

# *CITY OF FORT LAUDERDALE*

## OFFICE OF THE CITY AUDITOR

*Operational Audit of the City of Fort Lauderdale Cemetery System  
and related Cemetery Perpetual Care Trust Fund  
Report #15/16-05*

June 29, 2016



## Memorandum

Memo No: 15/16-08

Date: June 29, 2016

To: Honorable Mayor and Commissioners

From: John Herbst, CPA, CGFO, CGMA  
City Auditor

Re: Operational Audit of the City of Fort Lauderdale Cemetery System and related Cemetery Perpetual Care Trust Fund

---

We have completed an operational audit of the Cemetery System and related Cemetery Perpetual Care Trust Fund, carried over from our FY 2015 audit workplan. We conducted our audit in accordance with government auditing standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about the suitability of the design and operating effectiveness of the City's internal controls. An audit includes examining, on a test basis, evidence about the City's internal controls and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Our evaluation and recommendations also rely on the internal control framework established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). COSO framework elements represent commonly accepted mechanisms to evaluate and improve the effectiveness of the organization's risk management, control, and governance processes.

### **CONCLUSION:**

***This operational audit of the City's Cemetery System and related Perpetual Care Trust Fund concluded that the City lacks adequately designed controls to prevent and detect errors in a timely manner.***

### **The objectives of our audit were:**

1. To determine whether the capital projects are properly approved and completed in a timely manner and the amount of expenditure per project was consistent with the Contract.
2. To determine whether the City's contract with Carriage and related contract extension was properly executed and approved by the City Commission.

3. To determine whether Carriage has obtained the City's approval for management personnel changes.
4. To determine whether Carriage has obtained all required business, cemetery or other permits, licenses and all required insurances.
5. To determine whether the Finance Department received all the money from Carriage, recorded the revenue in accordance with GAAP and processed the receipts from Carriage in a timely manner.
6. To determine whether the Cemetery Liaison has performed an effective and comprehensive contractor performance evaluation.
7. To determine whether Carriage provides proper maintenance to the cemetery grounds and structures and safeguards its capital assets.
8. To determine whether the City's Cemetery System is in compliance with all applicable Florida Statutes, Cemetery Rules and Regulations, and City Code of Ordinances.
9. To determine whether the internal control procedures have been developed for the Perpetual Care Trust Fund and whether Standard Operating Procedures (SOP) have been developed for effective and consistent monitoring of the contract between the City and Carriage.
10. To determine whether Carriage has an effective system of internal control in place for its records and information system.
11. To determine whether the Parks Department maintains proper plot inventory records and sales contract information for effective monitoring activities.

Our consideration of the City's internal controls was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be considered deficiencies, significant deficiencies or material weaknesses.

The following are the salient findings of the audit:

- The effectiveness of contract administration efforts needs improvement. During the initial five-year term of the contract, Carriage Funeral Services, Inc. (Carriage) did not complete one of the capital improvements stipulated in the contract. Despite this, a contract extension was awarded to Carriage.
- Carriage did not seek the City's approval for the appointment of a former City employee as the Managing Partner for Carriage, as required by the contract.
- The Cemetery Liaison failed to conduct the contractor's annual performance evaluation prior to 2013. The annual evaluation reports for FY 2013 and FY 2014 did not include any details and did not document any findings and areas for improvements.
- Contrary to the City's Code of Ordinances which states that 19% from the sale of each lot or plot, crypts, and niches is income to the Trust Fund and available for maintenance, repair and capital improvements, the Cemetery Board established that 19% of the total amount received belongs to the corpus of the Trust Fund, and is therefore non-spendable.
- By netting the management fees paid to Carriage against the revenue due to the City from the sale of plots, the Finance Department did not adhere to generally accepted accounting principles (GAAP). In addition, Carriage failed to remit to the Trust Fund 19% of the revenue from finance charges and from sales of second rights and double depth plots.
- The Parks Department does not maintain a log of the sequentially numbered "Cemetery Internment Rights Purchase/Security Agreement" forms known as the "Contract", nor do they maintain inventory records of the plots.

Additional observations representing opportunities for improvement:

- The Parks Department should conduct a review of the cemeteries' operations prior to the renewal of the contract, and should also consider a master plan for its cemeteries.
- Despite having \$25,000,000 in the Trust Fund, only \$750,000 is being spent annually on repair and maintenance, leading to complaints regarding the cemeteries' appearance.
- The Trust Fund investment portfolio managed by SunTrust underperformed vs. policy benchmarks, blended benchmarks and the S&P 500 in every period and in each category from year-to-date or from inception-to-date for the period ending June 30, 2015.
- The Parks Department should conduct a study by an independent consultant on the Trust Fund's investment strategy to consider moving the portfolio from actively-managed to passively-managed.

A complete description of all findings, observations and Management's responses are included in the body of the report. We did not audit management's responses and accordingly, we express no opinion on them.

We would like to thank the staff of the Parks and Recreation Department for their cooperation and assistance during this audit and are pleased to note that management generally concurred with our recommendations and has already begun to implement a number of them.

Attachment(s)

cc: Lee R. Feldman, City Manager  
Cynthia A. Everett, City Attorney  
Jeff Modarelli, City Clerk  
Stanley D. Hawthorne, Assistant City Manager  
Christopher Lagerbloom, Assistant City Manager  
Phil Thornburg, Director of Parks and Recreation

## TABLE OF CONTENTS

Purpose, Conclusion and Summary of Findings and Observations	1-2
Statement of Objectives	3
Background and Scope & Methodology	4-5
Objective 1 Finding 1	6
Objective 2 Finding 2 Observation 1	7-8
Objective 3 Finding 3	9
Objective 4	10
Objective 5 Finding 4 Observation 2	10-12
Objective 6 Finding 5	13-14
Objective 7 Observation 3	14-15
Objective 8 Finding 6 Finding 7	16-18
Objective 9 Finding 8 Finding 9 Observation 4	19-22
Objective 10 Finding 10	23
Objective 11 Finding 11 Finding 12	24-25

**CITY OF FORT LAUDERDALE  
CITY AUDITOR  
Cemetery System and Perpetual Care Trust Fund**

**PURPOSE**

Based on the City Auditor’s annual risk assessment, supported by a request from City management, we have completed an operational audit of the City of Fort Lauderdale Cemetery System and related Cemetery Perpetual Care Trust Fund (the Trust Fund). An operational audit evaluates an organization’s effectiveness, efficiency and economy of operations under management’s control. It also includes determining compliance with the terms of the management contract, applicable Florida Statutes, City’s Code of Ordinance, and Cemetery Rules and Regulations.

