

Financial and Operational Audit of the
City of Lake Alfred, Florida
For the Fiscal Year Ended September 30, 2001, and
Selected Actions Taken Prior and Subsequent Thereto

FINANCIAL AND OPERATIONAL AUDIT REPORT
Issued September 30, 2002



WILLIAM O. MONROE, CPA

**STATE OF FLORIDA
AUDITOR GENERAL**

CITY OF LAKE ALFRED, FLORIDA

FINANCIAL AND OPERATIONAL AUDIT

***For the Fiscal Year Ended September 30, 2001, and
Selected Actions Taken Prior and Subsequent Thereto***

FINANCIAL AND OPERATIONAL AUDIT

CITY OF LAKE ALFRED, FLORIDA

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2001, AND

SELECTED ACTIONS TAKEN PRIOR AND SUBSEQUENT THERETO

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September 30, 2002

The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

Pursuant to the provisions of Section 11.45, Florida Statutes, and as part of the Legislature's oversight responsibility for operations of local governmental entities, I have directed that a financial and operational audit be made of the

CITY OF LAKE ALFRED, FLORIDA

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2001, AND

SELECTED ACTIONS TAKEN PRIOR AND SUBSEQUENT THERETO

The results of the audit of the City of Lake Alfred, Florida, are presented herewith.

Respectfully submitted,

William O. Monroe

Audit supervised by:
George J. Cotellis, Jr.

Audit made by:
David A. Blanton

ABSTRACT

***FINANCIAL AND OPERATIONAL AUDIT OF THE
CITY OF LAKE ALFRED, FLORIDA
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2001, AND
SELECTED ACTIONS TAKEN PRIOR AND SUBSEQUENT THERETO***

This abstract highlights the findings of audit report No. 03-029. The entire audit report should be read for a comprehensive understanding of our audit findings and recommendations.

SCOPE, OBJECTIVES, AND METHODOLOGY

SCOPE

The Auditor General is authorized by State law to perform independent financial and operational audits of governmental entities in Florida. At its June 27, 2001, meeting, the Legislative Auditing Committee (LAC) was presented with a certified petition signed by over 20 percent of the electors of the City of Lake Alfred, Florida (City), requesting that the Auditor General conduct an audit of the City. Specific allegations that prompted the petition relate generally to budgets, long-term debt, personnel and payroll administration, travel expenditures, contractual services, and accounting records. Pursuant to Section 11.45(3)(b), Florida Statutes (2000), the LAC directed the Auditor General to conduct the audit.

The scope of this audit included an examination of the City's general purpose financial statements as of and for the fiscal year ended September 30, 2001. The audit also included an examination of selected transactions during the fiscal year ended September 30, 2001, and selected transactions taken prior and subsequent thereto, to determine whether such transactions were executed, both in manner and substance, in accordance with governing provisions of laws, ordinances, administrative rules, and other guidelines. In some instances, certain allegations required us to examine transactions related to certain specified City officials, employees, or contractors that were the subject of the allegations.

OBJECTIVES

Our audit objectives for the scope of this audit were to:

- Determine whether the City of Lake Alfred's general purpose financial statements present fairly, in all material respects, the financial position of the City at September 30, 2001, and the results of its operations (and its cash flows for Proprietary Fund Types) for the fiscal year then ended, in accordance with generally accepted accounting principles.
- Document our understanding of the City's management controls relevant to the areas identified by specific allegations. Our purpose in obtaining an understanding of management controls and making judgments with regard thereto was to determine the nature, timing, and extent of substantive audit tests and procedures to be performed.
- Determine the extent to which the City's management controls promoted and encouraged the achievement of management's objectives in the categories of compliance with controlling laws, ordinances, and other guidelines; the economic and efficient operation of the City; the reliability of financial records and reports; proper authorization of financial transactions; and safeguarding of assets.
- Evaluate management's performance in administering its assigned responsibilities in accordance with applicable laws, ordinances, and other guidelines.
- Determine the extent to which the City has corrected, or is in the process of correcting, deficiencies disclosed in the City's most recent audit reports.

As part of our audit, we also determined that the annual financial report for the fiscal year ended September 30, 2001, filed with the Department of Banking and Finance pursuant to Section 218.32, Florida Statutes, is in agreement with the City's general purpose financial statements included in this report as Exhibits A through G.

METHODOLOGY

The methodology used to develop the findings in this report included the examination of pertinent records of the City in connection with the application of procedures required by generally accepted auditing standards and applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

SUMMARY OF FINDINGS

This section of our report summarizes the results of our financial and operational audit of the City of Lake Alfred, Florida, for the fiscal year ended September 30, 2001, and selected actions taken prior and subsequent thereto.

GENERAL MANAGEMENT CONTROLS

Finding No. 1: Several findings included in the annual financial audit reports have been reported for several years without correction. These findings related primarily to the adequacy of the accounting records and procedures.

Finding No. 2: The City had not established written policies and procedures necessary to assure the efficient and consistent conduct of accounting and other business-related functions and the proper safeguarding of assets.

Finding No. 3: The City had not provided for an adequate separation of duties, or established adequate compensating controls, in several areas of business operations.

Finding No. 4: The City was unable to provide explanations and documentation for many interfund transfers and receivable/payable balances recorded to the accounting records.

Finding No. 5: Procedures for the adjustment of the accounting records through journal entries did not provide for supervisory review and approval of the entries.

Finding No. 6: The City's overall financial condition is showing signs of deterioration which, if not corrected, could result in a future financial emergency. In addition to the effects of inadequate internal controls as discussed throughout this report, factors that have contributed to this condition, include a lack of targeted fund equity levels, periodic cash analysis and forecasts, and financial plans.

BUDGETARY CONTROLS

Finding No. 7: The City did not maintain adequate documentation to support the estimated beginning fund balances on the 2000-2001 fiscal year budget and did not amend the budget to include actual beginning fund balances.

Finding No. 8: Procedures for adoption of the 2000-2001 and 2001-2002 fiscal year budgets did not provide for compliance with the time constraints for notifications to the Property Appraiser and advertisement established in Section 200.065, Florida Statutes.

Finding No. 9: The financial records disclosed budget overexpenditures totaling \$4.4 million for 201 object levels for the 2000-2001 fiscal year. The City's total governmental fund expenditures exceeded the total budgeted expenditures by \$199,332.

CASH AND INVESTMENTS

Finding No. 10: Petty cash fund disbursements were not always adequately documented and custody of the petty cash funds was not restricted to a specific employee.

Finding No. 11: The bank accounts were not promptly reconciled during and subsequent to the 2000-2001 fiscal year and adequate controls had not been implemented to prevent bank overdrafts.

Finding No. 12: Accountability for prenumbered payroll checks was deficient in that they were used out of sequence and, in some instances, were unaccounted for, and access to them was not adequately restricted.

Finding No. 13: Contrary to Chapter 717, Florida Statutes, stale-dated checks totaling \$814 and written-off by the City were not reported or remitted to the Florida Department of Banking and Finance.

Finding No. 14: The City could have earned additional investment income of approximately \$30,000 by investing more moneys with the State Board of Administration or the City's money market account.

FIXED ASSETS

Finding No. 15: Values reported for fixed assets were not supported by documentation showing their actual cost or estimated historical cost.

Finding No. 16: The tangible personal property records did not provide adequate accountability over tangible personal property as they did not contain all necessary information and did not include all property items. Further, some items could not be located or were not properly tagged.

Finding No. 17: A physical inventory of tangible personal property had not been performed since 1999.

Finding No. 18: Although the City consolidated the Internal Service Fund into the General Fund, the Internal Service Fund fixed assets were not reported in the General Fixed Assets Account Group.

Finding No. 19: The City purchased the Mariana Utilities System from Polk County, pursuant to a bid, for \$601,000 without obtaining independent appraisals or other information needed for a determination of the economic feasibility of the acquisition. The next highest bid for the System was \$251,000 less than the City's bid.

OTHER ASSETS

Finding No. 20: The City had not established an inventory system to track the usage, value, or quantity of transportation inventory items.

LONG-TERM DEBT

Finding No. 21: The City obtained a temporary bank loan of \$1,600,000 as "bridge" financing for the acquisition, construction, and equipping of specified projects, including the Mariana Utilities System, and renewed the loan several times when long-term financing could not be arranged. We found that no rate study had been performed regarding the Mariana Utilities System; significant resources were committed prior to obtaining financing; charter provisions related to the borrowing were violated; unnecessary interest expense was incurred; unnecessary financing costs were incurred; and related grant reimbursement requests were not timely filed.

Finding No. 22: The City obtained funding of approximately \$5,800,000 through the State Revolving Fund Loan Program but did not make adequate provision for loan repayment and violated loan covenants related to the escrow account, rate coverage, notification of additional debt, and the Repayment Reserve Account.

Finding No. 23: The City failed to implement effective controls over other long-term debt, including a fire truck loan and an administration building loan. Deficiencies related to the calculation of repayment amounts and incurrence of late payment penalties.

Finding No. 24: Separate accounts were not maintained in the accounting records for the various long-term debt issues.

RESTRICTED RESOURCES

Finding No. 25: Contrary to the Florida Department of Banking and Finance Uniform Accounting System Manual, special revenue funds were not used to separately account for several revenue sources that are legally restricted as to the purposes for which expenditures could be made.

Finding No. 26: Contrary to Section 336.025(1)(b)3., Florida Statutes, the capital improvement element of the City's comprehensive plan did not identify specific transportation expenditures or projects that would comply with the restricted uses of the additional \$0.05 Local Option Fuel Tax.

CASH CONTROLS AND ADMINISTRATION

Finding No. 27: Prenumbered receipt forms used to account for collections were not properly accounted for.

Finding No. 28: Responsibility for collections was not adequately documented from the point of collection to deposit due to a lack of security over the collections; use of a mail receipts log, immediate application of restrictive endorsements, and transfer documentation.

Finding No. 29: The City has not adequately implemented procedures to assure that collections of record were subsequently recorded to the accounting records and timely deposited. Several instances of missing collections were reported to the City's police department.

Finding No. 30: Due to problems with the City's utility billing software and a lack of review and follow-up of discrepancies in the billing records, the City was unable to provide explanations for over/short account balances.

REVENUES AND OTHER RECEIPTS

Finding No. 31: The City had not implemented controls to assure that all citrus fruit harvested from the City's citrus groves were properly accounted for and that corresponding revenues were received timely.

Finding No. 32: The City's utility billing and collection procedures, including those related to supervisory review of accounts, account adjustments, timeliness of billings, and delinquent accounts, were not adequate to assure the timely payment of utility bills by users.

Finding No. 33: Utility deposits were not maintained in an interest-bearing account and reconciliations between the bank account and the subsidiary records of customer deposits were not performed.

Finding No. 34: Fees or charges required by City ordinances for business license fees, fire inspection fees, sewer system surcharges, and reconnection fees were not always assessed and collected.

PERSONNEL AND PAYROLL ADMINISTRATION

Finding No. 35: Documentation evidencing the hiring of personnel was not always available as applications, personnel action record forms, and payroll deduction authorizations were not always retained and employment histories were not verified.

Finding No. 36: Contrary to Section 112.3135, Florida Statutes, a department head was responsible for the approval of time reported by a relative who worked part-time for the City.

Finding No. 37: Contrary to Section 409.2576, Florida Statutes, several persons hired by the City were not reported to the State Directory of New Hires.

Finding No. 38: Contrary to the City's Personnel Manual and Employee Handbook, personal evaluation forms were not available to document merit-based pay adjustments for several employees.

Finding No. 39: The rate of pay for three employees exceeded the maximum salary ranges in the Commission approved pay plan and for one employee was below the minimum salary range.

Finding No. 40: Pay advances totaling \$5,192 were made to 11 employees without documentation of the reasons for the advances and, in some instances, repayment of the advances. Article VII, Section 10 of the State Constitution prohibits such advances.

Finding No. 41: Bonuses totaling \$2,760 were paid to employees, but were not reported as wages or other compensation and subjected to withholding for payment of Federal income taxes and other employment taxes.

Finding No. 42: City employees were paid \$90,900 for overtime worked, without documentation of prior authorization, contrary to the City's Personnel Manual and Employee Handbook.

PROCUREMENT OF GOODS AND SERVICES

Finding No. 43: Deficiencies in the control and use of City credit cards provided to two commissioners, the City Manager, and an employee included lack of guidance on use of the credit cards; personal use of the credit cards and subsequent reimbursement contrary to Article VII, Section 10 of the State Constitution; lending of the credit cards to other employees; and lack of supporting receipts.

