

**WEST PALM BEACH
COMMUNITY REDEVELOPMENT AGENCY
AUDIT PART 3**

AUD19-01



WEST PALM BEACH

Internal Audit

January 4, 2024

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

Beverly Mahaso Esq., CIA, CFE
Chief Internal Auditor

Executive Summary

COMMUNITY REDEVELOPMENT AGENCY AUDIT

Part 3 - AUD19-01

January 4, 2024



OVERVIEW

- During the audit period, the CRA received about \$400 million in revenues. The primary funding source came from Tax Increment Financing revenues (TIF). Other funding sources included debt proceeds, investment income, interest income, lease payments, and grants.
- The objective of the 3rd part of the CRA Audit was to assess how revenues were expended over the audit period and determine 1. whether the CRA had sufficient controls and oversight over project related revenues, and 2. whether CRA funds were used for CRA activities and accounted for properly.

SUMMARY FINDINGS

1. **Insufficient Documentation of CRA Projects:** We reviewed a judgmental sample of 24 CRA projects and found that, 6 (25%) projects did not have sufficient documentation to determine the approved budget, project timing, status, expenses, and/or the project ending balance. These projects were related to Rehabilitation/Improvement and had a combined total of about \$57 million in contracted funds. In addition, we found 2 (8%) projects that did not have any supporting documentation and we could not confirm with certainty:
 - The nature of the project,
 - Project budget and timeline,
 - Contracts entered into with the CRA,
 - Project status, or
 - Actual amounts expended.
2. **Poor Documentation of Revenue Transactions:** We reviewed a judgmental sample of 50 net revenue transactions totaling about \$323 million. Based on our testing, we were able to validate that all entries tested had supporting evidence, however, 14(28%) entries were not supported by clear or direct evidence. As such, we were required to perform additional extensive testing and procedures to validate the accuracy of the records, which included combining and verifying miscellaneous supporting evidence from various sources. Of the 14 entries, 10 were from Downtown/City Center and totaled approximately \$49 million. The remaining 4 entries were from Northwood/Pleasant City and totaled approximately \$5.6 million.

SUMMARY RECOMMENDATIONS

1. The CRA Executive Director should ensure efficient and effective management of the CRA by:
 - Establishing policies and procedures to comprehensively track all activities,
 - Maintaining documentation of all CRA activities, including contracts and budget information,
 - Establishing a process whereby all documentation for completed projects are stored in a centralized repository instead of with the individual project managers,
 - Performing an annual project reconciliation to ensure that documentation is accurate, updated, and properly maintained, and
 - Providing training on the policies and procedures.
2. The Finance Department should ensure adequate oversight over the recording of CRA transactions by:
 - Establishing written policies and procedures that state the requirements for recording all financial and accounting transactions,
 - Maintaining the supporting documentation,
 - Tracking and monitoring all transactions recorded on behalf of the CRA to ensure that documentation is obtained to support all journal entries, and
 - Providing training on the policies and procedures to ensure consistent application.



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January 4, 2024

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

RE: West Palm Beach Community Redevelopment Agency Audit Part 3, AUD19-01

Dear Audit Committee Members:

Attached is the Internal Auditor's Office report on the City's Community Redevelopment Agency (CRA) Audit Part 3.

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
Christopher Roog, CRA Executive Director
Bridget Souffrant, Chief Financial Officer

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Background

CRA Expenditures

During the audit period, the CRA received about \$400,206,000 in revenues. The primary funding source included in this amount consisted of Tax Increment Financing revenues (TIF). TIF revenues are a unique tool available to cities and counties for redevelopment activities and are used to leverage public funds to promote private sector activities in the targeted redevelopment area. Other sources of funding included in this amount consisted of debt proceeds, investment income, interest income, lease payments, and grants. Refer to Table A for a summary of the total revenues (budget and actual), by district, during the six-year period under review. In addition, refer to Table B for revenue details (budget and actual) by year and district.

