

CITY OF GULF BREEZE

Prior Audit Follow-Up



Sherrill F. Norman, CPA
Auditor General

Mayor, Council Members, and City Manager

During the period October 2020 through February 2022, Cherry Fitch was Mayor and the following individuals served as a City of Gulf Breeze Council Member or City Manager:

Randy Hebert, Council Member
Tom Naile, Council Member
J.B. Schluter, Council Member
Todd Torgersen, Council Member
Samantha Abell, City Manager

The team leader was Jim Beaumont, CPA, and the audit was supervised by Derek Noonan, CPA.

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SUMMARY

In our operational audit report No. 2021-030 of the City of Gulf Breeze, we noted 45 findings related to various City functions and activities. This operational audit focused on the progress that the City had made, or was in the process of making, in addressing the findings and recommendations in report No. 2021-030.

Our audit disclosed that, at the time of our applicable fieldwork, the City had:

- Corrected 13 findings (Findings 2, 3, 12, 15, 16, 18, 27, 30, 33, 35, 42, 43, and 44).
- Partially corrected 19 findings (Findings 1, 7, 8, 9, 10, 11, 13, 14, 17, 19, 20, 21, 22, 23, 24, 26, 31, 34, and 38).
- Not corrected 9 findings (Findings 25, 28, 29, 32, 37, 39, 40, 41, and 45).
- No occasion to correct 4 findings (Findings 4, 5, 6, and 36).

BACKGROUND

In 1961, the City of Gulf Breeze (City) was incorporated as a municipality.¹ The City is located on the end of the Fairpoint Peninsula in Santa Rosa County, comprises 4.5 square miles of land, and has a population of approximately 6,380 residents.² The City is governed by the City Council composed of five elected Council members, including the Mayor, and operates under a Council-Manager form of government. The Mayor is the presiding officer of the City Council, which is responsible for enacting ordinances, resolutions, and regulations governing the City, as well as appointing the City Manager and members of the various advisory boards. The Mayor is also the City's Chief Executive Officer. The City Manager is the City's administrative head and, as such, is responsible for the City's daily operations and implementation of City Council adopted policies. The City Manager is also charged with preparing and submitting the annual budget and capital improvement plan to the City Council.

The City provides citizens with municipal services for general government, public safety, streets and public works, housing, economic and community development, education through its library, and recreation and cultural services. Additionally, the City operates water, sewer, and natural gas utilities, stormwater management, and Gulf Breeze Financial Services as enterprise activities.

¹ Chapter 61-2207, Laws of Florida.

² *Florida Population Estimates by County and Municipality, April 2022*; Florida Office of Economics and Demographic Research.

FINDINGS AND RECOMMENDATIONS

TIGER POINT GOLF CLUB

Finding 1: Tiger Point Golf Club Purchase

Previously Reported

City records did not demonstrate that the City's purchase of the entire 365-acre Tiger Point Golf Club (TPGC) was necessary or that the process used to acquire the property was prudent and appropriate. To help ensure that future real property acquisitions are appropriate and in the City's best interest, the City needed to establish effective policies and procedures that require formal independent appraisals, business valuations, and feasibility studies be obtained for appropriate consideration.

We recommended that the City establish effective policies and procedures for acquisitions of real property, to include prudent and appropriate steps to ensure that formal independent appraisals or business valuations are obtained to help determine appropriate and fair purchase prices, and a requirement that comprehensive and appropriate feasibility studies are timely performed and the results therefrom appropriately considered in determinations as to whether such acquisitions are in the City's best interests.

Results of Follow-Up Procedures

The City partially corrected this finding. Our examination of City records and discussions with City personnel disclosed that no land or ongoing enterprises were acquired by the City during the period October 2020 through February 2022. Notwithstanding, the City established a real property acquisition policy through a City Council resolution³ adopted on April 4, 2022. In accordance with good business practices and applicable State law,⁴ the policy provides for the City to obtain written independent appraisals, prepared by qualified appraisers, supporting the proposed price prior to the acquisition of real property by the City.

However, for land acquisitions involving ongoing enterprises, such as operational golf courses, the City had not adopted policies and procedures that require formal independent business valuations to help determine appropriate and fair purchase prices. In addition, the City had not adopted policies and procedures that require comprehensive and appropriate feasibility studies to determine if such acquisitions are in the City's best interest.

Recommendation: The City should enhance its policies and procedures to require formal independent business valuations and comprehensive and appropriate feasibility studies for acquisitions of real property involving ongoing enterprises.

³ City of Gulf Breeze Resolution No. 05-2022, *Real Property Acquisition Policy*.

⁴ Section 166.045, Florida Statutes.

Finding 2: Conditional Use Permit

Previously Reported

The City did not seek legal counsel, prior to the TPGC acquisition, regarding the authority to make certain concessions promised by the then City Manager to property owners near the TPGC, nor was the City Council informed, prior to approving the TPGC acquisition, of the concessions. Many of the concessions were subsequently determined to be not reasonable, practical, or enforceable.

We recommended that the City establish policies and procedures that require, prior to real property acquisitions or conditional use permit applications, consultation with appropriate legal counsel regarding the reasonableness, practicality, and enforceability of any concessions associated with the real property acquisition or conditional use, including concessions that will result in additional costs to the City after the acquisition or permit issuance, and City Council prior approval of all proposed concessions.

Results of Follow-Up Procedures

The City corrected this finding. Our examination of City records and discussions with City personnel disclosed that the City established a real property acquisition policy through a City Council resolution⁵ adopted on April 4, 2022. The policy provides for consultation between the City Manager and City Attorney on the terms and conditions of property acquisitions including, but not limited to, public concessions that might impact the cost of the acquisition. The policy also provides that all such terms and conditions are subject to final approval by the City Council. Our inquiry of City personnel and review of the Santa Rosa County Clerk of Court's Web site in December 2022 did not disclose any land purchases by the City during the period October 2020 through February 2022.

Finding 3: TPGC Operating Losses

Previously Reported

Notwithstanding the intent to make the TPGC a successful golf venue, the City had experienced ongoing losses from TPGC operations totaling \$5.4 million through the 2017-18 fiscal year.

We recommended that, as the TPGC golf operations continue to experience losses, the City Council consider alternatives, including closing the golf course and related facilities or selling the golf operations and related facilities to a private entity. Additionally, we recommended that the City prorate and allocate debt service costs attributable to golf course operations to the Golf Course Facilities Fund, and ensure that significant topics, such as the aforementioned decision to manage the TPGC operations in-house, are openly discussed at City Council meetings.

Results of Follow-Up Procedures

The City corrected this finding. Our review of City and Santa Rosa County public records disclosed that, except for approximately 58 acres retained for the expansion of the City's wastewater treatment plant, the City disposed of the TPGC property and golf course operations through four separate sales transactions, with the first sale transacted in June 2019 and the last sale transacted in February 2021.

⁵ City of Gulf Breeze Resolution No. 05-2022, *Real Property Acquisition Policy*.

Proceeds from the four sales involving 272 acres and the golf course facilities and related equipment totaled \$4.8 million. The City Council approved the sale of the TPGC property after public deliberations on the best uses of the property by City management and the City Council, taking into account alternative uses of the property (e.g., by the Santa Rosa District School Board), the need to retain only a portion of the property for wastewater treatment expansion, and the ongoing subsidizing of the golf course operations from the City's General Fund and the South Santa Rosa Utility System (SSRUS).

According to City records, as of September 30, 2022, the debt owed by the City for the sold properties and golf course operations totaled \$3.7 million. While the City did not use any of the net proceeds from the four sales to reduce the outstanding debt, City records demonstrated that the proceeds were used for purposes that benefited the City's wastewater operations and City customers benefiting from those operations. Specifically, the proceeds were used to:

- Renovate the irrigation system located on the TPGC property used to disperse treated effluent disposal (i.e., reclaimed water) processed by the City's wastewater treatment plant (\$1.2 million).
- Pay off debt owed by the South Santa Rosa Utility Fund to the City's General Fund (\$1.275 million).
- Relocate the City's golf driving range so the existing driving range property located on the TPGC could be sold (\$400,000).

The remaining sales proceeds were committed to funding deferred wastewater capital improvement projects included in the City's Ten-Year Capital Improvement Plan.

Finding 4: City Oversight of TPGC Operations

Previously Reported

The City's oversight of the contracted management company operating the TPGC could be enhanced to better ensure that all fees due the City for TPGC operations are properly assessed, collected, recorded, and deposited and that all expenses paid by the management company are appropriate and reported to the City.

We recommended that the City enhance oversight and monitoring procedures by assigning City personnel independent of TPGC operations responsibility for monitoring TPGC activity and reviewing applicable TPGC records to ensure that all fees due the City for TPGC operations are properly assessed, collected, recorded, deposited, and reported by the management company; and that expenses incurred by the management company are appropriate, substantiated, and properly classified and reported to the City by the management company.

Results of Follow-Up Procedures

The City had no occasion to correct this finding. Our examination of City records and discussions with City personnel disclosed that the City sold the portions of the TPGC property, facilities, and equipment pertaining to the golf operations in February 2021.

Finding 5: Event Fees

Previously Reported

The City did not require the TPGC management company to execute, for each event at the TPGC, an agreement that specified relevant details for the event and the sponsoring entity's responsibilities.

We recommended that the City establish, through a contractual amendment or otherwise, provisions requiring the TPGC management company to implement effective procedures over events hosted at the TPGC. In addition, we recommended that such provisions require and ensure that the management company properly executes an agreement for each event. We also recommended that each event agreement identify the sponsoring entity and its representatives; specify the type of and purpose for the event, event times and dates, applicable rates and fees, any authorized fee waivers, and other relevant details for the event; detail the sponsoring entity's responsibilities; and be signed by appropriate representatives of the management company and the sponsoring entity.

Results of Follow-Up Procedures

The City had no occasion to correct this finding. Our examination of City records and discussions with City personnel disclosed that the City sold the portions of the TPGC property, facilities, and equipment pertaining to the golf operations in February 2021.

Finding 6: Competitive Selection of TPGC Goods and Services

Previously Reported

City personnel did not always verify assertions made by consultants used to solicit competitive bids or quotes on the City's behalf, and written agreements were not always properly executed for consultant and other professional services.

We recommended that the City enhance efforts to purchase goods and services in accordance with State laws, the City Charter, and City purchasing policies. In addition, we recommended that such efforts include, when applicable, verifying assertions made by consultants used to solicit competitive bids or quotes on the City's behalf. We also recommended that the City require and ensure that written agreements for consultant and other professional services are properly executed to specify the rights and responsibilities of both parties, the services to be provided, the fees for such services, and the consequences for nonperformance with the terms of the agreement.

Results of Follow-Up Procedures

The City had no occasion to correct this finding. Our examination of City records and discussions with City personnel disclosed that no significant purchases of goods or services requiring competitive selection were made by consultants on the TPGC's behalf during the period October 2020 through February 2021, the date that the City sold the TPGC.

Finding 7: TPGC Land Sale

Previously Reported

The City did not always obtain timely independent appraisals of property values for consideration by the City Council prior to selling surplus City-owned real property.

We recommended that the City establish policies and procedures that require independent appraisals of current property values be obtained and considered by the City Council prior to selling surplus City-owned real property.

Results of Follow-Up Procedures

The City partially corrected this finding. Our examination of City records and discussions with City personnel disclosed that during the period October 2020 through February 2022, the City sold four⁶ property tracts, two of which were part of the TPGC. Proceeds from the sales of the properties totaled \$5.2 million. Although requested, City personnel did not provide documentation evidencing that the City had established policies and procedures requiring independent appraisals of current property values to be obtained and considered by the City Council prior to selling surplus City-owned real property. City personnel provided records evidencing that, prior to selling the four property tracts, the City obtained independent appraisals for consideration by the City Council for two parcels sold for a total of \$4.4 million. The two appraised parcels sold for approximately the appraised values.

Absent effective policies and procedures for the sale of real property, the City may not realize maximum gains when selling City-owned real property.

Recommendation: We continue to recommend that the City establish policies and procedures that require independent appraisals of current property values be obtained and considered by the City Council prior to selling surplus City-owned real property.

Follow-Up to Management's Response

Management's response indicates that the City obtained appraisals and broker valuations prior to the sale of all four property tracts. However, as indicated in the finding, the records provided to us contained appraisals for two of the four tracts but only included a real estate listing price for the other two tracts. As a real estate listing price does not constitute a formal appraisal or broker valuation, the finding and related recommendation stand as presented.

RELATED ORGANIZATIONS – FINANCING PROGRAMS

Finding 8: Administration of Financing Programs

Previously Reported

The City did not, of record, assess that it was economically or otherwise advantageous for the City to use Gulf Breeze Financial Services, Inc. (GBFS), and Capital Trust Agency, Inc. (CTA), to administer its

⁶ The four land sales do not include the City's sale of property to the Santa Rosa District School Board in November 2020, as that sale was discussed in audit report No. 2021-030.

financing programs. Additionally, the use of these entities resulted in less accountability and transparency for program transactions and activities when compared to direct administration of those programs by the City and resulted in costs that could have been avoided had City personnel been solely responsible for administering the financing programs.

We recommended that the City assess and document whether there are economic or other advantages gained by continuing to administer the financing programs using the GBFS and the CTA. If the City determined that there are no discernible advantages, we recommended that the City increase accountability and transparency by administering the programs solely within the City organizational structure using qualified and knowledgeable City personnel.

Results of Follow-Up Procedures

The City partially corrected this finding. Our follow-up procedures disclosed that the City evaluated the continued existence and administrative functioning of the CTA. A resolution⁷ passed by the City Council on October 4, 2021, stated the reasons for the City's continued use of the CTA to finance capital projects. Those reasons included:

- Administrative efficiencies are realized as the CTA, and not City staff, performs ongoing financial reporting and monitoring and ensures compliance with bond obligations.
- The City is better shielded from legal or financial exposure.
- Issuance of applicable bonds requires detailed and sophisticated knowledge and a significant amount of time, experience, and expertise. Accordingly, issuance of bonds by the CTA produces significant time savings to the City Council and promotes efficiency in both the governance of the City and in the issuance of bonds.
- The CTA has the legal authority to issue bonds to finance a wider variety of projects than conduit bond issuers created pursuant to certain other State laws.
- Proceeds of bonds issued by the CTA may be used to finance projects both inside and outside the jurisdiction of the City and the Town of Century.

In addition, in part to address the audit recommendations, the City Council passed resolutions⁸ in October 2021 and April 2022 and proposed an amendment⁹ to the interlocal agreement with the Town of Century that created the CTA. The resolutions and proposed amendment provided for:

- The CTA to operate as a public entity subject to all laws applicable to municipalities, including, but not limited to, the Sunshine law,¹⁰ Public Records Act,¹¹ and Code of Ethics.¹²
- The CTA to include appropriate liability protections in its transactional documents to minimize claims, losses, liabilities, or damages to the City, Town of Century, and the CTA.
- The CTA's annual budget, and all amendments thereto, to be approved by the City Council prior to taking effect.

⁷ City of Gulf Breeze Resolution No. 56-2021, adopted October 4, 2021.

⁸ City of Gulf Breeze Resolution No. 56-2021, adopted October 4, 2021, and Resolution No. 06-2022 adopted April 4, 2022.

⁹ City of Gulf Breeze proposed Amendment No. 141 to the Interlocal Agreement.

¹⁰ Section 286.011, Florida Statutes.

¹¹ Chapter 119, Florida Statutes.

¹² Chapter 112, Part III, Florida Statutes.

- The CTA to maintain all deposits and funds in qualified public depositories as defined in State law.¹³
- City Council approval of any amendments to the CTA articles of incorporation or by-laws.
- Posting of the CTA's budget on the CTA's Web site.
- Documentation of costs incurred by the City for the benefit of the CTA and allocation of those costs to the CTA, with such costs included in the CTA's budget.
- Procurements related to the City's provision of offices and equipment for the CTA to be made in accordance with City procurement policies and procedures.

However, prior to obtaining the Town of Century's approval of the amendment, the City determined that the City of Quincy (Quincy) was in a better position to support the conduit debt financing program. Accordingly, the City Council passed a resolution¹⁴ in June 2022, authorizing the execution of a new interlocal agreement between the City and Quincy that created a similar, but separate, conduit debt financing agency, the Capital Trust Authority (Authority). The same individuals serving as the CTA board of directors were appointed as the Authority board of directors. Also, the same City employees that served as the Agency Director and performed the administrative functions of the CTA served as the Agency Director and performed the administrative functions of the Authority.

The City's resolution authorizing the interlocal agreement with Quincy contained the same reasons for creating the Authority as the reasons cited for the CTA's continued existence. In addition, the interlocal agreement between the City and Quincy provided for:

- The Authority to operate as a public entity subject to all laws applicable to municipalities, including, but not limited to, the Sunshine law,¹⁵ Public Records Act,¹⁶ and Code of Ethics.¹⁷
- The Authority to include appropriate liability protections in its transactional documents to minimize claims, losses, liabilities, or damages to the City, Quincy, and Authority.
- The Authority's annual budget, and all amendments thereto, to be approved by the City Council prior to taking effect.
- The Authority to maintain all deposits and funds in qualified public depositories as defined in State law.¹⁸
- Posting of the Authority's budget on the Authority's Web site.
- Documentation of costs incurred by the City for the benefit of the Authority and allocation of those costs to the Authority, with such costs included in the Authority's budget.
- Procurements related to the City's provision of offices and equipment for the Authority to be made in accordance with City procurement policies and procedures.

In response to our inquiry, City personnel indicated that, although the CTA will no longer issue conduit debt, the CTA will continue to exist for the purpose of administering outstanding debt previously issued by the CTA, some of which will be outstanding until 2052.

¹³ Chapter 280, Florida Statutes.

¹⁴ City of Gulf Breeze Resolution No. 14-2022, adopted June 6, 2022.

¹⁵ Section 286.011, Florida Statutes.

¹⁶ Chapter 119, Florida Statutes.

¹⁷ Chapter 112, Part III, Florida Statutes.

¹⁸ Chapter 280, Florida Statutes.

Similarly, in April 2022, City management informed the City Council that the City will no longer issue loans through the GBFS, but the GBFS will continue to exist until all outstanding GBFS-issued loans are closed.