We conducted this operational audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and observations based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and observations based on our audit objectives. We limited our work to those areas specified in the “Audit Objective, Scope, and Methodology” section of this report.

**CONCLUSION**

*This operational audit of the City’s Cemetery System and related Perpetual Care Trust Fund concluded that the City lacks adequately designed controls to prevent and detect errors in a timely manner.*

The CAO has identified both Findings and Observations during the course of the audit. A Finding results from a failure to comply with policies and procedures, rules, regulations, contracts and fundamental internal control practices. An Observation represents an opportunity to improve on the design or functionality of an existing internal control.

**FINDINGS**

1. During the first five-year contract, Carriage Funeral Services, Inc. (Carriage Services or Carriage) did not complete the capital improvements stipulated in the contract.
2. The contract extension was awarded even though Carriage did not complete the cemetery capital improvement plan noted in Finding 1.
3. Carriage did not seek the City’s approval for the appointment of a former City employee as the Managing Partner for Carriage.
4. The Finance Department did not properly account for the revenues and expenditures of the Perpetual Care Trust Fund in accordance with generally accepted accounting principles (GAAP). In addition, Carriage failed to remit to the Perpetual Care Trust Fund 19% of the revenue from finance charges and from sales of second rights and double depth plots.
5. The Cemetery Liaison failed to conduct the contractor’s annual performance evaluation for several years. The annual evaluation reports for FY 2013 and FY 2014 did not include any details and did not document any findings and areas for improvements.

6. Two (2) large sales of more than six (6) graves spaces to an individual or an entity exceeded the limits set by the Cemetery Rules and Regulations.
7. The Cemetery Board improperly determined that 19% of the total amount received from the sale of each lot or plot, crypts, and niches belongs to the corpus of the Perpetual Care Trust Fund.
8. Contrary to Section 218.415(13) of Florida Statutes and the Perpetual Care Trust Fund Investment Policy, the Finance Department has not established a system of internal control and operational procedures for the Perpetual Care Trust Fund.
9. The Parks Department has not established a Standard Operating Procedure (SOP) for effective and consistent monitoring of the contract between the City and Carriage. In addition, the Cemetery Liaison does not have the required eight hours of annual investment training.
10. Carriage was not able to provide a copy of the Statement on Standards for Attestation Engagement (SSAE) No. 16 Report - "Reporting on Controls at a Service Organization".
11. The Parks Department does not maintain document control of the "Cemetery Internment Rights Purchase / Security Agreement" forms known as the "Contract."
12. The Parks Department does not maintain adequate plot inventory records.

### **OBSERVATIONS**

1. The Parks Department did not conduct a long term study or review prior to the renewal of the contract. The City does not have a master plan for the City's cemeteries.
2. The Finance Department, in conjunction with the Parks Department, did not always process the receipts from Carriage in a timely manner.
3. Cemetery grounds maintenance could be improved and the cemeteries' appearance could be enhanced.
4. The Parks Department has not conducted a review or study to establish an appropriate level for the Perpetual Care Trust Fund.

**We consider Finding nos. 4, 7, 11 and 12 to be material weaknesses, as defined below:**

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

## **STATEMENT OF OBJECTIVES**

The CAO has established the following objectives when conducting the operational audit of the City's Cemetery System and related Cemetery Perpetual Care Trust Fund:

1. To determine whether the capital projects are properly approved and completed in a timely manner and the amount of expenditure per project was consistent with the Contract.
2. To determine whether the City's contract with Carriage and related contract extension was properly executed and approved by the City Commission.
3. To determine whether Carriage has obtained the City's approval for management personnel changes.
4. To determine whether Carriage has obtained all required business, cemetery or other permits, licenses and all required insurances.
5. To determine whether the Finance Department received all the money from Carriage, recorded the revenue in accordance with GAAP and processed the receipts from Carriage in a timely manner.
6. To determine whether the Cemetery Liaison has performed an effective and comprehensive contractor performance evaluation.
7. To determine whether Carriage provides proper maintenance to the cemetery grounds and structures and safeguards its capital assets.
8. To determine whether the City's Cemetery System is in compliance with all applicable Florida Statutes, Cemetery Rules and Regulations, and City Code of Ordinances.
9. To determine whether the internal control procedures have been developed for the Trust Fund and whether Standard Operating Procedures (SOPs) have been developed for effective and consistent monitoring of the contract between the City and Carriage.
10. To determine whether Carriage has an effective system of internal control in place for its records and information system.
11. To determine whether the Parks Department maintains proper plot inventory records and sales contract information for effective monitoring activities.

## **BACKGROUND**

The City of Fort Lauderdale operates a public municipal cemetery system consisting of four cemeteries: Woodlawn, Evergreen, Sunset Memorial Gardens, and Lauderdale Memorial Park. The cemeteries have been owned by the City since 1917, and have been managed and maintained by a private contractor since 1993. The current service contractor is Carriage Funeral Services, Inc. The City's cemeteries play an important part in preserving the history of the City of Fort Lauderdale, and serving current and future residents.

In 2003, in order to manage and provide necessary maintenance and perpetual care money for the City's four cemeteries, the City combined the Perpetual Care Trust and General Reserve Trust into the Perpetual Care Trust Fund. The Trust Fund investment portfolio is managed by SunTrust. The Mayor and City Commission appoint a Cemetery System Advisory Board of ten trustees who are responsible for overseeing maintenance and operations, as well as managing the Trust Fund. Pursuant to the Code of Ordinances, Chapter 10-27(b), the cemetery system board of trustees shall promulgate rules and regulations for the operation of the municipal cemetery system, subject to the approval of the city commission.

The Trust Fund derives its income from 19% of the total amount received from the sale of each lot or plot, and from interest, dividends and capital gains earned from investment of the fund. Funds from the Trust Fund can only be expended for maintenance of the cemeteries, cost of managing the fund, and capital improvements to the cemeteries. The City reimburses Carriage for the cost of maintenance up to the amount earned on the interest and dividends of the Trust Fund.

