



AUDIT AND MANAGEMENT SERVICES DEPARTMENT
OVERTOWN TRANSIT VILLAGE
701 NW 1ST COURT – SUITE 8-175
MIAMI, FLORIDA 33136
TELEPHONE: 786-469-5900
FAX: 786-469-5933

January 28, 2020

Mr. Christopher G. Chiocca
Finance Director
City of Hialeah
501 Palm Avenue, 4th Floor
Hialeah, FL 33010

**Re: Final Audit Report - Charter County Transportation System Surtax Review –
City of Hialeah**

Dear Mr. Chiocca:

Enclosed is the above-referenced Audit Report together with the City's Response. The Office of the Citizens' Independent Transportation Trust (OCITT) will be contacting you to resolve the audit findings.

We appreciate the courtesies and assistance extended to our staff during the audit process. Please contact Gerardo (Jerry) Suarez, Audit Manager, at (786) 469-5900, should you have any questions.

Sincerely,

A handwritten signature in blue ink that reads 'Cathy Jackson'.

Cathy Jackson
Director

CJ:bm

Attachment


c: Honorable Carlos Hernandez, Mayor, City of Hialeah
Javier A. Betancourt, Executive Director, OCITT

Memorandum



Date: January 28, 2020

To: Javier A. Betancourt, Executive Director
Office of the Citizens' Independent Transportation Trust (OCITT)

From: 
Cathy Jackson, Director
Audit and Management Services Department

Subject: Final Audit Report – Charter County Transportation System Surtax Review –
City of Hialeah

PURPOSE AND SCOPE

We performed a review of the City of Hialeah's (Hialeah) use of Charter County Transportation System Surtax (Surtax) Proceeds remitted by Miami-Dade County (County) for the five years ended September 30, 2018. The primary objective was to ensure Surtax Proceeds were used in compliance with the *Interlocal Agreement for Distribution, Use and Reporting of Charter County Transit System Surtax Proceeds Levied by Miami-Dade County (Interlocal Agreement)* executed on July 10, 2007. Additionally, we assessed resolution of prior audit findings referenced in our Audit Report dated June 12, 2014 (Exhibit I).

BACKGROUND

County Ordinance No. 02-116, enacted on July 9, 2002, imposed a one-half of one percent Surtax on eligible sales transactions for Transportation-related projects. However, at least 20% of the Surtax Proceeds received by the County must be distributed to municipalities incorporated as of November 5, 2002, on a pro-rata basis using population statistics (Schedule V). The Surtax Program is administered by the Citizens' Independent Transportation Trust (CITT), a group comprised of 15 members appointed by the Board of County Commissioners, County Mayor, and Miami-Dade League of Cities.

Pursuant to the *Interlocal Agreement*, Hialeah must annually continue the same level of General Fund support for Transportation projects appropriated in its Fiscal Year (FY) 2002 Budget (Maintenance of Effort), which totaled \$127,049 (Table I). Surtax monies may be used to develop, construct, equip, maintain, operate, or expand County-wide bus systems, fixed guideway rapid transit systems, roads and bridges, as well as secure such bonds or pay debt service. Further, Hialeah must apply at least 20% of the Proceeds to Transit-related projects, such as circulator buses, bus shelters, bus pullout bays, or other related infrastructure. *CITT Resolution No. 09-055*, adopted July 30, 2009, allows for the rollover of unspent Surtax funds for up to five years, provided the municipality's Five-Year Transportation Plan demonstrates how the funds will be used. Additionally, *CITT Resolution No. 15-027*, adopted May 20, 2015, allows for carryover credits in the event amounts expended are in excess of annual Surtax allocations. See Schedules I, I-A and I-B for summary financial information.

SUMMARY RESULTS

For the five years ended September 30, 2018, Hialeah received \$44.3 million in Surtax Proceeds and claimed Transit and Transportation-related expenditures totaling \$45.7 million (Table I). After adjusting claimed expenditures for ineligible charges and the Maintenance of Effort (MOE), Hialeah had unspent Transit Surtax Proceeds of \$1.6 million and excess Transportation expenditures of \$15.2 million (Schedule III). The unspent proceeds may be rolled-over and excess expenditures applied against future Surtax Proceeds, as allowed by *CITT Resolution Nos. 09-055 and 15-027*, respectively.