Notwithstanding that the CTA and GBFS will only continue to exist to administer previously issued debt and loans and that the City addressed some concerns reported in our report No. 2021-030 when creating the Authority, there was no evidence that the City assessed and documented discernable advantages to operating the conduit debt financing program through the recently established Authority instead of solely within the City organizational structure using qualified and knowledgeable personnel.

By operating the conduit debt financing program within the City organizational structure, the City would already be afforded some protection from potential liability through sovereign immunity¹⁹ and the cost of a separate annual audit of the Authority could be avoided. In addition:

- A conduit debt financing program operated directly by the City could issue bonds for the same variety of projects as the CTA and Authority.
- Proceeds of bonds issued by a conduit debt financing program operated directly by the City could be used to finance projects both inside and outside the jurisdiction of the City, Quincy, and the Town of Century.

Without an appropriate documented assessment, the City cannot demonstrate that operation of the conduit debt financing program through the Authority was the most appropriate and beneficial alternative.

Recommendation: We continue to recommend that the City assess and document whether there are economic or other advantages to administering the conduit debt financing program through a separate entity. If the City determines there are no discernable advantages, the City should operate the program solely within the City organizational structure using qualified and knowledgeable City personnel.

Follow-Up to Management's Response

Management's response provides a legal analysis and multiple accompanying citations that, although requested throughout our audit fieldwork, most recently in July 2023, were not provided to us for consideration. In addition, there is no documentation of record that the legal analysis had been presented to the Town Council for consideration; consequently, it is not apparent that it was a factor in the City's consideration as to whether the operation of the conduit debt program by a separate entity was economically or otherwise advantageous to the City. Further, the response indicates that the City's actions in establishing separate organizations to operate conduit debt programs was within the City's legal authority; however, our finding does not question the legality of the City's actions. Rather, we recommended, as a matter of good business practice, that the City assess and document whether there are economic or other advantages to administering the conduit debt financing program through a separate entity. Consequently, the finding and related recommendation stand as presented.

¹⁹ Section 768.28, Florida Statutes, under the Doctrine of Sovereign Immunity, effectively limits the amount of the liability of governmental entities for State tort claims to \$200,000 per claim and \$300,000 per occurrence.

Finding 9: Control Over CTA Activities

Previously Reported

City measures to ensure that CTA operations are conducted consistent with City Council intent and in accordance with applicable laws, established policies and procedures, CTA articles of incorporation, and good business practices were not always effective.

We recommended that the City execute a contract with the CTA that includes sufficient provisions to ensure that CTA operations are conducted consistent with City Council intent and in accordance with applicable laws, established policies and procedures, and good business practices. Additionally, should the City Council deem it necessary for the CTA to make contributions to nonprofit organizations, we recommended that the CTA Board, with the City Council's approval, amend the Articles of Incorporation to explicitly address such contributions.

Results of Follow-Up Procedures

The City partially corrected this finding. A City ordinance²⁰ addressing contributions to nonprofit organizations was amended in February 2020 to provide that the CTA board of directors shall establish procedures for approval of specific expenditures by the CTA for support of nonprofit organizations. In addition, the City Attorney interpreted the CTA and Authority Articles of Incorporation as allowing contributions to nonprofit organizations.

Also, as reported in the results for our follow up of Finding 8, the CTA will no longer issue conduit debt and will continue to exist only for the purpose of administering previously issued outstanding bonds. However, the City executed a new interlocal agreement creating another separate conduit debt financing agency, the Authority. The Authority's Articles of Incorporation provide a means for the City to control the Authority's activities, including, but not limited to, requiring prior written consent by the City Council for any amendments to key provisions of the Articles of Incorporation. In addition, the interlocal agreement executed for the Authority contains several provisions providing detailed guidance to help ensure the Authority operates consistently with City Council intent and applicable laws and good business practices.

However, notwithstanding the provisions in the Articles of Incorporation and interlocal agreement, the City did not execute contracts with the Authority or the CTA requiring them to comply with the provisions of the respective Articles of Incorporation and interlocal agreements. In response to our inquiries, City management indicated that no such contracts are needed because the City Council already has the authority through other means to ensure the conduit agencies' operations are consistent with City Council intent and applicable laws. Notwithstanding, as the Authority and CTA are not parties to the respective interlocal agreements, such contracts, if executed, would provide additional assurance that the conduit agencies conduct operations consistent with City Council intent and in accordance with applicable laws, policies and procedures, and good business practices.

Recommendation: The City should reconsider working with the Town of Century and Quincy to execute specific contracts with the CTA and Authority that contain provisions assuring that

²⁰ Section 2-172, City of Gulf Breeze Ordinances, as amended by City Ordinance 03-2020 on February 3, 2020.

operations are conducted in accordance with City Council intent, the respective Articles of Incorporation and interlocal agreements, and applicable laws, policies and procedures, and good business practices.

Follow-Up to Management's Response

Management's response indicates that the interlocal agreements and other City oversight make certain that the CTA and Authority are conducted in accordance with City Council intent. However, the point of our finding is that executing contracts with the Town of Century and Quincy would provide additional assurance that the conduit debt financing entities conduct operations in accordance with City Council intent, the respective Articles of Incorporation and interlocal agreements, and applicable laws, policies and procedures, and good business practices. Consequently, the finding and related recommendation stand as presented.

Finding 10: GBFS and CTA Policies and Procedures

Previously Reported

The City lacked comprehensive policies and procedures governing significant aspects of GBFS and CTA operations.

We recommended that the City ensure the establishment of policies and procedures governing all significant aspects of GBFS and CTA operations.

Results of Follow-Up Procedures

The City partially corrected this finding. The City and the CTA passed joint resolutions²¹ in April 2022 that, among other things, amended the CTA's Bylaws to require the annual CTA budget and all amendments thereto be approved by the City Council prior to taking effect. The joint resolutions also provide that, if the City desires the CTA to deliver any or all net profits to the City, the City Council shall vote at a regular or special meeting to send a written notice to the CTA directing the CTA to deliver a sum from the net profits to the City within 60 days of the City Council vote. In addition, as noted in the results of our follow up for Findings 8 and 9, the interlocal agreements for the CTA and Authority were amended or executed to include certain provisions governing specific aspects of the CTA and Authority's operations.

Notwithstanding these joint resolutions and interlocal agreement provisions, City personnel did not provide documentation demonstrating that the City or the GBFS, CTA, and Authority established policies and procedures governing all significant aspects of the respective organizations' operations. Established policies and procedures addressing the various operational aspects (e.g., budgets, cash revenues, procurement of goods and services, disbursement processing) of the GBFS, CTA, and Authority would provide additional assurance that the business of those organizations is conducted in an effective, efficient, and appropriate manner consistent with the intent of the City Council and respective towns.

²¹ City of Gulf Breeze Resolution No. 06-2022 and Resolution No. 07-2022.

Recommendation: We continue to recommend that the City ensure the establishment of appropriate policies and procedures governing the significant aspects of GBFS, CTA, and Authority operations.

Finding 11: Transparency of GBFS and CTA Transactions and Activities Previously Reported

Enhanced transparency of GBFS and CTA operations is needed.

We recommended that the City enhance the City, GBFS, and CTA Web sites to afford GBFS and CTA Board meeting minutes and other records the same level of transparency as City Council meeting minutes and other City records.

Results of Follow-Up Procedures

The City partially corrected this finding. Our examination disclosed that the City had taken steps to provide an appropriate level of transparency for the GBFS and CTA. Specifically, the City Web site provides detailed directions and information identifying how to request copies of various records, including GBFS and CTA records. In addition, the GBFS Board meeting minutes are clearly accessible and available on the City Web site, while the CTA Board meeting minutes are clearly accessible and available on the CTA Web site.

Our examination also found that, as of May 2023, the Authority had established a Web site that provided a method for requesting copies of public records via a link to the City's Web site. However, the Authority Web site was still under construction, and not all the Authority Board meeting minutes were available.

Recommendation: The City and Authority should complete the Authority's Web site to provide clear access to approved meeting minutes for each Board meeting.

Finding 12: GBFS and CTA Transfers to the City

Previously Reported

The City had not executed a contract with the CTA or formally established directives regarding the amounts and frequency of GBFS and CTA transfers of resources to the City.

We recommended that the City specify the amounts and frequency of GBFS and CTA transfers to the City by executing a contract with the CTA and establish policies and procedures for the GBFS and the CTA that include transfer directives.

Results of Follow-Up Procedures

The City corrected this finding. Our follow up examination disclosed that the City and CTA executed a joint resolution²² ratifying the CTA as the custodian for the net profits of CTA financing operations, providing for an annual process to determine the minimum amount of those net profits to be retained in CTA custody, and establishing a process whereby the CTA must timely deliver (transfer) any and all of the net profits to the City upon direction from the City Council. Regarding the recently created Authority,

²² City of Gulf Breeze Resolution No. 07-2022.

transfer directives containing similar terms and conditions were established through the Authority's Articles of Incorporation, dated June 16, 2022.

As the City did not anticipate any future annual transfers to the GBFS, transfer directives were unnecessary.

Finding 13: GBFS, CTA, and CTA-Community Development Entity Executive Director

Previously Reported

The City could have exercised more diligence in resolving questions regarding compensation paid to the GBFS and CTA Executive Director (ED) and his company, Municipal Advisory Services, Inc. (MAS), and the City needs to improve oversight and transparency regarding the ED's compensation and administration of GBFS and CTA operations.

We recommended that the City:

- Consult with the City Attorney or other appropriate legal counsel to determine what additional actions, if any, should be taken regarding the questioned GBFS payments totaling \$184,777 to the ED and \$693,253 to the MAS and the \$338,824 questioned overpayment for services MAS provided to the CTA. Potential actions could include, for example, requesting the ED to provide, for the \$9,000 paid directly to the ED and \$693,253 paid to MAS for services allegedly provided to the GBFS, detailed records supporting those payments and evidencing that such work was not already contemplated in the duties the ED was required to perform pursuant to his employment agreements.
- To avoid violations of the Sunshine Law, promote transparency, and encourage public interest, ensure that significant topics, such as the aforementioned findings in the CPA firm reports impacting GBFS and CTA operations, are openly discussed at City Council meetings or at GBFS Board or CTA Board meetings and the public is properly noticed as to such meetings.
- Determine the reasonableness of the ED's potential total salary (including the incentive bonus) using a documented reasonable and relevant methodology and, if appropriate based on such determination, modify the ED's employment agreement compensation terms.
- Revise the City employment agreement with the ED to specify that the GBFS and the CTA will reimburse the City for an appropriate portion of the ED's compensation and prescribe a methodology for allocating a portion of the ED's compensation to the GBFS and the CTA based on work effort associated with those entities.
- Take appropriate action to eliminate the potential for future conflicts of interest regarding the ED's responsibilities. Such action could include discontinuing use of the GBFS or CTA to administer the financing programs (as discussed in Finding 8) or, should the City opt to continue using those entities, restructuring the ED's compensation so that it is not contingent, in part, on CTA net profits, or making the ED a GBFS or CTA employee.
- Take action to ensure that the purpose is documented, of record, for the GBFS payments totaling \$430,775 to the City.

Results of Follow-Up Procedures

The City partially corrected this finding. Our follow up examination found that:

- According to City personnel, the questioned payments occurred from October 2002 through September 2014 and, therefore, the City Attorney indicated legal action to recover any of the

questioned amounts was not feasible because the recovery action would be time-barred by the 5-year statute of limitations²³ applicable to actions based on contracts.

- During the period October 2020 through February 2022, meetings involving GBFS and CTA topics and matters were properly and adequately noticed, and minutes evidencing related discussions and decisions were prepared, approved, and retained.
- Instead of continuing to serve as a contract employee reporting directly to the Mayor and City Council, the City revised the structure of the CTA so that the ED is a City employee evaluated by the City Manager, with input from the CTA Board Chairperson. The salary range established for the ED position was based on a 2019 compensation study completed for the City by a contracted consultant. The range established in the study and incorporated by the City is \$86,587 to \$138,539, which is less than the compensation paid to the former ED as a contract employee. The current ED's salary of \$109,000 is within that established range.
- As the ED is no longer a contract employee there is no employment agreement. Allocations of costs incurred by the City, including the ED's salary, for the benefit of the GBFS, CTA, and Authority are addressed in our follow up results reported for Finding 14.
- While the ED serves two separate organizations, the missions and goals of both organizations are complementary and congruent. Accordingly, with enhanced oversight and evaluations of the ED by both the City Manager and the CTA Board Chairperson, the risk associated with potential conflicts of interest is minimal.
- City documentation demonstrated GBFS payments totaling \$430,775 to the City were for reimbursement of payroll and personnel costs paid by the City and were attributable to GBFS and CTA activities.

Notwithstanding the actions taken by the City regarding the ED's administration of the CTA, absent additional actions relevant to the administration of the recently established Authority, the City's oversight of Authority operations may not be sufficient.

Recommendation: The City should revise the ED position description to address the Authority in addition to the CTA, and clarify that the City Manager, with input from the Authority Board Chairperson and the CTA Board Chairperson, is responsible for oversight of the ED.

Finding 14: Allocation of City Costs Incurred on Behalf of GBFS and CTA

Previously Reported

The City had not established a documented methodology for allocating City personnel and other City-provided support costs to the GBFS and CTA.

We recommended that the City establish policies and procedures that provide a documented reasonable methodology for allocating City personnel and other costs to the GBFS and the CTA and require retention of documentation evidencing the calculation and allocation of such costs.

Results of Follow-Up Procedures

The City partially corrected this finding. The City Council adopted a resolution²⁴ in September 2022 to establish guidelines for the calculation and allocation of City personnel and other costs to the GBFS, CTA, and Authority. The resolution provides that City costs incurred for the benefit of those three

²³ Section 95.11(2), Florida Statutes.

²⁴ City of Gulf Breeze Resolution No. 28-2022, adopted September 7, 2022.

organizations are to be “apportioned based on each organization’s revenue.” The resolution further states that “whenever one of either GBFS, the Agency [CTA], or the Authority generates 85 percent or more of the [entities’] combined revenues, 100 percent of the overhead shall be apportioned to that entity.” As this resolution was passed in September 2022, the City had not had occasion to apply the process as of the end of our follow-up fieldwork.

Notwithstanding, the resolution does not address the retention of documentation evidencing the calculation and allocation of personnel and other costs to the GBFS, CTA, and Authority. Absent policies and procedures requiring the retention of documentation evidencing the calculation and allocation of personnel and other costs to the GBFS, CTA, and Authority, there is an increased risk that such costs may not be properly and equitably allocated.

Recommendation: The City should enhance its policies and procedures to require documentation evidencing the calculation and allocation of personnel and other costs to the GBFS, CTA, and Authority be retained.

Finding 15: GBFS Loans to and from the City

Previously Reported

City records lacked documented determinations of the necessity for certain loans made to and from related organizations and the appropriateness of the assessed interest rates for those loans.

We recommended that the City establish policies and procedures addressing loans to and from related organizations and that such policies and procedures require documented determinations of the necessity of such loans and the methodology for determining appropriate interest rates, if any, to be assessed on such loans.

Results of Follow-Up Procedures

The City corrected this finding. The City Council adopted an ordinance²⁵ in September 2022 that established guidelines for interfund loans. The ordinance provides that all such loans shall be approved by City Council resolution and that the authorizing resolutions shall include a planned schedule of repayment of the loan principal and interest to the lending fund, with reasonable interest rates established based on the external interest rates available to the City at the time of the loans. The ordinance also provides for maintenance of appropriate accounting records that reflect the balance of loans payable and receivable in the borrowing and lending funds. City personnel indicated that, while the CTA and Authority transfer funds to the City, no loans are made to or from those two entities. City personnel also indicated that loans between the City and the GBFS are considered interfund loans; however, no such loans were made during the period October 2020 through September 2022.

²⁵ Subpart A, Article X, Chapter 2 City of Gulf Breeze Ordinances as created by City Ordinance 04-2022 on September 19, 2022.

Finding 16: Local Government Loan Program Investments

Previously Reported

City records, as of July 2020, did not document the current status of a United States Department of Justice (DOJ) investigation regarding the City's use of the United States Department of Treasury's State and Local Government Series securities program to invest bond proceeds.

We recommended that the City document, of record, the current status of the DOJ investigation and, once the investigation is officially resolved, take action to the extent appropriate and practical to recover legal costs from the applicable municipal advisors.

Results of Follow-Up Procedures

The City corrected this finding. Our examination of City records and discussions with City personnel disclosed that the City Attorney documented the current status of the DOJ investigation in quarterly reports provided to the Mayor and City Council. Although not officially resolved, as of January 2022, the City Attorney indicated that the DOJ had taken no further actions and it was unlikely that the DOJ would reopen (resume) the investigation. In addition, the City Attorney believed that the municipal advisors had not done anything wrong and, even if the DOJ had indicated there were grounds for recovery, the time and effort required would offset any potential recovery. As a result, the City Attorney considered the matter closed.

UTILITY SERVICES

Finding 17: Overall Utility Rates and Utility Fund Costs

Previously Reported

City records did not always evidence that utility rate studies were based on applicable cost factors and that enterprise fund transfers for internal services costs were proper and reasonable.

We recommended that the City establish policies and procedures to ensure that utility rate studies are based on applicable cost factors in evaluating and establishing utility rates and the propriety and reasonableness of enterprise fund transfers for internal services costs are documented.

Results of Follow-Up Procedures

The City partially corrected this finding. We determined that, as of October 2022, the City had not established policies and procedures to identify and use applicable cost factors in evaluating and establishing utility rates. Notwithstanding, in July 2019, the City hired a consultant to perform a comprehensive rate study and propose utility rates to ensure generation of sufficient revenues to cover projected expenditure requirements for a consolidated water and sewer system, consisting of both the former City Water and Sewer system serving customers inside the City and the former SSRUS serving customers outside the City. The rates developed and proposed by the consultant and subsequently adopted by the City in September 2021 provided for annual increases and properly considered applicable cost factors, including debt service requirements. As described in our follow up to Finding 18, customers inside and outside the City are now charged the same rates under the consolidated utility, the Gulf Breeze

Regional Water System (GBRWS). As a result, those customers equitably share applicable debt service costs.