Results of operations for the cemetery system for the years 2012-2015:

<b>Description</b>	<b>FY 2015</b>	<b>FY 2014</b>	<b>FY 2013</b>	<b>FY 2012</b>
EARN-NON POOL INVESTMENTS	\$861,190	\$842,020	\$884,293	\$776,365
SALE OF LOTS	601,163	563,836	578,013	613,691
GAIN/LOSS ON INVESTMENTS	(734,104)	1,527,315	853,202	2,640,897
MISCELLANEOUS INCOME	21,187	674	82	3,003
REVENUE TOTAL	749,436	2,933,845	2,315,590	4,033,956
FIN & BANK SERV	90,342	89,038	91,286	74,789
MGMT/OPER SERV	728,858	753,997	764,486	746,504
IMP REP & MAINT	29,451			
EXPENDITURE TOTAL	848,651	843,035	855,772	821,293
REVENUE LESS EXPE	(\$99,215)	\$2,090,810	\$1,459,818	\$3,212,663

The Trust Fund has an amended budget of \$900k for FY 2016 and a restricted fund balance of \$25 million as of September 30, 2015.

The Parks Department assumed responsibility for managing the contract and coordinating the agenda for the Cemetery System Advisory Board in 2013. A full-time Parks Department employee is assigned the role of Cemetery Liaison.

### **SCOPE & METHODOLOGY**

During the course of the audit, CAO staff interviewed the Cemetery Liaison, Carriage's Managing Partner, Carriage's Chief Information Officer, as well as its staff. In addition, the CAO staff reviewed applicable Florida Statutes, City's Code of Ordinance, Cemetery Rules and Regulations, and contract provisions between the City and Carriage.

The CAO conducted its assessment of the effectiveness of the City's internal controls using the May 2013 updated Internal Control—Integrated Framework established by The Committee of Sponsoring Organizations of the Treadway Commission (COSO). The framework defines internal control, describes the components of internal control and underlying principles, and provides direction for all levels of management in designing and implementing internal control and assessing its effectiveness. The five components of the COSO framework are: control environment, risk assessment, control activities, information and communication, and monitoring activities.

## Objective 1

*To determine whether capital projects were properly approved, completed in a timely manner, and the amount of expenditure per project was consistent with the contract proposal.*

### **Finding 1.**

#### *Condition*

At the end of the first five-year term contract, Carriage did not complete the contractual capital improvement work. For example, Carriage did not have the roads resurfaced and paved during the first five-year contract term at agreed upon locations.

#### *Criteria*

Part IV. Section (02) of City's RFP (Solicitation 785-9854) requires certain capital improvements be completed within the term of contract. The capital improvements include resurfacing of roads at Lauderdale Memorial Park and Sunset Gardens. Carriage's proposal in response to the City's RFP (Tab 3) accepted this requirement.

#### *Cause*

The causes include the following:

- The amount of money that Carriage budgeted for roads paving and/or resurfacing was not adequate. For example, Carriage budgeted only \$75,000 and \$37,500 for road resurfacing at Lauderdale Memorial and Sunset Garden, respectively.
- The expenditure of some capital projects have exceeded budget or been reallocated:
  - For example, Carriage budgeted \$895,000 for the Lauderdale Mausoleum with an actual expenditure of \$968,402
  - Also, Carriage used money budgeted for road resurfacing to develop a new garden and to upgrade the irrigation system.
- The Cemetery Board and Parks Department did not get City Commission's approval for the change of terms of the contract.

#### *Impact*

The City had to use the Trust Fund to pay for the road paving and/or resurfacing at Sunset Gardens and Lauderdale Memorial.

### **Recommendation**

The City Manager should require that the Parks Department perform a complete contractor performance evaluation in connection with the contract renewal and/or contract extension. In addition, the City Manager should require that the Parks Department bring all contract amendments back to the City Commission for approval.

### **Management Response**

Management concurs with the finding and recommendation.

Management agrees that the fact a contract extension was granted even though Carriage did not complete the contractual capital improvement work during the first five-year term. On October 2, 2012, the City Commission (CAM #12-2068) approved a five-year contract extension and first amendment to contract with Carriage Services for Cemetery Management Services. The City and Carriage Services

agreed to the five year contract extension and the Capital Improvement Plan during the extension period. The amended Capital Improvement Plan for the original contract term was not brought to the Commission prior to October 2012 and the work being completed.

The Department will bring all future proposed changes to the contract to the Cemetery Board of Trustees for recommendation and then to City Commission for approval.

The Cemetery Liaison will develop and perform a complete contractor performance evaluation in connection with future contract renewal and/or contract extension. **Estimated date of implementation is September 1, 2016.**

**Objective 2**

*To determine whether the Carriage’s contract extension was properly executed and approved by the City Commission.*

**Finding 2**

*Condition*

The contract extension was approved even though Carriage did not pave the roads at Sunset Garden or at Lauderdale Memorial during the first five-year contract term, as agreed upon.

*Criteria*

Part IV. Section (02) of City's RFP (Solicitation 785-9854) requires certain capital improvements be completed within the term of contract. The capital improvements include resurfacing of roads at Lauderdale Memorial Park and Sunset Gardens.

Part III. Section (09) of the City's RFP states the followings:

The right to exercise this extension is dependent upon;

- (a) the Contractor being in compliance with all terms and conditions of the Agreement,
- (b) the Contractor timely completing the capital improvement plan, and
- (c) the City and Contractor agreeing upon a new five-year capital improvement plan.

The Carriage proposal in response to the City's RFP (Tab 3) accepted this requirement.

*Cause*

The Cemetery Board deviated from the original agreement and approved the reduction in the scope of work for road paving agreed to in Carriage’s RFP response.

*Impact*

Due to the Cemetery Board's deviation of the agreed upon Capital Improvement Plan, the City had to use the Trust Fund, after the extension of the contract renewal, to pay for the road paving & resurfacing at Sunset Garden & Lauderdale Memorial, at a cost of \$170,132.50 and \$184,500, respectively (Total = \$255,632.50).

**Recommendation**

The City Manager should require that the Parks Department report all proposed changes to the contract and associated costs of those changes to the City Manager's Office, especially as they relate to capital projects, and seek Commission approval for said changes. In addition, the Parks Department should perform an overall evaluation of the contractor’s performance prior to awarding additional extensions.

**Management Response**

Management concurs with the finding and recommendation. As in Finding #1, Carriage Services did not complete the capital improvements as proposed by the City Commission in the initial term of the contract.

**Observation 1.**

*Condition*

Best practices suggest that a comprehensive study or review of operations be conducted prior to the renewal of a contract for outsourced services. The Parks Department does not have a long term study or a master plan for its cemeteries.

*Criteria*

Under the COSO framework, Monitoring Activities, Principle 16: The organization selects, develops, and performs ongoing and /or separate evaluations to ascertain whether the components of internal control are present and functioning. And from the Points of Focus within Principle 16, the applicable points include number:

- 78. Considers a mix of ongoing and separate evaluation;
- 80. Establishes baseline understanding;
- 81. Uses knowledgeable personnel;
- 82. Integrates with business processes.

