Attachment I

Section I. Activity Dashboard – Risk Ratings and Status - Internal Audit Activity Report

A. Completed Projects

#	Project Title	Risk Rating Before Recommendations	Risk Rating After Recommendations	# Findings	# Recommendations	Recommendations to be Implemented	Recommendation not to be implemented	Follow Up	Project \$	Page #
1	Audit of Bank Accounts Reconciliations Process	Moderate	Low	2	2	2	0		439,380,366	14
2 ()))	Cloud Computing Contracts Review	Moderate	Low	4	4	4	0		16,538,869	16
3	External Audit Assistance – Single Audit Act Audit of Federal and State Grants – ARPA Funding - \$2,127,789 Delta Taxiway Rehab/Recon - \$841,885; and CRA Expenditures Testing – \$9,704,479	Moderate	Low	0	0	0	0		12,674,153	19
4	Audit of Long-Term Debt Service Compliance	Moderate	Low	0	0	0	0		12,520,017	19
5	Technical Assistance for City Departments: Review and Consulting for Professional, License, and Service Contracts/Agreements re: Language, Audit Rights, Procedures and Recordkeeping language/provisions for a total of 10 Agreements, and a statistical analysis of old unclosed building permits.	Moderate	Low	N/A	N/A	N/A	N/A		259,319,411	22
	Total #5 Completed Projects – Total Projects Dollars								740,432,816	

B. Prior Audit Follow-up

#	Project Title - Pending Corrective Actions for Audit Recommendations	Risk Rating Pending Recommendations	# Findings	# Outstanding Recommendations	Status
1	Audit of Pompano Beach Air Park Revenue Generating Contracts (\$1,332,140)	Moderate	5	5	 <u>Recommendation #1</u> Air Park management implements a tickler system to monitor the expiration dates of the requisite insurance coverage and follow-ups with the lessees to obtain, review, and retain copies of their current insurance certificates. And Air Park management consults with the Risk Management Division for guidance in evaluating the propriety of the insurance certificates received from the tenants. <u>Management Response/Update</u> Fully implemented, per Airpark Manager. Internal Audit will follow up in 60 to 90 days. <u>Recommendation #2</u> Use industry best practices to develop pre-approved standard lease templates for use by tenants when subleasing Air Park property to specialized aviation service operators (SASOs) and renters of hangar space for aircraft storage only. And, standardize the contract language regarding the requirement for the tenant and their subtenants to provide

#	Project Title - Pending Corrective Actions for Audit Recommendations	Risk Rating Pending Recommendations	# Findings	# Outstanding Recommendations	Status	
					an annual list of their respective owners and parties holding security interests in their businesses.	
					Management Response/Update:	
					Fully implemented, per Airpark Manager. Internal Audit will follow up in 60 to 90 days.	
					Recommendation #3	
	Audit of Pompano Beach Air Park Revenue Generating Contracts - Continued	Moderate	5	5	Air Park Manager or designee periodically verify and document that tenants are in possession of current requisite licenses, permits, and/or certificates necessary for their operations, and such documents are appropriately displayed in public areas of their businesses, if required.	
					Management Response/Update:	
					Partially implemented per Airpark Manager. Internal Audit will follow up in 60 to 90 days.	
					Air Park management implements appropriate monitoring procedures to ensure its tenants timely meet their contractual capital improvement obligations in terms of spending the requisite amount of funds to construct or improve the designated facilities within the specified time	

#	Project Title - Pending Corrective Actions for Audit Recommendations	Risk Rating Pending Recommendations	# Findings	# Outstanding Recommendations	Status
	Audit of Pompano Beach Air Park Revenue Generating Contracts - Continued	Moderate	5	5	 periods. <u>Management Response/Update</u>: Not implemented at this time. A new lease has been completed between the City and Pompano Aviation; there are several months away from the beginning of construction. Implementation in this case will start then. <u>Recommendation #5</u> Air Park management requests, receives, and reviews the annual statements from Pompano Aviation, Pompano Aviation III, and the Aviation Center of Pompano each year in order to evaluate their financial condition and ability to continue to meet their obligations under the lease. And, to promote uniformity and equity, we recommend Air Park management in collaboration with Contract Management and the City Attorney's Office consider standardizing the contract language to require annual financial statements of lease operations from <i>all</i> Air Park tenants. Management dat this time. When existing leases are up for renewal or assignment then language will be included to ensure that Retention of Records and Right to Access be included.