**Table I
 Surtax Statistics**

Description	Fiscal Year Ended September, 30					All Years
	2014	2015	2016	2017	2018	
Maintenance of Effort (MOE)	\$ 127,049	\$ 127,049	\$ 127,049	\$ 127,049	\$ 127,049	\$ 635,245
Revenues:						
Surtax Proceeds (Schedule III)	\$ 8,457,199	\$ 8,983,772	\$ 9,243,159	\$ 7,844,471	\$ 9,749,738	\$ 44,278,339
Claimed Expenditures:						
Transit (Table II)	\$ 1,844,887	\$ 1,822,119	\$ 1,897,743	\$ 1,945,981	\$ 2,284,033	\$ 9,794,763
Transportation (Schedule II)	6,546,744	6,455,264	6,584,055	8,456,920	7,827,697	35,870,680
	\$ 8,391,631	\$ 8,277,383	\$ 8,481,798	\$ 10,402,901	\$ 10,111,730	\$ 45,665,443
Unspent Proceeds and Carry Forward Credits (Schedule III):						
Transit	\$ 387,279	\$ 789,258	\$ 1,118,583	\$ 1,207,123	\$ 1,608,895	
Transportation	\$ (15,275,226)	\$ (14,377,890)	\$ (13,309,104)	\$ (15,334,077)	\$ (15,206,743)	
Key Account Balances as of September 30:						
CITT Surtax Circulator Special Revenue Fund (Schedule I):						
Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	
Receivables ¹	\$ 447,112	\$ 464,733	\$ 636,110	\$ 664,296	\$ 723,937	
Fund Balance	\$ 740,583	\$ 1,142,562	\$ 1,801,669	\$ 1,866,230	\$ 1,922,673	
CITT Surtax Transportation Debt Service Fund (Schedule I-A):						
Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	
Receivables ¹	\$ 1,626,975	\$ 1,752,508	\$ 2,452,737	\$ 2,508,124	\$ 2,640,881	
Fund Balance	\$ 904,998	\$ 1,636,752	\$ 2,457,842	\$ 300,478	\$ 777,500	
CITT Surtax Special Revenue Fund (Schedule I-B):						
Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	
Fund Balance	\$ -	\$ -	\$ -	\$ -	\$ -	

¹ FY 2018 Receivables include Surtax Proceeds due from OCITT for the Circulator and Debt Service Funds in the amounts of \$660,220 and \$2,640,881, respectively.

These and other findings along with the City’s Responses (Attachment I) are presented in the remainder of this Report. The corrective actions planned by the City are satisfactory, and thus the audit has been closed. Thank you for the courtesies extended to our staff during the audit process. Please contact Gerardo (Jerry) Suarez, Audit Manager, at 786-469-5900, if you have any questions.

FINDINGS AND RECOMMENDATIONS

Uses of Transit Surtax Proceeds

As mentioned previously, at least 20% of the Surtax Proceeds, or \$8.9 million (Schedule III) must be used for Transit-related projects. Hialeah claimed \$9.8 million to operate its *Flamingo and Marlin Routes* that connect to various County bus routes (Table II). Also, Hialeah provides limited service along the Marlin Route to the City of Hialeah Gardens’ residents for a fee.

Hialeah contracts with MV Contract Transportation, Inc. to provide drivers, at costs ranging from \$750,000 to \$792,000 annually. Personnel charges include salary and benefit allocations for Hialeah’s mechanics and equipment serviceman. We reviewed these and other claimed costs noting they were reasonable, except for \$340,400 used to acquire a bus that was disallowed because the debt service costs associated with the purchase were similarly claimed.