Table A

District	6-Year Budget	6-Year Actual
Downtown/City Center	\$298,256,794	\$359,246,877
Northwood/Pleasant City	\$20,931,431	\$40,959,127
Total CRA Income	\$319,188,225	\$400,206,000

Table B

Year	Downtown/ City Center (Budget)	Downtown/ City Center (Actual)	Northwood/ Pleasant City (Budget)	Northwood/ Pleasant City (Actual)
2014	\$23,249,518	\$22,858,879	\$2,520,048	\$2,451,811
2015	\$26,418,044	\$88,933,947	\$3,176,913	\$22,574,395
2016	\$30,164,921	\$30,716,380	\$3,281,375	\$3,414,081
2017	\$32,893,982	\$32,804,628	\$3,582,859	\$3,826,925
2018	\$35,593,162	\$35,091,948	\$4,093,129	\$4,187,188
2019	\$149,937,167	\$148,841,095	\$4,277,107	\$4,504,727
Total	\$298,256,794	\$359,246,877	\$20,931,431	\$40,959,127

Statement of Scope

The scope of the audit was from January 2014 through December 2019 (audit period) which is the period of time that the City outsourced the management and staffing of the CRA to Redevelopment Management Associates (RMA).

As mentioned in part two of the CRA audit, this report is the third and final part of the audit that was focused on assessing how revenues generated from TIF, debt proceeds, investments income, interest income, lease payments, and grants were expended over the six-year period.

Statement of Objectives

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

- a. Determine whether the CRA had sufficient controls and oversight over project related revenues; and
- b. Determine whether CRA funds were used for CRA activities and accounted for properly.

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.

We note that during the period under review, there was no system to track projects, as such for part 3, we utilized judgmental samples based on the information that was provided. Results cannot be extrapolated because we could not confirm the full universe of CRA projects. Additional details are provided in the findings.

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 oversight of the CRA operations in the following areas:

1. CRA – We found that some projects did not have sufficient documentation to determine the approved budget, project timing, status, expenses, and/or the project ending balance and two projects did not have any supporting documentation;
2. Finance Department – Some revenue transactions lacked clear and/or direct evidence to support the transactions.

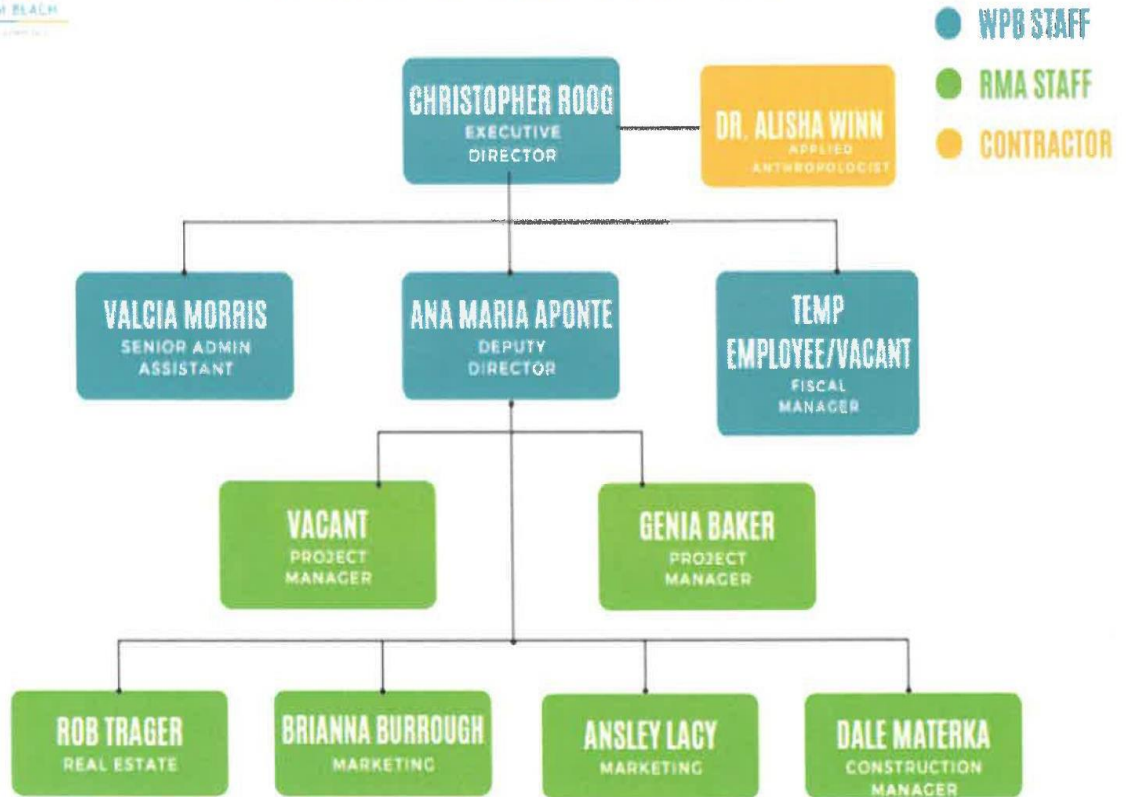
Noteworthy Accomplishments

We found that the personnel at the CRA and the Finance Department were responsive and receptive to our recommendations for improvement. We also note that the CRA and the Finance Department have already taken steps to review the operations and implement corrective action.