In addition, the City had not established policies and procedures that provide for documentation of the propriety and reasonableness of enterprise fund transfers to reimburse the General Fund for an equitable share of City internal services costs. Internal services costs consist of salaries and benefits and other costs relating to activities that are accounted for in the General Fund yet conducted for the benefit of functions and operations accounted for in other City funds, including the City enterprise funds. During the period October 2020 through February 2022, the City transferred \$949,968 from its enterprise funds to the General Fund as reimbursement for such internal services costs. That total was composed of \$78,506 from the Stormwater and Streets Fund, \$100,222 from the former City Water and Sewer Fund, \$151,685 from the Natural Gas Fund, \$365,145 from the former SSRU Fund, \$64,129 from the Solid Waste Fund, and \$190,281 from the GBRWS Fund.

While the City's 2021 and 2022 fiscal year budget narratives indicated that these internal services costs would be allocated based on the respective utilities' customer counts as a percent of total City customer counts for all funds, records were not provided to substantiate that the amounts transferred were based on customer counts or other reasonable factors. Accordingly, the City had not documented the propriety and reasonableness of the noted transfers.

Recommendation: The City should adopt policies and procedures that:

- **Address the identification and use of applicable cost factors in evaluating and establishing utility rates.**
- **Provide for documentation of the propriety and reasonableness of enterprise fund transfers to reimburse the General Fund for an equitable share of City internal services costs.**

Follow-Up to Management's Response

Management's response indicates that the transfer methodology and documentation supporting calculations were provided to us. Although the methodology and customer counts were provided to us, our recalculation of the City's transfer amounts using the methodology and customer counts provided did not materially agree with the transfer amounts recorded in the City's accounting records. On multiple occasions, most recently in August 2023, we requested records showing how City personnel calculated the transfer amounts; however, the records provided merely showed amounts that corresponded to those in the City's accounting records. Because the City-provided records did not demonstrate that the City's methodology was actually used to calculate the transfer amounts and that the transfer amounts were reasonable, the finding and related recommendation stand as presented.

Finding 18: South Santa Rosa Utility System (SSRUS) Utility Rates

Previously Reported

City records did not demonstrate that the same factors were used to assess water and sewer utility rates, fees, and charges for customers inside and outside the City. In addition, the transparency of potential

rate assessment increases and surcharges to SSRUS customers could be enhanced by openly discussing such rate increases and surcharges at SSRUS Board meetings.

We recommended that the City demonstrate compliance with State law by documenting that water and sewer utility rates, fees, and charges charged to customers outside the City are just, equitable, and based on the same factors used in fixing the rates, fees, and charges for utility customers inside the City. In addition, we recommended that the City ensure that any potential rate increases, as well as additional surcharges, to be assessed to SSRUS customers are adequately documented as to necessity and amount and openly discussed at SSRUS Board meetings.

Results of Follow-Up Procedures

The City corrected this finding. Based upon the consultant-prepared utility rate study discussed in Finding 17, the City Council amended City ordinances²⁶ to consolidate the City's water and wastewater system and the SSRUS into the GBRWS, and concurrently adopted a resolution²⁷ that established the rates for water and sewer services provided to customers by the GBRWS. Pursuant to that resolution, customers outside the City limits will be charged the same water and sewer base rates as customers within the City limits. In accordance with, and as allowed by applicable State laws,²⁸ the resolution also provides that customers within the City limits will be charged a 10 percent Municipal Public Service Tax, and customers outside the City limits will be charged a 10 percent surcharge. The City Council authorized the consolidation and rate revisions during public meetings.

Finding 19: Water and Sewer Customer Account Adjustments

Previously Reported

The City could enhance procedures for recording and documenting utility billing adjustments.

We recommended that the City enhance procedures for recording water and sewer billing account adjustments to ensure that adjustments are reviewed and approved by someone other than the employee making the adjustment and documentation supporting all adjustments is retained in City records.

Results of Follow-Up Procedures

The City partially corrected this finding. The City revised its procedures during the 2018-19 fiscal year to restrict system access for making utility billing adjustments to designated supervisory personnel. The revised procedures also require that each adjustment be reviewed and approved by a designated employee other than the employee making the adjustment and that the respective approvals must be documented. In addition, the City Manager must review and approve adjustments exceeding \$1,000.

During the period October 2020 through February 2022, designated City personnel made 1,674 billing adjustments totaling \$213,921 to water and sewer accounts. Our examination of 30 of those adjustments

²⁶ Sections 19.350 through 19.356, City of Gulf Breeze Code of Ordinances, as amended effective October 1, 2021, by City of Gulf Breeze Ordinance No. 06-2021, passed September 20, 2021.

²⁷ City of Gulf Breeze Resolution No. 36-2021, passed and adopted September 20, 2021.

²⁸ Sections 166.231 and 180.191, Florida Statutes.

totaling \$45,792 disclosed that the adjustments were properly reviewed, approved, and adequately documented in City records in accordance with the City's procedures.

Notwithstanding that the procedures were revised and properly applied by City personnel, the City had not updated its written leak policy²⁹ to reflect the revised procedures. Appropriate revisions to that policy would help ensure that appropriate procedures continue to be consistently applied, especially in the event of turnover in key staff positions.

Recommendation: The City should update its leak policy to reflect the revised procedures for reviewing, approving, and documenting utility billing adjustments.

PAYROLL AND PERSONNEL ADMINISTRATION

Finding 20: Group Insurance Plan Eligibility

Previously Reported

The City did not verify, of record, that individuals participating in the City group insurance plans were eligible participants.

We recommended that the City establish procedures to verify that individuals who participate in the City group insurance plans are eligible participants. We also recommended such procedures require and ensure that upon enrollment of a dependent, City personnel verify the dependent's eligibility through examination of applicable documentation such as birth or marriage certificates; documented, periodic verification procedures are conducted to ensure that participants, including dependent participants, in the insurance plans remain eligible; and ineligible participants are timely removed from participation in City group insurance plans.

Results of Follow-Up Procedures

The City partially corrected this finding. As of February 28, 2022, 112 individuals, including employees and retirees and 115 dependents, participated in City group insurance plans and, during the period October 2020 through February 2022, the City paid \$1.6 million to insure those individuals.

In October 2022, we inquired with City personnel as to whether the City established procedures to verify that individuals who participate in the City group insurance plans are eligible participants. City personnel did not provide any procedures, but indicated that they continue to provide group insurance benefits to City employees and their dependents through participation in the Public Risk Management of Florida (PRM) Group Health Trust. Further, as part of the services provided to the City, the PRM began providing additional dependent eligibility verification services, which were initially implemented with a dependent eligibility verification audit in February 2022 that included all City employee dependents on the City's group insurance plans.

In preparation for the PRM verification, in February 2022, the City began requiring all employees enrolling dependents with the City's health insurance plans to submit eligibility documentation to the PRM. We confirmed with the PRM Executive Director that the verification was conducted and, in July 2022, the City

²⁹ City of Gulf Breeze policy "Credits Bill Adjustment For Leaks and Pool Filling."

received the results of the verification, which indicated that all the City employees provided adequate documentation for their dependents; consequently, no dependents were dropped from the City's group health insurance. In response to further inquiry regarding periodic verifications of dependent eligibility, the PRM Executive Director indicated that they run reports on dependents' ages and continuously verify eligibility based on those reports but do not have procedures to verify that there were no other changes (e.g., divorce) affecting dependent eligibility status.

Notwithstanding the PRM's dependent eligibility verification procedures, the City did not have written procedures requiring the City to also conduct periodic verifications to ensure that employees and their dependents continue to be eligible for group health insurance coverage. In response to our March 2023 inquiries, City personnel did not provide a reason for the lack of periodic verification procedures; however, City personnel indicated that when an employee informs them about a change such as, address, Federal income tax withholding amount, or beneficiary change that may be indicative of a life change, City personnel may ask employees for the reason for the change(s).

Absent periodic employee and dependent eligibility verification procedures to ensure that employees and their dependents remain eligible for group health insurance coverage, there is an increased risk that the City may be paying insurance premiums for ineligible participants, resulting in increased insurance costs to the City.

Recommendation: We recommend that the City supplement the PRM verification procedures by establishing procedures to require City personnel to periodically verify the continued eligibility of participants, including dependent participants, in the City group health insurance plans.

Finding 21: Accumulated Leave Payments

Previously Reported

City records did not always demonstrate that accumulated leave payment calculations were verified before payments were made or that payments complied with City policies.

We recommended that City procedures ensure that accumulated leave payments are made in accordance with the *Personnel Policies and Procedures Manual (Personnel Manual)* provisions. In addition, we recommended that such procedures include documented, independent verifications that the calculations are accurate before payments are made. We also recommended that the City Council take appropriate action to recover any employment separation overpayments, amend the *Personnel Manual* to address the payment of unused compensatory time, and determine whether any other *Personnel Manual* revisions should be made for consistency with City practices.

Results of Follow-Up Procedures

The City partially corrected this finding. In response to our inquiry, City personnel indicated that City staff worked with the City Attorney to revise and update the City's *Personnel Manual*, and the resulting revised *Personnel Manual* was adopted by the City Council on May 4, 2020. The *Personnel Manual* specifically addresses employee leave and includes provisions on accumulation of leave time and payment of leave upon separation from employment. City personnel also indicated that the City

implemented administrative procedures to ensure consistent application of the *Personnel Manual's* provisions.

The revised *Personnel Manual* provides for the earning of compensatory time by employees who are not exempt from the Fair Labor Standards Act and required to work in excess of 40 hours in a work week but did not allow exempt employees to earn compensatory time. Further, the *Personnel Manual* does not provide for payment of compensatory leave upon employment separation.

Although we requested, the City did not provide any policies and procedures or other documentation requiring or evidencing the performance of documented, independent verifications of leave payout calculations prior to payment to ensure consistent application of the *Personnel Manual*. Rather, City personnel indicated that payouts are calculated pursuant to the *Personnel Manual*, entered into the City's accounting system by the Payroll Clerk, and prior to the leave payout checks being issued, reviewed by the Finance Director for accuracy. However, the Finance Director's review is not documented in City records.

During the period October 2020 through February 2022, 81 employees separated from City employment and 39 of those employees received payments totaling \$111,180 for a combination of accumulated annual leave, sick leave, and compensatory leave.³⁰ To determine whether the payments were correctly calculated in accordance with *Personnel Manual* provisions, we examined City records supporting payments totaling \$99,299 made to 20 of the 39 employees. Our examination disclosed that the City payments for accrued annual and sick leave were correctly calculated; however, although not provided for in the *Personnel Manual*, the City paid 1 separating exempt employee for accrued compensatory leave totaling \$238. In response to our inquiry, City personnel indicated that, in practice, the City pays employees for accrued compensatory leave upon separation from employment.

In response to our inquiries, City personnel indicated that they do not believe that seeking recovery of separation overpayments would be worthwhile from a cost benefit perspective and they did not attempt to collect the overpayments of leave totaling \$5,673 disclosed in our report No. 2021-030. On October 13, 2022, we requested from City personnel the City Council meeting minutes or other documentation evidencing the City's determination that recovery of any employment separation overpayments was not prudent. In response, the City provided a memorandum dated October 28, 2022, from the City Attorney to the Mayor and City Manager indicating that the memorandum was to serve as documentation of discussions that were held in 2020 and led to the City's responses in report No. 2021-030 that recovery of employment separation overpayments would not be prudent due to the expense and likelihood of success, and that the responses were shared with City Council members prior to being finalized. However, the City did not provide any documentation, nor did our review of City Council meeting minutes for the period January 2019 through February 2022 evidence, that the City Council discussed the overpayments and agreed with the City Attorney's position.

Absent policies and procedures that provide authorization to pay separating employees for accrued compensatory time and to require documented, independent verifications that accumulated leave payments are calculated in accordance with the *Personnel Manual* before payments are made, there is an increased risk that the City may overpay employees or make payments that are contrary to City

³⁰ We did not note any employees who received payments for accrued floating holidays.

policies. Additionally, documentation of the City Council's determination that recovery of employment separation overpayments would not be prudent, would better support the City's lack of action to recover employment separation overpayments.

Recommendation: The City should consider whether paying separating employees for accrued compensatory time for exempt employees is appropriate, and if determined appropriate, revise its *Personnel Manual* to allow such payments. In addition, the City should enhance its policies and procedures to require documented, independent verifications of the accuracy of leave payment calculations before payments are made. The City should also take appropriate action to recover any employment separation overpayments or document, of record, the City Council's determination that such action is not prudent.

Finding 22: Severance Pay

Previously Reported

The City made certain severance and other compensation payments that exceeded limits set by State law and made payments to a former employee for unsubstantiated consulting services.

We recommended that the City ensure that severance payments and other compensation do not exceed the limits set by State law. In addition, we recommended that the City take appropriate action to recover the \$7,214 of severance paid to and the \$1,037 for health insurance coverage paid for the former Water and Sewer (WS) Supervisor in excess of the 6 weeks of maximum severance pay set by State law. We also recommended that the City document the basis for the \$24,000 paid to the former Finance Director or take appropriate action to recover that amount for unsubstantiated consulting services.

Results of Follow-Up Procedures

The City partially corrected this finding. State law,³¹ allows municipalities to make severance payments to an officer or employee if the severance payments are provided for in a contract or employment agreement, represent the settlement of an employment dispute, and are for an amount authorized by State law.³² To determine whether the City paid severance to any of the 81 employees who separated from City employment during the period October 2020 through February 2022 and, if so, whether the payments complied with State law, we examined the employees' final paychecks and inquired with City personnel. Our examination of City records and discussions with City personnel disclosed that the City did not make any severance payments during the period October 2020 through February 2022.

As discussed in Finding 20, the City participates in a group health insurance plan and, according to the *Personnel Manual*, participation in the plan is generally available to all regular full-time employees of the City and their dependents. The group health insurance plan provides that employee health coverage ends at the end of the month in which the employee separates from employment.

³¹ Section 215.425(4), Florida Statutes.

³² State law authorizes severance pay up to 20 weeks of compensation if the severance pay is provided for in an employment agreement or contract and up to 6 weeks of compensation if the severance pay represents the settlement of an employment dispute.

To determine if the City appropriately ended City-provided health insurance coverage for separating employees during the period October 2020 through February 2022, we examined the health insurance coverage provided by the City for 33 of the 81 employees who separated from City employment during that period. Our examination disclosed that the City appropriately terminated City-provided health insurance coverage at the end of the month in which the 33 employees separated.³³

Our review of City records and discussion with City personnel disclosed that the City did not recover the \$7,214 of severance paid to or the \$1,037 for health insurance coverage paid for the WS Supervisor in excess of the 6 weeks of maximum severance pay set by State law and discussed in our report No. 2021-030. We requested City Council meeting minutes or other documentation evidencing the City's determination that recovery of any employment separation overpayments was not prudent. In response, the City provided a memorandum from the City Attorney indicating that recovery of employment separation overpayments would not be prudent due to the expense and likelihood of success, and that the responses were shared with City Council members prior to being finalized. However, the City did not provide any documentation nor did our review of City Council meeting minutes for the period January 2019 through February 2022 identify any documentation that the City Council agreed with this position. Absent documentation that the City Council agreed that it would not be prudent to seek recovery of the amounts overpaid, there is an increased risk that the City Council may not be aware of or in agreement with the City's actions.

Recommendation: The City should take appropriate action to recover any employment separation overpayments or document the City Council's determination that such action is not prudent.

Finding 23: Extra Compensation

Previously Reported

Contrary to State law,³⁴ the City paid extra compensation after services were rendered.

We recommended that the City establish policies and procedures that prohibit extra compensation pursuant to State law.

Results of Follow-Up Procedures

The City partially corrected this finding. As discussed in Finding 22, we examined the final paychecks of the 81 employees who separated from City employment during the period October 2020 through February 2022. Based on our examination and discussions with City personnel, we determined that none of the employees received extra compensation for services they had previously rendered.

In response to our inquiry as to whether the City established policies and procedures that prohibit extra compensation in accordance with State law, City personnel indicated that, in April 2022, the City adopted a new *Personnel Manual*. However, based on our review of the *Personnel Manual*, it was not apparent

³³ Two of the 33 employees continued to participate in the City's health insurance plan as allowed by the Consolidated Omnibus Budget Reconciliation Act (COBRA) but began paying the health insurance premiums after the end of the month in which they separated from City employment.

³⁴ Section 215.425(1), Florida Statutes, provides that no City employee may be paid extra compensation after service has been rendered.

that the *Personnel Manual* prohibited extra compensation after services were rendered. Upon further inquiry with City personnel, City personnel indicated that the:

- *Personnel Manual* includes a provision that the City complies with the Fair Labor Standards Act and all other laws and regulations applicable to the City regarding payment of wages.
- City has no policy or procedure that allows for extra compensation after services have been rendered.
- Bonuses paid upon retirement occurred under the prior City administration and are no longer a City practice or condoned by current personnel policies.

Subsequently, we were notified that the City again revised their *Personnel Manual* on September 7, 2022, pursuant to a City resolution.³⁵ Our review of the revised *Personnel Manual* disclosed the addition of the statement “Wages and compensation are paid only for services rendered during the tenure of employment.” However, as retirement bonuses are paid to employees for the services they rendered during their tenure of employment, the provision did not clearly prohibit extra compensation after services were rendered.

Absent policies and procedures that prohibit extra compensation after services have been rendered, there is an increased risk the City will provide City officers and employees retirement bonuses and other forms of extra compensation that are contrary to State law.

Recommendation: The City should further enhance their policies and procedures to prohibit extra compensation consistent with State law.

Finding 24: Special Advisor Compensation

Previously Reported

The City hired a Special Advisor although that position was not included on the City Council-approved Schedule of Authorized Positions (Schedule). In addition, City records did not evidence that payments to the Special Advisor were supported by records evidencing hours worked, and the City made salary overpayments and excess contributions to the Special Advisor’s deferred compensation plan account.

We recommended that the City ensure that the Special Advisor’s position description and established pay rate are in accordance with the City Council-approved Schedule; require the Special Advisor to prepare time sheets to document the actual hours worked, and that such time sheets evidence supervisory review and approval; and the Special Advisor is paid at the correct pay rate based on actual hours worked. Additionally, we recommended that the City take action to recover from the Special Advisor the salary overpayments and excess Plan & Trust account contributions totaling \$873.