Finding No. 44: Deficiencies in the procedures for processing disbursements for goods and services included a lack of signatures and dates for receipt of the goods or services and failure to issue purchase orders.

Finding No. 45: Contributions totaling \$7,891 were made to the Lake Alfred Chamber of Commerce without an agreement setting forth the specific purposes for the use of the money and follow-up procedures to determine such use.

CONTRACTUAL SERVICES

Finding No. 46: The City paid \$24,050 and \$30,466 for the 1998-99 and 1999-2000 fiscal years, respectively, to an accounting firm without the benefit of a written agreement.

Finding No. 47: Payments totaling \$157,629 to an accounting firm and an engineering firm were not adequately supported by detailed invoices.

TRAVEL EXPENSES

Finding No. 48: Monthly travel allowances totaling \$4,850 were paid to the former City Manager and Interim City Manager without the signed typical month's travel statements required by Section 112.061(7)(f), Florida Statutes, and were not subjected to required withholding for Federal income tax purposes.

Finding No. 49: In 24 instances totaling \$343, meal allowances paid to travelers exceeded the meal allowance rates established in 112.061, Florida Statutes. The City had established higher meal allowance rates by resolution; however, establishment of rates in excess of those established by that section of law requires adoption of an ordinance.

Finding No. 50: Travel expenses paid for City Commissioners and employees were not always adequately supported to evidence the authorized public purpose of the travel and to permit a determination of compliance with applicable laws.

Finding No. 51: The City incurred expenses totaling \$5,548 from the Mayor's Youth Council (MYC) Board account for travel expenses for eight people to attend a National League of Cities Conference in Boston, Massachusetts. None of the expenses were supported by travel expense reports evidencing the public purpose of the trip nor were there records to document how the trip served the duties and responsibilities of the MYC. The expenses included an unreimbursed conference registration fee of \$115 for a Wauchula City Commissioner and \$174 for MYC members to attend a basketball game and movies.

COMMUNICATION EXPENDITURES

Finding No. 52: The City paid an estimated \$1,000 in Federal, State, and local telecommunication taxes from which the City is exempt.

VEHICLE USAGE

Finding No. 53: The City assigned seven vehicles to employees on a 24-hour basis without clearly identifying the necessity and benefits. Vehicle usage logs were not maintained and the personal use of the vehicles was not included in the employees' gross compensation reported to the Internal Revenue Service.

RISK MANAGEMENT PROGRAMS

Finding No. 54: The City purchased various insurance coverages for \$303,129 without obtaining bids from insurance providers.

Finding No. 55: Numerous payments of health and hospitalization coverages for City employees were remitted past the due date and in one instance coverage was cancelled due to past due balances.

Finding No. 56: The City did not complete a required self-audit relating to the Florida Municipal Insurance Trust risk pool and incurred \$7,212 in penalties assessed by the Trust.

INFORMATION TECHNOLOGY

Finding No. 57: Enhancements could be made to controls over computer access and security in the areas of security awareness, disaster recovery plans, and physical security.

Finding No. 58: Late billings to utility customers resulted from the failure to adequately test a new utility billing application prior to placing the application in operation.

OTHER MATTERS

Finding No. 59: The City destroyed bank statements from the 1997-98 fiscal year prior to completion of the required three-year retention period.

Finding No. 60: Commission approval of transcribed minutes from Commission meetings was often not included in the minutes for the subsequent meetings.

The City's written response to the audit findings and recommendations is presented as **Appendix C** to audit report No. 03-029.

FINANCIAL AND OPERATIONAL AUDIT OF THE

CITY OF LAKE ALFRED, FLORIDA

*For the Fiscal Year Ended September 30, 2001, and
Selected Actions Taken Prior and Subsequent Thereto*

FINDINGS AND RECOMMENDATIONS

General Management Controls

FINDING No. 1: Prior Audit Findings

Pursuant to State law, the City is audited annually by a certified public accounting firm. As appropriate, findings included in the City's 1999-2000 fiscal year annual financial audit report are addressed in this report. Several findings included in this report have been reported for three to six years without correction. These findings included improper recording of transactions, failure to reconcile bank accounts, failure to reconcile subsidiary records to the general ledger, and a lack of detailed and accurate fixed asset records. Failure to take corrective action in response to recommendations contained in audit reports increases the chance of errors or irregularities occurring without detection.

Recommendation

The City should ensure that audit findings are addressed in a timely manner.

FINDING No. 2: Written Policies and Procedures

Written policies and procedures, which clearly define responsibilities of employees, are essential to provide both management and employees with guidelines regarding the efficient and consistent conduct of City business and the effective safeguarding of the City's assets. In addition, written policies and procedures, if properly designed, communicated to employees, and effectively placed in operation, provide management additional assurances that City activities are conducted in accordance with applicable laws, ordinances, and other guidelines; and that City financial records provide reliable information necessary for management oversight. Written policies and procedures also assist in the training of new employees.

Our review of City operations disclosed that the City did not have written policies and procedures for many of its accounting and other business-related functions. Written procedures were not available to document controls over budgets, revenues, petty cash, cash, fixed assets, payroll and disbursement

processing, procurement of contractual services, and travel expenses. Instances of noncompliance or inadequate management control, which may have resulted, at least in part, from a lack of written policies or procedures, are discussed in subsequent findings.

Recommendation

The City should adopt comprehensive written policies and procedures consistent with applicable laws, ordinances, and other guidelines. In doing so, the City should ensure that the written policies and procedures address the instances of noncompliance and management control deficiencies discussed in this report.

FINDING No. 3: Separation of Duties

The City, to the extent possible with existing personnel, should separate employee duties so that no one employee has access to both physical assets and the related accounting records, or to other phases of a transaction. Failure to adequately separate duties increases the possibility that errors or irregularities could exist and not be promptly detected. Our review of the City's controls relating to the areas included within the scope of our audit disclosed inadequate separation of duties as follows:

- ***Water and Sewer Fee Collections.*** Employees responsible for the collection of customer utility deposits were also responsible for posting new customer deposits, preparing checks to refund customer deposits, and for adjusting the records of customers terminating service.
- ***Other Collections.*** One employee recorded collections to the accounting records, compared collections of record to subsequent deposit documentation, processed non-sufficient funds checks, prepared and recorded adjusting journal entries to the general ledger, and reconciled the bank account. This employee also had access to the utility billing system and the ability to adjust customer accounts.
- ***Payroll and Personnel Processing.*** One employee was responsible for entering payroll data into the accounting records from source documents, posting changes in rates of pay, adding new employees to the payroll system, entering overtime and other adjustments, removing terminated employees from the payroll system, and preparing payroll checks. This same employee had access to unsigned payroll checks and received unclaimed payroll checks. Further, the duties assigned to this employee were not subject to review by someone independent of the payroll processing function.
- ***Disbursement Processing.*** Two employees in the accounts payable section were jointly responsible for processing invoices for payment, recording the

disbursements to the general ledger, mailing checks to vendors, and maintaining custody of blank accounts payable checks and purchase orders. Additionally, one of these employees was also responsible for recording corrections to the general ledger and reconciling the accounts payable bank accounts.

Recommendation

The City should, to the extent practical, separate duties so that one employee does not have control of all aspects of a transaction (i.e., both recording responsibility and custody of assets). The City should also ensure that adequate compensating controls are implemented to help mitigate circumstances in which adequate separation of duties is not practical.

FINDING No. 4: Interfund Transactions

During the 2000-2001 fiscal year, the City maintained 19 different funds to account for the activities of the City. The City recorded various interfund transactions such as loans, reimbursements, and transfers between the various funds in the City's computerized accounting records. Our review of the amounts recorded for interfund transactions disclosed the following deficiencies:

- ***Due to or from Other Funds.*** Adequate explanations and supporting documentation were not maintained to explain or support the propriety of amounts recorded as due to and from other funds. Although requested, the City was unable to identify the composition of the \$3,122,072 balance of due to/from other funds recorded in the City's accounting records as of September 30, 2001.
- ***Transfers Between Funds.*** Adequate explanations and supporting documentation were not maintained to explain or support the propriety of transfers totaling approximately \$7 million (according to the City's accounting records) made between the various funds, including transfers of restricted resources from the Special Revenue Funds to the General Fund.

Although we have made adjustments to the accompanying financial statements to correctly report due to/from other funds, and transfers in/out to other funds, this does not relieve the City of its responsibility to properly report such transactions.

Recommendation

The City should ensure that adequate explanations and documentation are maintained to support the propriety of all interfund transactions recorded in the City's accounting records.

FINDING No. 5: Journal Entries

The City's computerized system produced journal entries to record certain transactions in its accounting records and to correct account coding errors. Effective controls include supervisory review and approval of journal entries by someone independent of the journal entry preparation function. Inquiry to management, and our review of selected journal entries, disclosed that procedures have not been established to provide for review and approval by appropriate supervisory personnel. The absence of supervisory review and approval results in an increased risk that unauthorized adjustments to the accounting records may occur and not be detected in a timely manner. While our audit tests did not disclose any unauthorized adjustments, our audit procedures cannot substitute for management's responsibility to implement adequate controls.

Recommendation

The City should ensure that all journal entries are subjected to supervisory review and approval, and that such review and approval is documented of record.

FINDING No. 6: Financial Condition

A municipality's financial condition affects its ability to provide services, on a continuing basis, at the level and quality required for the health, safety, and welfare of its citizens. Our assessment of the City's financial condition, based on certain financial indicator trends evaluated over a five-year period (fiscal years 1996-97 through 2000-2001), and financial indicator benchmark comparisons evaluated for the 2000-2001 fiscal year, disclosed deteriorating financial conditions. The financial condition assessment procedures consisted of evaluating 18 key financial indicators, of which 11 indicated an unfavorable rating. The following unfavorably rated financial indicators are discussed in Appendix B (including graphs depicting the City's trends over the past five fiscal years):

Total unreserved fund balance and retained earnings adjusted for inflation (**Financial Indicator 1**).

Unreserved fund balances expressed as a percentage of total expenditures (**Financial Indicator 2**).

Ratios of total cash and investments to total current liabilities and to total average monthly expenses for proprietary funds (**Financial Indicators 3 and 4**).

Total current liabilities expressed as a percentage of total revenues for governmental funds (**Financial Indicator 5**).

General long-term debt expressed on a per capita basis and adjusted for inflation (**Financial Indicator 6**).

Revenues over (under) expenditures expressed as a percentage of total revenues (**Financial Indicator 7**).

Unreserved fund balance expressed as a percentage of total revenues (**Financial Indicator 8**).

Unreserved retained earnings expressed as a percentage of total operating revenues (**Financial Indicator 9**).

Total governmental funds expenditures expressed on a per capita basis and adjusted for inflation (**Financial Indicator 10**).

Millage rate (**Financial Indicator 11**).

While the City is not currently in a state of financial emergency as defined by Section 218.503, Florida Statutes, and there were other financial indicators that did not have an unfavorable rating, we believe that the results for the indicators listed above indicate that the City's overall financial condition is showing signs of deterioration which, if not corrected, could result in a future financial emergency. The trends and benchmarks discussed in Appendix B may indicate a declining ability to maintain a stable tax and revenue structure or an adequate level of services; future budgetary problems; a declining ability to raise the cash needed to meet ongoing fiscal obligations; impairments to liquidity; deficit spending; decreasing flexibility in allocating resources or responding to economic conditions; and a reduced ability to finance capital acquisitions without borrowing.

Factors that may have contributed to the deteriorating financial conditions include:

- A lack of targeted fund equity levels.
- A lack of periodic cash analysis and forecasts.
- A lack of financial plans, short-term or long-term, to guide the financial activities of the City in a manner that would assure financial stability.
- Various control deficiencies as discussed in this report, including, for example, those relating to budgets, cash, investments, long-term debt, utility services revenues, and expenditures as discussed in Finding Nos. 9, 11, 14, 19, 21, 32, 34, and 44.