*Cause*

The Parks Department and Cemetery Liaison were unaware of consultants capable of performing a review of the City's Cemetery. The Parks Department had not considered a review until the CAO shared a copy of a report prepared by a firm on behalf of the City of Austin, TX.

*Impact*

Without a review or study, the Parks Department lacks an objective standard for determining whether a contract renewal is in the City's best interest. Without a cemetery master plan, the City will be unable to determine the long term needs for space planning, capacity utilization, adequacy of the endowment and capital improvement requirements. Decisions regarding the future burial needs of the residents are being made on an ad hoc basis.

**Recommendation**

The City Manager should consider having a comprehensive study of cemetery system conducted prior to the renewal of a contract.

Some items may include:

- Long term goals and needs

- Costs and benefits of insourcing vs. outsourcing
- Adequacy of the endowment fund
- Expansion plans
- Capital improvement and maintenance requirements
- Comprehensive Cemetery Master Plan

**Auditor Note:** A Request for Proposal (RFP) was issued for a comprehensive cemetery master plan; however it has been placed on hold at the direction of the Cemetery Board of Trustees.

**Management Response**

Management concurs with the recommendation. The Cemetery Board of Trustees has reviewed the possibility of a master plan, but has been opposed to the use of trust funds to pay for the study. Staff will place this item on the Cemetery Board of Trustees agenda for further consideration. **Estimated date of implementation is September 30, 2016.**

**Objective 3**

*To determine whether Carriage has obtained the City's approval for management personnel changes.*

**Finding 3.**

*Condition*

Carriage did not seek the City’s approval for the appointment of a former City employee as the Managing Partner for Carriage.

*Criteria*

Part III (Section 13) of the Contract states that "It is the intention of the City that the Contractor’s personnel proposed for the contract will be available for the initial contract term. In the event the Contractor wishes to substitute personnel, he shall propose personnel of equal or higher qualifications and all replacement personnel are subject to City approval. In the event substitute personnel are not satisfactory to the City and the matter cannot be resolved to the satisfaction of the City, the City reserves the right to cancel the Contract for cause."

*Cause*

Contract provisions are not being adhered to.

*Impact*

A lack of approval from the City may indicate the existence of a conflict of interest or appearance of a conflict of interest.

**Recommendation**

The City Manager should require that all City employees, as well as respective vendors, adhere to the provisions of the contract.

**Management Response**

Management concurs with the finding and recommendation. City was aware of the appointment and did not object, but agrees the formal process was not followed and the Contractor did not propose and City approve the appointment as outlined in the contract. The Parks and Recreation Department has already taken steps to improve compliance regarding this contract provision. In March 2015, Carriage obtained the City’s approval for the successor to the Managing Partner position.

**Objective 4**

*To determine whether Carriage has obtained all required business, cemetery or any other permits and licenses and all required insurances*

Carriage has obtained all required business, cemetery or any other permits and licenses and all required insurances, including Broward County Local Business Tax Receipts, Hazardous Material Management Facility License, Florida Cemetery License, Property and Worker’s Compensation Insurances.

**Objective 5**

*To determine whether the Finance Department received all the money from Carriage and recorded the revenue in accordance with GAAP and processed the receipts from Carriage in a timely manner*

**Finding 4.**

*Condition*

The Finance Department did not properly account for the total revenues and expenditures of the Trust Fund in accordance with generally accepted accounting principles (GAAP). The management fees to Carriage were netted against the revenue due to the City from the sale of plots, crypts, niches, internments, entombments, inurnments, and merchandise.

In addition, Carriage failed to remit to the Trust Fund 19% of the revenue from finance charges and from sales of second rights and double depth plots.

**Auditor’s Note:**

For example, Carriage contributes 19% of net sales of each lot or plot and mausoleum crypt to the Trust Fund. The net sale here does not include revenue from finance charges and sales of second rights or double depth. Based on the CAO’s understanding of City Ordinance – Section 10-47, 19% should come from gross sales, including revenue from finance charges and sales of second rights and double depth.

*Criteria*

(1). For income determination:

**Section 10 – 47 of City Code of Ordinance - Municipal cemetery systems funds.**

Income: There shall be set aside and deposited in the perpetual care trust:

a. Nineteen (19) percent of the total amount received from sale of each lot or plot, columbarium niche and mausoleum crypt.

(2). For revenue recognition and reporting:

**FASB Statement of Financial Accounting Concept No. 6 (87):**

“Revenues and Gains are similar, and expenses and losses are similar, but some differences are significant in conveying information about an enterprise’s performance. Revenues and expenses result from an entity’s ongoing major or central operations and activities – that is, from activities such as producing or delivering goods, rendering services, lending, insuring, investing, and financing. In contrast, gains and losses result from incidental or peripheral transactions of an enterprise with other entities and from other events and circumstances affecting it. Revenue and expenses are commonly displayed as gross inflows or outflows of net assets, while gains and losses are usually displayed as net inflows or outflows.”

*Cause*

Some of the causes are, but not limited to:

- Carriage did not provide relevant information of all the money Carriage collected for the sale of plots, crypts, niches, internments, entombments, inurnments, merchandise, as well as amounts paid to Carriage for all services rendered by the company in the performance of their duties.
- Carriage did not provide to the City the account receivable information for those purchases with installment plans.
- The Parks Department did not have proper training to understand that the sales receipts from second rights, double depth and finance charges are subject to 19% contribution to the Trust Fund.
- The Finance Department did not adhere to relevant accounting standards.

*Impact*

Without receiving 19% of the revenue from finance charges and second rights and double depth, the Trust Fund did not get all the money specified under the City Code of Ordinances.

Without detailed account receivable information, the Parks Department was not able to verify the amount paid to date and to determine whether the payments from Carriage are accurate.

Finally, failing to properly account for gross revenues and expenses means that the City has no way to measure the revenue potential for the Cemetery System and the true cost of outsourcing its management to Carriage.

**Recommendation**

The City Manager should require the Finance Department to review applicable accounting standards and to account for all the money Carriage collected for the sales of plots, crypts, niches, internments, entombments, inurnments, merchandise, as well as amounts paid to Carriage for all services rendered by the company. Those revenues and expenditures should be included in the Comprehensive Annual Financial Report (CAFR).

The City Manager should require the Finance and Parks Departments to obtain accounts receivable information from Carriage in order to provide effective monitoring of the collections and related contribution to the Trust Fund.