CRA Organization Chart



COMMUNITY REDEVELOPMENT AGENCY ORGANIZATIONAL CHART 2023



Opportunities for Improvement

1. Insufficient Documentation of CRA Projects

Condition

For the period January 1, 2014 through December 31, 2019, we requested a comprehensive listing of all CRA projects for review. As stated in the CRA Audit Part 1, there was no system in place to track projects as such, we could not confirm the total number of projects that were scheduled for redevelopment. However, based on the information we were provided with, we reviewed a judgmental sample of 24 CRA projects to determine how revenues generated from Tax Increment Financing (TIF), bonds, lease payments, and/or grants were expended over the six-year period.

Based on our review, 6 (25%) projects did not have sufficient documentation to determine the approved budget, project timing, status, expenses, and/or the project ending balance. These projects were related to Rehabilitation/Improvement and had a combined total of about \$57 million in contracted funds.

In addition, we found 2 (8%) projects that did not have any supporting documentation and we could not confirm with certainty:

- The nature of the project,
- Project budget and timeline,
- Contracts entered into with the CRA,
- Project status (i.e. completed, in progress), or
- Actual amounts expended.

It should be noted that one of the two projects was related to the sale of property, however, for the other project, we could not determine the nature of the transaction. We researched these projects to obtain further information, however, we were unable to obtain any other documentation except for the property addresses. The CRA was also unable to assist in obtaining further documentation for these properties. Please see the following table for a summary of the projects we reviewed.

Project Description	Total Contract Amount	Total Number of Projects	Exception (Yes/No)
Façade/Exterior Improvement Grant: Paint, Pave, Plant Program	\$226,955	6	No
Rehabilitation/Improvement	\$56,622,421	6	Yes
Planning and Research	\$49,700	1	No
Demolitions	\$1,039,019	3	No
Architectural Services	\$33,071,122	5	No
Sale of Property	Unknown	1	Yes
Projects Terminated	\$300,000	1	No
Other	Unknown	1	Yes
Total	\$91,309,217	24	

Table 1: Prepared by the Internal Auditor's Office, using data obtained from the CRA.

Criteria

According to the State of Florida Basics of Record Management, Section 1.A, "proper record management ensures that information is available when and where it is needed, in an organized and efficient manner, and in an appropriate environment." The guidance also states that the benefits of good record management include increased efficiency and retrieval of information.

Cause

We found that there was inadequate oversight over CRA activities for the period under review. We found that individual project managers maintained their own project files and documentation was not consistently stored in a central location that was readily accessible upon request.

In addition, the CRA informed us that the two properties that did not have supporting documentation were not CRA properties. However, both properties were selected from the documents provided by the CRA. Further, the CRA was unable to provide supporting documentation, or an explanation for the reason why the properties were included in the CRA documents.

Effect

The CRA has been entrusted with public funds and is responsible for properly managing these funds, which includes ensuring that redevelopment projects are tracked, organized, and adequate records are maintained for each transaction entered. Without sufficient records, it is difficult to validate expenditures made of public funds, which decreases transparency. Further, without an adequate tracking mechanism, it becomes difficult to manage a project life cycle.

Recommendation 1

The CRA Executive Director should ensure efficient and effective management of the CRA by:

- Establishing policies and procedures to comprehensively track all activities,

- Maintaining documentation of all CRA activities, including contracts and budget information,
- Establishing a process whereby all documentation for completed projects are stored in a centralized repository instead of with the individual Project Managers,
- Performing an annual project reconciliation to ensure that documentation is accurate, updated, and properly maintained, and
- Providing training on the policies and procedures.

Management Response 1

The CRA has taken specific steps to ensure that filing and processing are centrally located. In addition, each file has a standard set of files that is consistent across sub district files. Related to policies and procedures projects are beginning to be tracked through centralized smartsheet to monitor progress. There is active involvement on the Executive and the Deputy Director's part in discussing and monitoring project progression through regular meetings/discussions/updates/discussions with Project Managers and CRA Staff.