We also noted that interim financial statements (monthly or quarterly) were not provided to the Commission during the 2000-2001 and 2001-2002 fiscal years. The Commission was presented only with the cash balances, per the bank, of the various City accounts in response to inquiry from the Commission for financial information from City finance personnel. The lack of interim financial statements clearly presenting the financial condition of the City effectively leaves the Commission members without information necessary to gain an understanding of the financial status of the City, and could lead to instances of financial mismanagement, including denying expenditures when funds are available, authorizing purchases when funds are not available, and not identifying or remedying critical budget shortfalls in a timely manner. Interim financial statements that provide practical and understandable statements of summary financial information, such as total revenues and expenditures by fund and current anticipated ending fund balance amounts, would allow the Commission to more closely monitor the financial condition of the City and provide information for financial decision-making.

Recommendation

The City should take appropriate corrective actions as discussed in Finding Nos. 9, 11, 14, 19, 21, 32, 34, and 44, and develop short-term and long-term financial plans that include steps to strengthen the City's financial condition. The financial plans should include: (1) a review of spending needs; (2) a system for monitoring revenues and expenditures; (3) budget reserves to provide for future capital needs and unexpected costs; and (4) projected revenues sufficient to cover projected costs. City management should analyze existing rate structures for proprietary operations to determine their sufficiency in covering expenses, and should explore all available options to increase its revenues or decrease expenditures. In addition, City finance personnel should provide interim financial information to the Commission, including key summary financial information for monitoring the overall financial condition of the City.

Budgetary Controls

Section 166.241(3), Florida Statutes, contains requirements for the adoption and implementation of budgets by municipalities. The City Commission, by Ordinances Nos. 971-00 and 1004-01, adopted budgets for the 2000-2001 and 2001-2002 fiscal years, respectively. The City's budgeted appropriations for expenditures for all funds totaled \$5,539,594 and \$7,267,342 for the 2000-2001 and 2001-2002 fiscal years, respectively. Our review disclosed several control deficiencies or noncompliance with applicable law in the preparation, adoption, and implementation of the budget as discussed below.

FINDING No. 7: Budget Preparation

Section 166.241(3), Florida Statutes, states that the amount available from taxation and other sources, including amounts carried over from prior fiscal years, must equal the total appropriations for expenditures and reserves. Although the City's audited financial statements for the 1999-2000 fiscal year showed a total ending fund equity of \$1,592,383 (excluding contributed capital) for governmental and proprietary fund types, the City's 2000-2001 fiscal year budget showed beginning fund equities totaling only \$1,034,732. The City, in preparing its 2000-2001 fiscal year budget, did not maintain adequate documentation to support amounts estimated as beginning fund equities available from prior years. Further, the City Commission did not subsequently amend the 2000-2001 fiscal year budget to include actual beginning fund equity amounts.

Fund equity represents a governmental entity's net available resources. Although some portion of ending fund equity may be reserved for specific purposes and not be available for immediate expenditure in the subsequent fiscal year, estimated prior year ending fund equities should be carefully considered and included in the budget as the amount of such balances brought forward have a direct impact on the amount of additional funds to be raised to finance City operations. If balances brought forward are significantly underestimated, the amount of taxes or other revenue sources contemplated in the proposed budgets may be increased beyond those amounts necessary to carry out planned expenditures.

Recommendation

The City should maintain sufficient documentation to support beginning fund equities presented in the annual budget. In addition, budget amendments should be made, if necessary, to accurately show available resources from beginning fund equities.

FINDING No. 8: Budget Adoption

Section 166.241(3), Florida Statutes, requires that the governing body of each municipality adopt a budget each fiscal year by ordinance unless otherwise specified in the municipality's charter. As the City's Charter does not address the method of budget adoption and amendment for the City, the City Commission is required to adopt the budget by ordinance. Section 200.065(2), Florida Statutes, requires that the City Commission compute a millage rate necessary to fund the portion of the budget to be funded with ad valorem taxes, adopt a resolution or ordinance stating the millage rate to be levied, and prepare and consider tentative and final budgets.

While the City's procedure for budget adoption complied with the provisions of Section 166.241, Florida Statutes, such procedures did not conform to the timelines established in Section 200.065, Florida Statutes, as follows:

- ***Notification of Property Appraiser.*** Pursuant to Section 200.065(1), Florida Statutes, the base date for the timeline is the date of certification of value from the Property Appraiser or July 1, whichever is later. In the City's case, the base date for fiscal years 2000-2001 and 2001-2002 was July 1. Within 35 days of July 1, the City, pursuant to Section 200.065(2)(b), Florida Statutes, was required to notify the Property Appraiser of its proposed millage rate, roll-back rate, and date, time, and place of the public hearing for the proposed millage and tentative budget. The City's notification date for the 2000-2001 fiscal year budget was September 11, 2000, and for the 2001-2002 fiscal year budget was September 10, 2001, which was 37 and 36 days late, respectively.
- ***Advertisement of Budgets.*** Pursuant to Section 200.065(2)(d), Florida Statutes, the date of adoption of the final budget and final millage rate must not be less than 2 days, but not more than 5 days, after the day that the advertisement is first published. The City advertised the 2000-2001 budget meeting on September 18, 2000, and the 2001-2002 budget meeting on September 15, 2001. The budgets were adopted at meetings held on September 28, 2000, and September 28, 2001, resulting in the budgets being adopted 5 and 8 days late, respectively.

Recommendation

The City should follow the guidelines established by Section 200.065, Florida Statutes, when adopting future annual budgets.

FINDING No. 9: Budgetary Level of Control

Section 166.241(3), Florida Statutes, requires governing bodies of municipalities to adopt a budget each year, and provides that the budget must regulate expenditures of the municipality and that it is unlawful for any officer of a municipal government to expend or contract for expenditures in any fiscal year except in pursuance of budgeted appropriations. However, it does not establish the level of detail at which budgeted appropriations are to be made. Likewise, Section 200.065(2), Florida Statutes, requires the City Commission to adopt a budget but does not establish the level of detail for the budget. Additionally, the City's Charter does not establish the legal level of budgetary control. Consequently, it is incumbent on the City Commission to make appropriations and adopt a budget at the level of detail that it deems necessary. Once the legal level of control (i.e., the level at which expenditures may not legally exceed amounts budgeted) has been established by the City Commission, expenditures must be limited accordingly.

For the 2000-2001 and 2001-2002 fiscal year budgets, City personnel prepared a budget for presentation to the City Commission members showing budgeted revenues and expenditures at the object level, generally by department for each fund. The City's budget Ordinances Nos. 971-00 and 1004-01 did not specifically address the legal level of budgetary control. However, it is clear from these ordinances that the City Commission adopted the budgets that had been prepared by City personnel. Therefore, the level of control was established at the object level.

Although the City's accounting records provided for a comparison of actual to budgeted expenditures at the object level, the City made no budget amendments during the 2000-2001 fiscal year. Our review of these records disclosed 201 object level expenditure category overexpenditures totaling approximately \$4.4 million at September 30, 2001. In addition, we noted that the City's total actual expenditures for governmental funds for the 2000-2001 fiscal year, as shown on the accompanying financial statements, exceeded the total budgeted expenditures by \$199,332.

Recommendation

Although the City had available resources for the 2000-2001 fiscal year to offset the above-noted overexpenditures, the City, in accordance with Section 166.241(3), Florida Statutes, should ensure that future expenditures do not exceed budgetary authority.

Cash and Investments

FINDING No. 10: Petty Cash

The City maintains two petty cash funds totaling \$650. Petty cash funds were established by the City to provide for the reimbursement of miscellaneous expenses incurred. Reimbursements to the petty cash funds totaled \$9,578 during the 2000-2001 fiscal year. Our review of the City's petty cash funds reimbursements and related controls disclosed the following deficiencies:

- ***Reimbursement Without Proper Supporting Documentation.*** Our review of supporting documentation for six checks written to replenish the petty cash fund disclosed 33 instances totaling \$1,214 in which reimbursements were made to City employees without receiving receipts to support the reimbursement. Notations on the petty cash form indicated that the reimbursements were made for prisoner meals, gasoline, postage, and supplies.
- ***Overpayments.*** Our review of documentation maintained to support reimbursements disclosed that the original receipt and two photocopies of the same receipt were used as support for three different petty cash

disbursements. Reimbursements totaling \$118.48 were made to the employee for purchases totaling \$82.50. As a result, the employee was overreimbursed \$35.98.

- ***Multiple Custodians.*** Custody of the petty cash funds was not limited to a single employee. Our review disclosed that six different employees made disbursements from the petty cash fund.

Recommendation

To assure that proper accountability is maintained for petty cash funds and disbursements, the City should require that adequate documentation be maintained to support the propriety of expenditures paid through petty cash funds. Additionally, the City should restrict the custody of such funds to a specific employee.

FINDING No. 11: Bank Reconciliations

An essential element of control over assets entrusted to a governmental organization is the periodic comparison of such assets actually determined to be on hand with the recorded accountability for the assets. Because of the susceptibility of cash to loss, this is particularly important for cash on deposit with banking institutions. Accountability for such deposits is accomplished by the preparation of bank reconciliations as soon as possible after the receipt of monthly bank statements. In the event of a loss of cash, failure to reconcile bank accounts to the City's accounting records could result in a failure to detect and recover the loss.

At September 30, 2001, the City maintained 19 bank accounts into which the City's public funds were deposited. Total cash held on deposit in these accounts at September 30, 2001, was \$1,760,737. Our review of the City's bank reconciliation procedures disclosed that bank accounts of the City were not promptly reconciled during and subsequent to the 2000-2001 fiscal year. Bank reconciliations for the month of September 2001 were not completed until February 2002. At the time of our review in May 2002, 12 accounts had not been reconciled since October 2001, six accounts had not been reconciled since November 2001, and one account had not been reconciled since January 2002.

We also noted that the City failed to implement adequate controls to ensure that sufficient funds were available to cover checks written on the various bank accounts established by the City. For example, we noted that two bank balances at September 30, 2001, as reconciled by the City, contained deficit bank account balances totaling \$16,049. A review of the City's bank statements disclosed that the City incurred insufficient funds check charges totaling \$2,070 for 69 checks drawn on four different accounts that were returned by the bank for insufficient

funds. The overdrafts may have been preventable had the City done timely bank reconciliations.

Given the above-noted untimely bank reconciliations, and considering other control deficiencies disclosed in this report, such as the inadequate separation of duties (see Finding No. 3) and lack of controls over collections as discussed in Finding Nos. 27 through 30, there is an increased risk that a loss of cash could occur without being promptly detected.

Recommendation

The City should enhance controls to provide for sufficient monitoring of available cash on deposit and timely reconciliation of bank accounts.

FINDING No. 12: Payroll Checks

The City established a separate bank account for payroll transactions. Prenumbered checks are drawn from this account for the payment of employees' salaries, payroll deductions, and other miscellaneous payroll transactions. Our review of the accountability for payroll checks disclosed the following deficiencies:

- ***Using Checks Out of Sequence.*** A log was not established to provide control over the usage of the prenumbered payroll checks. Prenumbered payroll checks were often used out of sequence making it difficult to establish accountability for all checks. Manual checks were often prepared for payroll deductions and other miscellaneous transactions that the payroll accounting software could not accommodate (voided checks, reissued checks, and cancelled checks). Our review of payroll checks disclosed that a total of 140 payroll checks were unaccounted for. Using prenumbered checks in sequence, in conjunction with a log establishing accountability for the assignment and use of such checks, provides assurance that all checks are properly accounted for. Failure to adequately establish accountability and control of payroll checks increases the City's exposure to loss of public funds through unauthorized use of payroll checks.
- ***Unsecured Blank Payroll Checks.*** Access to prenumbered payroll checks was not adequately safeguarded or limited to those employees whose job duties required access. Blank payroll checks were stored unsecured within the finance department vault that was accessible to most finance department personnel including the Utility Billing Supervisor, the Utility Billing Clerk, the Treasurer, and the Personnel Technician. Additionally, we observed three blank payroll checks left unsecured in the former Treasurer's office.

The above-noted control deficiencies over payroll checks, together with the lack of timely bank reconciliations (see Finding No. 11), and inadequate separation of

duties (see Finding No. 3), increases the possibility of unauthorized disbursements.

Recommendation

The City should store blank payroll checks in a secure location and ensure that access to the checks is restricted to those persons whose job duties require access. The City should also establish controls, such as a log of checks used, to provide for the proper accountability and use of payroll checks.

FINDING No. 13: Stale-Dated Checks

Sections 717.113 and 717.115, Florida Statutes, state that all intangible property and unpaid wages, including wages on unrepresented payroll checks, that have not been claimed by the owner for more than one year after becoming payable are presumed unclaimed. Further, Sections 717.117 and 717.119, Florida Statutes, require that any person holding unclaimed property shall report such property to the Florida Department of Banking and Finance (FDBF) by May 1 of each year for the previous calendar year, and simultaneously deliver such property to the FDBF.