In addition, the Finance and Parks Departments should work with Carriage to recover the amount not collected for the Trust Fund since the renewal of the last contract. The Parks Department should enhance its monitoring procedure to ensure that the Trust Fund receives all the money required under Section 10-47 of the City's Code of Ordinances.

### **Management Response**

Management concurs with the finding and recommendation related to the City receiving revenue from finance charges and obtaining accounts receivable information from Carriage.

(1) "Carriage failed to remit to the Trust Fund 19% of the revenue from finance charges and from sales of second rights and double depth plots."

Staff will work with Carriage Services to ensure that the City received 19% on all revenue. **Estimated date of implementation is December 1, 2016.**

(2) "The City Manager should require the Finance and Parks Departments to obtain accounts receivable information from Carriage in order to provide effective monitoring of the collections and related contribution to the Trust Fund."

The Parks and Recreation Department will work with the Finance Department to obtain accounts receivable information from Carriage Services in order to provide effective monitoring of the collections and related contribution to the Trust Fund. **Estimated date of implementation is August 30, 2016.**

### **Observation 2.**

#### *Condition*

The Finance Department in conjunction with the Parks Department did not consistently process the receipts from Carriage in a timely manner.

#### *Criteria*

Under the COSO framework, Control Activities, Principle 12: The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.

And from the points of focus within Principle 12, the applicable points include number:

58. Establishes policies and procedures to support deployment of management's directives;

59. Establishes responsibilities and accountability for executing policies and procedures;

60. Performs in a timely manner;

61. Takes corrective action

#### *Cause*

- The Parks Department does not monitor receipts that go to the General Fund.
- The Parks Department was responsible for processing the receipts in a timely manner, but failed to do so.

- The Bank Reconciliation process did not resolve the pending items / unrecorded miscellaneous receipts in a timely manner.

*Impact*

If staff does not monitor the receipts from the Contractor, the City cannot be assured the Trust Fund is receiving all of the revenue it is entitled to.

**Recommendation**

The City Manager should require that the Parks and Finance Departments work together to develop a process to record receipts from Carriage in a timely manner.

*Auditor Note: An observation of recent receipt processing indicated that it was performed timely.*

**Management Response**

Management concurs with the recommendation. The Parks and Recreation Department will work with the Finance Department to ensure that receipts from Carriage Services are processed and recorded in a timely manner.

**Objective 6**

*To determine whether the Cemetery Liaison has conducted an effective and comprehensive contractor's performance evaluation*

**Finding 5.**

*Condition*

The three observations below were noted:

- The annual evaluations report for FY 2013 and FY 2014 did not include any details and did not document any findings and areas for improvement.
- The Cemetery Liaison did not schedule and conduct contractor performance evaluations prior to FY 2013.
- The contractor's performance evaluation was not performed prior to the next five-year term contract, entered in FY 2012.

*Criteria*

Part III Special Conditions (Section 21 & 22) of the RFP state that the City will designate a Contactor Coordinator who will schedule and conduct contractor performance evaluations and document findings.

The Contract Coordinator will develop a Contractor performance evaluation report. This report will be used to periodically review and rate the Contractor's performance under the Contract with performance rating as follows:

- Excellent – Far exceeds requirements
- Good – Exceeds requirements
- Fair – Just meets requirements

- Poor – Does not meet all requirements and Contractor is subject to penalty provisions under the contract.
- Non Compliance – Either continued poor performance after notice or a performance level that does not meet a significant portion of the requirements. This rating makes the Contractor subject to the default or cancellation for cause provisions of the contract.

The report shall also list all discrepancies found during the review period. The Contractor shall be provided with a copy of the report, and may respond in writing if he takes exception to the report or wishes to comment on the report. Contractor performance reviews and subsequent reports will be used in determining the suitability of a contract extension.

#### *Cause*

The Cemetery Liaison has not established detailed evaluation criteria regarding the Contractor's performance.

#### *Impact*

Without a robust performance evaluation, the Parks Department is unable to identify those areas where the Contractor needs improvement to be more effective and efficient in their management of the cemetery system.

Performance evaluations enable the creation of reasonable performance standards so that both City and Contractor are aware of work that is considered "acceptable performance." Because of the active involvement of both parties in performance evaluations, an important channel of two-way communication is opened. Communication can result in increased cooperation and understanding, which in turn can enhance work performance and work environment, thus providing better customer service to our community and each other.

#### **Recommendation**

The City Manager should require that the Parks Department establish detailed criteria and evaluation guidelines to conduct an annual Contractor's performance evaluation.

#### **Management Response**

Management concurs with the finding and recommendation. The Cemetery Liaison will develop and conduct an annual Contractor's performance evaluation report using the performance rating as aforementioned. **Estimated date of implementation is September 30, 2016.**

### **Objective 7**

*To determine whether Carriage provides proper maintenance to the cemetery grounds and structures and safeguards its capital assets.*

### **Observation 3.**

#### *Condition*

The cemetery ground maintenance could be improved and the cemetery appearance could be enhanced.

#### *Criteria*

Under the COSO framework, Monitoring Activities, Principle 17: The organization evaluates and communicates internal control deficiencies in the a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate. And from the Points of Focus within Principle 17, the applicable points include number:

85. Assesses results;

86. Communicates deficiencies;

87. Monitors corrective actions.

#### *Cause*

The current agreement provides Carriage with a maintenance reimbursement to the extent of revenue from interest and dividends of the Trust Fund. Therefore, the available funding may not be adequate to pay for all the maintenance needed to keep the system up to the level expected.

#### **Auditor Note:**

The income of the Trust Fund can be used on capital improvements; however, money from the Trust Fund has not been spent on any beautification projects for several years.

#### *Impact*

Without adequate maintenance and beautification projects, the City cemeteries may not provide a desirable place in which Fort Lauderdale residents want to place their loved ones and may further prohibit future sales of plots to those wanting a final resting place in Fort Lauderdale.

#### **Recommendation**

The City Manager should require the Parks Department work in conjunction with Carriage and monitor Carriage to ensure improvement in cemetery ground maintenance. Furthermore, the City Manager should direct the Parks Department to undertake beautification projects to enhance the appearance of the Cemeteries.

#### **Management Response**

Management concurs in principle with the finding and recommendation.

Section 10.7 of the City's Cemeteries Rules and Regulations (page 23) requires net income from the perpetual care trust be expended as approved by the Cemetery Board of Trustees. The section states that "the Board of Trustees is granted full power and authority to determine upon what property, for what purpose, and in what manner the income from the trust shall be expended. The Cemetery Board of Trustees exercise sole judgment for the care, reconstruction, repair and maintenance of all or any portion of the Cemetery System grounds."

