Property List and property activities to the Fixed Asset Subledger and the property settlement statements;
- There is no unique identifier included in the CRA Property List that can be used to reconcile each property to the City's Fixed Asset Subledger; and
- There is a lack of effective communication between the RMA staff assigned to the CRA and the Finance Department staff regarding roles and responsibilities for CRA property recording and reconciliation.

## **Effect**

The combination of absent processes with the high dollar value of the properties owned by the CRA, creates concerns and presents challenges in terms of timely and accurately tracking and monitoring of properties. Inadequate record keeping of real property acquisitions, disposals, transfers and other property activities could result in the inability of the CRA to pursue the redevelopment of an area due to the lack of clarity as to what properties are owned, disposed of, or transferred. In addition, this could affect the decision-making process with regards to management of acquisitions and disposals of CRA properties. Furthermore, improper record-keeping of acquisitions, disposals and transfers could result in inaccurate reporting of capital assets owned by the CRA.

## **Recommendation 4**

The CRA's Executive Director and the Finance Department should ensure that all CRA properties and the associated transactions are fully accounted for by:



- Conducting a reconciliation of all CRA properties to include research to identify all properties and ensuring that all records are updated and reflect the properties and statuses accurately.
- Establishing written policies and procedures for tracking, monitoring, and recording of Fixed Assets. The policy should include requirements for how often Fixed Asset reconciliations should be performed, as well as Finance/CRA reviews and approvals of the reconciliations;
- Establishing a process for reconciling each property included in the Property List to the settlement statements, PAPA, the Fixed Asset Subledger, and the General Ledger;
- Identifying the property asset number within the Fixed Asset Subledger and including it in the Property List to ensure that there is a unique identifier that can be matched in both documents;
- Establishing a tracking mechanism for identifying property transfers, dispositions, and retirements; and
- Providing training on the policies, procedures, and processes put in place to track, monitor, and record fixed assets.

City Administration should work with all parties to ensure adequate communication is maintained among all parties and prevent silos from impeding progress.

**Responses can be found on page 23.**

## Reponses

### **Recommendation 1: Inadequate Controls and Oversight of CRA Expenditures**

#### **Response from Finance**

The Finance Department accepts the recommendations as it relates to our Budget policies and procedures and will adopt/implement the following:

- Establish on-going accountability for the budget process;
- Provide training on the revised budget and cost allocation processes, policies, and procedures;
- Establish written policies and procedures that provide criteria for the annual budget process and updates throughout the year as needed.

The Finance Department will work with the CRA to create project codes when needed for more accurate tracking of expenditures. Please bear in mind that the budgetary responsibilities, controls, and disbursement of expenditures rest with the City Departments, in this instance, the CRA.

**Target Implementation Date:** September 30, 2022

#### **Response from the CRA**

The CRA intends to address the recommendations listed above by hiring a budget and process manager as a City employee. The task of this position initially will be to implement all or as many of the recommendations listed above as possible by September 30, 2022. If the recommendations cannot be implemented or better solutions are suggested, this will be detailed and outlined in a response to the internal auditor.

**Target Implementation Date:** September 30, 2022

#### **Response from the Office of the City Attorney**

The Procurement Department has already implemented processes for the creation of new suppliers listed on the Supplier Master File and when duplicate vendors are found, Procurement corrects the inaccurate information. Both Finance and the user departments can provide Procurement with any duplicate information found when processing invoices. Procurement does not have the resources necessary to undertake review of thousands of vendors entered in the database over the years.

**Target Implementation Date:** Procurement, like all departments, has been asked to cut its budget by 5%. We see no ability to undertake this recommendation either this year or FY 21/22.

## **Recommendation 2: Insufficient Oversight of the Incentive Grant Program**

### **Response from Finance**

The Finance Department accepts the recommendations for the following:

- (a) Finance staff will provide oversight to RMA staff assigned to the CRA to verify that all fund reimbursements are coming out of the correct general ledger accounts.
- (b) Ensure that all changes are in writing, contain an explanation of the change, contain verification of funds in both accounts that are reviewed and approved by Finance, and contain appropriate approvals from the CRA's executive management.

**Target Implementation Date:** May 1, 2021

### **Response from the CRA**

The CRA intends to address the recommendations listed above by hiring a budget and process manager as a City employee. The task of this position initially will be to implement all or as many of the recommendations listed above as possible by September 30, 2022. If the recommendations cannot be implemented or better solutions are suggested this will be detailed and outlined in a response to the internal auditor. It is intended that the budget and process manager will work closely with the Executive Director on proper review of all grants before the disbursement of funds occurs

**Target Implementation Date:** September 30, 2022

## **Recommendation 3: Fixed Assets Variances**

### **Response from Finance**

The Finance Department understands that there are variances between the City's land value recorded in the Fixed Asset subledger and the general ledger, resulting from the implementation of the Oracle ERP System in 1998. The land value, which was not recorded at the subledger level, was maintained in an excel worksheet until there was turnover of employees in 2018 and 2019. In fiscal year 2020, a plan was created to update the Fixed Asset subledger so that the land value would be consistent with the general ledger. This plan was impacted by our response to the COVID 19 pandemic. The Finance Department anticipates that once the pandemic has improved, the plan to adjust the land values in the subledger will resume.

**Target Implementation Date:** June 30, 2022

## **Recommendation 4: Lack of Tracking and Monitoring of CRA Properties**

### **Response from Finance**

The Finance Department will address all the above recommendations as part of our efforts to reconcile all CRA properties in the Fixed Asset subsystem to the general ledger.

**Target Implementation Date:** June 30, 2022

### **Response from the CRA**

The CRA intends to address the recommendations listed above by hiring a budget and process manager as a City employee. The task of this position initially will be to implement all or as many of the recommendations listed above as possible. If the recommendations cannot be implemented or better solutions are suggested this will be detailed and outlined in a response to the internal auditor.

**Target Implementation Date:** September 30, 2022