Our review of City bank reconciliations disclosed that unrepresented checks totaling \$814 were written-off by the City in September 2001 and such unclaimed property was retained by the City and not reported or remitted to the FDBF as required by law. Pursuant to Section 717.117(3), Florida Statutes, the City may be subject to as much as \$500 in penalties for failing to timely report unclaimed property to the FDBF.

Recommendation

The City should take appropriate action to file the required report and deliver any unclaimed property to the FDBF.

FINDING No. 14: Investment Earnings

Section 218.415, Florida Statutes, governs the investment of surplus funds by local governmental entities and authorizes various types of investments including the Local Government Surplus Funds Trust Fund administered by the Florida State Board of Administration (SBA), money market funds, interest-bearing time deposits, savings accounts, and direct obligations of the United States Treasury. As part of our audit, we determined that the City complied with Section 218.415, Florida Statutes, regarding authorized investments.

The City primarily invested surplus moneys in a money market account at a local banking institution that typically paid interest in excess of that offered by the SBA. Investments in this money market account totaled \$751,724 at September

30, 2001. The City also maintained 18 other checking accounts in low interest and non-interest bearing accounts that totaled \$1,009,013 at September 30, 2001. Interest earnings reported by the City for the 2000-2001 fiscal year totaled \$28,642. The City could have earned additional interest of approximately \$30,000 had it taken a more proactive approach to investing with either the SBA or the money market account, which offered an average rate of return of about 4.37 percent for the 2000-2001 fiscal year, rather than allowing surplus funds to remain in low or non-interest bearing accounts. For example, we noted that only three investment transactions (deposits of surplus funds) were made to the money market account for the 2000-2001 fiscal year. Further, the City maintained balances ranging from \$951,604 to \$1,821,040 in a non-interest bearing account for 43 consecutive days.

Recommendation

To maximize interest earnings on surplus City funds, the City should, when appropriate, make investments through the SBA or in other authorized investments offering competitive returns consistent with safety and liquidity requirements.

Fixed Assets

The City reported fixed assets (net of depreciation) totaling \$9,976,622 as of September 30, 2001, consisting of \$7,658,347 for the Proprietary Fund Types, and \$2,318,275 for the General Fixed Assets Account Group. A system of accountability for an entity's fixed assets should include the establishment of general ledger control accounts to provide a basis for reporting fixed assets; individual records for property items to establish accountability for each item acquired; a uniform property numbering system to establish the property's identity and ownership; and an annual physical inventory of the property items, together with a reconciliation of the physical inventory to the property subsidiary records and general ledger control accounts, to assure the accuracy of the recorded accountability. Our examination of City records and controls for fixed assets are described under the appropriate subheadings below.

FINDING No. 15: Valuation of Reported Fixed Assets

The values shown on the City's balance sheet for land; buildings and improvements; furniture and equipment; citrus groves; library books; and construction-in-progress at September 30, 2001, were not supported by documentation showing the actual cost or estimated historical cost of these assets. Although subsidiary tangible personal property records were maintained, such records were generally inadequate as discussed in Finding No. 16. Generally accepted accounting principles require that these assets be reported at their historical cost or estimated historical cost if the actual cost is not available. In the absence of records identifying the actual or estimated historical

costs of these assets, the City could not demonstrate the fairness of the values reported for such assets at September 30, 2001.

Recommendation

The City should establish adequate control and subsidiary records which, for each fixed asset owned, show the historical cost or estimated historical cost if the actual historical cost is not determinable.

FINDING No. 16: Tangible Personal Property Records

To ensure proper accountability and safeguarding of tangible personal property, the City should maintain an adequate record of each property item. Our audit tests disclosed the following deficiencies in the City's tangible personal property records:

- ***Lack of Necessary Information in the Property Records.*** In many instances, the property records did not disclose all of the information necessary to properly identify, and evidence the establishment of accountability for, property items. Missing information included identification numbers assigned by the City; name, make, or manufacturer; model number; manufacturer's serial number; method of acquisition and, for purchased items, the vendor and check number; the custodian with assigned responsibility for the item; or the date of the last physical inventory of the item.
- ***Unlocated Property Items.*** Of the 30 items selected from the property records for our physical examination, 2 items costing a total of approximately \$24,500 could not be located. Nor could City personnel otherwise demonstrate the existence of these items, which were described in the property records as a system upgrade and a power unit.
- ***Property Items Not Recorded.*** Of the 15 items physically observed to trace back to the property records, 11 were not included in the City's property records. The items included a computer, a speaker system, 2 trucks, a tractor, a backhoe, a wood chipper, 2 radios, and a television.
- ***Items Not Tagged.*** Of the 45 property items selected from the property records or by physical inspection, 34 were not properly tagged or marked as property of the City of Lake Alfred.

In addition, we noted that the City did not record 3 computers purchased at a total cost of approximately \$4,900 (according to credit card billings) in the property records, and could not provide vendor invoices for these computers. In the absence of vendor invoices describing the property and providing serial

numbers to identify these assets, we could not be assured that assets observed during our testing represented the recently purchased assets.

The deficiencies noted above serve to weaken the City's control over its tangible personal property and increase the possibility that errors and irregularities could occur and not be detected in a timely manner.

Recommendation

The City should implement procedures to ensure that the tangible personal property records are complete, and include all information necessary to properly identify property items, and that tangible personal property items are entered into property records and marked with an identifying number in a timely manner.

FINDING No. 17: Tangible Personal Property Inventory

The City reported furniture and equipment (tangible personal property) totaling \$1,106,855 at September 30, 2001. The City has not performed a physical inventory of the City's tangible personal property since 1999. Effective controls over tangible personal property include comparisons of the detailed subsidiary records with existing assets at reasonable intervals and appropriate action with respect to any differences.

Recommendation

The City should ensure that a complete physical inventory of all tangible personal property is taken annually, and the results promptly reconciled to the City's property records.

FINDING No. 18: Internal Service Fund Fixed Assets

In preparing financial statements for the 2000-2001 fiscal year, the City consolidated the Internal Service Fund into the General Fund. Appropriate accounting treatment of the consolidation of a proprietary fund into the General Fund provides that the transfer of any proprietary fund assets may be recorded in the General Fixed Assets Account Group at the asset's original cost or at the net depreciated cost at the time of the transfer.

Our review disclosed that Internal Service Fund fixed assets totaling \$1,025,612 (net of depreciation) at September 30, 2000, were not accounted for in the General Fixed Assets Account Group subsequent to the consolidation. As a result, the City, in preparing its 2000-2001 fiscal year financial statements, did not report the fixed assets reported for the Internal Service Fund on the City's 1999-2000 fiscal year financial statements. Because we have disclaimed an opinion on the

General Fixed Assets Account Group, we have not adjusted the accompanying financial statements for this improperly recorded transaction.

Recommendation

The City should review amounts recorded for assets previously reported in the Internal Service Fund, determine the method of valuation to be used for such assets, and ensure that such assets are included in the amounts reported in the General Fixed Assets Account Group.

FINDING No. 19: Acquisition of Mariana Utilities System

The City submitted a sealed bid to purchase the Mariana Utilities System from Polk County. Respondents to the request for proposals were evaluated by the County for such factors as a lump-sum purchase price, service plan, timeline, familiarity with issues, financial information, and rates and fees. This proposal was not available for public disclosure or inspection or made a part of the public records pursuant to the exemptions provided by Section 166.045(1)(a), Florida Statutes. The City was the successful bidder and was awarded the purchase of the Mariana Utilities System by the County. On December 11, 2000, the County deeded the utilities system to the City for \$601,000.

Pursuant to Section 166.045(1), Florida Statutes, municipalities acquiring property for a municipal purpose are required to obtain at least two written appraisals for purchases in excess of \$500,000. Contrary to law, the City did not obtain independent appraisals of the Mariana Utilities System. Further, corroborating information such as an engineer's report, a rate study, or five years of operating statistics was not obtained to assess the economic feasibility of the acquisition. In response to our inquiry as to how the City had determined the bid price offered, we were advised that a meeting between the former City Manager, the former Mayor, the Utilities Director, and a member of the engineering firm under contract with the City arrived at the proposed purchase price based on information supplied by the County in their request for proposals. However, the financial information presented by the County was accompanied by a disclaimer that expressly provided that the County does not warrant or in any way guarantee the completeness or accuracy of the information presented. Further, it cautioned that interested parties must undertake their own due diligence, investigation, and analysis.

Failure to obtain independent appraisals for property acquisitions limits the City's ability to demonstrate to the public that such resources are acquired at fair value. Our review disclosed that the next highest bid price was \$251,000 less than that awarded to the City. In light of this significant difference (42 percent less), and the City's inability to produce independent financial information, we could not be assured that the City had secured this property for fair value or that such a purchase benefited the City financially.

Recommendation

The City, for such acquisitions in the future, should comply with the provisions of law with regard to property acquisitions and secure independent appraisals as required. Additionally, the City should obtain independent financial information prior to such purchases to demonstrate the basis for such purchases and the resulting benefits to the City.

Other Assets

FINDING No. 20: Transportation Inventory

The City reported transportation inventory totaling \$17,772 at September 30, 2001, and expended approximately \$74,000 for transportation inventory items such as tires, tubes, gasoline, and oil during the 2000-2001 fiscal year. The City had not established an inventory system to track the usage, value, or quantity on hand for items such as tubes, tires, and other miscellaneous supplies. Absent such a system, the City cannot demonstrate that all materials and supplies were used for an authorized public purpose or available for use, and has limited assurance as to the accuracy of the value of transportation inventory reported.

Recommendation

The City should implement an inventory system to track the usage, value, and quantity on hand for transportation inventory.

Long-Term Debt

Pursuant to Section 166.111(1), Florida Statutes, the governing body of every municipality may borrow money, contract loans, and issue bonds from time to time to finance the undertaking of any capital or other project and may pledge the funds, credit, property, and taxing power of the municipality for the payment of such debts and bonds. Our audit included a review of each of the various loans or financing arrangements outstanding during the 2000-2001 fiscal year.

FINDING No. 21: Capital Project Financing

On November 6, 2000, the Commission enacted Emergency Ordinance No. E-983-00 authorizing the negotiation of a loan in the amount of \$1,600,000 to provide for the acquisition, construction, and equipping of qualifying projects through "bridge" financing as temporary funding from a bank until permanent long-term financing could be accomplished through a Florida Municipal Loan Council bond issue. On January 18, 2001, the City entered into a loan agreement with a lending institution (bank) to provide financing for the costs of the project, defined in the loan agreement as any capital expenditure incurred on or after September 7, 2000, relating to the purchase of a fire tanker/pumper, an 800 MHz

radio system and/or the Mariana Utilities System acquisition, the undertaking of extensions/improvements to the water and sewer system, and miscellaneous permitting and financing fees.

The promissory note executed between the City and the bank provided for the monthly payment of interest at 6 percent on the outstanding balance of the loan, and provided that the entire unpaid principal balance, together with all accrued and unpaid interest, was due on June 1, 2001. The City was unable to secure long-term financing, as planned, and has renewed the short-term financing arrangement with the bank several times.

During the 2000-2001 fiscal year, the City paid interest on the loan totaling \$101,867 and made no principal reductions on the \$1,600,000 loan balance. On February 4, 2002, the Commission enacted Ordinance No. 1011-02 to refinance the \$1,600,000 loan, and entered into a loan agreement with the bank on February 5, 2002. The terms of the loan agreement provided for the payment of monthly accrued interest payments to be made by the City at the rate of London InterBank Offered Rate plus 2 percent. The agreement also provided that the loan be repaid in installments of \$40,000, each due and payable, together with the accrued interest, in May 2002, August 2002, November 2002, and February 2003, with the entire remaining principal balance of \$1,440,000, together with all accrued unpaid interest, due and payable in full on March 5, 2003.