Memorandum 23

#	Project Title - Pending Corrective Actions for Audit Recommendations	Risk Rating Pending Recommendations	# Findings	# Outstanding Recommendations	Status
2	Fixed Assets Count – Type 166 – Equipment (\$55.8M)	Moderate	5	2	Recommendation #1 The process for decommissioning an asset should be revised, whereby one source, such as the Laserfiche system, could be used to start and complete the transaction. Controlling/Owning departments should be the initiators of the process, where the necessary documentation to permanently remove any assets that are no longer in use or needed, is started, and the necessary sign-offs provided to complete the transaction in the Finance Department. This suggested process would require the creation of a new electronic form to accomplish the task, in addition to some changes in the current process. Management Response/Update : March 30, 2022 is the new target implementation date. Fully implemented – August 2022. Recommendation #2 The purchasing process should be modified, and the written procedures updated, to ensure accessories to pickup trucks and other vehicles or pieces of equipment, are purchased at the same time the major unit is purchased, to avoid orphaned accessories. Along with that, the Finance Department should consider increasing the asset capitalization threshold amount, from \$1,000 to \$2,000 or \$2,500, in order to reduce the number of line items capitalized in the type 166 assets category and other categories. Related policies should also be updated to account for the changes.

#	Project Title - Pending Corrective Actions for Audit Recommendations	Risk Rating Pending Recommendations	# Findings	# Outstanding Recommendations	Status
					<u>Management Response/Update</u> : Fully implemented – Fixed Asset capitalization threshold raised to \$5,000 beginning FY23.
					Recommendation #3
					Given the limitations of the security cameras, we recommend that supervisors improve their oversight and monitoring of City equipment in their areas of responsibility, in order to more timely detect, report, and follow up on unaccounted-for items. Improved supervisory monitoring could include periodic checks to ensure equipment is properly secured at the end of the day or shift, or otherwise when not in use, and unannounced physical inventories of a sample of tagged fixed assets, outside of the inventory process the Finance Department completes on an annual basis.
					Management Response/Update: Grounds/Park Maintenance and Streets Maintenance accept the recommendation; and they have already started checking the inventory of the small sized equipment in their control, every 45 to 60 days.
					Utilities would like to explore the possibility of expanding the storage space and/or archiving the available footage beyond the 60 days, because the coverage may be useful beyond monitoring fixed assets. Final implementation will be determined at a later date.

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Also, due to the change in policy, the Utilities Department, with the help of the IT Department, acquired a server to record and store the resulting data. The Fire Department is still pursuing a fixed asset tracking technology the Department can use to manage its assets. Partially implemented at this time. Recommendation #4 The City, through the Finance Department and other relevant Departments, should consider instituting a citywide policy that mandates the installation of tracking mechanisms in those high-value City assets that are most likely to be abused, i.e. used for personal projects, during or outside working hours. In addition, the City should provide guidelines (use of a single vendor Citywide – with some exceptions granted where appropriate) to managers and/or supervisors, regarding the regular/appropriate acquisition and use of tracking mechanisms/processes, equipment, and related services. Management Response/Update: As of the beginning of FY23, all new cars, except those that have been specifically exempt, receive a tracking mechanism, and all tracking units that expire/get old are replaced next, old vehicles that do no thave trackers will	#	Project Title - Pending Corrective Actions for Audit Recommendations	Risk Rating Pending Recommendations	# Findings	# Outstanding Recommendations	Status
be worked on as time and personnel availability allows.						 with the help of the IT Department, acquired a server to record and store the resulting data. The Fire Department is still pursuing a fixed asset tracking technology the Department can use to manage its assets. Partially implemented at this time. Recommendation #4 The City, through the Finance Department and other relevant Departments, should consider instituting a citywide policy that mandates the installation of tracking mechanisms in those high-value City assets that are most likely to be abused, i.e. used for personal projects, during or outside working hours. In addition, the City should provide guidelines (use of a single vendor Citywide – with some exceptions granted where appropriate) to managers and/or supervisors, regarding the regular/appropriate acquisition and use of tracking mechanisms/processes, equipment, and related services. Management Response/Update: As of the beginning of FY23, all new cars, except those that have been specifically exempt, receive a tracking mechanism, and all tracking units that expire/get old are replaced next, old vehicles that do not have trackers will

#	Project Title - Pending Corrective Actions for Audit Recommendations	Risk Rating Pending Recommendations	# Findings	# Outstanding Recommendations	Status
					Partially implemented. Recommendation #5 Management should consider using the document(s) returned to Finance by the Departments/Divisions as the source documents for updating Naviline, without creating new paper documents. This may require delegation of duties to lower level positions to accomplish the task. Instead of sending the printed sheets (packets), a spreadsheet could be generated, specific to each Department/Division, and then sent out to the Departments/Divisions would make all their notations/comments on those sheets, save them (in a shared drive) and/or return the spreadsheets to Finance. Finance would then use those sheets as input for any suggested/necessary changes. Management Response/Update: Fully implemented - In August 2022, the mentioned spreadsheet was instituted, so currently all departments are using the spreadsheets.