Results of Follow-Up Procedures

The City partially corrected this finding. Based on examination of City records and discussions with City personnel, the City employed the Special Advisor during the period October 2020 through February 2022 as a part-time, hourly employee. At its meeting on September 20, 2021, the City Council approved an amendment to the City’s Schedule for the 2020-21 fiscal year to include the Special Advisor

³⁵ City of Gulf Breeze Resolution No. 27-2022, dated September 7, 2022.

as a part-time employee at a pay grade of 15. However, City records, including the Schedule, did not include a Special Advisor position description specifying the position's duties and responsibilities. Rather, the City Manager stated that the Special Advisor continued to perform the services set out in his prior employment agreements, including consulting with the City Manager, attending meetings and providing reports as requested by the City Manager, undertaking special projects, and conducting and facilitating the City's Citizens Academy.

To receive compensation from the City, the Special Advisor reported the hours worked to the Administrative Services Department via e-mail and, in certain instances, the Administrative Services Department inquired of the Special Advisor to determine whether he worked during specific pay periods. Based on examination of City records, the Special Advisor was paid \$1,031 for 33 hours of work performed during the period October 2020 through February 2022 at a rate of \$31.25 per hour.³⁶ To determine if the 33 hours paid to the Special Advisor were supported and approved by the City Manager or other applicable supervisory personnel, we requested e-mails and records supporting the 33 hours worked by the Special Advisor and evidencing supervisory review and approval of the hours worked. The provided records evidenced that the Special Advisor worked 21.5 hours, 11.5 hours less than the 33 hours for which he was paid, resulting in unsupported payments of \$359.

When asked if the City took any action to recover the salary overpayments and excess Plan & Trust account contributions totaling \$873 identified in our audit report No. 2021-030, the City provided records evidencing the repayment of the \$873 through a reduction in the Special Advisor's August 27, 2020, paycheck.

Recommendation: The City should require all employee time sheets or other records documenting time worked to be reviewed and approved by supervisory personnel. Additionally, the City should establish a position description for all City positions specifying the duties and responsibilities of the position.

Finding 25: Automobile and Toll Allowances

Previously Reported

Contrary to City policies requiring that individuals using personal vehicles for City travel be reimbursed at rates established by State law,³⁷ the City provided automobile and toll allowances to certain employees and City records did not evidence how the allowances were determined.

We recommended that City personnel comply with City policies by reimbursing travelers for personal use of their vehicles at the rate established by State law. If the City Council intends to provide automobile and toll allowances to employees, we recommended that the City Council establish policies and procedures to properly support, calculate, and pay such allowances. To support the reasonableness of the automobile and toll allowance amounts, we recommended that the policies and procedures require and ensure that all employees receiving a monthly automobile or toll allowance periodically provide documentation supporting the actual costs of official business travel for a given month.

³⁶ The \$31.25 hourly rate was within the pay range of \$19.93 to \$31.88 per hour for pay grade 15.

³⁷ Section 112.061(7)(d)1., Florida Statutes, establishes a rate of 44.5 cents per mile.

Results of Follow-Up Procedures

The City had not corrected this finding. In response to our inquiry, in April 2022, City personnel indicated that the City *Personnel Manual*³⁸ adopted on May 4, 2020, includes detailed provisions on employee use of personal vehicles for City-related travel that require submittal of expense documentation prior to reimbursement and provide for reimbursement in accordance with State law. However, the *Personnel Manual* did not authorize the payment of automobile or toll allowances, and City personnel indicated that no other policies and procedures were established to address automobile and toll allowances or the periodic analysis of whether the allowance amounts are appropriate.

In response to our inquiries as to whether the City had provided any automobile or toll allowances during the period October 2020 through February 2022, the City Manager indicated in August 2022 that the “City has not provided periodic vehicle or toll allowances other than to reimburse employees for official out-of-town travel;” however, “vehicle allowances may be factored into salary and benefits packages for some upper-level employees.” Although we requested a list of any City upper-level employees with automobile or toll allowances factored into their salary and benefits packages and any related allowance amounts paid during the period October 2020 through February 2022, as of May 2023, City personnel had not provided a response.

Insofar as City policies do not authorize automobile allowances to employees, payments for any automobile and toll allowances are contrary to City policies.

Recommendation: If the City intends to provide automobile and toll allowances to employees, the City Council should establish policies and procedures to properly support, calculate, and pay such allowances, regardless of whether such allowances are separately paid or factored into employee salary and benefits packages. To support the reasonableness of the automobile and toll allowance amounts, the policies and procedures should require and ensure that all employees receiving a monthly automobile or toll allowance periodically provide documentation supporting the actual costs of official business travel for a given month.

MOTOR VEHICLES

Finding 26: Motor Vehicle Assignment and Use

Previously Reported

The City could enhance controls over motor vehicle assignment and use.

We recommended that the City enhance controls governing the assignment and use of motor vehicles by enhancing policies and procedures for the assignment and use of all City vehicles. We recommended that such policies and procedures specify the individuals authorized to assign vehicles and require documentation justifying and authorizing the approval of all vehicle assignments; ensure periodic verifications are conducted to ensure that all employees who operate City vehicles have valid driver’s licenses and that documentation of the verifications is maintained; require the preparation and maintenance of vehicle usage logs that document the details of all travel performed, whether for personal or official City business. To evidence the reasonableness and propriety of City motor vehicle use, we

³⁸ Section 13.10, *Personnel Manual*, Travel Policy.

recommended appropriate supervisory personnel periodically review and approve the logs and maintain documentation of such review and approval.

Results of Follow-Up Procedures

The City partially corrected this finding. As of March 2023, the City motor vehicle fleet was composed of 102 motor vehicles for use by City employees while conducting official business. Of the 102 motor vehicles, City records indicated that 51 City employees were assigned specific City vehicles on a 24-hour take home basis.

We inquired of City personnel to determine whether policies and procedures for the assignment and use of all City vehicles had been enhanced to:

- Specify the individuals authorized to assign vehicles and require documentation of the justification and approval of the assignments.
- Require the preparation and maintenance of vehicle usage logs that document the details of all travel performed, whether for personal or official City business, and the documented review and approval of the vehicle usage logs by supervisory personnel.

City personnel indicated that, for employees other than emergency management personnel, the employee's respective department head and the City Manager authorize the take-home vehicle assignment and, as of May 2023, the City did not have documentation evidencing the justification and approval of vehicle assignments or require that vehicle usage logs be maintained for work-related travel. The City is testing the use of a system based on the Global Positioning System (GPS) that will track vehicle usage as an alternative to requiring employees to log all work-related travel, and City personnel indicated that the GPS will track mileage, vehicle telemetry, and alert the City when maintenance is needed. According to City personnel, given the City's size and limited resources, City personnel must focus on work performance and for that reason, the City had not adopted policies and procedures requiring vehicle usage logs to be maintained.

Additionally, the City had not established policies and procedures to ensure and document periodic verification that all employees who operate City vehicles have valid driver's licenses. However, City personnel indicated that, beginning in November 2019, the City entered into an agreement with a third-party vendor to actively monitor the driving records of all City employees. According to the agreement, the City will be notified of any monitored employee's driving violations, suspensions, and revocations as soon as the vendor receives and processes such information from the governmental entity that maintains the motor vehicle records for the respective employee.

To determine if the City employees assigned a take-home vehicle as of March 2023 were being monitored by the City's third-party vendor, we examined City records for 6 of the 51 employees assigned a take-home vehicle and found that they were included on the vendor's listing as being monitored.

Absent City policies and procedures that identify the individuals authorized to assign take-home vehicles and required documentation of the justification and approval of the assignments, there is an increased risk that City motor vehicles will be used for unauthorized purposes. Additionally, absent vehicle usage logs or other records of vehicle usage documenting the details of all travel performed, City records do not demonstrate the extent and specific public purpose for City vehicle business use.

Recommendation: We continue to recommend that the City enhance controls governing the assignment and use of motor vehicles by enhancing policies and procedures for the assignment and use of all City vehicles. Such policies and procedures should:

- Specify the individuals authorized to assign vehicles and require documentation of the justification and approval of the assignments.
- Require the preparation and maintenance of vehicle usage logs or other records of vehicle usage that document the details of all travel performed, whether for personal or official City business, and the documented review and approval of the logs or records by supervisory personnel.

Finding 27: Motor Vehicle Taxable Fringe Benefits

Previously Reported

City records did not demonstrate that the value of personal use of City vehicles was appropriately included in each applicable employee's gross income reported to the Internal Revenue Service (IRS).

We recommended that the City continue efforts to establish policies and procedures to ensure that the value of personal use of City vehicles is appropriately included in employees' gross income reported to the IRS based on appropriately completed and approved records of City vehicle use.

Results of Follow-Up Procedures

The City corrected this finding. As discussed in Finding 26, the City did not require vehicle usage logs to be prepared to document the details of all travel performed, whether for personal or official City business. However, the City implemented use of an *Employer Provided Vehicle Personal Usage Report* and reported \$1.50 per trip for de minimis personal use of City vehicles in employees' gross income to the IRS, as authorized by the IRS "commuting rule."³⁹

Finding 28: Motor Vehicle Fuel Inventory

Previously Reported

City efforts to monitor fuel use at the fuel pumping station needed enhancement.

We recommended that the City establish effective policies and procedures for monitoring fuel use. We recommended such policies and procedures require supervisors to document periodic comparisons of fuel usage with actual vehicle mileage for reasonableness and follow up on unreasonable usage detected by the comparisons and that the policies and procedures require retention of reviewed fuel usage reports and specify consequences for employees who use the fuel pumping station for nonbusiness purposes.

Results of Follow-Up Procedures

The City had not corrected this finding. During the period October 2020 through September 2021, the City paid \$206,376 for 82,356 gallons of fuel generally used for City fleet motor vehicles. To control the dispense of the fuel, the City continued to use a fuel management system that requires a

³⁹ IRS Publication No. 15 (Circular E), *Employer's Tax Guide*.

vehicle-specific fuel key and personal identification number to be entered before fuel can be dispensed. The fuel management system provides reports of instances of fuel dispensed.

We inquired with City personnel as to whether the City had established policies and procedures requiring retention of fuel usage reports reviewed by an employee's immediate supervisor; periodic comparison of fuel usage with actual vehicle mileage for reasonableness and follow-up on unreasonable usage detected by the comparison; and consequences for inappropriate fuel usage. City personnel indicated that fuel station upgrades had been implemented in October 2020, which included the addition of new fuel tanks, piping, electrical wiring, hoses, and pumps connected to the fuel management system. However, City personnel did not provide information about established policies and procedures. We inquired again in October 2022 and in November 2022 as to whether policies and procedures had been established to address the monitoring of fuel usage and did not receive a response to either inquiry.

Absent effective policies and procedures for monitoring fuel use that require documented supervisory reviews of employee fuel usage reports and comparisons of employee fuel usage to their actual vehicle mileage for reasonableness, there is an increased risk that loss, theft, or unauthorized fuel use could occur and not be promptly detected.

Recommendation: The City should establish effective policies and procedures for monitoring fuel use. Such policies and procedures should require supervisors to document periodic comparisons of fuel usage with actual vehicle mileage for reasonableness and follow up on unreasonable usage detected by the comparisons. The policies and procedures should also require retention of reviewed fuel usage reports and specify consequences for employees who use the fuel pumping station for nonbusiness purposes.

Finding 29: Motor Vehicle Maintenance

Previously Reported

To reduce the risk of costly repairs and inconvenient downtime, the City needed to establish a comprehensive vehicle preventative maintenance plan.

We recommended that the City establish effective policies and procedures for motor vehicle repairs and maintenance, including a comprehensive Citywide motor vehicle preventative maintenance plan that tracks each motor vehicle's maintenance and repair records and costs. We recommended that the plan also prescribe routine, periodic preventative maintenance, including the specific maintenance procedures to be performed; specify maintenance and repair cost thresholds for each vehicle to assist the City in making appropriate vehicle repair, disposition, and replacement decisions based on each motor vehicle's maintenance and repair cost record; detail responsibilities for reporting vehicle operation problems; provide guidelines for determining whether maintenance and repairs should be performed by City personnel or outsourced to vendors; and require periodic motor vehicle disposition and replacement determinations based on each motor vehicle's maintenance and repair cost record.

Results of Follow-Up Procedures

The City had not corrected this finding. When asked what actions the City had taken in response to our finding and recommendation, the City provided a draft version of the City of Gulf Breeze's *Safety Program Manual* that was to be adopted in December 2022. However, the *Safety Program Manual* had

not been adopted as of May 2023, and City personnel indicated that the City was planning on implementing a more comprehensive safety policy developed by the City's insurance provider in June 2023.

The City also provided a workbook that purported to show 10-years of vehicle service records, including the cost of each service and an example vehicle inspection work order; however, the workbook was incomplete because it did not include any historical service records or related cost information. In response to our inquiries, City personnel responded that they were working on completing the workbook.

Upon request for documentation of vehicle maintenance and repair service records, including the cost of such service, City personnel indicated that the City does not have the software necessary to keep up with those details. As discussed in report No. 2021-030, the City used the work order module of the City's financial management system to track vehicle inspections, but the work order module did not track each vehicle's maintenance and repair costs.

Notwithstanding the documentation and information provided, absent effective policies and procedures for motor vehicle repairs and maintenance and implementation of a comprehensive preventative maintenance plan, there is an increased risk that avoidable vehicle repair costs will be incurred, vehicle downtime or inefficient vehicle operations will occur or continue, and management vehicle disposition and replacement decisions will be untimely or inappropriate.

Recommendation: The City should continue efforts to establish effective policies and procedures for motor vehicle repairs and maintenance, including a comprehensive Citywide motor vehicle preventative maintenance plan that tracks each motor vehicle's maintenance and repair records and costs.

TRAVEL

Finding 30: Travel

Previously Reported

City personnel and City contractors did not always comply with City travel policies, and City records did not always evidence that travel-related expenditures were adequately reviewed and supported by appropriate documentation and signed travel reports.

We recommended that the City enhance travel policies and procedures to ensure that copies of conference or convention agenda or programs are submitted for such travel and that per diem or subsistence allowances paid to the traveler are reduced for any meals or lodging included in the conference or convention registration fee; employee-signed travel reports accompanied by supporting documentation, including detailed receipts, as applicable, that clearly evidence actual travel expenses incurred and the public purpose served, are submitted by employees for all travel expenses; the traveler's department head and Finance Department personnel sufficiently review travel reports, along with supporting documentation, for compliance with City and State requirements and document payment approval or denial based on those requirements; and employees assigned City purchasing cards are provided a copy of the City's sales tax exemption certificate and present the certificate copy to vendors so that State sales tax is not collected on purchases related to authorized City travel. Additionally, we

recommended that the City ensure that contractors provide sufficient supporting documentation, including detailed receipts, as applicable, for travel reimbursement requests and that such documentation evidence that the contractor incurred travel expenses related to services provided to the City.

Results of Follow-Up Procedures

The City corrected this finding. Our examination of City records and discussions with City personnel disclosed that the City's travel policies and procedures were amended consistent with our recommendations. In addition, our examination of 30 travel expenses totaling \$9,927 and incurred during the period October 2020 through February 2022 disclosed that the expenses were supported by appropriate documentation and approved by appropriate City personnel.

PROCUREMENT AND USE OF PUBLIC FUNDS

Finding 31: City Procurement Controls

Previously Reported

To better ensure that the process for acquiring goods and services is effective and consistently administered, and procurements are made in an equitable and economic manner, the City Charter or purchasing policies need to be revised to provide clear and consistent terms, provisions, and requirements that comply with State law and to promote good business practices.

We recommended that the City continue efforts to ensure that the process for acquiring goods and services is effective and consistently administered, and procurements are made in an equitable and economic manner and that such efforts include initiating changes to the City Charter or purchasing policies to provide clear and consistent terms, provisions, and requirements that comply with State law and the City Charter and promote good business practices.

Results of Follow-Up Procedures

The City partially corrected this finding. The City Charter was revised by voter referendum in November 2022. The revised City Charter provides that the City Council shall adopt by ordinance a procurement code to provide for:

- The method of making contracts and incurring obligations for the operation of the City.
- Thresholds requiring approval of expenditures through Council action.
- Adoption by resolution of purchasing policies and procedures to guide City officials and employees in their procurement of goods and services for the City.

However, our examination of the revised City Charter disclosed that it does not address the vague, inconsistent, or ambiguous procurement provisions identified in our report No. 2021-030 and, as of March 2023, the City had not adopted an ordinance creating a new procurement code for the City. Accordingly, the vague, inconsistent, and ambiguous provisions identified in our report No. 2021-030 had not been addressed. Specifically:

- The term “personal services” contained in the previous City Charter⁴⁰ had not been defined for purposes of determining requirements for acquisition of such services using competitive purchasing procedures.
- The terms professional and non-professional services included in the City’s current purchasing policies had not been defined, nor had consistent requirements been established for those terms regarding procurements. As similarly noted in our report No. 2021-030:
 - The current policies⁴¹ establish requirements for non-professional services procurements exceeding \$5,000 but do not address professional services procurement requirements exceeding that amount.
 - One section⁴² of the current policies provides that a competitive sealed request for proposals method *may be* used to procure professional services exceeding \$5,000 under certain circumstances; however, another section⁴³ provides that a competitive sealed request for proposals method *must be* used for those circumstances.
- Clarification has not been provided to clearly specify which goods and services can be purchased by the City through piggybacking on contracts competitively procured by other entities, and to identify the types of entities whose contracts can be piggybacked.
- While the City’s current purchasing policies⁴⁴ require use of a documented prescribed process for determining whether goods or services are only available from a sole source and making such procurements, current City ordinances do not address such procurements.

In September 2022, City personnel indicated that appropriate actions will be taken based on the City Charter revisions. Effective procurement controls ensure a consistent process for acquiring goods and services in an equitable and economic manner and promote compliance with State law, the City Charter, City ordinances, and good business practices.

Recommendation: We recommend that the City Council complete its plans to adopt an ordinance that establishes a new City procurement code as provided by the revised City Charter. The procurement code and correlating purchasing policies and procedures should provide clear and consistent terms, provisions, and requirements that comply with State law, the City Charter, City ordinances, and good business practices.

Finding 32: Competitive Procurement of Goods and Services

Previously Reported

City records did not always demonstrate the use of competitive selection procedures in accordance with City purchasing policies or good business practices, and the City did not always retain records supporting procurements of goods and services.

We recommended that the City enhance controls to ensure that goods and services are procured in accordance with City purchasing policies and good business practices, including the use of appropriate competitive selection processes when contracts associated with prior competitive selections expire. We also recommended the City enhance controls to ensure the maintenance and retention of appropriate

⁴⁰ Part 1, Subpart A, Section 3(r), City of Gulf Breeze Charter.