As discussed below, the City did not adequately evaluate the financial impact of the above-noted acquisitions and capital projects, and the related financing:

- ***Rate Study Not Performed.*** The Commission minutes of November 20, 2000, indicate that the bond counsel had concerns that payment for the Mariana Utilities System would be based on fees collected from residents served by the System, and therefore the bond counsel requested that a rate study be conducted prior to participation in a bond issue. Further, the Commission minutes of April 2, 2001, indicate that a Commissioner inquired as to whether the City was proceeding with a rate study for the Mariana project. The minutes indicate that the Commissioner was advised that the rate study was being completed. However, our review disclosed that the City failed to secure a rate study to determine if the purchase of the Mariana Utilities System was feasible prior to undertaking the project and assuming corresponding debt.
- ***Expenditures Before Financing Secured.*** Our review disclosed that significant resources of the City were committed prior to securing the best financing option for the majority of costs identified in the project. As shown in the table below, \$1,022,882 (64 percent of the project costs) were incurred by the City prior to securing the \$1,600,000 loan on January 18, 2001.

Project/Acquisition Description	Loan Allocation Amount per Authorizing Ordinance	Costs Incurred Prior to Securing Financing	Acquisition Date
Fire Tanker/Pumper	\$ 265,000	\$ 264,387	9/29/2000
800 MHz Radio System	157,000	157,495	11/27/2000
Mariana Utilities System	601,000	601,000	12/11/2000
Water/Sewer Utility Line Extensions	527,000		Various
Miscellaneous Permitting/Financing Fees	50,000		Various
Totals	\$1,600,000	\$1,022,882	

We also noted the following deficiencies regarding the City's administration of these acquisitions/capital projects, and related financing:

- Violations of the City Charter.** Section 166.041(3)(b), Florida Statutes, provides that the governing body of a municipality may, by two-thirds vote, enact an emergency ordinance without complying with the requirements of Section 166.041(3)(a), Florida Statutes. Section 2.10 of the City Charter, provides that to meet a public emergency affecting life, health, property or the public peace, the City Commission may adopt one or more emergency ordinances; but such ordinances may not levy taxes, grant, renew or extend a franchise, set service or user charges for any municipal services, or authorize the borrowing of money except as provided under the emergency appropriations provisions of the Charter. Contrary to Section 2.10(e) of the City Charter, Emergency Ordinance No. E-983-00, approved by the City Commission on November 6, 2000, indicated that the adoption of the ordinance was based on "substantial need" rather than to meet a public emergency, did not include a declaration that an emergency existed, and did not describe such emergency in clear and specific terms in accordance with requirements established by City Charter. Therefore, the authority for the City to authorize the financing of the various projects/acquisitions associated with the \$1,600,000 bridge loan is not apparent. Our review also disclosed that the City is in violation of the City Charter regarding the limitation on borrowings authorized by emergency ordinance. Contrary to Section 2.10(e) of the City Charter, the bridge loan and subsequent renewals extend beyond the last day of the succeeding fiscal year (September 30, 2002) in that the bridge loan's final maturity date is in March 2003.
- Unnecessary Interest Expense.** Although Emergency Ordinance No. E-983-00 and Ordinance No. 983-01 provided the authority for the negotiation of a loan, the interest rate, as identified in Section 5 of the Ordinances, provided for a fixed rate of 6 percent. Documentation was not maintained by the City to support that the interest rate specified in such Ordinances and agreed to

with the bank represented the lowest cost financing available to the City. Additionally, had the City secured the long-term financing through a Florida Municipal Loan Council bond issue as planned, rather than entering into the bridge loan agreement, it could have reduced interest expense by approximately \$16,000 during the 2000-2001 fiscal year.

- **Duplicate Funding.** Section 3.01 of the loan agreement provides that proceeds of the \$1,600,000 loan will only be used for the costs of the project. As defined by the loan agreement, the project included the Mariana Utilities System and the undertaking of extensions and improvements to the City’s water and sewer system. As of February 2002, the City had received grant awards and other loans (see discussion below under the subheading **Untimely Processing of FDEP Loan and Grant Payment Applications**) for this same project totaling \$475,645 that were not applied against the balance of the loan. Consequently, the City obtained financing from three different sources to finance the same project, resulting in unnecessary financing costs.
- **Untimely Processing of FDEP Loan and Grant Payment Applications.** Part of the project, as defined by the loan agreement, included the purchase of the Mariana Utilities System and the undertaking of extensions and improvements to the City’s water and sewer system. These projects qualified for grant and loan funding through the Florida Department of Environmental Protection (FDEP). During the 2000-2001 fiscal year, the City engaged engineers who were responsible for planning and coordinating projects associated with the Mariana Utilities System along with various other water and sewer projects. The engineers were responsible for preparing disbursement requests that would enable the City to receive funding for Mariana Utilities System projects from the FDEP. The engineer periodically prepared the disbursement requests for the City and advised City personnel that such requests required general information and signatures before processing by FDEP. The City failed to timely execute the application for grant approval and loan from FDEP. Further, the City failed to timely submit four disbursement requests prepared by the City’s engineers to receive grant and loan funding as shown below:

Payment Request No.	Available Funds	Date Prepared by Engineer	Date Submitted to FDEP
Payment Request #1	\$293,315	August 29, 2001	January 2002
Payment Request #2	8,550	September 27, 2001	January 2002
Payment Request #3	14,067	October 31, 2001	January 2002
Payment Request #4	21,846	December 7, 2001	January 2002

The City’s untimely submittal of paperwork resulted in delays in receiving grant and loan funding from FDEP. Had the City timely received such grant and loan funding, it could have more timely reduced principal on the \$1,600,000 loan on which it was having to pay 6 percent interest. We

determined that the City incurred unnecessary interest charges totaling \$8,070 during the 2000-2001 fiscal year as a result of the untimely submittal of paperwork.

The City's apparent failure to evaluate the financial impact of the project, including the acquisition of the Mariana Utilities System and related financing needs, and the other deficiencies regarding the City's administration of the project and financing as noted above, may have contributed to the deteriorating financial conditions discussed in Finding No. 6.

Recommendation

The City should evaluate the financial impact of future such projects/acquisitions on the City prior to undertaking such projects/acquisitions. Additionally, the City, prior to committing public resources for projects of this magnitude, should evaluate the various financing options and document that the most viable option was secured.

FINDING No. 22: State Revolving Fund Loan Program

The City entered into a State Revolving Fund Loan Program in the amount of \$4,911,000 with the Florida Department of Environmental Protection (FDEP) in 1990 to construct wastewater treatment facilities. The City and FDEP executed an amendment to the original agreement in 1991 providing an additional \$915,000 in loan funds. Pursuant to Section 2.01(11) of the agreement, the City is required to have the loan covenants reviewed as part of the audit process to ensure compliance with the terms of the agreement. Our review of the State Revolving Loan Fund Agreement disclosed the following violations of loan covenants:

- ***Escrow Account Under-Funded.*** Pursuant to Section 3.01 of the agreement, the City is required to establish an escrow account for the purpose of accumulating the resources necessary for making the annual loan payment. The agreement provides that the monthly deposit shall be one twelfth of the \$418,330.80 annual payment, or \$34,860.90. Our review disclosed that the City had established the escrow account as required by the loan agreement; however, the City's escrow account was approximately \$104,000 and \$243,000 under-funded at September 30, 2001, and January 31, 2002, respectively. The City transferred approximately \$244,000 into the escrow account during the two months preceding the required payment for May 2001. Our review disclosed that the City made the May 2002 payment as required; however, the general ledger account established for the escrow payments reported a negative balance of \$347,424 after the required payment.
- ***Failure to Maintain Sufficient Rate Coverage.*** Pursuant to Section 5.01 of the agreement, the City is required to maintain rates and charges for the services

furnished by the water and sewer systems sufficient to provide, in each fiscal year, pledged revenues equal to or exceeding 1.15 times the annual loan payment of \$418,330.80. Pledged revenues are those derived yearly from the operation of the water and sewer systems and any related interest income, less expenses, associated with operation and maintenance and the satisfaction of all debt service obligations. As shown below, the City failed to maintain the required rate coverage for five of the last six fiscal years.

	<u>2000-2001</u>	<u>1999-2000</u>	<u>1998-99</u>	<u>1997-98</u>	<u>1996-97</u>	<u>1995-96</u>
Operating Revenues	1,747,838	1,132,622	1,080,098	992,252	971,949	953,412
Operating Expenses	1,309,256	765,236	579,410	603,593	648,672	538,638
Investment Income	8,073	7,507	6,221	12,201	17,612	20,131
Revenues Available for Debt Service	446,655	374,893	506,909	400,860	340,889	434,905
Debt Service	471,806	438,730	428,927	428,570	418,330	418,331
Debt Service Coverage	.95	.84	1.18	.94	.81	1.04

On October 2, 2000, the Commission enacted Emergency Ordinance No. E-974-00 amending the water rates outside the City by eliminating the surcharge on out-of-city water rates. Previous to this amendment, users outside the City paid a fifty percent surcharge on water fees. Ordinance No. 974-00 adopted November 6, 2000, provided that such rates were amended based on a pledge from the City Commission due to the City's interest in purchasing the Mariana Utilities System. The City reduced revenues by approximately \$80,000 by eliminating the water surcharge for users outside the City and by approximately \$63,000 by failing to assess sewer surcharges as discussed in Finding No. 34. In light of the City's failure to maintain sufficient rate coverage for several years prior to enacting Emergency Ordinance No. E-974-00, it is not apparent why the Commission would take action to further reduce the rate coverage. Further, unless action is taken by the City to restructure the debt, reduce expenses, or increase rates, it is anticipated that rate coverage ratios will be further reduced in the 2001-2002 fiscal year based on additional debt service requirements associated with the Mariana Utilities System project as discussed in Finding No. 21; and in the 2003-2004 fiscal year when the first debt service payment is required on an additional \$324,763 loan executed with FDEP for the Mariana project and other influent transmission, treatment, and refuse upgrades for wastewater treatment plant projects.

- ***Failure to Notify FDEP of Additional Debt.*** Pursuant to Section 2.01(4) of the agreement, the City cannot issue bonds, notes or other evidences of indebtedness in any manner secured by pledged revenues without prior

written notification to FDEP. Further, Section 7.02 of the agreement provides that the City may issue additional debt obligations secured by pledged revenues of the FDEP loan; however, the City must demonstrate that the required rate coverage of 1.15 can be maintained with the additional debt. Contrary to the above FDEP loan agreement provisions, the City did not notify FDEP, or maintain the required rate coverage, prior to securing the \$1,600,000 loan discussed in Finding No. 21.

- ***Under-Funded Repayment Reserve Account.*** Pursuant to Section 3.04 of the agreement, the City is required to establish a loan repayment reserve account with a depository in the amount of fifteen (15) percent of the annual loan payment or \$62,750. The City had established the loan repayment reserve account as required; however, the account balance was \$9,641 at September 30, 2001, and, therefore, the account was under-funded by \$53,109. Pursuant to Section 3.06 of the agreement, the City is required to restore the loan repayment reserve account from the first moneys legally available for such purposes.

Failure to make adequate provision for loan repayment and material violations of loan covenants could result in unfavorable market credit ratings, an accelerated repayment schedule, or increased interest rates.

Recommendation

The City should enhance its controls to ensure that the monthly deposits to the escrow account are made, required reserves are properly maintained, and required notifications of FDEP are promptly made in accordance with the terms of the FDEP loan agreement. The City should also take appropriate action to increase rate coverage ratios to that specified by the loan agreement.

FINDING No. 23: Other Long-Term Debt

Our review of other long-term financing arrangements disclosed the following deficiencies regarding the City's administration of such financing:

- ***Fire Truck Loan.*** In June 1996, the City executed a promissory note in the amount of \$260,000 with a bank to finance the purchase of a fire truck. The terms of the agreement provided for principal and interest amortized at 5.38 percent to be paid over a ten-year period payable in equal semi-annual debt service payments consisting of principal and interest. The amortization schedule prepared for the planned repayment of the financing arrangement provided for semi-annual payment of \$13,000 plus accrued interest. Our review disclosed that the bank incorrectly billed the City for semi-annual payments of \$1,300 plus accrued interest, and the City paid the incorrect amounts. Beginning in December 2001, the City increased the amount remitted for principal to \$13,000 as required by the note. As a result of the

City's failure to adhere to the amortization schedule, the City will incur an additional \$44,700 in accrued interest and a balloon payment of approximately \$130,200 to retire the debt, if paid to term at the correct principal amount for the remaining semi-annual payments.