#	Project Title - Pending Corrective Actions for Audit Recommendations	Risk Rating Pending Recommendations	# Findings	# Outstanding Recommendations	Status
3	Audit of Procurement Card Program (Purchases of \$3,193,647 for Audit Period of 1/1/19 – 4/14/20)	Moderate	4	4	Recommendation #1To maintain accountability and mitigate the risk of unauthorized expenditures, we recommend General Services ensure all newly issued P-cards, as well as credit limit changes to existing P-cards, are supported by appropriate management approvals (and those approvals are) maintained on file. We further recommend General Services consider adding a field to the Procurement Card Employee Agreement for cardholders to sign and date to acknowledge receipt of their P-cards.Management Response/Update: Due to changes in personnel, General Services is estimating that the implementation date will now be March 31, 2023.Not implemented at this time.Recommendation #2 Delays in canceling a P-card account increase the risk that the card could be misused by unauthorized persons (internally and/or externally). We recommend management take appropriate measures to ensure P-card accounts are closed on the Smartdata system prior to the termination of the cardholder's employment with the City. Options could include collaboration with the Human Resources (HR) Department to ensure General Services is promptly notified of all terminating employees, as well as the addition to the Exit interview Checklist of a requirement for the supervisor to return the employee's P-card to General Services, as applicable.

#	Project Title - Pending Corrective Actions for Audit Recommendations	Risk Rating Pending Recommendations	# Findings	# Outstanding Recommendations	Status
					Management Response/Update:Due to changes in personnel, General Services isestimating that the implementation date will now be March31, 2023.Not implemented at this time.Recommendation #3To prevent and detect errors and irregularities in a timelymanner, we recommend management remindcardholders to promptly approve (initial/sign) theirpurchase receipts, and departments fulfill theirresponsibility to complete and submit their monthlycardholder Payment Request/Authorization ProcurementCard Order Logs - signed and dated by the cardholder,department coordinator, and department head - toFinance no later than 10 days after month-end inaccordance with current policyManagement Response/Update:Not Implemented at this time. Finance management isrequesting a change in policy from 10 days to 15 daysafter month-end for departments to complete and submittheir signed-off monthly cardholder PaymentRequest/Authorization Procurement
					Finance personnel will continue to follow-up with tardy departments to have them submit their logs as soon as practicable. The actual GL posting of the p-Card

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#	Project Title - Pending Corrective Actions for Audit Recommendations	Risk Rating Pending Recommendations	# Findings	# Outstanding Recommendations	Status
					transactions for the prior month will occur no later than the end of the month after which the logs are required to be received in Finance. IA will perform follow-up Testwork in approximately six months. Recommendation #4 We recommend Finance take the steps necessary to help ensure all approved P-card transactions are timely posted to the GL, including the continuation of its targeted follow- up efforts with the tardy departments, and the sending of periodic general reminders to all departments with cardholders to timely submit their monthly P-card order logs. To facilitate efficiency and save time, we further recommend management consider the feasibility of having departments electronically sign-off and submit their logs and supporting documents to Finance each month. Management Response/Update : Not Implemented at this time. Finance management is requesting a change in policy from 10 days to 15 days after month-end for departments to complete and submit their signed-off monthly cardholder Payment Request/Authorization Procurement Card Order Logs. Finance personnel will continue to follow-up with tardy departments to have them submit their logs as soon as practicable. The actual GL posting of the p-Card transactions for the prior month will occur no later than the end of the month after which the logs are required to

#	Project Title - Pending Corrective Actions for Audit Recommendations	Risk Rating Pending Recommendations	# Findings	# Outstanding Recommendations	Status
					be received in Finance. IA will perform follow-up testwork in approximately six months.

C. Current and Future Audit Projects – Risk Ratings to be Determined

#	Project Title	Project \$	Page #
1	Information Technology –Cybersecurity, IT Controls (FY20/FY21) – Identity and Access Management (IAM) – Provisioning and De-provisioning Users	N/A	23
2	Revenue or Expenditures over \$500,000 – For FY21/22: Utilities – Customer Billing Rates and process	\$57,691,096	23
3	G. O. Bonds Projects – Specific Projects – TBD	TBD	24
4	Information Technology – Cloud Computing/Cybersecurity, IT Controls (FY22/FY23) – Cloud Computing Contracts – SOC 2 Reports review for high risk applications	\$16,559,166	24
5	Federal and State Grants Audit – External Auditor Assistance re: FY22 Single Audit. US Department of the Treasury [ARPA Funds], Florida Home/Hope funds	TBD	24
6	Human Resources/Internal Audit – Vacant Position recruitment	N/A	24
	6: Total Amount <u>Current & Future Audit Projects Total</u>	\$74,250,262	n/a
	14: Total Number of <u>all Completed Audit Projects</u> (5) with Follow Up (3) and Current Projects (6) with Project Dollar Amount Listed	\$875,008,865	n/a

Internal Audit Risk Ranking Key:

High (Red) - Immediate attention is required to reduce/mitigate the risk to acceptable levels Moderate (Yellow) – Intermediate action is required to mitigate the risk to acceptable levels Low (Green) - No further action required; the risk has been effectively mitigated

Section II. Summary and Project Detail - Completed Projects

1. Strategic Plan – FY22 – Audit of Bank Account Reconciliations (Total Bank Balances of \$439,380,366.49 as of December 31, 2021)

<u>Summary</u>

As part of the FY22 Strategic Plan for the Quality and Affordable City Services goal, Internal Audit (IA) has performed an audit of the City's bank account reconciliation function. The scope of the audit included all bank accounts of the City of Pompano Beach (COPB) and the Pompano Beach Community Redevelopment Agency (PB CRA) East and Northwest Districts (Collectively, referred to as the "City"). Bank accounts included both demand and time deposit accounts maintained at commercial banks, as well as investment accounts maintained at investment banks. The audit period was the first quarter of fiscal year 2022.