Table II
Circulator Fund Claimed Transit-Related Expenditures, As Adjusted

Description	Fiscal Year (FY) Ended September 30,					Total
	2014	2015	2016	2017	2018	
Circulator Operations:						
Contractual Services for Circulator Operations	\$ 791,707	\$ 750,261	\$ 780,691	\$ 754,866	\$ 775,532	\$ 3,853,057
Personnel Charges	370,568	403,178	487,519	424,489	452,659	2,138,413
Repair and Maintenance	250,719	326,534	326,090	319,708	399,547	1,622,598
Fuel	339,017	230,325	147,799	140,509	90,009	947,659
Administrative Cost (limited to 5% of Surtax Proceeds)	66,612	80,797	92,432	78,445	97,497	415,783
Advertising and Other Services	6,735	20,177	39,278	52,519	38,066	156,775
Office Trailer Rents	3,300	3,311	3,300	5,635	3,300	18,846
Printing and Promotional Activities	12,196	1,856	155	2,979	1,441	18,627
Other	4,033	2,673	8,528	5,809	6,609	27,652
	<u>1,844,887</u>	<u>1,819,112</u>	<u>1,885,792</u>	<u>1,784,959</u>	<u>1,864,660</u>	<u>9,199,410</u>
Capital Outlay:						
Bus Purchases	-	-	-	-	340,400	340,400
Equipment Purchases	-	3,007	11,951	88,948	6,900	110,806
	-	3,007	11,951	88,948	347,300	451,206
Debt Service for \$340,400 bus (Schedule I)	-	-	-	72,074	72,073	144,147
Total Claimed Expenditures	<u>1,844,887</u>	<u>1,822,119</u>	<u>1,897,743</u>	<u>1,945,981</u>	<u>2,284,033</u>	<u>9,794,763</u>
Less Bus Purchase for which Debt Service is Claimed	-	-	-	-	(340,400)	(340,400)
Total Claimed Expenditures, As Adjusted	<u>\$ 1,844,887</u>	<u>\$ 1,822,119</u>	<u>\$ 1,897,743</u>	<u>\$ 1,945,981</u>	<u>\$ 1,943,633</u>	<u>\$ 9,454,363</u>

Source: Hialeah General Ledgers, Vendor Invoices, and other supporting documentation

Patrons are charged fares in accordance with public transit fares established by the County and may access Hialeah’s transit service, Monday to Friday from 6:00 AM to 7:30 PM, and Saturdays and Holidays from 9:00 AM to 3:30 PM. During the audit period, average annual passenger ridership and bus trips were 331,488 and 16,582, respectively (Table III).

Table III
Monthly Hialeah Circulator Ridership and Bus Trips

Month	2014	2015	2016	2017	2018
January	40,591	34,748	25,202	23,169	16,596
February	40,951	34,889	28,438	21,809	17,476
March	42,616	40,614	32,014	26,367	21,893
April	44,731	36,655	29,227	18,916	23,214
May	42,960	29,643	28,121	23,630	21,837
June	40,883	32,132	27,280	19,795	18,454
July	40,091	31,960	23,368	16,801	17,402
August	38,059	31,614	26,964	22,042	15,573
September	39,230	29,452	25,855	16,514	15,437
October	40,094	31,655	23,007	21,310	20,153
November	33,276	25,444	24,926	20,205	17,202
December	38,913	28,463	24,926	18,139	14,514
	<u>482,395</u>	<u>387,269</u>	<u>319,328</u>	<u>248,697</u>	<u>219,751</u>
Bus Trips ¹	<u>20,946</u>	<u>17,182</u>	<u>16,727</u>	<u>14,262</u>	<u>13,791</u>
Average Annual Ridership					<u>331,488</u>
Average Annual Bus Trips					<u>16,582</u>

Source: Hialeah Transit Staff and Ridership Reports

¹ Hialeah was unable to maintain its trips schedule as a result of bus breakdowns.

After adjusting claimed expenditures for disallowed charges, fare collections and cost reimbursements, Hialeah had unspent Transit-related Surtax Proceeds of \$1.6 million that may be rolled-over in accordance with *CITT Resolution No. 09-055* (Schedule III). Also, it should be noted that claimed expenditures were retroactively reduced for fare collections that inadvertently were not applied in prior years, as shown in Schedule III-A.

Recommendation

Pursuant to *CITT Resolution No. 09-055*, Hialeah should submit an updated Five-Year Transportation Plan within 90 days, specifying how the unspent Surtax Proceeds of \$1.6 million will be used. Further, additional effort is needed to ensure that only eligible amounts are charged against Surtax Proceeds.

City's Response

The City concurs with the recommendation regarding the bus purchase. The purchase was initiated in Fiscal Year 2016 and the bus was paid for in Fiscal Year 2018. This was a presentation issue in the City's Comprehensive Annual Financial Report, where the capital outlay was shown in the same year as debt service expenditures.

In addition, the City will submit an updated Five-Year transportation plan within 90 days, specifying how unspent Surtax proceeds will be used.