- **Administration Building Loan.** In February 1997, the City executed a promissory note in the amount of \$69,000 with a bank at a fixed rate of 5.25 percent to finance the acquisition of an administration building for use by the City. The loan agreement stated that forty equal quarterly principal and interest payments were to be made of \$1,884.10 with a final quarterly payment due on May 5, 2007. Our review disclosed that the bank may have miscalculated the principal and interest payments since the loan documents did not clearly indicate that there would be significant principal due in the final payment (balloon payment). We were advised by City personnel that they were not expecting a final balloon payment, and it was their understanding that the forty payments of \$1,884.10 plus a final payment of \$1,884.10 would pay off the loan in its entirety. However, if the City makes the forty quarterly payments as outlined above, the final quarterly payment due on May 5, 2007, would be \$18,215.38.
- **Late Payment Penalties.** Annual debt service payments on outstanding loans were often made pursuant to past-due notices and included amounts for late charges ranging from \$94.20 to \$393.75 during the 2000-2001 fiscal year. As a result, the City incurred approximately \$1,000 of additional fees during the 2000-2001 fiscal year, and \$1,882 for the preceding fiscal year.

Failure to implement effective controls over the administration of long-term debt increases the cost of financing to the City through unnecessary interest and payment of late fees.

Recommendation

The City should enhance its controls to ensure that terms of the various financing arrangements are properly calculated and that repayment terms, as specified in the various agreements, are adhered to.

FINDING No. 24: Accountability for Long-Term Debt Transactions

The City did not maintain separate accounts in the accounting records to provide for the various long-term debt issues and corresponding principal and interest payments. This may have contributed to the deficiencies regarding the City's administration of various financing arrangements as discussed in Finding Nos. 21 through 23.

Recommendation

The City should establish separate accounts to record principal and interest payments for each outstanding debt obligation.

Restricted Resources

FINDING No. 25: Accountability for Restricted Revenues

Pursuant to Section 218.33(2), Florida Statutes, local governmental entities must follow uniform accounting practices and procedures promulgated by the Florida Department of Banking and Finance (FDBF). The FDBF has developed a *Uniform Accounting System Manual (Manual)*, which establishes financial accounting and reporting requirements for all local governmental entities. Chapter 1 of the *Manual* requires that local governmental entities use the classification of funds as prescribed in the *Manual* and classifies a special revenue fund as the fund to use “To account for the proceeds of specific revenue sources (other than expendable trusts or for major capital projects) that are legally restricted to expenditure for specified purposes.” Accordingly, to maintain separate accountability for restricted revenue sources, the City should establish a special revenue fund for each type of restricted revenue source in accordance with the *Manual*.

During the 2000-2001 fiscal year, the City received several types of revenues that were legally restricted to expenditures for specified purposes, but for which the City did not use a special revenue fund to separately account for the revenues. These included the following revenue sources:

- ***Federal, State, and Local Grants.*** Various Federal, State, and local grants, including \$48,778 of funding from a community development block grant, local law enforcement block grant, and a recreation development assistance grant. These moneys were accounted for in the General Fund together with unrestricted City revenues.
- ***Local Option Motor Fuel Taxes.*** Received pursuant to Section 336.025, Florida Statutes, and may be used only for specific transportation expenditures as defined by Sections 336.025(1)(b)3. and 336.025(7), Florida Statutes. These moneys, which totaled \$197,420 for the 2000-2001 fiscal year, were accounted for in the General Fund together with unrestricted City revenues. See additional discussion in Finding No. 26.
- ***Ninth-Cent Fuel Tax.*** Received pursuant to Sections 206.41 and 336.021, Florida Statutes, and may be used only for specific transportation expenditures as defined by Section 336.025(7), Florida Statutes. These moneys, which totaled \$20,878 for the 2000-2001 fiscal year, were accounted for in the General Fund together with unrestricted City revenues.

- **Library Donations.** Revenues from donations for the library which may be used only for donor-specified purposes. These moneys, which totaled \$1,777 for the 2000-2001 fiscal year, were accounted for in the General Fund together with unrestricted City revenues.

Failure to account for restricted revenues through the use of separate special revenue funds limits the City's ability to control the use of restricted moneys and demonstrate in its public records that such moneys were used for authorized purposes. Although we have made adjustments to the accompanying financial statements to correctly report these restricted revenues in the Special Revenue Funds, this does not relieve the City of its responsibility to properly account for these restricted revenues.

Recommendation

The City should establish accountability for each restricted revenue source through the use of separate special revenue funds in accordance with the FDBF Manual. To the extent practical, the City should review balances on hand and recent transactions to ensure that all restricted moneys have been used for authorized purposes.

FINDING No. 26: Local Option Fuel Tax

The City received Local Option Fuel Tax moneys from a tax of \$0.11 imposed on motor fuel by the county pursuant to Section 206.41(1)(e), Florida Statutes. This tax was comprised of a \$0.06 tax levied on every gallon of motor fuel and diesel fuel sold in the county pursuant to Section 336.025(1)(a), Florida Statutes, and an additional tax of \$0.05 levied on every gallon of motor fuel sold in the county pursuant to Section 336.025(1)(b), Florida Statutes. During the 2000-2001 fiscal year, the City received \$118,140 from the \$0.06 Local Option Fuel Tax and \$78,388 from the additional \$0.05 Local Optional Fuel Tax. Our review of the City's use of Local Option Fuel Taxes disclosed the following deficiencies.

Section 336.025(1)(b)3., Florida Statutes, provides that county and municipal governments shall use the tax proceeds of the additional \$0.05 Local Option Fuel Tax for only those transportation expenditures needed to meet the requirements of the capital improvement element of an adopted comprehensive plan. The City's capital improvement element of the adopted comprehensive plan (adopted August 12, 1991, and last amended May 22, 2000), did not include specific transportation expenditures such as the planned construction of new roads, the reconstruction or resurfacing of existing paved roads, or the paving of existing graded roads. Further, the City's 5-Year Schedule of Capital Improvements, as revised by resolution and attached to the comprehensive plan, did not identify any transportation projects that would comply with the restricted uses of the additional \$0.05 Local Option Fuel Tax. As such, the additional \$0.05 tax proceeds received by the City totaling \$53,039 and \$78,388

for the 1999-2000 and 2000-2001 fiscal years, respectively, do not appear to have been expended for allowable purposes.

As discussed in Finding No. 25, the City did not separately account for the proceeds and uses of the \$0.05 and \$0.06 taxes. However, in response to our inquiry, we were provided with a supplemental schedule, independent of the accounting records, which indicated that expenditures totaling approximately \$172,000 were applied against the \$0.11 Local Option Fuel Tax. Our review of the schedule disclosed that none of these expenditures appeared to be consistent with the restrictions imposed by Section 336.025(1)(b)3., Florida Statutes, as they relate to the additional \$0.05 Local Option Fuel Tax.

Recommendation

The City should amend its comprehensive plan and 5-year Schedule of Capital Improvements to provide for the specific uses of the additional \$0.05 Local Option Fuel Tax. Also, to the extent that the additional \$0.05 Local Option Fuel Tax proceeds received in the 1999-2000, 2000-2001, and 2001-2002 fiscal years were not used for allowable transportation expenditures, such revenues should be restored to the Special Revenue Fund and used for authorized purposes.

Cash Controls and Administration

Collections of various taxes, fees, and charges (see discussion under the subheading *Revenues and Other Receipts*) are generally received at the City Hall. City management is responsible for establishing adequate controls that provide reasonable assurance that cash collections are safeguarded against loss from unauthorized use or disposition. To accomplish this, management must establish controls that include appropriate documentation procedures, separation of duties among employees, and independent internal verification procedures. Documentation procedures should include the preparation of records evidencing collections, such as the use of a receipt log (listing) or the use of prenumbered receipts, immediately upon receipt of the collections. In addition, transfers of collections between employees should be properly documented from the time of collection to deposit.

FINDING No. 27: Prenumbered Forms

Prenumbered receipt forms provide a means for documenting amounts collected by employees, and for fixing responsibility for such amounts, and to determine whether amounts collected are subsequently recorded to the accounting records and deposited. Our review disclosed that controls afforded by the use of prenumbered receipts were circumvented or negated as follows:

- **Unaccounted for Prenumbered Receipt Forms.** Although prenumbered receipt forms were used to document customer collections, an accounting of such forms was not accomplished of record. As a result, it was not practical for us to determine whether all prenumbered receipt forms acquired were properly accounted for. However, a review of prenumbered receipts for five months disclosed that 59 prenumbered receipts were missing (i.e., neither the original nor a copy was available). City personnel were unable to provide an explanation for the missing forms.
- **Use of Photocopies of Prenumbered Receipt Forms.** Photocopies of prenumbered receipt forms with hand written numbers were sometimes used to support collections rather than the official prenumbered form.

Failure to properly account for prenumbered receipt forms, and the use of photocopies of such forms, limits the effectiveness of controls afforded by their use and increases the risk that errors or irregularities could occur and not be detected in a timely fashion.

Recommendation

The City should maintain a record of prenumbered forms purchased, and periodically reconcile the record of forms purchased to forms on hand, assigned, used, or returned, and outstanding to determine whether all forms have been properly accounted for. The City should also discontinue using photocopies of prenumbered receipt forms.

FINDING No. 28: Responsibility for Collections

An effective control system requires that the receipt of collections be recorded at the initial point of collection to establish accountability as soon as possible. Also, the immediate placement of a restrictive endorsement on checks can be an effective deterrent to misappropriation of checks. The majority of the collections are handled by the utility billing department. Several other departments, such as the City Clerk, the library, building and zoning department, and the police department, collect various fees as approved by the Commission. These collections are periodically remitted by the various departments to the utility billing department clerks for inclusion in the daily deposit. Our audit disclosed that responsibility for collections was not adequately documented from the time of collection to subsequent deposit as follows:

- **Lack of Security Over Collections.** Collected funds were often left unsecured and not properly safeguarded. An investigative report prepared by the City's police department regarding missing collections (see Finding No. 29) indicated that, at times, collections were left in an employee's desk or on top of the desk and that other employees had access to these areas. The report further stated that access to the safe was not adequately restricted and that

four people had keys to the safe, and access to registers used for collections was observed to be unrestricted and available to any employee to accept payments received from customers.

- **Absence of Log for Mail Receipts.** Collections received through the mail were not recorded at the initial point of collection through the use of a mail log or other means. Such a recording at the initial point of collection establishes accountability and can be used to provide an independent verification that payments received in the mail were subsequently deposited into the City's bank account.
- **Failure to Immediately Apply a Restrictive Endorsement.** Checks received in person at the police department and library were not immediately restrictively endorsed. Rather, the restrictive endorsement was placed on the check after the collections were transferred to the employee who prepared the deposit. Failure to restrictively endorse checks upon initial receipt results in an increased risk of loss of collections to the City.
- **Lack of Transfer Documentation.** Collections were transferred between City personnel without the use of transfer documents to evidence the transfer of responsibility.

Under the above conditions, should a loss of collections occur, it may not be possible for the City to fix responsibility for the loss to the appropriate individual.

Recommendation

The City should establish procedures that require all collections to be recorded at the initial point of collection and provide for evidence of transfers among employees. All checks should be restrictively endorsed immediately upon receipt. In addition, physical access to collections should be limited to only authorized employees.

FINDING No. 29: Missing Collections/Deposits

On December 4, 2000, the City Manager reported to the Lake Alfred police department three separate instances in which daily collections totaling \$19,617 were missing as follows:

Date	Cash	Checks	Total
August 18, 2000	\$2,134.48	\$ 4,492.57	\$ 6,627.05
September 1, 2000	2,030.50	4,021.10	6,051.60
September 6, 2000	512.18	6,425.89	6,938.07
Totals	\$4,677.16	\$14,939.56	\$19,616.72

The police department's investigative report and other correspondence maintained by the City disclosed control deficiencies that hindered the investigation and limited the City's ability to affix responsibility for the three missing deposits (see Finding No. 28). For example, the City did not have procedures in place to determine that collections were deposited timely and to establish accountability for such collections. Nobody independent of employees responsible for collecting fees, preparing receipts, and submitting collections to the utility billing department for deposit compared the validated deposit slip to the source documents to ensure that all payments were received and all cash collections were deposited, and no independent comparisons were made of fees owed based on authorized rates with recorded collections. The investigative report indicated that the above-noted discrepancies had not been reported to law enforcement earlier because management had not become aware of it until customers inquired about outstanding checks payable to the City.

The investigative report further disclosed that the August 18, 2000, collections were reported to have been dropped in a night depository at the bank, while the other two days collections were reported as missing. On March 21, 2002, the Lake Alfred police department turned the investigation over to the State Attorney's Office for review and recommendations. The State Attorney's Office subsequently concluded that no criminal prosecution was warranted.