Recent beautification projects include new fencing at Lauderdale Memorial Park in 2015 and the resurfacing of roads at Sunset Memorial Gardens and Lauderdale Memorial Park in 2013 and 2014, respectively.

The Cemetery Board of Trustees has approved future irrigation upgrades at both Lauderdale Memorial Park and Sunset Memorial Gardens via Trust Fund money and subject to approval by the City Commission. The Parks and Recreation Department will continue to work in conjunction with Carriage Services and Cemetery Board of Trustees to enhance the appearance of the cemeteries. **Estimated date of implementation is March 1, 2017.**

## Objective 8

*To determine whether the City's Cemetery Operations are in compliance with all applicable Florida Statutes, City Code of Ordinances and Cemetery Rules and Regulations*

### **Finding 6.**

#### *Condition*

CAO noted two large sales of more than six grave spaces to an individual or an entity. Two of thirty contracts were signed with the purchase of six grave sites or more. One purchaser paid for twelve grave spaces utilizing a City resident discount, and another paid the full price for ten graves spaces.

#### *Criteria*

Sec. 6-2. Of City's Cemetery Rules & Regulations (page 16) states that "an individual or entity may purchase no more than six (6) internment rights and internment services".

#### *Cause*

Carriage is not following the City's Cemetery Rules and Regulations.

#### *Impact*

By not enforcing the purchase limit rules, the plots could be sold out sooner than anticipated. In addition, residents and entities of Fort Lauderdale could purchase plots at a 25% discount and possibly resell them at a higher amount.

### **Recommendation**

The City Manager should require that the Parks Department monitor the sales contracts to ensure that Carriage adheres to the City's Cemetery Rules and Regulations and put in place a system of accountability to prevent the sale of more than six plots in the future.

### **Management Response**

Management concurs with the finding and recommendation.

Under Section II of the City's Cemetery Rules and Regulation, Private Family Estates are defined as a multi-space structure, either wholly or partially aboveground, located in designated areas only, and used solely for the entombment of the owner and others designated by the owner. Private Family Estates enable the City to have the ability to market the cemeteries as premiere properties since these estate sites are offered at other competitor cemeteries. A contract for the sale of a private family estate is subject to approval by the Cemetery Board of Trustees.

Due to Private Family Estates not being defined by ordinance, staff will propose an amendment of the Rules and Regulations, exempting Private Family Estates from Sec. 6-2. The proposed amendment to the Rules and Regulations will be brought before the Cemetery Board of Trustees and the City Commission for approval. **Estimated date of implementation is October 1, 2016.**

Additionally, the Cemetery Liaison will continue to conduct a monthly audit of all sales contracts to ensure that Carriage adheres to the City's Cemetery Rules and Regulations.

### **Finding 7.**

#### *Condition*

The Cemetery Board improperly determined that 19% of the total amount received from the sale of each lot or plot, crypts, and niches belongs to the corpus of the Trust Fund.

**Note:** The Trust Fund has built up to more than \$25 million.

#### *Criteria*

(1): Code of Ordinance Sec. 10-47. Municipal Cemetery System Fund.

(a) Perpetual care trust. There shall be a perpetual care trust comprised of the following income sources and authorized expenditures:

(1) **Income.** There shall be set aside and deposited in the perpetual care trust:

- a. Nineteen (19) percent of the total amount received from the sale of each lot or plot, columbarium niche and mausoleum crypt; and
- b. For each memorial, monument, marker or bench sold or installed or both in the cemetery system, twenty cents (\$.20) per square inch of the top surface of bronze markers and the top surface of the base of stone monuments.

(2) **Expenditure.** The income of the perpetual care trust shall be used only for the following purposes:

- a. The perpetual care of lots, plots, crypts, and niches; and
- b. The repair of lots, plots, crypts, and niches to the extent that such are damaged through the maintenance process, which maintenance shall not include the regular repair, cleaning, refinishing or replacement of any item deteriorated from age or use, but shall include the cleaning and maintenance of the mausoleum and the columbarium as well as the turf and common areas surrounding structures; and
- c. The cost of managing the perpetual care trust; and
- d. Capital improvements to the cemetery system when recommended by the cemetery system board of trustees and approved by the City Commission may be funded with excess accumulated income from all years, provided that the finance director has determined that such action will not adversely affect the perpetual operation and maintenance of the cemetery system.

No portion of the corpus of the perpetual care trust shall be withdrawn for any reason whatsoever.

(2): The Amended and Restated Declaration of Trust between the City of Fort Lauderdale and Bank of America dated on August 2000 stated the term "corpus" shall mean and include only those original sums deposited into the Trust as required by Section 10-47(a)(1), defined as **Income** noted above.

*Cause*

CAO noted that there are multiple causes for the condition:

(1). The Cemetery Rules and Regulations and related Investment Policy have expanded the content of Sec. 10-47 of the City's Code of Ordinances, and therefore did not correctly adopt the relevant code of ordinances as intended.

(2). Sec 10 of the Cemetery Rules and Regulations dated September 13, 2004, improperly determined that 19% stipulated in the City Code of Ordinances belongs to the corpus (principal), which shall remain on deposit in perpetuity.

(3). The Investment Policy of Perpetual Care Trust Fund, effective April 2004, improperly determined that 19% stipulated in the City Code of Ordinances deposited into the Trust Fund from Cemetery System Sales make up the Corpus of the Trust Fund and no part of the Corpus can be expended.

(4). The Parks Department and Cemetery Board did not periodically review or reassess the Cemetery Rules and Regulations and related Investment Policy to ensure that they are consistent with the City's Code of Ordinances.

*Impact*

The improper determination of the corpus of the Trust Fund will greatly restrict the money available to pay for much needed capital improvement and maintenance operations.

**Recommendation**

The City Manager should revise and update the Cemetery Rules and Regulations and related Investment Policy to accurately represent the intent of the City Ordinance or change the City Ordinance to accurately reflect the Rules and Regulations and related Investment Policy.

**Auditor Note:**

The City Ordinance was adopted in 1986, amended and updated in 2004. The Rules and Regulations and Investment Policy were adopted in 1990, amended and updated in 2004.

**Management Response**

Management concurs in principle with the finding and recommendation. Staff will bring the investment policy and the Cemetery Rules and Regulations to Cemetery Board of Trustees for further discussion and determine the need to accurately define the corpus consistently throughout all documents. Management will proceed with bringing this issue to the City Commission as a conference item.