⁴¹ Section 3, City of Gulf Breeze Purchasing Policy, adopted November 18, 2019.

⁴² Section 5.1(c), City of Gulf Breeze Purchasing Policy, adopted November 18, 2019.

⁴³ Section 5.4(a), City of Gulf Breeze Purchasing Policy, adopted November 18, 2019.

⁴⁴ Section 5.6, City of Gulf Breeze Purchasing Policy, adopted November 18, 2019.

records supporting procurements of goods and services, including documentation submitted pursuant to bid and proposal solicitations, date- and time-stamped records (e.g., envelopes) evidencing when bids and proposals are received, documentation identifying both those in attendance at bid and proposal openings and those who prepare and witness bid tabulations, and, for proposals received, documentation evidencing consideration of the evaluation factors established within the solicitation documents.

Results of Follow-Up Procedures

The City had not corrected this finding. Our examination of City records and discussions with City personnel disclosed that, during the period October 2020 through February 2022, the City expended a total of \$16.2 million for purchases individually exceeding \$5,000, and potentially subject to a competitive solicitation process. To determine whether City purchases during that period were made in accordance with the City Charter, City ordinances, City purchasing policies, and good business practices, we examined City records supporting 10 purchases totaling \$1.1 million and found that City records did not always demonstrate use of required or appropriate competitive selection procedures. Specifically, we noted:

- City purchasing policies provide that, in lieu of the City directly soliciting competitive bids or proposals, to procure needed goods or services the City may piggyback from vendor contracts awarded by other governmental entities pursuant to a competitive procurement process.⁴⁵ Contrary to those policies, the City purchased equipment⁴⁶ totaling \$151,080 using a contract awarded by a not-for-profit corporation.⁴⁷ In response to our inquiry, City personnel indicated that procuring through that not-for-profit corporation is a common practice that is economically beneficial for local governments. Notwithstanding, the City purchasing policies do not allow the use of contracts awarded by non-governmental entities. In September 2022, City personnel stated this is an area where City purchasing policies need to be updated.
- The City issued a request for proposals (RFP) for debris removal monitoring services on October 8, 2020. The RFP indicated that qualified proposals received by the submittal deadline of October 14, 2020, would be evaluated according to specific criteria, including qualifications, experience, key staff (ability, knowledge, and location), management and reporting systems, familiarity with the City, and cost proposal. City records show that five vendor proposals were submitted by the designated deadline. One of the five proposals was submitted by the City's existing vendor for the monitoring services, and the City executed a new contract with the existing vendor for the desired services on October 16, 2020.

Subsequent to the contract execution, City personnel presented agenda material to the City Council on October 19, 2020, requesting approval of that contract. The agenda material indicated that the five proposals had been reviewed in accordance with the evaluation criteria outlined in the RFP and that the existing City vendor was identified as the highest-ranked vendor, and the City Council approved the contract.

However, although requested, City records were not provided to show that the proposals were evaluated, and the vendors ranked accordingly. In response to our inquiries, City personnel indicated that, since the City Manager was the only evaluator, evaluation sheets were not used to select the highest-ranked vendor. The City Manager authorized, and the City Council granted, subsequent confirmatory approval of the selection of, and execution of the contract with, the City's existing vendor already providing the services to prevent disruption of monitoring efforts.

⁴⁵ Sections 5.1(f) and 5.7(a), City of Gulf Breeze Purchasing Policy, adopted November 18, 2019.

⁴⁶ Sewage lift station emergency bypass pumps.

⁴⁷ Florida Sheriff's Association Purchasing Cooperative.

Notwithstanding, although the City has the right to reject all proposals and otherwise procure the needed services, City personnel did not maintain adequate documentation to demonstrate that the proposal was ranked based upon the RFP criteria or to justify the decision to select the existing City vendor.

- The City issued an RFP for disaster-related debris removal services on April 4, 2019. The RFP indicated that qualified proposals received by the submission deadline of May 7, 2019, would be evaluated according to specific criteria, including price, compliance with submittal requirements, qualifications and experience, past experience with the City, and any other information City staff or the City Council may wish to consider. The RFP also provided that, while price is an important factor, the City would not be obligated to select the lowest bidder. City records show that four vendor proposals were received by the designated deadline. However, contrary to the RFP language, City records did not demonstrate that the four vendor proposals were evaluated for any criteria other than price, and on May 20, 2019, the City selected and executed a contract with the vendor that submitted the proposal with the lowest price.

Consequently, the vendor was selected on a basis inconsistent with the RFP criteria. In addition, the RFP language was ambiguous and lacked clarity as to the specific criteria that were to be applied in selection of a vendor and the weight that would be applied to each criterion.

In these instances, City records did not include adequate justification for not following the competitive procurement processes established by City purchasing policies and RFP terms and conditions and did not demonstrate that the City obtained goods and services of desired quality at the most advantageous prices. In addition, the selection of vendors using a basis other than that established in the applicable RFP increases the risk of vendor protests and additional legal costs. Also, inaccurate and incorrect information agenda material presented to the City Council for consideration and discussion at public meetings may be detrimental to the City Council's decision-making processes and misleading to the public.

Recommendation: The City should enhance controls to ensure that goods and services are procured in accordance with City purchasing policies and appropriately defined RFP terms and conditions. In addition, appropriate and adequate documentation should be prepared and retained to justify management decisions to bypass competitive procurement practices. Lastly, management should ensure that agenda items prepared for public meetings and discussions are accurate and correct.

Finding 33: Contract Documents

Previously Reported

For some acquired services, the City did not execute contracts to establish the duties, expectations, and other requirements of each party.

We recommended that the City ensure that contracts are timely executed for contractual services with payments anticipated to exceed a threshold established in City policy. We recommended such contracts include, but not be limited to, the roles and responsibilities for each party, specified deliverables, agreed-upon rates for services, method of payment, required records to document services rendered prior to payment, a termination clause, penalties for nonperformance, and a process for dispute resolution.

Results of Follow-Up Procedures

The City corrected this finding. To determine whether appropriate contracts were executed for the City's acquisition of services, we selected and examined City records associated with 8 expenditures for services totaling \$988,045 and incurred during the period October 2020 through February 2022. Our review showed that contracts were established as appropriate for those services.

Finding 34: Conflicts of Interest

Previously Reported

City procedures did not provide for identifying and documenting potential and actual conflicts of interests. We recommended that the City establish procedures for identifying potential and actual conflicts of interest when procuring goods and services and require documentation of the procedures performed.

Results of Follow-Up Procedures

The City partially corrected this finding. As disclosed in our report No. 2021-030, the City Charter⁴⁸ provides that no employee or officer of the City will enter into any commercial transaction with the City. The City purchasing procedures adopted in November 2019 provide that no official or employee shall have or hold any employment or contractual relationship with any business entity or any agency that is doing business with the City, or that will create a continuing or frequently recurring conflict of interests. The City's *Purchasing Manual* also states that no official or employee shall initiate, evaluate, recommend, develop, or approve a procurement requisition, contract, purchase order or pay request, directly or indirectly, for any supply or service from a business entity of which the official or employee has or may have a conflict of interest. In addition, effective July 1, 2021, the City required respondents to City procurement solicitations to include signed conflict of interests forms with all bids and proposals submitted to the City, and the forms require the respondent to either identify any actual or potential conflicts of interest or assert that no such conflicts exist. The forms also contain instructions requiring the respondent to disclose within their submittal (e.g., bid or proposal) the name of any officer, director, or agent who is also an employee of the City and the name of any City employee with a direct or indirect interest of more than 5 percent in the respondent's firm or any of its subsidiaries.

Notwithstanding these various provisions and requirements, the City did not revise its policies or procedures to require that City personnel assigned to evaluate and rank vendor responses to City procurement solicitations either assert in writing that they have no actual or perceived conflicts of interest regarding any of the responding vendors or to identify and document such conflicts. Such assertions and documentation would provide further assurance that no inappropriate conflicts of interest exist when vendors are selected for City business.

Recommendation: We recommend that City policies and procedures be revised to require City personnel assigned to evaluate and rank vendor bids and proposals to either identify and document any actual or perceived conflicts of interest or assert in writing that no such conflicts exist regarding responding vendors.

⁴⁸ Part 1, Subpart A, Section 3(q), City of Gulf Breeze Charter.

Finding 35: Auditor Selection

Previously Reported

City records did not demonstrate that the City financial statement auditors were selected in accordance with State law.⁴⁹

We recommended that, for future auditor selections, the City create and retain records evidencing the evaluation and ranking of the RFP respondents to demonstrate that auditors were selected in accordance with State law.

Results of Follow-Up Procedures

The City corrected this finding. On July 18, 2022, the City adopted a resolution⁵⁰ establishing an auditor selection committee for the purpose of selecting an auditor to conduct the City's annual financial statement audit. City personnel prepared an RFP for financial auditing services for fiscal years 2022 through 2026 and publicly posted it on the City's Web site on August 9, 2022. Pursuant to State law,⁵¹ appropriate factors were established for evaluating and ranking proposals received in response to the RFP. City records demonstrate that the auditor selection committee evaluated and ranked the submitted proposals on September 13, 2022, using the established criteria, and recommended the City Council select the highest-ranked firm. On September 19, 2022, the City Council awarded the contract to the highest-ranked firm.

Finding 36: Beach Access Lawsuits

Previously Reported

The City did not document a cost-benefit analysis that considered alternative options to achieve City objectives prior to entering into protracted and expensive litigation regarding beach access.

We recommended that, in the future, the City perform and document a cost-benefit analysis that includes consideration of alternative options to achieve City objectives, prior to entering into protracted and expensive litigation.

Results of Follow-Up Procedures

The City had no occasion to correct this finding. Our examination of City records and discussions with City personnel disclosed that, although the City had significant ongoing or resolved litigation during the period October 2020 through February 2022, the related legal proceedings were initiated prior to that period. The City did not enter into any litigation during the period October 2020 through February 2022 that resulted in significant legal fees to the City.

⁴⁹ Section 218.391, Florida Statutes.

⁵⁰ City of Gulf Breeze Resolution No. 17-2022, dated July 18, 2022.

⁵¹ Section 218.391, Florida Statutes.

Finding 37: Purchasing Card Expenditures

Previously Reported

City controls over purchasing cards (P-cards) and related charges need improvement.

We recommended that the City enhance its controls to ensure that P-card charges are made in accordance with the recently established policies and procedures for P-card purchases and supported by documentation evidencing the authorization, review, approval, and public purpose served by the P-card purchases.

Results of Follow-Up Procedures

The City had not corrected this finding. During the period October 2020 through February 2022, 118 City employees were assigned City P-cards and used the cards to make 2,746 purchases totaling \$1.1 million. To determine whether P-card charges were appropriate, reviewed and approved by supervisory personnel, adequately supported by vendor receipts or other documentation, and otherwise made in accordance with established City purchasing policies and procedures and good business practices, we requested for examination City records supporting 30 selected P-card charges totaling \$33,168 made by 20 City cardholders. Although requested, City personnel did not provide:

- Documentation evidencing 18 of the charges were authorized, reviewed, and approved by appropriate supervisory personnel.
- Documentation evidencing the public purpose of 13 charges totaling \$16,747. These instances included purchases of gift items for employee awards, food and meals not identified as associated with authorized employee travel or other authorized City purposes, holiday gift cards for City employees, blankets, tumblers, towels, speakers and headphones, tablets, hotel lodging in Gulf Breeze, prepaid cell phone usage, and vaccine syringes.
- Evidence, such as a receiving report, that the applicable goods were received by the City for 3 online charges totaling \$ 510.

Without the requested documentation, City records do not demonstrate that the charges were appropriate and authorized uses of City funds or that the purchased items were received and used for authorized purposes.

In addition, although requested, City personnel did not provide a signed *City Purchasing Card Holder Agreement* for one of the 20 City cardholders that made the 30 tested charges. Cardholder-signed agreements provide evidence that cardholders were made aware of the City policies and procedures governing the use of assigned P-cards, thereby reducing the risk of inappropriate purchases.

Recommendation: We continue to recommend that the City enhance controls to help ensure that P-cards are used in accordance with established policies and procedures; evidence of receipt of purchased goods and services is maintained; and P-card charges are supported by documentation evidencing the authorization, review, approval, and public purpose served by the P-card purchases.

Finding 38: Accounting and Reporting for Tourist Development Tax (TDT) Funds**Previously Reported**

The City could not fully demonstrate that TDT proceeds received from Santa Rosa County were expended in accordance with State law and County ordinance. Additionally, the City could not demonstrate that quarterly TDT reports were timely filed with the County Clerk.

We recommended that the City seek clarification from the County on the restrictive uses of TDT proceeds to ensure that the proceeds are appropriately accounted for and used in accordance with State law and County ordinances. In addition, we recommended that the City continue to follow established procedures for TDT funds accounting and reporting to ensure that quarterly TDT expenditure reports are promptly filed with the County Clerk and that such procedures be amended to provide for prompt filing of TDT expenditure reports in the absence of both the Finance Director and Assistant to the City Manager.

Results of Follow-Up Procedures

The City partially corrected this finding. To ensure that quarterly TDT reports are timely submitted to the County Clerk, the City designated specific individuals that would submit those reports in the event the Finance Director is temporarily absent. Our examination showed that quarterly TDT expenditure reports were promptly filed with the County Clerk for the for the period October 2020 through February 2022.

During the period October 2020 through February 2022, the County remitted to the City TDT funds totaling \$987,236, which the City accounted for in its Tourist Development Fund (TD Fund). In addition, the City adopted an annual budget for the TD Fund and established expenditure accounts, such as for an Arts Festival, to provide accountability for TDT expenditures.

Our examination of City records and discussions with City personnel disclosed that, in April 2022, the City submitted a copy of our report No. 2021-030 to the County. In the accompanying correspondence, the City directed County staff to the applicable audit finding and related recommendation regarding the City's lack of information from the County as to the amounts of TDT proceeds pertaining to each individual TDT levy and the associated use restrictions. However, the City did not specifically request the County to identify the amounts provided from each individual TDT levy and provide the associated use restrictions, and no evidence was provided that the County provided the City that information.

In addition, in response to our inquiries, City Finance personnel stated that all TDT proceeds collected by the County (from each of the separate levies) and remitted to the City contained accompanying documentation that included the following statement:

“To promote and advertise tourism in Florida, nationally and internationally. However, if the tax revenues are expended for an activity, service, venue, or event, the activity, service, venue, or event must have one of its main purposes the attraction of tourists as evidenced by the promotion of the activity, service, venue, or event to tourists.”

City personnel indicated that they believed the statement established the allowable uses of all TDT proceeds received from the County. Accordingly, if all TDT proceeds are used to promote and draw

tourists to the area, City personnel believed the funds would be used appropriately. However, because each of the four separate levies do not have the same use restrictions (e.g., one of the levies cannot be used to service debt incurred to promote tourism), just ensuring that TDT proceeds are used for the general use of promoting tourism is not sufficient to ensure that all proceeds are used in accordance with applicable State law and County ordinances.

Accordingly, while the City continued to account for TDT funds received in total, City budget and accounting records still did not separately identify revenues and expenditures for each individual TDT levy. Without identification of the proceed amounts and restrictions associated with each levy, the City still cannot fully demonstrate that TDT proceeds received from the County were expended in accordance with State law and County ordinances.

Recommendation: We recommend that the City request the County to identify the amounts provided from each individual levy and provide the associated use restrictions for each levy. Upon receipt of that information, the City should ensure that the TDT proceeds are appropriately accounted for and used in accordance with the governing restrictions, County ordinances, and State law.

Finding 39: Competitive Selection of Goods and Services – TDT Funded Projects

Previously Reported

The City did not always competitively select goods and services purchased with TDT moneys in accordance with the City Charter and City purchasing policies.

We recommended that City procedures be enhanced to ensure and document compliance with City Charter and City purchasing policies procurement requirements. For example, City Council decisions to waive competitive selection requirements, and the reasons for the waiver, should be in accordance with the City Charter and documented.

Results of Follow-Up Procedures

The City had not corrected this finding. Our examination of City records and discussions with City personnel disclosed that, during the period October 2020 through February 2022, the City expended \$53,089 from its TD Fund. To determine whether purchases made with TDT proceeds related to tourist development and complied with applicable requirements, we selected 3 City TDT purchases for goods and services totaling \$16,554. According to City purchasing policies,⁵² City personnel were to obtain competitive quotes from multiple vendors for the purchased goods and services. However, our examination found that records were not available to evidence that competitive quotes were obtained for any of the three purchases. In response to our inquiry, City personnel stated that quotes were obtained for two of the purchases but acknowledged that records of quotes were not available for any of the three purchases. Absent documentation demonstrating that quotes were obtained, City records did not demonstrate that City purchasing policies were followed or that the goods and services were acquired at the best prices.

⁵² City of Gulf Breeze Purchasing Policies and Procedures, Section 3.2.

Recommendation: The City should maintain documentation to demonstrate compliance with City Charter and City purchasing policies and procurement requirements.

CAPITAL ASSETS

Finding 40: Tangible Personal Property

Previously Reported

City policies and procedures did not require and ensure that an annual physical inventory of tangible personal property (TPP) was conducted and reconciled to City TPP records or that property schedules used for insurance purposes were accurate and complete.

We recommended that the City establish policies and procedures to properly account for and safeguard TPP and that such policies and procedures ensure that an annual physical TPP inventory is timely conducted by individuals who are not custodians of the property item; the inventory be documented and any differences between the inventory results and City property records thoroughly investigated and resolved; and any items determined to have been stolen are timely referred to the appropriate law enforcement agency. We also recommended that such policies and procedures ensure that property records, including schedules used for insurance purposes, are accurate and complete.

Results of Follow-Up Procedures

The City had not corrected this finding. Our examination of City records and discussions with City personnel disclosed that the City had not established policies and procedures to properly account for and safeguard City-owned TPP. In April 2022, City personnel indicated that they would consider adoption of policies and procedures and will continue to implement administrative improvements to properly account for and safeguard TPP. Upon further inquiry, City personnel indicated in August 2022, that they have not been able to find comparable municipal examples. Absent effective policies and procedures requiring sufficient TPP controls, the City has limited assurance that TPP records are accurate and complete and that TPP is adequately safeguarded.