On September 24, 2001, the City's former attorney advised the City to contact the customers whose checks were included in the daily collections that had not been submitted for payment and request the customers to reissue the checks. The attorney further advised that any customer who was so contacted and refused to pay the outstanding utility payment should be treated as a delinquent customer. As of the time of our review in July 2002, the City had not initiated an insurance claim for reimbursement of the loss or requested replacement checks from those customers whose checks were included in the missing deposit.

In a separate incident subsequent to the 2000-2001 fiscal year, the City, on February 20, 2002, became aware that collections received and recorded on November 19, 20, 27, and 28, 2001, totaling \$15,053, had not been deposited. The collections were found in a locked safe in the City's vault and deposited the same day.

Our review disclosed that utility collections were not always deposited in a timely manner. For example, eight instances were noted in which the fees were not deposited until four to eight working days after their initial collection. Under these conditions, a loss, theft, or unauthorized use of collections could occur and not be detected in a timely manner.

An effective control system provides for timely detection of loss or fraudulent acts. It is management's responsibility to implement adequate controls to reduce such risks. Our audit disclosed that significant control deficiencies continued to

exist in the area of revenue collections, including inadequate separation of duties (see Finding No. 3), inadequate accounting for prenumbered receipt forms (see Finding No. 27), and deficiencies in safeguarding and documenting responsibility for collections (see Finding No. 28). In addition, the City has not adequately implemented procedures to ensure that collections of record are subsequently recorded to the accounting records and deposited timely.

Recommendation

To improve control over and accountability for collections, the City should enhance its procedures to require an independent verification that collections, of record, are subsequently deposited in a timely manner. The City should also pursue collection of the \$14,940 in missing checks as recommended by the City's former attorney.

FINDING No. 30: Over/Short Account

As noted in Finding No. 58, the City began using a new software application for utility billing. We were advised by City personnel that several unresolved problems regarding the utility billing application's ability to interface with the cash receipts and general ledger applications have contributed to differences between reported collections per the accounting records and those reported on the daily bank deposits. As a result, the former Finance Director established the over/short account to record these differences.

As of September 30, 2001, the over/short account balance included a shortage of \$15,629.49 representing the cumulative affect of the differences (overages and shortages) between utility billing reports and actual deposits. Although requested, we were not provided with an adequate explanation (and supporting documentation) as to the cause for the overages and shortages, nor did City records indicate that an investigation had been performed to determine the cause of the overages and shortages. In the absence of an adequate review and follow-up, including documentation detailing the possible cause for such overages and shortages, we were unable to determine whether these entries were the result of actual cash overages or shortages, or the result of the software's inability to interface with the cash receipts and general ledger applications. We were advised that the City discontinued the use of the over/short account in November 2001; however, the problems between the various applications of computer software have not been resolved.

Recommendation

The City should continue its efforts to resolve the differences resulting from the utility billing software. In addition, overages and shortages should be immediately investigated by City personnel to determine the causes, and any instances of cash overages and shortages resulting from closing out daily

utility billing activity, should be immediately reviewed and approved by supervisory personnel.

Revenues and Other Receipts

For the 2000-2001 fiscal year, the majority of City revenues were from charges for utility and garbage collection services (approximately \$1.7 million) and franchise fees and taxes (approximately \$1.3 million). The City also received a substantial amount of revenue from other sources such as Federal, State, and local grants, State revenue-sharing, building permits, occupational licenses, fire inspection fees, and various other miscellaneous sources, including amounts collected from donations and fund-raising events. The City reported approximately \$4 million in revenue from all sources for the fiscal year ended September 30, 2001.

FINDING No. 31: Citrus Sales

The City operated a 147-acre citrus grove (Summit Grove), which the City planted during the 1992-93 fiscal year to meet the State's regulatory standards in connection with disposing of wastewater effluent and to provide additional revenue to the City. The City contracted with a fruit company to pick, haul, and purchase citrus fruit harvested from the grove.

Our review of the City's procedures associated with the operation of the Summit Grove and the collection of revenues from the harvest of the citrus fruit disclosed the following deficiencies:

- **Payments Received Late.** We determined that the City had not received any payments from the fruit company associated with the harvesting of citrus fruit for the 2000-2001 fiscal year. As a result of our inquiry, the City received two checks totaling \$15,586 on July 3, 2002, 15 months subsequent to the harvest, for fruit harvested from the Summit Grove for the period of January through March 2001.
- **Inadequate Verification Procedures.** The fruit company used a prenumbered trip ticket to document the number of boxes of fruit removed from the City's groves. Our review of 53 trip tickets disclosed that 25 tickets (47 percent) were not signed by a City employee witnessing the removal of such fruit from the grove. Absent adequate controls to properly identify all citrus fruit removed from the grove, we could not determine if the City received all revenue to which it was entitled.
- **Lack of Adequate Controls Over Harvest.** The amount of the remittance for the 2001 harvest was based on a remittance schedule prepared by the fruit company. Our review disclosed that these remittance schedules were not independently verified to trip tickets used to control fruit removed from the grove. Absent this verification, the City had not implemented adequate

controls to ensure that all revenues due the City were properly calculated and received.

Summit Grove revenues declined from \$77,412 for the 1999-2000 fiscal year to \$15,586 for the 2000-2001 fiscal year, a decline of \$61,826 (80 percent). Revenues for the 2001-2002 fiscal year, as of April 2002, totaled \$57,600. We recognize that there are several plausible explanations for these variances; however, given the significance of these variances, and the above-noted control deficiencies, the City could not be assured that all revenues due the City were properly accounted for and received.

Recommendation

The City should implement controls to provide assurance that all citrus fruit harvested from the City's groves are properly accounted for and corresponding revenues received timely.

FINDING No. 32: Utility Services Revenues

The City reported approximately \$1.7 million from charges for water, sewer, and garbage service, and storm water management, during the 2000-2001 fiscal year. Customers receiving water, sewer, and garbage were billed for services rendered on a monthly basis. Water charges were based on meter readings of actual usage, and sewer and garbage were billed at a flat rate. Accounts receivable for water, sewer, and garbage services totaled \$472,127 at September 30, 2001, of which the City estimated that \$92,397 (20 percent) was of doubtful collectibility. Each utility bill submitted to customers indicated that all bills are due when rendered and become delinquent after the due date. The bill further states that bills are subject to a late fee if received after the 20th of the month, and failure to pay by the 25th of the month may result in an interruption in service.

For collection efforts to be effective, such efforts must be both timely and progressively strengthened. Deficiencies in either area may limit the City's ability to maximize its utility collections. Our review of the City's procedures for utility billing and collection disclosed the following deficiencies:

- **Lack of Supervisory Review.** Utility billing cashier's daily reports used to summarize daily collections were not subject to supervisory review and approval.
- **Account Adjustments Not Subject to Review.** Adjustments to customer accounts to correct amounts billed totaled approximately \$240,000 during the fiscal year. These adjustments were made by the individuals responsible for receipting utility collections and were not subject to independent supervisory review and approval. Absent independent review and approval, these incompatible duties allow the employee control of the transaction process

such that errors or irregularities, should they occur, may not be detected in a timely manner.

- ***Inadequate Support for Adjustments.*** Our review of 30 adjustments made to customer accounts disclosed that: 4 source documents or service orders, totaling \$805, could not be located; 8 service orders contained an inadequate or missing explanation for the adjustment; and 12 service orders did not indicate who prepared the adjustment. Source documents should provide complete records of the transaction, and should be preserved and maintained on file to document authorization and provide a written record of the adjustment.
- ***Late Utility Billings.*** Billings for utilities were generally mailed late to customers during the 2000-2001 fiscal year. Billings ranged from 17 to 58 days late for the months of April through October 2001. For example, billing for usage ending June 26, 2001, was billed on August 15, 2001, or 50 days after the end of the billing period. Inquiry to management indicated that the untimely billings were the result of problems encountered with the new software system, which was implemented in June 2001. Management also indicated that training in the new billing system was on going and staff turnover was high in the utility billing department during this time.
- ***Delinquent Accounts.*** The City had not developed procedures regarding delinquent accounts. Such procedures should include the mailing of past-due notices and referral of delinquent accounts to a collection agency. Instead, the City allowed delinquent customers to make partial payments and accumulate delinquent accounts for services rendered. Further, delinquent accounts were not subject to interruption of service for non-payment during the 2000-2001 fiscal year. Our review of an aging of accounts receivable at September 30, 2001, disclosed that approximately \$63,000 in accounts receivables were in excess of 90 days past-due. In March 2002, the City modified its procedures to no longer accept partial payments and to terminate service for delinquent accounts. However, as of the time of our review in July 2002, none of the inactive delinquent accounts (former customers that have moved) had been referred to a collection agency.

Recommendation

To improve control over and accountability for utility billing and collections, City personnel should establish procedures to provide for the maintenance of properly completed and approved records supporting adjustments. The City should also continue its efforts to provide timely billings to utility customers, and to collect delinquent accounts due for services rendered by the City. Further, the City should develop procedures to include the mailing of past-due notices and subsequent referral of any delinquent accounts to a collection agency in a timely manner.

FINDING No. 33: Utility Service Deposits

Section 58-60(b) of the City Charter provides that where meters are installed for the use of persons renting property within the City, or persons using spray water, the sum of \$100 shall be deposited with the City as a guarantee that water bills incurred by such persons will be paid. Further, Section 42-5(c) of the City Charter provides that a deposit of \$45 shall be made by all tenants occupying residential property owned by others for solid waste service. Our review of controls relating to utility deposits disclosed the following deficiencies:

- ***Utility Deposits.*** No reconciliations were performed between the bank account established for utility deposits and the amount recorded as customer deposits on hand. At September 30, 2001, the bank account balance for utility deposits totaled \$172,572, and the subsidiary records for the customer deposits totaled \$146,096, resulting in an unexplained difference of \$26,476.
- ***Interest Opportunity Lost.*** The City did not maintain utility deposits in an interest-bearing bank account. Had the City done so, interest earnings of approximately \$5,100 could have been retained by the City or proportionately distributed to the depositors of record for the 2000-2001 fiscal year.

Recommendation

The City should enhance controls to provide for periodic reconciliations of customer utility deposits. The City should also consider maintaining such deposits in an interest-bearing account.

FINDING No. 34: Uncollected Revenues

The City has enacted several ordinances authorizing the collection of various fees and charges. The ordinances have been codified in the City's Code of Ordinances. Our audit disclosed that fees or charges required by City ordinances were not always assessed and collected as follows:

- ***Uncollected Business License Fees.*** Section 50-188, of the Code of Ordinances, provides for any person who engages in any business, occupation or profession in the City to obtain a local occupational license. The licenses are renewable annually and due on or before September 30 expiring the succeeding September 30. The ordinance further provides that any person who does not pay the required occupational license fee within 150 days after the initial notice of the fee due, and who does not obtain the required occupational license, is subject to civil actions and penalties, including court costs, reasonable attorney fees, additional administrative costs incurred as a result of collection efforts, and a penalty of up to \$250. The City reported occupational license fee revenue totaling \$6,866 for the 2000-2001 fiscal year.

Our review disclosed that, as of April 2002, fourteen businesses had not paid the required fee for the occupational license. The amount of these delinquent fees totaled \$753. The City had not initiated collection efforts nor billed any of the businesses the late fee.

- **Uncollected Fire Inspection Fees.** Section 58-59, of the Code of Ordinances, provides for the City fire inspector to annually inspect fire suppression systems prior to October 1 of each year, and submit a list of connected fire suppression systems to the City Clerk. The ordinance further provides for a charge of \$25 per year for each building using a fire suppression system attached to the City water system. For the 2000-2001 fiscal year, the City did not perform the inspections and, accordingly, did not charge a fee to any of the City establishments having fire suppression systems. In the previous fiscal year, the City billed 10 establishments within the City for the fire suppression inspections.
- **Uncollected Sewer System Surcharge.** Section 58-124, of the Code of Ordinances, authorizes the City to charge a monthly surcharge to users of the sewer system outside of the City limits. The surcharge, based on 25 percent of the monthly charge of \$40.54, was not assessed during the 2000-2001 fiscal year. We estimated that the amount of unbilled sewer surcharges for customers outside the City limits for the 2000-2001 fiscal year totaled approximately \$63,000. As noted in Finding No. 22, the Commission enacted an ordinance to eliminate the surcharge on water; however, the ordinance did not extend to the sewer surcharges.
- **Uncollected Reconnection Fees.** Section 58-211, of the Code of Ordinances, provides that all bills for water service, sewer service, garbage collection, and storm water management fees/charges are due and payable on or before the 20th of the month following the month in which the service is used. The ordinance further provides that all bills not paid by the 20th of the month following the month in which the water was used shall be declared past due and shall render the user liable to having his supply of water cut off and the user will be charged \$15 for reconnecting the water during working hours or \$30 after working hours. Our tests disclosed that 26 of 29 customer payments tested were paid late, ranging from 4 days to 146 days. Our inquiry with management indicted that no customer's water was cut off for late payment and no fees were charged to customers for reconnecting water for the 2000-2001 fiscal year.