**Estimated date of implementation is December 31, 2016.**

## Objective 9

*To determine whether the internal control procedures have been developed for the Trust Fund and whether Standard Operating Procedures (SOPs) have been developed for effective and consistent monitoring of the Contract between the City and Carriage.*

### **Finding 8.**

#### *Condition*

Florida Statutes and the Cemetery System's Investment Policy require internal control procedures for the Trust Fund. Neither the Finance nor the Parks Departments were able to provide the internal control procedures for the CAO's review.

#### *Criteria*

Section 218.415 (13) of Florida Statutes states: "Internal Controls. – The investment policy shall provide for a system of internal controls and operational procedures. The unit of local government's officials responsible for making investment decisions or chief financial officer shall establish a system of internal controls which shall be in writing and made a part of the governmental entity's operational procedures. The investment policy shall provide for review of such controls by independent auditors as part of any financial audit periodically required of the unit of local government. The internal controls should be designed to prevent losses of funds which might arise from fraud, employee error, and misrepresentation by third parties, or imprudent actions by employees of the unit of local government."

Section XII of the Investment Policy of the Cemetery Perpetual Care Trust Fund requires that the Director of Finance establish a system of internal controls and written operational procedures for the Trust Fund.

"The Director of Finance shall establish a system of internal controls and written operational procedures to be part of the operational procedures of the Trust Fund. The internal controls should be designed to prevent losses of funds, which might rise from fraud, employee errors, and misrepresentation, by third parties, or imprudent actions by employees. The written procedures should include references to safekeeping, repurchase agreements, separation of transaction authority from accounting and record keeping, wire transfer agreements, banking service contracts, collateral / depository agreements, and "delivery vs. payment" procedures. No person may engage in an investment transaction except as authorized under the terms of this policy."

#### *Cause*

Some of the affiliated causes include:

- The Parks Department has a new liaison who may not be familiar with "Investment Policies & Procedures"
- A new City Treasurer was hired within the last year, after having the position vacant for several years, and may need time to become familiar with all associated investment funds and their policies and procedures.
- There is inadequate training for cemetery administration, which leads to a lack of understanding regarding procedures which need to be in place to provide effective monitoring.

*Impact*

Without appropriate internal control procedures, there is the potential for the loss of funds due to fraud, employee error, and misrepresentation that may not be prevented or detected in a timely manner.

**Recommendation**

The City Manager should require that the Finance Department establish a system of internal controls and related procedures for the Trust Fund as stated in Florida Statue 218.415; Subsection 13, and the Cemetery Perpetual Care Trust Fund Investment Policies; Section XII, Internal Controls; Subsection A.

**Management Response**

Management concurs with the finding and recommendation.

The Finance Department will develop a system of internal controls and related procedures for the Trust Fund. **Estimated date of implementation is December 31, 2016.**

**Finding 9.**

*Condition*

In regard to SOPs and training, the CAO noted the following:

1. The Parks Department has not established SOPs for effective and consistent monitoring of contracts between the City and Carriage.
2. The Cemetery Liaison does not have the required eight hours of investment training.
3. The members of the Cemetery Board have not received investment training for the purpose of overseeing public fund investments.

*Criteria*

Section 218.415 (14) of Florida Statutes requires continuing education for government officials and states “The investment policy shall provide for the continuing education of the unit of local government’s officials responsible for making investment decisions or chief financial officer. Such officials must annually complete 8 hours of continuing education in subjects or courses of study related to investment practices and products.”

Section XIII. of the Investment Policy of the Perpetual Care Trust Fund– Municipal Cemetery System requires that “any designated City officials responsible for making investment decisions related to this policy have the responsibility for completing eight (8) hours of continuing education annually in subjects or courses related to investment practices and products”.

*Cause*

The Parks Department has not developed SOPs covering all aspects of the cemetery system’s operations and operates largely as an oral culture.

*Impact*

The result is that written documentation is lacking in some critical areas and important information did not always reach the appropriate parties responsible for cemetery oversight. This situation was exacerbated by the departure of professional staff. When substantial loss of employees occurs in a

primarily oral culture, institutional memory suffers. Insufficient attention was given to correcting incomplete information, even in instances where it was contrary to City policies.

### **Recommendation**

The City Manager should require that the Parks Department develop SOPs and related training manuals for the operation of the Cemetery System. In addition, the Cemetery Liaison and Cemetery Board members must receive the required eight (8) hours of public fund investment training related to investment practices and products.

### **Management Response**

Management concurs with the finding and recommendation.

The Parks and Recreation Department will develop standard operating procedures and related training manuals for the continuity of operations of the Cemetery System. **Estimated date of implementation is December 1, 2016.**

As stated in the Investment Policy, the Cemetery Board of Trustees is designated as trustor of the Perpetual Care Trust Fund and is responsible for administering the investment program. The Cemetery Board of Trustees should consider training in public fund investments. **Estimated date of implementation is December 1, 2016.**

### **Observation 4.**

#### *Condition*

Regarding a long term study of the adequacy of the Trust Fund for perpetual maintenance and of the Trust Fund's investment strategy, we noted the following:

- The Trust Fund balance for the period ending 9/30/2014 is approximate \$25 million, which seems excessive considering the lack of maintenance and the visual appearance of the cemeteries. The current repair and maintenance costs are approximately \$750,000 annually and there is no analysis to review the appropriate level of the corpus.
- SunTrust's quarterly investment statement does not describe the investment styles of the funds in the portfolio.
- The Trust Fund investment portfolio managed by SunTrust underperformed vs. policy benchmarks, blended benchmarks or S&P 500 in every period and in each category from year-to-date or from inception-to-date for the period ending June 30, 2015.
- The City has not conducted a study to evaluate the adequacy of the Trust Fund.
- The Parks Department has not conducted a study by an independent consultant on the Trust Fund's investment strategy to consider moving the portfolio from actively-managed to passively-managed.

#### *Criteria*

Under the COSO framework, Monitoring Activities, Principle 16: The organization selects, develops, and performs ongoing and /or separate evaluations to ascertain whether the components of internal control are present and functioning. And from the Points of Focus within Principle 16, the applicable points include number:

78. Considers a mix of ongoing and separate evaluation;

80. Establishes baseline understanding;

- 81. Uses knowledgeable personnel;
- 82. Integrates with business processes.

*Cause*

The Parks Department has not commissioned a master plan to evaluate the current condition and future needs of the cemetery system.

The Parks Department and Cemetery Board did not perform an adequate review of the SunTrust investment strategy, nor have they examined the performance issue of active management versus passive management.