The primary objectives of the audit were to determine whether:

- All bank accounts were being reconciled on a monthly basis;
- Internal controls over the reconciliation process were adequate and effective;
- The bank account reconciliations were properly documented, prepared and reviewed by independent personnel, and completed in a timely and accurate manner;
- Reconciling items were identified and cleared timely; and,
- The City was compliant with Section 280.17, *Requirements for public depositors; notice to public depositors and governmental units; loss of protection*, Florida Statutes.

Audit procedures performed included, but were not limited to, reviews of applicable available policies, procedures, and practices; inquiry of appropriate Finance Department personnel; compliance tests of samples of bank account reconciliations and reconciling items; and, testing of the City's annual filing with the State for its bank accounts classified as public deposits.

Results: Findings Resulted in an Overall Risk Rating of Moderate (Yellow)

- **1.** Identified an opportunity for management to enhance controls by developing and implementing the use of written comprehensive bank account reconciliation policies and procedures; and,
- **2.** Determined the Finance Department was reconciling the bank account of, and providing certain other in-kind accounting services for, the Shipwreck Park, Inc. (a Florida non-profit corporation), without the benefit of a written service agreement.

II. Detailed Findings and Recommendations

Finding #1

During the course of the audit, we determined the Treasury had the following guidance in place regarding the monthly reconciliations of the City's bank accounts:

 An *email* from the former Finance Director indicating the deadlines for the preparation (by Treasury personnel), review (by the Revenue Collections Manager), and approval (by the Controller or Finance Director) of the monthly bank account reconciliations;

- *Draft* reconciliation procedures for the City's JPMorgan Chase General Depository & Disbursement bank accounts; and,
- *Practices* requiring the use of pre-printed reconciliation forms with fields for bank & GL account balances, reconciling items, and the initials/signatures of the preparer and approver, and the preparation of draft journal entries for subsequent clearance of reconciling items, where applicable.

Notwithstanding the value of the above guidance, we recognize the lack of written comprehensive bank account reconciliation policies and procedures addressing all significant aspects of the process. Such policies and procedures, among other things, could incorporate the following:

- The deadlines, and parties responsible for, the preparation, review, and approval of the monthly bank account reconciliations;
- The requirement for all reconciliations to be documented on a properly completed and signed-off pre-printed reconciliation form supported by copies of the applicable bank and GL account statements, and other relevant supporting schedules/forms/reports, as applicable;
- The requirement to document the date, brief description, and dollar amount of all reconciling items;
- Finalized reconciliation procedures for the City's JPMorgan Chase General Depository & Disbursement bank accounts addressing the technical process needed to effectively reconcile these accounts; and,
- A policy for the disposition of stale/unidentified reconciling items that have been outstanding/unexplained for an extended period (e.g., more than 180 days). Options could include notification to the Finance Director, or Assistant City Manager with responsibility for Finance, requesting their review and evaluation of the items for potential write-off (if appropriate and/or cost-beneficial), or escalated investigation.

Risk Rating: Moderate (Yellow)

Recommendation #1

We recommend Finance management develops and implements the use of comprehensive written bank account reconciliation policies and procedures. Such policies and procedures will increase the likelihood of continued timely and accurate reconciliations of the City's bank accounts in the future; provide a valuable training resource for new employees of the Treasury; and help to ensure continuity of operations in the event of significant employee turnover, or other disruptive events affecting the Treasury.

Management Response:

Management agrees with the recommendation and will be compiling detailed comprehensive written bank reconciliation policies and procedures not only for the JPMorgan Disbursement bank account, but all bank accounts associated with the City. This document will provide a valuable resource to employees preparing the reconciliations.

Implementation Date:

October 2023

Staff Assigned:

Treasury Division (Revenue Collections Manager)

Finding #2

During the course of audit fieldwork, we became aware that the Finance Department was performing monthly reconciliations of a BankUnited checking account owned by the Shipwreck Park, Inc.¹ We did not test the reconciliation of this account as we determined the Shipwreck Park - a Florida not-for-profit corporation - was not an agency of the COPB. However, we did identify an issue pertaining to the COPB's business relationship with Shipwreck Park in that Finance had established a fund (Pompano Shipwreck Park) on the City's Naviline financial system with multiple General Ledger accounts for the Shipwreck Park, and was providing in-kind accounting services for the Shipwreck Park (e.g., the recording of donations received and deposited to the bank account, the recording of expenses disbursed via checks drawn on the bank account, etc.), without the benefit of a written service agreement.