Uses of Transportation Surtax Proceeds

For the remaining 80%, or \$35.4 million in Surtax Proceeds (Schedule III), Hialeah claimed \$35.9 million that was used primarily to pay debt service costs of \$28.4 million (Schedules II and IV). In previous years the Bond Proceeds were used to fund major roadway improvements and infrastructure projects. In December 2015, Special Obligation Revenue Bonds, Series 2015B were issued to pay off the Florida Municipal Loan Council (FMLC) Revenue Bonds, Series 2005A (Schedule IV). Further, we noted FY 2018 Rental Revenues for the Courthouse were incorrectly recorded in the *CITT Surtax Transportation Debt Service Fund* (Schedule I-A), as well as identified ineligible charges such as Non-Surtax Related Debt Service and bond servicing costs (Schedule II).

After adjusting claimed expenditures for ineligible charges and the MOE, Hialeah had excess Transportation-related expenditures of \$15.2 million, that may be applied against future Surtax Proceeds (Schedule III). Further, as shown in Schedule III-A, all prior years' unspent and carry-forward credits were restated to reflect the effect of *CITT Resolution No. 15-027*, which allows for carry-over credits when Surtax-related expenditures exceed annual allocations.

Recommendation

Prospectively, Hialeah should ensure only eligible and supported amounts are charged against Surtax Proceeds.

City's Response

The City concurs with the recommendation and will record the rental revenues in a non CITT fund. In addition, the City will charge only eligible amounts against Surtax proceeds.

Payroll Expenditures

Hialeah uses its personnel to oversee the third-party bus contractor, as well as to repair and maintain the bus fleet. Except for the Transit Manager and full-time Receptionist, other employee salary costs are allocated, as these persons also perform duties that are unrelated to the Transit operation (Table IV). While the salary information and allocations appear reasonable, Hialeah did not furnish time records or other substantiating documents to support the charges. In fact, the October 2014 planned improvements to the Fleet Department internal time tracking system have not been implemented, as represented in the response to a prior audit finding.

**Table IV
 Circulator-Related Salary Allocations
 (In Full-Time Equivalent Positions)**

Description	Fiscal Year Ended September 30,				
	2014	2015	2016	2017	2018
Transit Manager	1.00	1.00	1.00	1.00	1.00
Receptionist	1.00	1.00	1.00	1.00	1.00
Mechanics II (3)	2.00	2.00	2.00	2.00	2.00
Equipment Serviceman	0.50	0.50	0.50	0.50	0.50
Tire Repairman	0.50	0.25	0.25	0.25	0.25
Administrative Aide	0.30	0.15	0.15	0.15	0.15
Automotive Supervisor I	0.25	0.25	0.25	0.25	0.25
Utilityman ¹	0.25	0.25	-	-	-
	<u>5.80</u>	<u>5.40</u>	<u>5.15</u>	<u>5.15</u>	<u>5.15</u>

Source: Hialeah Budgets

¹ Budgeted position was vacant in FY's 2016 to 2018.

Recommendation

Prospectively, Hialeah must maintain, and furnish upon request, information supporting claimed payroll charges to avoid the risk of cost disallowance.

City's Response

The City concurs with the audit in that there has to be substantiating documents to support the charges to the Transit Fund. The City, in particular the Fleet Department, will review the details of time records in their internal tracking system in order to substantiate the charges to the Transit Fund.

Reporting Requirements

In FYs 2017 and 2018, Hialeah submitted required compliance reports after the stipulated annual due date (Table V). Moreover, uses of Surtax Proceeds reported to OCITT in the Quarterly Reports varied significantly from expenditures claimed during the audit period.

**Table V
 Reports and Certifications**

Description	Due Date	Date Submitted	
		FY 2017	FY 2018
Budget	November 1	November 17, 2016	December 1, 2017
Five-Year Plan	November 1	November 17, 2016	December 1, 2017
Certification Letter	November 1	November 17, 2016	December 1, 2017
Municipal Questionnaire	November 1	November 17, 2016	December 1, 2017

Source: Hialeah Records

Recommendation

Hialeah should endeavor to submit timely compliance reports. Also, the Finance Department should review Quarterly Reports for accuracy prior to filing with OCITT.

City's Response

The City will ensure that all required compliance reports are submitted accurately and in a timely manner.

CJ:bm

Attachments

- c: Honorable Harvey A. Ruvin, Clerk of the Courts
- Abigail Price-Williams, County Attorney
- Edward Marquez, Deputy Mayor
- Jennifer Moon, Deputy Mayor/Director, Office of Management and Budget
- Christopher G. Chiocca, Finance Director, City of Hialeah