The Trust Fund has spent a minimal amount of money on cemetery beautification or capital improvement projects over several years, as noted by direct observation by the CAO and raised by the City Commission at various conference meetings.

*Impact*

Some of the impacts may include:

- The Trust Fund may not be used to meet the needs of the cemetery, potentially allowing the cemeteries to fall into disrepair and lack the beautification required to maintain the cemeteries in a condition that the community expects.
- Without any descriptions of the investments from SunTrust, the Parks Department and Cemetery Board lacks sufficient information to monitor the SunTrust portfolio manager and make informed decisions.
- Without a study of the investment strategy, the City lacks assurance that the current investment strategy is the most suitable for the Trust Fund.

**Recommendation**

The City Manager should consider hiring an independent consultant with knowledge of cemetery operations to conduct a study for the best long-term course of action concerning the management of the Trust Fund and the desired level of funds needed to provide for perpetual care.

The City Manager and Parks Department should request that SunTrust provide full descriptions for each investment in their quarterly portfolio presentation.

Finally, the City Manager should consider retaining an independent consultant to conduct a review of the current investment strategy. More specifically, the review should compare the current active strategy with a passive investment strategy to determine whether a passive investment strategy with lower fees can better meet the goals and objectives of the Trust Fund.

**Auditor Note:** A Request for Proposal (RFP) was issued for a comprehensive cemetery master plan; however it has been placed on hold at the direction of the Cemetery Board of Trustees.

**Management Response**

Management concurs with the recommendation and will proceed as directed by the City Manager. Staff will place this item on the Cemetery Board of Trustees agenda for further consideration. **Estimated date of implementation is September 30, 2016.**

## Objective 10

*To determine whether Carriage has an effective system of internal control in place for its records and information system.*

### **Finding 10.**

#### *Condition*

The RFP and contract for cemetery management did not include a requirement for a “Standards for Attestation Engagement (SSAE) 16 Report - Reporting on Controls at a Service Organization”.

#### *Criteria*

All outsourced functions that delegate the processing of financial information, utilize personally identifiable information or contain healthcare details covered by HIPAA, are required to have an SSAE 16 report.

SSAE 16, SOC 1 - Report on controls at a service organization relevant to a user entity's internal control over financial reporting. A type 1 report focuses on a description of a service organization's system and on the suitability of the design of its controls to achieve the related control objectives included in the description, as of a specified date. A type 2 report contains the same opinions as a type 1 report with the addition of an opinion on the operating effectiveness of the controls to achieve the related control objectives included in the description throughout a specified period. A type 2 report also includes a detailed description of the service auditor's tests of controls and results.

#### *Cause*

The current contract does not require the SSAE 16 Report.

#### *Impact*

Without the SSAE 16 report, the City does not have assurance that the Contractor has an effective internal control system (including information systems) to provide operational, financial, and management services to the City.

### **Recommendation**

The City Manager should amend the current contract to include a requirement for an SSAE 16 - “Reporting on Controls at a Service Organization” SOC 1, type 2 report.

### **Management Response**

Management concurs with the finding and recommendation. The Parks and Recreation Department will address this recommendation in the next RFP for Cemetery Management Services requiring the future contractor to provide the SSAE 16 - “Reporting on Controls at a Service Organization” SOC 1, type 2 report. **Estimated date of implementation is December 31, 2017.**

## Objective 11

*To determine whether the Parks Department maintains proper plot inventory records and sales contract information for effective monitoring activities.*

### **Finding 11.**

#### *Condition*

The Parks Department does not maintain document control of the “Cemetery Interment Rights Purchase/Security Agreement” forms known as the “contract”.

Carriage orders blank contracts from a print shop with sequential document numbers, and then assigns a limited number (normally ten copies at a time) of blank contracts to several of their sales agents. However, there is no inventory of the pre-numbered forms, with a log indicating what numbers are assigned to which salesperson, a record of voided forms, and a list of completed forms to permit a reconciliation and accounting of all contracts.

#### *Criteria*

Under the COSO framework, Control Activities, Principle 10: The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels. Reconciliations, physical safeguarding and access control, and proper form design are fundamental elements of effective internal control.

#### *Cause*

The Parks Department and Carriage both lack effective internal control procedures in place for contract documents.

#### *Impact*

Without the proper sequence of contract documents, the Cemetery Administrator is unable to properly reconcile the 19% Trust Fund contribution from the contract to the monthly reports provided by Carriage and to investigate any contract errors and omissions as well as any potential fraud and proper inventory of plots.

### **Recommendation**

The City Manager should require the Parks Department to maintain contracts in proper sequential order, accounting for any missing sequence contract number, and investigate any missing contract documents.

### **Management Response**

Management concurs in principle with the finding and recommendation. The Parks and Recreation Department will develop an SOP where the Cemetery Liaison will conduct periodic spot checks to ensure compliance in addition to the reviewing of the monthly reports. **Estimated date of implementation is December 1, 2016.**

### **Finding 12.**

#### *Condition*

The Parks Department does not maintain proper plot inventory records.

### *Criteria*

Under the COSO framework, Control Activities, Principle 10: The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels. Reconciliations, physical safeguarding and access control, and annual inventories are fundamental elements of effective internal control.

### *Cause*

Some of the causes include:

- The Parks Department has not performed land/plot inventory for many years.
- There seems to be a lack of understanding in the performance of job duties.
- There is a lack of formal training and SOPs.
- There is a lack of internal controls over the accountability of plots.

### *Impact*

Without the proper plot inventory count and reconciliation between the inventory on record and physical inventory, the Parks Department is unable to:

- Determine the plots available for sale at the beginning of the year and ending plot inventory at end of the year.
- Identify potential errors in sales or fraudulent sales that could occur.
- Possibly prevent and/or detect and investigate discrepancies in a timely manner.
- Properly estimate maintenance costs.
- Accurately determine current and future plans for the cemetery, due to lack of information to make informed decisions.

### **Recommendation**

The City Manager should require the Parks Department to maintain accurate plot inventory records, including beginning plot inventory, plots available for sale, plots sold during the year, and ending inventory.

Furthermore, the City Manager should consider requiring that the future contract include a provision that digital cemetery map systems be implemented in all city cemeteries.

### **Management Response**

Management concurs with the finding and recommendation. The Parks and Recreation Department shall require the future contract include a provision for digital cemetery map systems. **Estimated date of implementation is December 30, 2017.**

### **Engagement Staff:**

Marco Hausy, Audit Manager

Deming Zhang, Assistant City Auditor I