Risk Rating: Moderate (Yellow)

Recommendation #2

We recommend the City Manager's Office, in collaboration with the Finance Department, Contract Management and the City Attorney's Office, take the necessary actions to draft, and have executed, an appropriate service agreement between the COPB and the Shipwreck Park addressing the in-kind accounting services to be provided by the City. In addition to formalizing the relationship, a properly executed agreement would, among other things, provide for indemnification of the City; require the retention of contractual public records in accordance with Florida Statutes; and, establish the City's right to inspect and audit records pertaining to operations pursuant to the agreement.

Management Response:

Management agrees with the recommendation to have a service agreement executed.

Implementation Date:

March 31, 2023

Staff Assigned:

Suzette Sibble, Assistant City Manager

2. 🐼 Cloud Computing Contracts Review (Total Vendor Payments of \$16,538,869 for FY 2021)

Background

In recent years, the use of cloud computing software (Software-as-a-Service or SaaS) by the City's departments has increased significantly. This increase has been driven by the evolving

¹ The Shipwreck Park is a not-for-profit organization dedicated to the preservation and conservation of the natural coral reef system. The City of Pompano Beach is an ongoing sponsor of the environmental protection initiatives of the Park.

needs of departments for specialized software to improve their business processes and deliver enhanced services to their customers. Notwithstanding the efficiency and increased productivity of using SaaS, the storage of the City's data assets on remote data servers owned or controlled by third-parties increases the potential risk of loss, theft, misappropriation, or destruction of the data.

To mitigate the risk posed by using hosted software services, the City's Information Technologies (IT) Department updated its policies in January 2017 to include specific requirements to be followed by user departments who engage the services of cloud computing contractors, and the IT and Risk Management Departments in their oversight roles. The policies included, but were not limited to, requirements for the IT Department to perform a due diligence review of the prospective contractors prior to contract execution, and the user departments to periodically request available System and Organization Controls (SOC) 2 reports for the contractors and/or their data centers for review by IT.

The purpose of this review was to assess the extent to which these policies were being adhered to, as well as to evaluate the adequacy and effectiveness of the policies themselves in addressing the current risk environment.

Testwork/Results

Based on a review of prior CCC listings maintained by the IT Department, queries of the City's contract management/electronic bidding systems, surveys of user departments, and consultation with IT management, IA identified a total population of 46 cloud computing software solutions in use by multiple City departments (as of 3/1/2022). These software solutions were provided by 50 third-party entities - 40 contractors with which the City had a direct business relationship, and seven software developers (other than contractors) and three partners of contractors (subcontractors) with which the City had an indirect business relationship.

Based on test work performed by IA on the population of CCCs, and inquiry of IT management, we identified the following key issues:

- User departments were not always notifying the IT Department of prospective cloud computing contracts. As such, there was no assurance IT would have the opportunity to conduct a risk assessment of prospective contractors in all cases. Moreover, there was no assurance that key contractually-required documents such as current certificates of cybersecurity insurance for the contractor, SOC 2 reports for the contractor and/or its data center(s), and PCI DSS (Payment Card Industry Data Security Standard) attestations/reports of compliance for the contractor and/or its data center(s), if applicable, would be requested, obtained, and reviewed prior to contract execution in all instances; and,
- Periodic follow-up by the user departments with cloud computing contractors to obtain current key documents (e.g., cybersecurity certificates of insurance, SOC 2 reports, and PCI DSS attestations/reports of compliance) was hampered by the lack of an automated follow-up system, and the reluctance of contractors in certain instances to provide key documents (containing sensitive information) to the City other than at initial contract execution or subsequent contract renewal.

Recommendations

To help address the issues cited above, we recommend management consider the following:

- The development and implementation of an appropriate CCC process and documentation checklist for use by contracting departments to timely notify IT, Contract Management, and Risk Management of pending CCCs. Additionally, the checklist could be used by the latter departments (IT / Contract Management / Risk Management) to document the completion of critical tasks, and the review and evaluation of requisite documentation, prior to contract execution;
- On an ongoing basis, the identification of high-risk cloud computing contractors for enhanced automated follow-up to obtain current key documents. The definition of "high-risk" should generally include contractors that process or store personally identifiable information (PII), protected health information (PHI), or cardholder payment data;
- Customization (internally by Contract Management or externally by the software contractor) of Agiloft (the City's current contract management system) to allow the flagging of CCCs, and the annual automated emailing of system-generated notices to these contractors to request current SOC 2 reports and PCI DSS attestations/reports of compliance (if applicable) for review and evaluation by IT. Customization could include the capability of the system to generate a second (follow-up) email notice to nonresponsive <u>high-risk</u> cloud computing contractors; and,
- Appropriate revisions to the Cloud Computing Contracts section of IT's Policies to reflect the abovementioned changes to the extent they are adopted and implemented by management.