When asked if, despite not having policies and procedures, the City performed a physical inventory of its TPP during the period October 2020 through February 2022, City personnel indicated in December 2022 that the City did not make progress with the finding and, in the second quarter of the 2022-23 fiscal year, intended to advertise for the purchase of an asset management software program and hire a dedicated procurement officer to oversee the implementation of the software.

Our examination of City records also disclosed that the City's vehicle property schedule used for insurance purposes was not accurate. Specifically, our examination of the schedule provided in December 2022 in response to our request disclosed that:

- One vehicle, identified by its vehicle identification number, was listed twice.
- Another vehicle on the vehicle property schedule had been surplus by the City Council at its May 17, 2021, meeting.

Consequently, as of December 2022, the City was unnecessarily insuring two vehicles. Accurate and complete vehicle property schedules are necessary for obtaining appropriate insurance coverage and controlling insurance costs.

Recommendation: We continue to recommend that the City establish policies and procedures to properly account for and safeguard TPP. Such policies and procedures should ensure that:

- An annual physical TPP inventory is timely conducted by individuals who are not custodians of the property items. The inventory should be documented and any differences between the inventory results and City property records should be thoroughly investigated and resolved. Any items determined to have been stolen should be timely referred to the appropriate law enforcement agency.
- Property records, including schedules used for insurance purposes, are accurate and complete.

ADMINISTRATION AND MANAGEMENT

Finding 41: Internal Audit Function

Previously Reported

The City had not established an internal audit function or otherwise provided for internal audit activities to assist management in maintaining a comprehensive framework of internal controls.

We recommended that the City consider establishing an internal audit function to assist management in maintaining a comprehensive framework of internal controls. If it is not feasible to establish a separate internal audit function, we recommended that the City consider either assigning internal audit responsibilities to City employees, obtaining the services of an accounting firm, or entering into agreements with other governmental agencies to audit certain aspects of City operations.

Results of Follow-Up Procedures

The City had not corrected this finding. Our examination of City records and discussions with City personnel disclosed that the City had not, as of March 2023, established an internal audit function, assigned internal audit responsibilities to City employees, obtained the services of an accounting firm, or entered into agreements with other governmental agencies to audit certain aspects of City operations.

Although requested, City personnel did not provide records evidencing the City’s consideration of the feasibility for establishing an internal audit function or its determination that establishing such a function was not feasible. According to City personnel, City management initially intended to assign internal audit responsibilities to an Assistant City Manager position; however, that position was subsequently eliminated, and the internal audit responsibilities were not assigned to an alternate position.

For City operations involving a high degree of risk, an established internal audit function would assist City management in the maintenance of a comprehensive framework of internal controls by providing additional assurance that controls are designed properly and operating effectively and promoting compliance with applicable laws, contracts, grant agreements, and City ordinances, policies, and procedures.

Recommendation: We continue to recommend that the City consider establishing an internal audit function to assist management in maintaining a comprehensive framework of internal controls. If it is not feasible to establish a separate internal audit function, we continue to recommend that the City consider either assigning internal audit responsibilities to City employees, obtaining the services of an accounting firm, or entering into agreements with other governmental agencies to audit certain aspects of City operations.

Finding 42: City Council Parliamentary Procedures

Previously Reported

The City Council had not adopted parliamentary procedures for conducting City Council business.

We recommended that the City periodically evaluate whether the recently implemented parliamentary procedures for conducting City Council business are sufficient and amend the procedures as appropriate.

Results of Follow-Up Procedures

The City corrected this finding. On October 7, 2019, the City adopted policies and procedures for conducting City Council business. Our examination of City records and discussions with City personnel disclosed that, the City revised the procedures on September 7, 2022, to clarify the process for the presentation and adoption of resolutions. In addition, the City repealed non-codified policies and procedures that were in conflict with the revised procedures.

Finding 43: Budget Preparation

Previously Reported

Contrary to State law,⁵³ the City's 2016-17 and 2017-18 fiscal year budgets did not include balances brought forward from prior fiscal years.

We recommended that the City ensure that budgets include all balances brought forward from prior fiscal years as required by State law.

Results of Follow-Up Procedures

The City corrected this finding. Our examination of City records and discussions with City personnel disclosed that beginning with the 2022-23 fiscal year, the City revised its budgets to include fund balances brought forward from prior fiscal years as required by State law.

Finding 44: Budgetary Recording, Reporting, and Monitoring

Previously Reported

For the 2016-17 and 2017-18 fiscal year adopted budgets, the City did not specify the legal level of budgetary control, and record and report the budget in a consistent manner, to more easily enable City personnel and financial statement users to readily determine whether resources were expended within

⁵³ Section 166.241(2), Florida Statutes.

budgeted amounts. In addition, contrary to State law, General Fund and certain proprietary fund expenditures exceeded budgeted amounts for the 2016-17 fiscal year.

We recommended that the City Council establish the legal level of budgetary control by amending the City Charter or through City ordinance to enable financial statement users to readily determine whether resources were expended within budgeted amounts at the category level consistent with City Council intent. In addition, we recommended the City enhance budgetary controls to limit actual expenditures to budgeted amounts as required by State law and to ensure that City Council-approved budgeted expenditures are properly recorded in the accounting records and reported on the financial statements.

Results of Follow-Up Procedures

The City corrected this finding. Our examination of City records and discussions with City personnel disclosed that the legal level of budgetary control for the 2021-22 fiscal year was established at the fund level by City resolution.⁵⁴ In addition, the City adopted an ordinance⁵⁵ that established the legal level of budgetary control at the fund level for subsequent fiscal years. Further, our review of City financial statements for the fiscal year ended September 30, 2021, disclosed that the notes to the financial statements indicated that the level of budgetary control was established at the fund level.

Our review of City accounting records during the period October 2020 through February 2022 showed that City Council-approved budgeted expenditures were recorded in the accounting records in a manner that allowed City personnel to ensure that actual expenditures were limited to budgeted expenditures. In addition, the City financial statements for the fiscal year ended September 30, 2021, were prepared in a manner that allowed financial statement users to determine that actual expenditures were limited to the amounts budgeted by the City Council as required by State law.⁵⁶

Finding 45: Public Records Retention

Previously Reported

The City did not always maintain records in accordance with applicable public records retention requirements.

We recommended that, to promote compliance with public records laws, the City establish policies and procedures to require and ensure that records are appropriately maintained in accordance with the applicable public records retention requirements.

Results of Follow-Up Procedures

The City had not corrected this finding. While in November 2019 the City established policies and procedures for the retention of purchasing and procurement records, our inquiries with City personnel and examination of City records disclosed that, as of June 2023, the City had not established comprehensive policies and procedures to require and ensure that other City records were appropriately

⁵⁴ City of Gulf Breeze Resolution No. 41-2021.

⁵⁵ Subpart A, Chapter 2, City of Gulf Breeze Code of Ordinances, as amended by City of Gulf Breeze Ordinance No.04-2022, passed September 19, 2022.

⁵⁶ Section 166.241(2), Florida Statutes.

maintained in accordance with applicable public records retention requirements. In June 2023, City personnel indicated that the City intended to competitively select a vendor to develop a comprehensive records management plan.

While performing our follow-up audit procedures to evaluate City operations, we again noted that City records were not always prepared, retained, or made available in accordance with State law. Specifically, according to State records retention schedules:

- Records documenting maintenance and repairs for each City vehicle must be maintained for 1 fiscal year after disposition of the vehicle or for 5 fiscal years after service, maintenance, or repair of the vehicle, whichever occurs first.⁵⁷ Although we requested, records to support each City vehicle's maintenance and repairs and related costs for the period October 2020 through February 2022 were not provided. In response to our inquiries, City personnel indicated in August 2022 that the City did not have the software to maintain such records.
- Any documentation relating to the development, modification, or implementation of an agency's final approved budget including, but not limited to, working papers, agency staff analyses, drafts, budget requests, and other supporting documentation must be maintained 3 fiscal years from the budget year to which the records pertain. As discussed in Finding 17, although requested in October 2022, as of April 2023, City records documenting the calculations for budgeted enterprise fund transfers totaling \$609,208 to the general fund and described as internal services allocations based on the City's cost allocation plan, were not provided by City personnel.
- The processing and letting of successful, unsuccessful, and canceled non-capital improvement bids including, but not limited to, requests for proposals, requests for qualifications, invitations to bid, invitations to negotiate, bid tabulations, and bid responses must be retained for 5 fiscal years after awarded or the bid project canceled. As noted in Finding 39, although requested in November 2022, as of April 2023, City personnel had not provided documentation supporting that goods or services procured using TDT proceeds were competitively selected as required by the City Charter and City Purchasing policies.
- Records providing a periodic summary of an entity's receipts and disbursements over the course of an entity's history including annual summary general ledgers, annual financial reports, or equivalent records in other forms must be permanently retained by the entity. Although requested on December 6, 2022, City records documenting the financial results of TPGC operations for the 2018-19, 2019-20, and 2020-21 fiscal years had not been provided for review as of April 2023.
- Records documenting specific financial transactions through P-Cards, including receiving reports when applicable, must be retained for 5 fiscal years after the transaction has been completed. As noted in Finding 37, City records evidencing receipt of items acquired through three P-Card charges were not provided.

Absent effective procedures and controls for the preparation and retention of public records, the City lacks assurance that public records are maintained in accordance with record retention requirements and good business practices.

Recommendation: To promote compliance with public records laws, we continue to recommend that the City establish policies and procedures to require and ensure that all records are appropriately maintained in accordance with applicable public records retention requirements.

⁵⁷ *State of Florida General Records Schedule GS1-SL for State and Local Government Agencies*, Item #104.

OBJECTIVES, SCOPE, AND METHODOLOGY

Pursuant to Section 11.45(3)(a), Florida Statutes, we conducted an operational audit of the City of Gulf Breeze (City) and issued our report No. 2021-030 in September 2020. Pursuant to Section 11.45(2)(j), Florida Statutes, the objective of this audit was to perform, no later than 18 months after the release of that report, appropriate follow-up procedures to determine the City's progress in addressing the findings and recommendations contained within report No. 2021-030.

We conducted this operational audit from March 2022 through May 2023 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 conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the follow-up audit, weaknesses in management's internal controls significant to our audit objectives. instances of noncompliance with applicable governing laws, rules, or contracts and instances of inefficient or ineffective operational policies, procedures, or practices. The overall objective of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities, and functions included within the scope of our follow-up audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; identifying and evaluating internal controls significant to our audit objectives; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included transactions, as well as events and conditions, occurring during the audit period October 2020 through February 2022, and selected City actions taken prior and subsequent thereto. Unless otherwise indicated in this report, these transactions and records were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

In conducting our audit, we:

- Reviewed applicable laws, rules, City policies and procedures, and other guidelines, and interviewed City personnel to gain an understanding of applicable requirements and determine whether the City had established effective policies and procedures for selected City functions.

- Determined if the City established effective policies and procedures for the acquisition and disposition of real property and related ongoing enterprises that require:
 - Formal independent appraisals and business valuations to establish fair and appropriate values and to substantiate the reasonableness of amounts paid or received for such property and enterprise acquisitions and disposals.
 - Feasibility studies and consultations with legal counsel to assist the City in determining whether acquisitions of real property and related ongoing enterprises are prudent, and concessions associated with such acquisitions are reasonable, practicable, enforceable, and properly approved.
- Evaluated the reasonableness of City actions pertaining to the City's continued oversight and management of Tiger Point Golf Course (TPGC) operations and subsequent sale of those operations and the related land and facilities to a private entity.
- Determined whether significant topics pertaining to operating and managing and subsequently selling TPGC operations were openly discussed at City Council meetings.
- Examined City records to determine whether the City's debt service costs attributable to TPGC operations were charged to the appropriate funding sources.
- Examined City records, which disclosed that the City sold the portions of the TPGC property, facilities, and equipment pertaining to the golf operations in February 2021, to gain an understanding of City actions related to the TPGC property and to evaluate the terms of the sale.
- Inquired of City personnel and examined City records to determine whether the City had assessed and documented any economic or other advantages gained by continuing to administer financing programs using Gulf Breeze Financial Services (GBFS) and Capital Trust Agency (CTA).
- Inquired of City personnel to determine if the City executed a contract with the CTA or the Capital Trust Authority (Authority) that included sufficient provisions to ensure that CTA and Authority operations were conducted consistent with City Council intent and applicable laws, established policies and procedures, and good business practices.
- Inquired of City personnel and examined the CTA and Authority Articles of Incorporation to determine if any amendments had been properly approved by the City Council.
- Inquired of City personnel and examined City records to determine if the City Council discussed whether CTA and Authority contributions to nonprofit organizations were necessary, and if so, whether the CTA and Authority had amended their Articles of Incorporation to explicitly address such contributions.
- Examined City records to determine if the City Council or the GBFS, CTA, or Authority Boards had established comprehensive policies and procedures governing all significant aspects of GBFS, CTA, and Authority operations.
- Evaluated City efforts to promote transparency of GBFS, CTA, and Authority activities.
- Inquired of City personnel and examined City records to determine if the City had established policies and procedures specifying the amount and frequency of GBFS, CTA, and Authority transfers and executed a contract with those entities obligating them to transfer funds according to the established policies and procedures.
- Inquired of City personnel to determine if the City consulted with the City Attorney or other appropriate legal counsel to determine what additional actions, if any, should be taken regarding recovery of questioned GBFS payments totaling \$184,777 to the former ED and \$693,252 to his consulting services firm and the \$338,824 questioned overpayment for services the consulting firm provided to the CTA.

- Inquired of City personnel and reviewed City Council meeting minutes and GBFS and CTA governing board meeting minutes during the audit period to determine if all significant topics related to the GBFS and CTA were openly discussed at such meetings and properly noticed.
- Inquired of City personnel to determine whether the City had established an employment agreement with the CTA Executive Director and had performed procedures to ascertain the reasonableness of the CTA ED's compensation package, including incentives.
- Inquired of City personnel and examined City records to determine whether the City had taken appropriate action to eliminate the potential for future conflicts of interest regarding the ED's responsibilities.
- Inquired of City personnel and examined City records to determine if the City had adequately documented the purpose of the GBFS payments totaling \$430,775 made to the City during the 2017-18 fiscal year.
- Inquired of City personnel and examined City records to determine if the City established policies and procedures addressing the allocation of City personnel and other costs to the GBFS, CTA, and the Authority.
- Inquired of City personnel and examined City records to determine if the City had established policies and procedures addressing loans to and from related organizations, required the documented determination of the necessity of such loans, and included a methodology for calculating appropriate interest rates to be assessed on such loans.
- Reviewed City records to determine if the City loaned moneys to or received loans from, the GBFS or the CTA during the audit period.
- Inquired of City personnel and examined City records to determine the status of the U.S. Department of Justice investigation regarding investment of bond proceeds under the State and Local Government Series securities program.
- Determined if the City established policies and procedures to ensure that utility rates were established pursuant utility rate studies and that utility rates charged to utility customers outside City limits were based on the same factors used in establishing rates for utility consumers inside the City.
- Reviewed City records supporting transfers from the South Santa Rosa Utility Fund and other City funds to the General Fund as reimbursement for internal services costs, made during the period October 2020 through February 2022 and totaling \$950,000, to determine whether the transfers were reasonable and adequately supported.
- Determined whether the City established water and sewer service rates for customers inside and outside the City that complied with applicable laws and good business practices, and whether those rates were established in a transparent manner.
- Determined whether controls for processing water and sewer account adjustments were strengthened to ensure appropriate review and approval by an employee other than the employee making the adjustment.
- From the population of 1,674 water and sewer utility account adjustments totaling \$213,921 made during the period October 2020 through February 2022, examined 30 account adjustments totaling \$45,792, to determine whether the adjustments were properly reviewed and approved; adequately documented; and in accordance with applicable City ordinances, resolutions, and policies and procedures.
- Inquired of City personnel and the City's group health insurance plan administrator to determine whether documentation evidencing the eligibility of dependent participants is verified prior to enrollment of the dependent in the City group health insurance plan. In addition, examined City records and inquired of City personnel to determine whether the City had established procedures

to periodically verify that employees and their dependents remained eligible to participate in the City's group health insurance plan.

- Inquired of City personnel to determine if the City revised or established, as appropriate, policies and procedures requiring the performance, and documentation, of independent verifications to ensure that accumulated leave payments are correctly calculated and in accordance with the City Personnel Manual before payments are made. Additionally, we determined if the policies and procedures addressed the payment of compensatory time and unused floating holidays.
- From the population of 39 employees who separated from City employment and received payments for accumulated leave totaling \$111,180 during the period October 2020 through February 2022, examined City records for 20 employees who received payments for accumulated leave totaling \$99,299 to determine whether City records evidenced that City personnel independently verified that the payments were correctly calculated in accordance with the City *Personnel Manual* prior to payment.
- Inquired of City personnel and examined City records to determine whether the City Council had taken any actions to recover employment separation overpayments for accumulated leave paid contrary to City policies and procedures disclosed in our report No. 2021-030 or, alternatively, had documented, of record, that such recovery actions would not be prudent.
- For the 81 employees who separated from City employment during the period October 2020 through February 2022, examined City records and inquired of City personnel to determine whether any of those employees received severance pay.
- Inquired of City personnel and examined City records to determine whether the City Council took action to recover severance payments totaling \$8,251 and \$24,000 inappropriately made to the City's former Water and Sewer Supervisor and to the former Finance Director, respectively, as disclosed in our report No. 2021-0230 or, alternatively, had documented, of record, that such recovery actions would not be prudent.
- Inquired of City personnel and examined City records to determine if the City had established policies and procedures that, consistent with Section 215.425(1), Florida Statutes, prohibit extra compensation after services have been rendered.
- Inquired of City personnel and examined City records to determine if the City's Schedules of Authorized Positions used during the period October 2020 through February 2022 included a position description and pay rate for the Special Advisor position.
- Inquired of City personnel and examined City records to determine if the City required the Special Advisor to prepare time sheets, documenting the number of hours worked and whether the time sheets were reviewed and approved by supervisory personnel. Additionally, for the 33 hours the Special Advisor worked and was paid \$1,031 during the period October 2020 through February 2022, examined City records to determine whether the payments were supported by time sheets reviewed and approved by supervisory personnel.
- Inquired of City personnel and examined City records to determine if the City took any action to recover the salary overpayment of \$717 to the Special Advisor and the excess contribution of \$156 to the Special Advisor's "Money Purchase Plan & Trust" account disclosed in our report No. 2021-0230 or, alternatively, had documented, of record, that such recovery actions would not be prudent.
- Inquired of City personnel and examined City records to determine if the City Council approved automobile and toll allowances paid to City employees for the use of their personnel vehicles to perform City business during the period October 2020 through February 2022, and if so, whether the City established policies and procedures to properly support, calculate, and pay such allowances to City employees.