This project management effort is ongoing and requires training of staff. Budget information is kept in a separate file specifically labeled for financial matters. All significant CRA projects are assigned a unique identifying number which enables staff to track budget and expenditures in Oracle based on that number. Lastly, the CRA will remain consistent with City policies related to payments of projects centralized through the City's Finance Department requiring purchase orders and invoice payments through accounts payable, thus providing a dedicated tracking system. From a staffing perspective the CRA has hired a dedicated Fiscal Manager to ensure that proper fiduciary practices are maintained.

Target Implementation Date: We have already implemented elements of the recommendation. For the outstanding portions, we anticipate fully implementing the recommendation by December 31, 2023.

2. Poor Documentation of Revenue Transactions

Condition

From January 2014 through December 2019, there were about 1,616 net revenue transactions (803 from the Downtown/City Center and 813 from the Northwood/Pleasant City) that totaled about \$400,206,003. Due to the high dollar value of property taxes and debt proceeds allocated to the CRA, we analyzed a judgmental sample of 50 net revenue transactions totaling about \$323,006,887 (81%). These transactions included 30 entries, totaling \$285,352,897, from the Downtown/City Center district, and 20 entries, totaling \$37,653,990, from the Northwood/Pleasant City district.

Based on the testing we performed, we were able to validate that all entries had supporting evidence, however, 14 (28%) entries were not supported by clear or direct evidence. As such, we were required to perform additional extensive testing procedures to validate the accuracy of the records, which included combining and verifying miscellaneous supporting evidence from various sources. The following is a summary of the entries that were not supported by clear or direct supporting evidence.

Downtown/City Center

- Bank statements for 10 revenue journal entries, totaling approximately \$49 million
 - 2 revenue receipts - \$21 million for the collection of CRA property taxes.
 - 2 revenue receipts - \$1.6 million for the collection of CRA lease payments.
 - 1 revenue receipt - \$760 thousand for the sale of CRA real property.
 - 5 revenue intercompany transactions - \$26 million.

Northwood/Pleasant City

- Bank statements for 4 revenue entries, totaling approximately \$5.6 million
 - 2 cash receipts of about \$2.4 million for the collection of CRA property taxes.
 - 2 revenue intercompany transfers, totaling approximately \$3.2 million.

Criteria

Florida Statute 119.011, states that government agencies are required to maintain all supporting documentation regarding their financial transactions as a public record, as well as to provide evidence to support the financial transactions in their accounting systems.

Cause

The conditions above were as a result of the following:

- Staff responsible for recording the entries did not prioritize attaching the source documents within Oracle.
- Bank statements were not provided when requested.
- There were no policies and procedures within the Finance Department outlining the requirements to maintain source documents and the importance of maintaining documentation to support the validity of transactions.
- There was inadequate oversight of journal entries booked on behalf of the CRA.

Effect

Source documents are provided by the business unit and serve as physical evidence that a valid financial transaction actually occurred. While source documents may not necessarily be available in physical form, as an alternative, they should be traceable in electronic form.

Financial transactions recorded with insufficient evidence to support journal entries could result in the following:

- Inability to support the origin of the transaction;
- Risk of inaccurate financial reporting;
- Poor management and decision making due to inaccurate financial reports;
- Poor budget planning and forecasting;
- Inability to monitor business processes from theft and fraud; and
- Inability to provide evidence to support the legitimacy or validity of the transaction.

Recommendation 2

The Finance Department should ensure adequate oversight over the recording of CRA transactions by:

- Establishing written policies and procedures that state the requirements for recording all financial and accounting transactions,
- Maintaining the supporting documentation,
- Tracking and monitoring all transactions recorded on behalf of the CRA to ensure that documentation is obtained to support all journal entries, and
- Providing training on the policies and procedures to ensure consistent application.

Management Response 2

The Finance Department has developed, and the Mayor has signed into policy, Accounting and Financial Procedures Policy 2-1, with an effective date of August 1, 2022. This policy was further strengthened and updated effective August 31, 2023. All financial transactions are recorded in accordance with this policy and supporting documentation is monitored and maintained as required. Personnel responsible for recording and monitoring financial transactions are trained in their respective tasks as required and all finance staff with financial transaction recording and monitoring duties receive mandatory training in the procedures mandated by policy 2-1.

Target Implementation Date: October 31, 2023

Auditor's Comment: We commend the Department's efforts at implementing the recommendations during the audit. We will review the corrective action taken for all the CRA findings when we conduct the follow up audit, at which point, we will determine the status of all the recommendations.