Management Response

Based on discussions with the IT Department, Contract Management, and Risk Management, the following action plan has been agreed-upon to address the recommendations:

- Collaboration between Contract Management and the IT Department to modify (as appropriate), finalize, and adapt the IA-drafted CCC checklist to better identify potential cloud computing contracts. IT has agreed to incorporate the requirement for departments to use the adapted checklist when contemplating the use of cloud computing services, in its written policies, with appropriate dissemination to all City departments. In addition, IT has indicated its willingness to develop and implement an online electronic version of the adapted checklist for use by City departments to more efficiently complete and submit the requisite information;
- Agiloft currently has the capability to flag cloud computing contracts (CCCs) based on the inclusion of "software contract" in the contract title. In addition, the system is able to document relevant contract information including, but not limited to, the name of the contractor ("contract company name"), and the main contact name and information for the contractor ("party main contact"). Future system enhancements – beyond calendar year (CY) 2022 – could include the creation of additional fields for CCCs such as the

nature of any high-risk data stored/processed (PII / PHI / CHD), any regulatory agencies (e.g., the PCI Security Standards Council, US Department of Health & Human Services, etc.) providing oversight rules for the high-risk data, and whether the software application is public-facing (i.e., accessible to external customers/users via the Internet); and,

- Programming changes will be made to the Agiloft system to create a contract sub-type for the risk rating (high/low) assigned to CCCs, and enable the annual automated emailing of system-generated notices - to the contact persons for those CCCs rated as "high-risk" - to request current SOC 2 reports and PCI DSS attestations/reports of compliance (if applicable). The 4th quarter of CY 2022 has been estimated for implementation of the aforementioned changes, with future system enhancements (beyond CY 2022) to include annual automated mailing of system-generated notices to all cloud computing contactors (irrespective of risk rating), and automated generation and mailing of second (follow-up) email notices to non-responsive "high-risk" cloud computing contractors.
- 3. External Audit Assistance Single Audit Act Audit of Federal and State Grants, (FY21) ARPA Funding - \$2,127,789 Delta Taxiway Rehabilitation/Reconstruction - \$525,186; and CRA Expenditures Testing – \$9,704,479

External Audit Assistance – Single Audit Act - Audit of Federal and State Grants, (FY21)

According to the external auditor contract, Internal Audit is obligated to provide at least 100 hours of audit time to the outside auditor during the annual audit process.

For the current Activity Report Internal Audit is reporting that we provided the necessary hours to complete the assigned tasks, which involved the following areas:

ARPA Funding - \$2,127,789 Delta Taxiway Rehabilitation/Reconstruction - \$525,186; and CRA Expenditures Testing – \$9,704,479

There were no reportable conditions in any of the areas, hence no recommendations were necessary.

4. Strategic Plan – FY22 - Audit of Long-Term Debt Service Compliance – Payments of \$12,520,017

<u>Summary</u>

As part of the FY22 Strategic Plan for the Quality and Affordable City Services goal, Internal Audit (IA) has performed an audit of the City's long-term debt service compliance. The primary objective of the audit was to determine whether the City's long-term debt principal and interest

payments for FY 2021 were properly recorded, supported, and approved; adequately budgeted; accurate; and, made timely.

Audit procedures performed included, but were not limited to, reviews of applicable rules, regulations, policies, procedures, and practices; and inquiry of appropriate Finance Department personnel. To achieve the audit objective, all of the City's long-term debt service payments (principal, interest, and fees) pertaining to FY 2021 – a total of \$12,520,017 - were vouched and compared to the applicable debt amortization schedules.

Conclusion – Low (Green) Risk

Based on tests performed and resulting observations, it is our opinion that the City was in general compliance with its long-term debt service payment obligations for FY 2021. There were no reportable exceptions. As such, an overall Low (Green) risk rating was assigned to the audit results.

Internal Audit would like to thank personnel of the City's Finance Department for their cooperation and assistance throughout the audit.

Background

The City of Pompano Beach (COPB) has established a Capital Improvement Plan (CIP), a fiveyear financial plan for funding the construction, acquisition, and rehabilitation of the City's facilities, infrastructure, and equipment. Although the CIP covers five years, it is prepared annually, and previously approved projects are carried forward and their completion schedules are adjusted accordingly.