- Inquired of City personnel and examined City records to determine whether the City had adequately enhanced its policies and procedures for the assignment and use of all City vehicles.
- From the population of 51 City employees assigned a take-home vehicle as of March 2023, examined City records to determine whether the City was adequately documenting the personal usage of City vehicles for 6 of the employees.
- Inquired of City personnel and examined City records to determine whether the City had established policies and procedures to require supervisory review of fuel usage reports, periodic comparisons of fuel usage with actual mileage driven for reasonableness, and investigation of any unreasonable usage detected by such comparisons.
- Inquired of City personnel and examined City records to determine if the City established policies and procedures for motor vehicle repairs and maintenance, including a comprehensive Citywide motor vehicle preventative maintenance plan that tracks each motor vehicle's maintenance and repair records and costs.
- Evaluated sufficiency of City policies and procedures for documenting and reviewing travel expenses and ensuring such expenses were incurred for a valid public purpose. From the population of 480 travel expenditures totaling \$25,273 incurred during the audit period, examined City records supporting 30 travel expenditures, totaling \$9,927, to determine whether such expenditures were:
 - Adequately documented.
 - Correctly recorded.
 - Properly authorized and approved.
 - Incurred for a valid public purpose.
 - In compliance with applicable laws, City policies and procedures, and contract terms.
- Evaluated whether City Charter procurement requirements and City purchasing policies and procedures were consistent with State law and good business practices.
- From the population of 699 expenditures totaling \$16.2 million for purchases individually exceeding \$5,000 and potentially subject to a competitive procurement selection process, examined City records for 10 expenditures totaling \$1.1 million to determine whether vendors were competitively selected in accordance with applicable laws, rules, regulations, policies and procedures, and good business practices and whether the City executed contracts to establish the duties, expectations, and requirements of each party.
- Examined City records and inquired of City personnel to determine whether the City established procedures for identifying potential and actual conflicts of interest when procuring goods and services and documented any such procedures performed.
- Examined City records to determine whether the City selected financial statement auditing services in accordance with Section 218.391, Florida Statutes.
- Examined City records for any ongoing or resolved litigation resulting in significant legal fees to the City during the audit period to determine whether the City performed and documented a cost-benefit analysis prior to engaging in prolonged and costly litigation.
- From the population of 2,746 purchasing card expenditures totaling \$1,085,241 during the audit period, examined City records supporting 30 selected expenditures totaling \$33,168 to determine whether expenditures served a valid public purpose; were authorized, reviewed, and approved; and were substantiated by receipts or detailed invoices, as applicable.
- Inquired with City personnel to determine whether the City sought clarification from Santa Rosa County (County) regarding any use restrictions for tourist development taxes (TDT) collected by

the County and remitted to the City. Also examined City records to determine whether the City had established separate accountability for the TDT proceeds to provide reasonable assurance that the TDT proceeds were expended pursuant to State law.

- Inquired with City personnel to determine whether the City had established written procedures for the submission of quarterly TDT reports to the County Clerk and examined City records to determine if the City timely submitted to the County Clerk the quarterly TDT expenditure reports due during the audit period.
- From the population of \$40,497 in expenditures individually exceeding \$1,000 paid from TDT proceeds during the audit period, examined City records for 3 TDT expenditures to determine whether the expenditures were made for tourist development purposes and that vendors were competitively selected in accordance with applicable laws, City policies and procedures, and good business practices.
- Inquired of City personnel to determine whether the City had established policies and procedures to properly account for and safeguard City-owned tangible personal property (TPP).
- Inquired of City personnel to determine if the City had performed a physical inventory of TPP during the period October 2020 through February 2022.
- Examined City records to determine whether the vehicle property schedule used for insurance purposes during the period October 2020 through February 2022 was accurate and complete by comparing the schedule to the City's TPP records.
- Inquired with City personnel to determine whether the City had established an internal audit function or, alternatively, documented consideration for assigning internal audit responsibilities to City employees, obtaining the services of an accounting firm, or entering into agreements with other governmental agencies to audit certain aspects of City operations.
- Evaluated City policies and parliamentary procedures and examined City public meeting records to determine whether procedures for conducting City Council business were sufficient.
- Examined the City's 2021-22 and 2022-23 fiscal year budgets to determine whether the City specified a legal level of budgetary control and included balances brought forward from prior fiscal years.
- Examined the City's 2020-21 fiscal year financial statements, City budget records, and City accounting records to determine whether the City Council-approved budgeted expenditures were properly recorded in the accounting records and properly reported on the financial statements and to determine whether actual expenditures exceeded budgeted expenditures for the General Fund and proprietary funds at the legal level of budgetary control.
- Evaluated City policies and procedures for ensuring that records are appropriately maintained in accordance with applicable public records retention requirements.
- Prepared a schedule of records requested and not provided that should have been maintained by the City in accordance with public records retention requirements.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report, and which describe the matters requiring corrective actions. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

AUTHORITY

Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.

A handwritten signature in blue ink that reads "Sherrill F. Norman". The signature is written in a cursive style with a large initial 'S'.

Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE



Office of the Mayor
City of Gulf Breeze
1070 Shoreline Drive
Gulf Breeze, Florida 32561
850.934.5115

August 18, 2023

Sherrill F. Norman
Auditor General, State of Florida
Claude Denson Pepper Building, Suite G74
111 West Madison Street
Tallahassee, Florida 32399-1450
flaudgen_audrpt_lg@aud.state.fl.us

Dear Ms. Norman:

In accordance with Section 11.45(4)(c), Florida Statutes, attached is the written statement of responses to the preliminary and tentative audit findings and recommendations that may be included in a report on the follow-up operational audit of the City of Gulf Breeze.

As requested, the responses are being submitted in PDF (converted from Word) and in Word source format.

Please let us know if you have any questions or need anything further from the City.

Sincerely,


Cherry Fitch,
Mayor, City of Gulf Breeze

cc: Mayor Pro Tem Tom Naile
Councilman Todd Torgersen
Councilman Randy Hebert
Councilman JB Schluter
Samantha Abell, City Manager
Mary Jane Bass, City Attorney

... will preserve and enhance its hometown character and natural environment to foster a high quality of family life.

**CITY OF GULF BREEZE RESPONSES TO PRELIMINARY AND TENTATIVE
AUDIT FINDINGS (FOLLOW-UP)**

Finding 1: Tiger Point Golf Club Purchase

Results of Follow-Up Procedures

The City partially corrected this finding.

Recommendation: The City should enhance its policies and procedures to require formal independent business valuations and comprehensive and appropriate feasibility studies for acquisitions of real property involving ongoing enterprises.

City Response to Finding 1 Follow-Up

At its regular meeting on August 7, 2023, the City Council unanimously approved Resolution No. 20-2023, adopting a revised real property acquisition policy to include procedures for acquisition of ongoing enterprises as recommended by the audit follow-up, including the requirement to obtain independent business valuations and feasibility studies. Although unrelated to the audit, the revised policy also includes provisions required for compliance with legislation passed in the 2023 session relating to property that is suitable for affordable housing. With the adoption of this revised policy, the action required to fully correct Finding 1 from the prior audit has been taken.

Finding 2: Conditional Use Permit

Results of Follow-Up Procedures

The City corrected this finding.

City Response to Finding 2 Follow-Up

No response required.

Finding 3: TPGC Operating Losses

Results of Follow-Up Procedures

The City corrected this finding.

No response required.

Finding 4: City Oversight of TPGC Operations

Results of Follow-Up Procedures

The City had no occasion to correct this finding.

City Response to Finding 4 Follow-Up

No response required.

Finding 5: Event Fees

Results of Follow-Up Procedure

The City had no occasion to correct this finding.

City Response to Finding 5 Follow-Up

No response required.

Finding 6: Competitive Selection of TPGC Goods and Services

Results of Follow-Up Procedures

The City had no occasion to correct this finding.

City Response to Finding 6 Follow-Up

No response required.

Finding 7: TPGC Land Sale

Results of Follow-Up Procedures

The City partially corrected this finding.

Recommendation: We continue to recommend that the City establish policies and procedures that require independent appraisals of current property values be obtained and considered by the City Council prior to selling surplus City-owned real property.

City Response to Finding 7 Follow-Up

The City disagrees with the follow-up finding that appraisals were not obtained prior to the sale of two of the four tracts of real property the City sold during the period October 2020 through February 2022. In fact, the City obtained appraisals or broker valuations prior to the sale of all four tracts. The reports documenting that these valuations were obtained have been provided to the auditors. Despite the fact that it is the City's practice to obtain valuations prior to marketing real property, the City will consider a policy memorializing and requiring this practice. City staff is working on an ordinance to amend Article V of the City's Code of Ordinances to require that independent appraisals be obtained prior to selling surplus real property when the value is estimated to be above a certain threshold and an appraisal would be deemed to be in the City's best interest. This approach will be in keeping with Florida law. See AGO 96-16.

Finding 8: Administration of Financing Programs

Results of Follow-Up Procedures

The City partially corrected this finding.

Recommendation: We continue to recommend that the City assess and document whether there are economic or other advantages to administering the conduit debt financing program through a separate entity. If the City determines there are no discernable advantages, the City should operate the program solely within the City organizational structure using qualified and knowledgeable City personnel.

City Response to Finding 8 Follow-Up

In City Resolutions No. 56-2021 and No. 14-2022, respectively, the City documents its rationale for the reasons for continuing the use of the Capital Trust Agency ("CTA") and later for creating the Capital Trust Authority (the "Authority"). As stated therein, the CTA/Authority has the legal authority to issue bonds to finance a wider variety of projects than conduit bond issuers created pursuant to other State laws. Proceeds of bonds issued by the CTA/Authority may be used to finance projects both inside and outside the jurisdiction of the City and the Town of Century/Quincy.

As further described below, if the City were to operate the conduit bond program within the City, it might not be able to finance similar projects as those that the Capital Trust Agency and Capital Trust Authority finance. Under Section 166, Part II, Florida Statutes, municipalities have broad borrowing powers. However, even if it could do so, there would be legal hurdles and a much greater administrative burden on the City if it operated the programs directly. Notwithstanding this, CTA and the Authority were meticulously created primarily pursuant to Section 163.01, Florida Statutes (hereinafter the "Florida Interlocal Cooperation Act"). In 2019, the Florida Supreme Court delivered a legal opinion in the case *Halifax Hospital Center, etc. v. State*, 278 So. 3d 545 (Fla. 2019), in which the Court set forth certain requirements for governmental entities to act extraterritorially. Thereafter, the Florida Interlocal Cooperation Act was amended to clarify how bonds might be issued in light of the Halifax decision. CTA and the Authority uniquely and squarely align with this new case law and legislation. This is evidenced by CTA's and the Authority's bond issuance program being successfully validated by Florida Circuit Court judges in multiple validation decisions (see Ch. 75, Fla. Stat.), which give attorneys and market participants a great deal of confidence about CTA's and the Authority's programs, including the powers to provide extraterritorial financing both within and outside of the State. Whether the City could do the same would have to be determined and in any event, carefully structured. The validation of CTA and the Authority leave no doubt on the matter as to their programs, which is extremely valuable when applied to multi-million-dollar financings. By being the entity operating the conduit financing program and the actual issuer of the bonds (for state law, federal tax law and federal securities law purposes), CTA and the Authority insulate the City from risk and administrative burden. The removal from the administrative burden and risk insulation alone are the primary reason why many Florida cities and counties have chosen to create conduit issuers for particular projects, rather than issue bonds themselves (see, e.g., the State's Florida Development Finance Corporation, the State's Higher Educational Facilities Finance Authority, Escambia County Health Facilities Authority, Orange County Industrial Development Authority, Hillsborough County Educational Facilities Authority, City of St. Petersburg Health Facilities Authority, Pinellas County Educational Facilities Authority and Miami-Dade County Industrial Development Authority, among others).

Further regarding Finding 8, the City and the Boards of the Agency and Authority have addressed concerns raised by the State Audit. Joint workshops were held on April 1, 2021, and on September 20, 2021, in which the City Council and the Agency Board reviewed with the City Attorney, the Agency Board's attorney, and bond counsel, the creation and mission of the Agency, the financing process, basis for the structure under the Interlocal Agreement, and administrative functions. The Council and Board did not find any reason to change the structure but discussed adding explanations of the reasons for the organizational structure, and details on procedures, to the Interlocal Agreement. This was accomplished through the Interlocal Agreement creating the Authority. For avoidance of doubt, the City Council, like many other Florida governmental entities, including the State and its various counties and cities, has declared, by written resolution, that CTA's and the Authority's service as issuer for its conduit bond program is more advantageous than the City administering the program itself. The Florida Supreme Court has made clear that legislative findings are "entitled to a presumption of correctness and will be upheld unless the determination is arbitrary." See, *Citizens Advocating Responsible Env't'l. Solutions, Inc. v. City of Marco Island*, 959 So. 2d 203, 206-07 (Fla. 2007). A party challenging such legislative determinations must show that such determinations were "so clearly wrong as to be beyond the power of the" legislating entity. *Nohrr v. Brevard Cnty. Educ. Facilities Auth.*, 247 So. 2d 304, 309 (Fla. 1971). Clearly those facts are not present in the instant case.

Finding 9: Control Over CTA Activities

Results of Follow-Up Procedures

The City partially corrected this finding.

Recommendation: The City should reconsider working with the Town of Century and Quincy to execute specific contracts with the CTA and Authority that contain provisions assuring that operations are conducted in accordance with City Council intent, the respective Articles of Incorporation and interlocal agreements, and applicable laws, policies and procedures, and good business practices.

City Response to Finding 9

The City does not believe that contracts with the CTA and Authority would add in any meaningful way to the legal documents already in place that ensure the agencies' operations are consistent with City Council intent, the Interlocal Agreements, and applicable law. The CTA and the Authority would not exist but for the Interlocal Agreements that established them. Stated otherwise, the Interlocal Agreements are the contracts pursuant to which the agencies operate. See Section 163.01(5) ("A joint exercise of power pursuant to this section shall be made *by contract in the form of an interlocal agreement . . .*") (emphasis added). The agencies created by the Interlocal Agreement are not parties thereto, but the Agreements establish the agencies' powers and means of operating, and the agencies are therefore bound to abide by their provisions. The agencies' powers and operations are further defined through their Articles of Incorporation and Bylaws, both of which are a part of the Interlocal Agreement and cannot be modified without the City's permission. All of these documents provide the City with the ability to ensure that the operations of the agencies are in accordance with the intent of the City as set forth in their foundational documents, and with applicable laws, policies and procedures, and good business practice. Finally, both agencies' Executive Director is an

employee of the City, the City's City Manager attends nearly every CTA Board meeting and the City's Mayor sits as a voting ex-officio member of each agency. The foregoing make certain that the agencies are conducted in accordance with City Council intent.

Finding 10: GBFS and CTA Policies and Procedures

Results of Follow-Up Procedures

The City partially corrected this finding.

Recommendation: We continue to recommend that the City ensure the establishment of appropriate policies and procedures governing the significant aspects of GBFS, CTA, and Authority operations.

City Response to Finding 10

GBFS operates directly under the City and is therefore subject to the City's policies and procedures on aspects of its operations such as budgets, cash revenues, procurement, and disbursement, to the extent those are applicable. For the CTA and the Authority, the boards of those agencies are the appropriate bodies to establish policies and procedures on operational details. However, certain aspects, as noted previously, are governed by the City's policies and procedures given that the Council approves the agencies' budgets, employs the agencies' staff, and establishes through resolutions and the Interlocal Agreements other provisions on how the agencies are to operate. The City will continue to work with the agencies' boards and staff to review policies and procedures and determine whether there are additional procedures that should be established to govern the agencies.

Finding 11: Transparency of GBFS and CTA Transactions and Activities

Results of Follow-Up Procedures

The City partially corrected this finding.

Recommendation: The City and Authority should complete the Authority's Web site to provide clear access to approved meeting minutes for each Board meeting.

City Response to Finding 11

The City will work with the Authority's Executive Director to complete the Authority's website and provide access to all Authority Board meeting minutes.

Finding 12: GBFS and CTA Transfers to the City

Results of Follow-Up Procedures

The City corrected this finding.

City Response to Finding 12 Follow-Up

No response required.

Finding 13: GBFS, CTA, and CTA-Community Development Entity Executive Director

Results of Follow-Up Procedures

The City partially corrected this finding.

Recommendation: The City should revise the ED position description to address the Authority in addition to the CTA, and clarify that the City Manager, with input from the Authority Board Chairperson and the CTA Board Chairperson, is responsible for oversight of the ED.

City Response to Finding 13 Follow-Up

The City Manager and Administrative Services Director have revised the ED position description to reflect that the ED's responsibilities also encompass the Authority and to clarify that the City Manager, with input from the Authority Board Chairperson and CTA Board chairperson, is responsible for oversight of the ED. A copy of the revised position description has been provided to the auditors.

Finding 14: Allocation of City Costs Incurred on Behalf of GBFS and CTA

Results of Follow-Up Procedures

The City partially corrected this finding.

Recommendation: The City should enhance its policies and procedures to require documentation evidencing the calculation and allocation of personnel and other costs to the GBFS, CTA, and Authority be retained.

City Response to Finding 14 Follow-Up

The City does document the calculation of the GBFS, CTA, and Authority cost allocations, but will enhance this documentation by showing the calculations in more detail.

Finding 15: GBFS Loans to and from the City

Results of Follow-Up Procedures

The City corrected this finding.

City Response to Finding 15 Follow-Up

No response required.

Finding 16: Local Government Loan Program Investments

Results of Follow-Up Procedures

The City corrected this finding.

City Response to Finding 16 Follow-Up

No response required.

Finding 17: Overall Utility Rates and Utility Fund Costs

Results of Follow-Up Procedures

The City partially corrected this finding.

Recommendation: The City should adopt policies and procedures that:

- **Address the identification and use of applicable cost factors in evaluating and establishing utility rates.**
- **Provide for documentation of the propriety and reasonableness of enterprise fund transfers to reimburse the General Fund for an equitable share of City internal services costs.**

City's Response to Finding 17 Follow-Up

City staff provides the City Council with the justification for utility rate increases at the time of the request. The justification is done by a study performed by an outside rate consultant, the application of a nationally recognized inflationary factor (usually the Consumer Price Index provided by the U.S. Bureau of Labor Statistics), or an in-house analysis of the cost of an additional service, program, or regulator requirement. This process, which has always been followed, will be documented in a written policy.

City staff has provided to the auditors documentation of the propriety and reasonableness of enterprise fund transfers to reimburse the General Fund for internal services costs. The budget narratives that were provided explain the process for determining the percentage of allocation for each fund, including the use of customer counts and number of citizens in the City. As further explained, the documentation of customer counts is maintained by the Public Works Department and provided to the Finance Department for purposes of the allocation. In fact, Public Works maintains a running spreadsheet on customers, which readily provides up to date documentation of customer counts. The City has also provided the auditors with records from the City's BS&A database showing that the fund allocation transfers approved by the Council in

the budget process were made. The City will continue this practice of allocation, with the documentation necessary to support it.

Finding 18: South Santa Rosa Utility System (SSRUS) Utility Rates

Results of Follow-Up Procedures

The City corrected this finding.

City Response to Finding 18 Follow-Up

No response required.

Finding 19: Water and Sewer Customer Account Adjustments

Results of Follow-Up Procedures

The City partially corrected this finding.

Recommendation: The City should update its leak policy to reflect the revised procedures for reviewing, approving, and documenting utility billing adjustments.

City Response to Finding 19 Follow-Up

Effective August 15, 2023, the City updated its "Credits Bill Adjustment For Leaks and Pool Filling" policy to require, as is the City's practice, that each adjustment is reviewed and approved by a designated employee other than the employee making the adjustment and that the respective approvals are documented, and approved by the City Manager if the adjustment exceeds \$500. A copy of the updated policy has been provided to the auditors.

Finding 20: Group Insurance Plan Eligibility

Results of Follow-Up Procedures

The City partially corrected this finding.

Recommendation: We recommend that the City supplement the PRM verification procedures by establishing procedures to require City personnel to periodically verify the continued eligibility of participants, including dependent participants, in the City group health insurance plans.

City Response to Finding 20 Follow-Up

On at least an annual basis and during open enrollment, the City will request that employees report any changes in their status (divorce or otherwise) that might affect the eligibility of participants, including dependents. The City will also work to establish additional procedures for periodic verification.

Finding 21: Accumulated Leave Payments

Results of Follow-Up Procedures

The City partially corrected this finding.

Recommendation: The City should consider whether paying separating employees for accrued compensatory time for exempt employees is appropriate, and if determined appropriate, revise its *Personnel Manual* to allow such payments. In addition, the City should enhance its policies and procedures to require documented, independent verifications of the accuracy of leave payment calculations before payments are made. The City should also take appropriate action to recover any employment separation overpayments or document, of record, the City Council's determination that such action is not prudent.

City Response to Finding 21 Follow-Up

City staff are working on a revision to the Personnel Manual to provide for pay out of accrued compensatory time when appropriate and required by law. The City will also set out in the Manual or in a policy its process for verification and documentation of the accuracy of leave payment calculations prior to making payment. City staff is also seeking a determination from the City Council on whether to seek recovery of employment separation overpayments under prior City administration. The City Attorney recommends against pursuing recovery of those overpayments because as set forth in the memorandum to the Mayor and City Manager dated October 28, 2022, the costs and the unlikelihood of success outweigh any potential benefit of pursuing recovery. The matter is on the City Council agenda for August 21, 2023.

Finding 22: Severance Pay

Results of Follow-Up Procedures

The City partially corrected this finding.

Recommendation: The City should take appropriate action to recover any employment separation overpayments or document the City Council's determination that such action is not prudent.

City Response to Finding 22 Follow-Up

City staff is also seeking a determination from the City Council on whether to seek recovery of employment separation overpayments under prior City administration. The City Attorney recommends against pursuing recovery of those overpayments because as set forth in the memorandum to the Mayor and City Manager dated October 28, 2022, the costs and the unlikelihood of success outweigh any potential benefit of pursuing recovery. The matter is on the City Council agenda for August 21, 2023.

Finding 23: Extra Compensation

Results of Follow-Up Procedures

The City partially corrected this finding.

Recommendation: The City should further enhance their policies and procedures to prohibit extra compensation consistent with State law.

City Response to Finding 23 Follow-Up

The City staff will propose that the Council adopt a further revision to the Personnel Manual to state that extra compensation paid after services are rendered is prohibited.

Finding 24: Special Advisor Compensation

Results of Follow-Up Procedures

The City partially corrected this finding.

Recommendation: The City should require all employee time sheets or other records documenting time worked to be reviewed and approved by supervisory personnel. Additionally, the City should establish a position description for all City positions specifying the duties and responsibilities of the position.

City Response to Finding 24 Follow-Up

The current practice is for supervisors to approve employee time sheets and records documenting time. However, City staff will propose revisions to the Personnel Manual to provide that all time sheets and other records documenting time worked are reviewed and approved by supervisors. The City now maintains position descriptions for City positions that set out the duties and responsibilities of the position. Such descriptions will be used going forward although they were not in place for all positions when the Special Advisor at issue in this Finding was retained, and recording of time for this particular position might not have been complete. The City believes this was a unique situation and will guard against it in the future.

Finding 25: Automobile and Toll Allowances

Results of Follow-Up Procedures

The City had not corrected this finding.

Recommendation: If the City intends to provide automobile and toll allowances to employees, the City Council should establish policies and procedures to properly support, calculate, and pay such allowances, regardless of whether such allowances are separately paid or factored into employee salary and benefits packages. To support the reasonableness of the automobile and toll allowance amounts, the policies and procedures should require and ensure that all employees receiving a monthly automobile or toll allowance periodically provide documentation supporting the actual costs of official business travel for a given month.

City Response to Finding 25 Follow-Up

City staff will propose revisions to the Personnel Manual to establish policies and procedures to properly support, calculate, and pay automobile and toll allowances, including requirements that employees receiving monthly automobile or toll allowances periodically provide documentation for the actual cost of official business travel for a given month.

Finding 26: Motor Vehicle Assignment and Use

The City partially corrected this finding.

Recommendation: We continue to recommend that the City enhance controls governing the assignment and use of motor vehicles by enhancing policies and procedures for the assignment and use of all City vehicles. Such policies and procedures should:

- **Specify the individuals authorized to assign vehicles and require documentation of the justification and approval of the assignments.**
- **Require the preparation and maintenance of vehicle usage logs or other records of vehicle usage that document the details of all travel performed, whether for personal or official City business, and the documented review and approval of the logs or records by supervisory personnel.**

City Response to Finding 26 Follow-Up

In the proposed revisions to the City Personnel Manual, City staff will address these recommendations to enhance controls on assignment and use of motor vehicles.

Finding 27: Motor Vehicle Taxable Fringe Benefits

Results of Follow-Up Procedures

The City corrected this finding.

City Response to Finding 27 Follow-Up

No response required.

Finding 28: Motor Vehicle Fuel Inventory

Results of Follow-Up Procedures

The City had not corrected this finding.

Recommendation: The City should establish effective policies and procedures for monitoring fuel use. Such policies and procedures should require supervisors to document periodic comparisons of fuel usage with actual vehicle mileage for reasonableness and follow up on unreasonable usage detected by the comparisons. The policies and procedures should also require retention of reviewed fuel usage reports and specify consequences for employees who use the fuel pumping station for nonbusiness purposes.

City Response to Finding 28 Follow-Up

The City has improved its fuel monitoring by utilizing FuelMaster Plus software with an on-premise server that houses the fuel Consumption Data for the entire City (See example user report). Based on past practices, we've analyzed this data annually to help produce budget numbers for every department. For additional monitoring, a camera system was also installed. The City will endeavor to continue improvements on fuel monitoring by (1) allowing the Finance Director and the Department Head (or their designees) the ability to review the fuel usage versus mileage annually; (2) providing the data to supervisors to review and cross-check against our vehicle safety work orders, which also have vehicle mileage; (3) comparing time-stamped fueling records with video records to verify after-hours fueling; and (4) installing GPS vehicle tracking devices to further provide a comparison of miles travel to fuel use.

Additionally, the City's Personnel Manual includes provisions prohibiting the use of City property, including vehicles, for public use and addresses consequences for violating those provisions. In revising the Personnel Manual, City staff will propose revisions to make clear these provisions cover use of fuel pumping stations for non-City purposes.

Finding 29: Motor Vehicle Maintenance

Results of Follow-Up Procedures

The City had not corrected this finding.

Recommendation: The City should continue efforts to establish effective policies and procedures for motor vehicle repairs and maintenance, including a comprehensive Citywide motor vehicle preventative maintenance plan that tracks each motor vehicle's maintenance and repair records and costs.

City Response to Finding 29 Follow-Up

The City will continue to work to improve its vehicle preventative maintenance. City staff intends to develop a schedule and plan for preventative maintenance that will provide tracking of vehicle maintenance and repair costs.

Finding 30: Travel

Results of Follow-Up Procedures

The City corrected this finding.

City Response to Finding 30 Follow-Up

No response required.

Finding 31: City Procurement Controls

Results of Follow-Up Procedures

The City partially corrected this finding.

Recommendation: We recommend that the City Council complete its plans to adopt an ordinance that establishes a new City procurement code as provided by the revised City Charter. The procurement code and correlating purchasing policies and procedures should provide clear and consistent terms, provisions, and requirements that comply with State law, the City Charter, City ordinances, and good business practices.

City Response to Finding 31 Follow-Up

The City Attorney and staff have drafted revisions to the City's Purchasing Policies and Procedures manual, which address the issues raised by this finding, including clarification on types of services, procedures for piggyback contracting, sole source, and other processes. Because the Purchasing Policies and Procedures manual is very detailed and lengthy, the City's ordinance provides for adoption of the manual rather than setting forth all of the detail in the ordinance. This practice is followed by many local governments. The City staff is reviewing the draft revisions to finalize and present to the Council for adoption in the near

future. In other efforts to address procurement procedures, the City has hired an additional staff person to focus on procurement and documentation of compliance with procedures. The City Attorney has, and will continue to, hold workshops with City staff on procurement policies and procedures and the need for good documentation. The City has also created templates for use in competitive solicitation packages for consistency and continuity, and the City Attorney reviews all of the packages before they are issued. Management of procurement processes is ongoing. While the City believes it has made great strides in improving its processes and documentation, it will continue those efforts.

Finding 32: Competitive Procurement of Goods and Services

Results of Follow-Up Procedures

The City had not corrected this finding.

Recommendation: The City should enhance controls to ensure that goods and services are procured in accordance with City purchasing policies and appropriately defined RFP terms and conditions. In addition, appropriate and adequate documentation should be prepared and retained to justify management decisions to bypass competitive procurement practices. Lastly, management should ensure that agenda items prepared for public meetings and discussions are accurate and correct.

City Response to Finding 32 Follow-Up

The City Attorney and staff have drafted revisions to the City's Purchasing Policies and Procedures manual, which address the issues raised by this finding, including clarification on documentation to support the use of procedures for piggyback contracting, sole source, and other processes. The City staff is reviewing the draft revisions to finalize and present to the Council for adoption in the near future. In other efforts to address procurement procedures, the City has hired an additional staff person to focus on procurement and documentation of compliance with procedures. The City Attorney has, and will continue to, hold workshops with City staff on procurement policies and procedures and the need for good documentation. The City has also created templates for use in competitive solicitation packages for consistency and continuity, and the City Attorney reviews all of the packages before they are issued. Management of procurement processes is ongoing. While the City believes it has made great strides in improving its processes and documentation, it will continue those efforts.

Finding 33: Contract Documents

Results of Follow-Up Procedures

The City corrected this finding.

City Response to Finding 33 Follow-Up

No response required.

Finding 34: Conflicts of Interest

Results of Follow-Up Procedures

The City partially corrected this finding.

Recommendation: We recommend that City policies and procedures be revised to require City personnel assigned to evaluate and rank vendor bids and proposals to either identify and document any actual or perceived conflicts of interest or assert in writing that no such conflicts exist regarding responding vendors.

City Response to Finding 34 Follow-Up

The City attorney and staff have drafted revisions to the City's Purchasing Policies and Procedures manual, which address the issues raised by this finding, including requiring written confirmation by City personnel evaluating bids and proposal that they have no conflict of interest. The City has also developed a form that will be signed by staff participating in review of bids and proposals that will affirm they have no conflict of interest with the vendors.

Finding 35: Auditor Selection

Results of Follow-Up Procedures

The City corrected this finding.

City Response to Finding 35 Follow-Up

No response required.

Finding 36: Beach Access Lawsuits

Results of Follow-Up Procedures

The City had no occasion to correct this finding.

City Response to Finding 36 Follow-Up

No response required.

Finding 37: Purchasing Card Expenditures

Results of Follow-Up Procedures

The City had not corrected this finding.

Recommendation: We continue to recommend that the City enhance controls to help ensure that P-cards are used in accordance with established policies and procedures; evidence of receipt of purchased goods and services is maintained; and P-card charges are supported by documentation evidencing the authorization, review, approval, and public purpose served by the P-card purchases.

City Response to Finding 37 Follow-Up

The City will continue to enhance its control over P-card purchases, requiring appropriate documentation on receipt of goods, authorization, review and approval that the purchases were for a public purpose. Workshops for staff involved in procurement, including the use of P-cards, will continue to emphasize the need for good documentation and following the established procedures.

Finding 38: Accounting and Reporting for Tourist Development Tax (TDT) Funds

Results of Follow-Up Procedures

The City partially corrected this finding.

Recommendation: We recommend that the City request the County to identify the amounts provided from each individual levy and provide the associated use restrictions for each levy. Upon receipt of that information, the City should ensure that the TDT proceeds are appropriately accounted for and used in accordance with the governing restrictions, County ordinances, and State law.

City Response to Finding 38 Follow-Up

The City has asked the County to provide a breakdown of the particular levies that the City's TDT monies are from and what restrictions, if any, other than for the use of promoting tourism, there are on use of those monies. However, the City of Gulf Breeze recognizes that the funds it receives from Santa Rosa County for the Tourist Development Tax can be defined as, 40% from the 1st 2 pennies, 20% from the 2nd penny, 20% from the 3rd penny and 20% from the 4th penny. All of these funds are used for tourist related projects, to enhance the experience of tourist related activities and to attract tourist to the local area as a destination for their family vacations, social activities and sporting related events. Also, pursuant to the City's Interlocal Agreement with the County, the City's proposed spending plan for TDT monies is provided to the County, thereby allowing the County to provide feedback or raise concerns over the use of the funds if there are any.

Finding 39: Competitive Selection of Goods and Services – TDT Funded Projects

Results of Follow-Up Procedures

The City had not corrected this finding.

Recommendation: The City should maintain documentation to demonstrate compliance with City Charter and City purchasing policies and procurement requirements.

City Response to Finding 39 Follow-Up

The City Attorney and staff have drafted revisions to the City's Purchasing Policies and Procedures manual, which address the issues raised by this finding, including documenting quotes obtained for competitive purchasing. Additionally, the City has hired an additional staff person to focus on procurement and documentation of compliance with procedures and the City Attorney has, and will continue to, hold workshops with City staff on procurement policies and procedures and the need for good documentation. The workshops will continue to emphasize the need for good documentation and following the established procedures, particularly when obtaining competitive quotes.

Finding 40: Tangible Personal Property

Results of Follow-Up Procedures

The City had not corrected this finding.

Recommendation: We continue to recommend that the City establish policies and procedures to properly account for and safeguard TPP. Such policies and procedures should ensure that:

- **An annual physical TPP inventory is timely conducted by individuals who are not custodians of the property items. The inventory should be documented and any differences between the inventory results and City property records should be thoroughly investigated and resolved. Any items determined to have been stolen should be timely referred to the appropriate law enforcement agency.**
- **Property records, including schedules used for insurance purposes, are accurate and complete.**

City Response to Finding 40 Follow-Up

The City will work on establishing a process for inventorying TPP and documenting and resolving any discrepancies between inventory results and City property records. The City has no reason to believe that any of its property has been stolen, but if evidence of theft is ever revealed, the matter will be handled appropriately and in conjunction with law enforcement.

Finding 41: Internal Audit Function

Results of Follow-Up Procedures

The City had not corrected this finding.

Recommendation: We continue to recommend that the City consider establishing an internal audit function to assist management in maintaining a comprehensive framework of internal controls. If it is not feasible to establish a separate internal audit function, we continue to recommend that the City consider either assigning internal audit responsibilities to City employees, obtaining the services of an accounting firm, or entering into agreements with other governmental agencies to audit certain aspects of City operations.

City Response to Finding 41 Follow-Up

To the extent resources allow, and as warranted, the City will continue to review its operations to improve and implement internal controls. The City believes it has made significant progress in establishing internal controls and will strive for ongoing review and improvement of those procedures.

Finding 42: City Council Parliamentary Procedures

Results of Follow-Up Procedures

The City corrected this finding.

City Response to Finding 42 Follow-Up

No response required.

Finding 43: Budget Preparation

Results of Follow-Up Procedures

The City corrected this finding.

City Response to Finding 43 Follow-Up

No response required.

Finding 44: Budgetary Recording, Reporting, and Monitoring

Results of Follow-Up Procedures

The City corrected this finding.

City Response to Finding 44 Follow-Up

No response required.

Finding 45: Public Records Retention

Results of Follow-Up Procedures

The City had not corrected this finding.

Recommendation: To promote compliance with public records laws, we continue to recommend that the City establish policies and procedures to require and ensure that all records are appropriately maintained in accordance with applicable public records retention requirements.

City Response to Finding 45 Follow-Up

The City has identified a firm that is used by other municipalities to provide records retention consulting. City staff plans to recommend that the firm be hired under a piggyback contract that meets the requirements of piggybacking under the Purchasing Policies and Procedures to assist the City in developing and implementing a records management plan that will address the issues raised by this finding. The goal is to have this firm on board and the effort underway by the end of the year.

End of Responses to Preliminary and Tentative Audit Findings.