Debt financing for capital projects and improvements is an important method to develop the City's long-term infrastructure. According to the City's Annual Comprehensive Financial Report (ACFR) for the fiscal year ending 9/30/21, the City had an outstanding long-term debt principal of \$162,436,990 comprising the following:

- \$111,542,460 for government activities as follows:
- General Obligation Bonds (Series 2018) of \$93,380,000;
- Tax Increment Revenue Bonds (Series 2013) of \$8,490,000 for the Pompano Beach Community Redevelopment Agency's East District;
- Notes payable of \$566,672 to Chase Equipment Finance for the purchase of energy efficient equipment for various City facilities;
- U.S. Department of Housing and Urban Development (HUD) Section 108 interim long-term loan of \$3,509,000; and,
- Capital leases payable of \$5,596,788 for the lease of equipment and vehicles by various City departments.
- \$50,894,530 for business activities as follows:
 - Taxable Certificates of Participation (Series 2015) of \$23,275,000 to finance the acquisition, construction, and installation of a new parking garage structure and surrounding public improvements;
 - Water and Wastewater Revenue Bonds (Series 2021) of \$10,375,000;
 - Stormwater Utility Revenue Bonds (Series 2021) of \$9,140,000;
 - Notes payable of \$2,051,730 to Chase Equipment Finance for the purchase of energy efficient equipment for various City facilities;
 - A construction loan with an outstanding balance of \$2,360,575 funded from the State of Florida Department of Environmental Protection Clean Water State Revolving Fund Program;

- A construction loan with an outstanding balance of \$2,669,257 funded from the State of Florida Department of Environmental Protection Clean Water State Revolving Fund Program; and,
- Capital leases payable of \$1,022,968 for the lease of equipment and vehicles by various City departments.

In addition to the aforementioned long-term debt, the City has two outstanding issuances of conduit debt where the bond proceeds were loaned to John Knox Village of Florida (the Village). Conduit debt, also known as non-commitment debt, is issued by the City for the expressed purpose of providing capital financing for a specific third party that is not a part of the City's financial reporting entity.

The current bonds are limited obligations of the City payable from the periodic loan payments due from the Village. The City is not obligated to pay the principal or interest on the bonds except from the loan payments made by the Village, and neither the faith and credit nor the taxing power of the City is pledged to the payment of principal and interest. As of 9/30/21, the outstanding principal amounts for the two debt issues were \$25,900,000 and \$76,840,000 respectively. Since the bonds do not constitute a debt or pledge of the faith and credit of the City, the debt was not reported on the City's financial statements as of 9/30/21.

In 12/2014, the COPB (General Fund) made a long-term loan (advance) of \$2.5 million to the Northwest (NW) CRA District to finance its purchase of two properties (790 & 800 Hammondville Road) to enable the development of a 30-acre Commerce Park at the northeast quadrant of Atlantic Boulevard and Interstate 95. The Ioan has a fixed annual interest rate of 2.91% amortized over a 20-year term, and is to be paid-off early (on 10/1/2025) by the NW CRA District based on actual and projected base Ioan payments, and additional Ioan principal payments made, and to be made in the future. As of 9/30/2021, the outstanding Ioan balance - a long-term receivable of the COPB and a long-term payable of the NW CRA - was \$1,524,056.

In 2015, the City received a loan commitment of \$4,308,000 from the U.S. Department of Housing and Urban Development (HUD) Section 108 Loan Guarantee Program for the purpose of financing various infrastructure improvement projects. As of 9/30/21, the City had received \$4,308,000 in interim financing related to this loan commitment from HUD. As of 9/30/21, the interim loan balance was \$3,509,000 and the permanent loan balance was \$0. The interest rate on the loan amount is variable until the date HUD converts it into a permanent loan or the redemption date, whichever is earlier. During the interim period, interest will be billed to the City on the first day of each February, May, August, and November. A payment schedule of the principal and interest will be provided by HUD after conversion of the loan.

In the fall of FY 2017, the City Commission approved the General Obligation (G.O.) Bond Referendum (with a date of 3/13/18) to finance a component of the City's unfunded general capital projects. The referendum was approved by a two-thirds majority vote of the City's residents. The G.O. Bonds have been sold in two phases. The first bonds (Series 2018) were sold at a par value of \$99,375,000 on 10/2/18 to finance the design of all 25 G.O. Bond projects, and construction of the "Phase I" projects. On 9/14/21, the City Commission approved the issuance of the second phase of the G.O. Bonds. The second bonds (Series 2021) were issued at a par value of \$81,625,000 in October 2021 in order to finance the construction costs for the "Phase II" projects.

See Attachment #1 for details of the changes in the City's long-term debt liabilities between FY 2020 and FY 2021.

Scope and Objectives

The primary objective of the audit was to determine whether the City's long-term debt principal and interest payments for FY 2021 were properly recorded, supported, and approved; adequately budgeted; accurate; and, made timely.

<u>Standards</u>

- City's Code of Ordinances Chapter 36 Taxation and Finance City Bonds (§36.040 -§36.057);
- City's Debt Management Policy;
- Finance Department's Accounting Procedures Manual 11-B Debt Management Processing Debt Service Payments; and,
- Debt covenants and amortization schedules for outstanding bonds and other long-term debt obligations.

Results: No Reportable Findings Resulted in an Overall Risk Rating of Low (Green)

5. Technical Assistance for City Departments: Review and Consulting for Professional, License, and Service Contracts/Agreements re: Language, Audit Rights, Procedures and Recordkeeping language/provisions for a total of 10, and Statistical Analysis of Old Unclosed Building Permits

Technical Assistance

The goal of Internal Audit (IA) is to provide technical assistance to City Departments by providing recommendations and guidance to increase accountability and transparency of City operations and to enhance internal controls. During the year, City departments request technical assistance and guidance as needed, at the time.

Internal Audit reviews and provides guidance, benefits, and protection of the City's interest by assessing the daily operations of the Contractors, Licensees or Service Providers as well as mitigating risks. Language revisions for agreements/contracts are recommended as needed for each draft agreement before it is finalized and placed on the City Commission Meeting Agenda. Recommendations are made for policies and procedures which may include recordkeeping, payment receipt processing and disbursement procedures. Internal Audit's goal is to increase the transparency and accountability for each agreement. IA reviews the language to ensure the City's audit rights are preserved. Follow-up is done periodically by IA staff to verify compliance is being monitored and the agreement/contract is being overseen as required.

Internal Audit staff provided technical assistance by reviewing 10 Professional, License, or Service agreements/contracts, and completed a statistical analysis of old unclosed building permits.

Results: Low (Green) Risk Rating After Recommendation(s) Are Implemented.

A Low (green) risk rating was assigned after review and consulting with departments for revisions as needed. Revisions to language for audit/inspection rights, sales tax, accounting/recordkeeping procedures, financial reporting and record retention have been included and revised as needed per Internal Audit Recommendations for each agreement before it was uploaded into Legistar for Agenda Item approval.

Internal Audit Activity Report - Memorandum 23-03

<u>Standards</u>

- Records access, controls, internal controls;
- Financial recordkeeping, reporting compliance;
- Audit rights;
- Florida Statutes Records retention;
- Internal Audit Record Retention for Audit compliance; and
- Building permits closure process

Technical Assistance included City Departments: City Attorney, City Manager, Finance, General Services/Procurement/Purchasing, Parks and Recreation, etc. A full list of the License, Service Agreements/contracts, or Requests for Opinion reviewed is available upon request.

During this reporting period, following the request of the City Manager, and in consultation/collaboration with the Development Services Department, Internal Audit reviewed, on an analytical basis only, all old permits that had not been closed at the time. Emphasis was placed on permits that were greater than \$1 million in valuation, and had not been included on the property tax rolls, at the time.

The results were presented to the Development Services department for review and subsequent follow-up. This task represents the largest amount (\$258 million) recorded for this category in Table A of section 1.

Our recommendation was to assign specific accounts to the current staff for follow-up, to ensure the accounts are resolved and closed out, and added to the property tax roll where appropriate.

Section III. Current and Future Projects

1. 💮 Information Technology – IT Controls, Cloud Computing/Cybersecurity

Internal Audit is presently conducting this audit for FY22/FY22 to verify the processes, compliance and controls in place to reduce and manage the risks related to cloud computing and/or cybersecurity. This audit is still ongoing and expected to be completed by the end of the 2nd quarter FY23.

2. 💮 Audit of Revenue or Expenditures over \$500,000 – For FY22: Utilities Customer Billing Rates and Billing Process

The City through the Finance and Utilities Departments, provides goods & services to various customers, and bills and collects revenues for/from: Water sales (19,000+ accounts), Reclaimed water sales (1,880+ accounts), Water backflow inspections, Wastewater charges (17,000+ accounts), Stormwater fees (16,000+ accounts), and residential solid waste disposal (18,000+ accounts).

3. 💮 G. O. Bonds Projects – Construction Contracts in the CRA, Parks & Recreation, Public Works, and other Departments

Internal Audit is committed to reviewing/auditing a sample of projects that are part of the G. O. Bonds. Selections are yet to be made.

4. 💮 Information Technology – IT Controls, Cybersecurity – SOC 2 Reports Review for Applications Considered High Risk

As of the end of calendar year 2022, the City had on record, 50 cloud computing contracts, more than 20 of which were considered high risk. As part of the ongoing monitoring process, Internal Audit has embarked on the task of reviewing all SOC 2 reports that will be collected from the current service providers. Internal Audit will be working with the City Attorney's Office and relevant Departments to make sure all legal requirements, related to the reports, are observed/met.

5. Sederal and State Grants Audit – External Auditor Assistance re: FY22 Single Audit – US Treasury Department (ARPA grant), US Housing and Urban Development (HUD) grant; and State Grant for Wastewater Treatment Plant Reconstruction

Internal Audit annually assists the external auditors with the audit of select Federal and State grants as part of the annual audit (Single Audit). This is a regular FY audit. The external auditor is responsible for selecting the grants to be audited.

6. 🐼 Vacant Position Recruitment – Budget/Human Resources/Internal Audit

During the early part of FY22, Internal Audit lost one of its employees to retirement. Internal Audit has upgraded the position to Staff Auditor to meet perceived future needs of the office. We are working with Human Resources to fill the new position.

Note: All Memoranda as well as a Technical Assistance Projects Detailed List are available upon request.