Recommendation

The City should implement procedures to ensure compliance with its billing ordinances and collection of revenues due to the City for business license fees, fire inspection fees, sewer system surcharges, and reconnection fees.

Personnel and Payroll Administration

The City reported salary expenditures/expenses of approximately \$1,552,000 for the 2000-2001 fiscal year. Pursuant to Section 3.06 of the City Charter, the city manager or his or her designee prepare and propose personnel rules to the Commission, and the Commission may by ordinance adopt them with or without amendment. Personnel policies are included in the City's Personnel Manual and Employee Handbook, which the City Commission adopted by Resolution No. 09-98 on June 15, 1998.

FINDING No. 35: Hiring Practices

Effective control over the hiring of new employees includes verification of employment history or educational experience prior to offering employment, and the maintenance of personnel files that include completed applications, letters of reference, college transcripts (if applicable), and other appropriate documentation evidencing authorized personnel actions. Our review of personnel records disclosed the following deficiencies:

- ***Applications Not Retained.*** Contrary to Section 208 of the Personnel Manual and Employee Handbook, an employment application demonstrating that employment with the City was based on established training and experience requirements was not retained in the personnel files for the former City Manager or a former City Treasurer.
- ***Employment History Not Verified.*** Our review of personnel records for nine employees hired during the 2000-2001 fiscal year disclosed that the City's records did not, for any of the nine employees, include evidence of verification of employment history with previous employers or educational experience by obtaining official transcripts.
- ***Personnel Action Record Form Not Retained.*** Our test of payroll transactions and personnel files disclosed six instances in which a properly completed Personnel Action Record (PAR) was not maintained in the employee's personnel file. City procedures provide for the use of a PAR to document an employee's personal information, job title, pay rate, increases in pay, transfers, promotions, and terminations, and to provide evidence of department head and city manager approval of personnel actions.
- ***Payroll Deductions Authorization Not Retained.*** Our test of payroll transactions and personnel files disclosed eight instances in which documentation evidencing employee authorizations for various payroll deductions was not maintained. These deductions were related to benefits such as medical insurance, dental insurance, credit union deposits, and deferred compensation that are paid by the employee as payroll deductions.

Recommendation

To provide for efficient personnel administration, the City should ensure that personnel files contain all required documentation, including evidence of verification of employment history, college transcripts and certifications, and other documentation necessary to substantiate the decision to extend an offer of employment to a prospective applicant. Additionally, the City should ensure that personnel/payroll records include PARs evidencing supervisory approval of personnel actions, and documentation evidencing employee authorizations for payroll deductions.

FINDING No. 36: Nepotism

Section 112.3135, Florida Statutes, provides restrictions on the employment of relatives. Section 105 of the Personnel Manual and Employee Handbook (Handbook) provides that a public official or department head may not appoint, employ, promote, or advance or advocate for the appointment, employment, promotion or advancement of certain relatives in, or to, a position in the City or department in which he/she is serving or over which he/she exercises jurisdiction or control. Further, the Handbook provides that relatives of persons currently employed by the City may be hired only if they will not be working directly for or supervising a relative or will not be working directly above the relative's immediate supervisor or directly for the relative's immediate subordinate.

Our test of payroll transactions disclosed that, contrary to Section 112.3135, Florida Statutes, and the Handbook, a department head employed by the City was responsible for the approval of time reported on his brother's time records, who worked part-time for the City. The subordinate employee was employed by the City on a part-time basis for thirteen months and was paid a total of \$3,105 that was subject to the approval of his brother.

Recommendation

The City should, to the extent practical, remedy this situation through reassignment of the duties of the above-noted employees.

FINDING No. 37: State Directory of New Hires

Section 409.2576, Florida Statutes, created the State Directory of New Hires and requires all employers to report each new or rehired employee to the State Directory of New Hires within 20 days of the hire date of the employee, or, in the case of employers that report new hire information electronically or by magnetic tape, by two monthly transmissions. The Florida Department of Revenue operates the State Directory of New Hires and has contracted with a private organization to compile new hire reports for the purpose of locating parents

responsible for financial support and to provide a database to be used to decrease welfare and employment fraud.

Contrary to Section 409.2576, Florida Statutes, only 4 of 50 employees hired during the period October 2000 through January 2002 were reported to the State Directory of New Hires. Subsequent to our inquiry, the City provided a complete list of new hires to the State Directory of New Hires.

Recommendation

The City should enhance its controls to ensure that all new hires are reported to the State Directory of New Hires within the reporting time frames provided for by law.

FINDING No. 38: Personnel Evaluations

Section 209 of the Personnel Manual and Employee Handbook (Handbook) provides that merit-based pay adjustments may be awarded to recognize employee performance. The Handbook also provides that the decision to award such an adjustment is dependent upon numerous factors, including the information documented by a formal performance evaluation process. Our test of payroll transactions during the 2000-2001 fiscal year disclosed that performance evaluation forms or other documentation supporting merit-based pay adjustments were not available for six employees who received such pay increases ranging from 1.3 percent to 11.5 percent.

Recommendation

Consistent with the Handbook, the City should ensure that adequate documentation is maintained supporting decisions to award merit-based pay adjustments to City employees.

FINDING No. 39: Salary Overpayments

The City's Personnel Manual and Employee Handbook (Handbook) provides for the classification of all City positions based on the duties, authority, and responsibility of each position, and the preparation of a pay plan for all City positions. The Handbook also requires Commission approval of the pay plan, which is accomplished by attaching the pay plan showing pay classifications and corresponding rates of pay for both non-exempt employees and management to the ordinance establishing the budget.

Our test of 60 salary expenditures disclosed that the rate of pay for 3 employees was in excess of that provided for in the Commission approved pay plan. The amount above the maximum salary ranges for the three employees for the 2000-2001 fiscal year totaled \$6,425 and ranged from \$437 to \$3,205. Our review

also disclosed that another employee's annual salary was below the Commission approved minimum salary range by \$995 for approximately three months. The employee was subsequently demoted to a position that did not exist on the approved pay plan. The Commission had not, of record, approved these variances from the Commission approved pay plan.

Recommendation

The City should ensure that actual rates of pay paid to employees are limited to those established in the pay plan, unless specifically authorized by the City Commission as an exception to the pay plan.

FINDING No. 40: Salary Advances

Article VII, Section 10 of the State Constitution, provides that neither the State nor any county, school district, municipality, special district, or agency of any of them, shall lend or use its taxing power or credit to aid any corporation, association, partnership, or person. Our review of the City's records disclosed 16 pay advances totaling \$5,192 made to 11 different employees, contrary to Article VII, Section 10 of the State Constitution. The reasons for the advances, which ranged from \$25 to \$1,000 were not evident from City records, and the City was unable to provide documentation evidencing repayment of advances for \$372 still owed by 3 employees.

Recommendation

The City should discontinue the practice of allowing employee pay advances, and take appropriate action to recover the \$372 in funds advanced to employees that has not been repaid.

FINDING No. 41: Employee Bonuses

The Commission, as part of the budget, approved employee bonuses for Christmas. The bonuses were paid to employees at the rate of \$10 per year of service up to a maximum of \$100 and totaled \$2,760 for both the 2000-2001 and the 2001-2002 fiscal years. Pursuant to United States Treasury Regulation 1.61-2, Christmas bonuses are considered to be taxable as compensation for services and, in accordance with United States Treasury Regulation 31.3401, are subject to withholding for payment of Federal income tax and other employment taxes. Payment of the bonuses was made from the accounts payable system rather than the payroll system. Therefore, such bonuses were not reported as wages or other compensation and were not subject to withholding for payment of Federal income tax and other employment taxes.

Recommendation

The City should begin subjecting any future bonuses paid to employees to withholding for payment of Federal income tax and other employment taxes. Additionally, the City should contact the Internal Revenue Service to determine what corrective action should be taken regarding the unreported amounts.

FINDING No. 42: Overtime Payments

Section 507 of the Personnel Manual and Employee Handbook (Handbook) provides that when operating requirements or other needs cannot be met during regular working hours, employees may be scheduled to work overtime hours. The Handbook further provides that all overtime work must receive the supervisor's prior authorization. During the 2000-2001 fiscal year, City employees were paid approximately \$90,900 in salary and related benefits for overtime worked primarily for the police and fire departments. Our review of control procedures associated with overtime payments made to City employees disclosed that prior authorization of overtime hours was not documented.

Recommendation

To demonstrate compliance with the Handbook, and to assist the City in controlling the amount of overtime payments made to City employees, the City should require written documentation of prior authorization of all overtime work.

Procurement of Goods and Services

Authority for City officials to expend moneys is set forth in various provisions of general or special law and in ordinances enacted by the City Commission. Expenditures of public funds must, to qualify as authorized expenditures, be shown to be authorized by applicable law or ordinance; reasonable in the circumstances and necessary to the accomplishment of authorized purposes of the governmental unit; and in pursuit of a public, rather than a private, purpose. These limitations require City officials seeking to expend public funds to identify the authority relied upon for the contemplated expenditure and to adequately describe how the expenditure will further an authorized public purpose (see Attorney General Opinion No. 068-12).

The documentation of an expenditure in sufficient detail to establish the authorized public purpose served, and how that particular expenditure serves to further the identified public purpose, should be present at the point in time when the voucher is presented for payment of funds. Unless such documentation is present, the request for payment should be denied. To provide documented assurances that expenditures of City funds are for authorized public purposes, City officials are responsible for establishing and maintaining controls, including the adoption of

sound accounting practices, that will provide for the proper recording, processing, summarizing, and reporting of financial data.

Our detailed findings and recommendations concerning the public purpose for particular expenditures, and the adequacy of documentation that demonstrates such public purpose, are presented under appropriate subheadings below.

FINDING No. 43: Credit Card Usage

During the 2000-2001 fiscal year, the City provided two Commissioners, the City Manager, and a finance department employee with Visa credit cards issued through a bank. Our review of documentation maintained by the City disclosed that there were 97 charges totaling \$22,993 for the four City Visa credit cards during the period June 2000 through August 2001. The charges were primarily for travel (see discussion in Finding Nos. 50 and 51), equipment purchases, postal fees, and miscellaneous supplies. Our audit disclosed the following deficiencies regarding the control and use of credit cards:

- ***Lack of Guidance on Use of Credit Cards.*** The City Commission did not adopt an ordinance, resolution, or otherwise provide for guidance as to the proper use of assigned credit cards. Nor did the City require users of the credit cards to sign written agreements specifying acceptable uses of credit cards.
- ***Personal Use of Credit Cards.*** The City's practice has been to allow credit card users to charge personal items to the City's credit card provided that the user subsequently reimbursed the City. However, the City did not have adequate controls in place to ensure that the City was subsequently reimbursed for personal items (see discussion below regarding use of credit card by former Commissioner). Further, City employees/officials use of credit cards for personal use appears to be contrary to Article VII, Section 10 of the State Constitution, which prohibits municipalities from giving, lending, or using their taxing power or credit to aid a corporation, association, partnership, or person.
- ***Lending of Credit Cards.*** Although the credit cards were assigned to specific City employees/officials, they were loaned to other City employees for their use while traveling. This practice effectively precludes individual accountability for credit card usage, and increases the risk of use for improper purposes.
- ***Lack of Supporting Receipts.*** Of the \$22,993 in credit card charges we reviewed, only four receipts totaling \$319 were available to support such charges. Absent such documentation, the credit card users have not demonstrated that the remaining \$22,674 of charges were for an authorized City purpose. Failure to obtain detailed documentation for charges incurred

and paid on City credit cards limits the City's ability to review such charges to ensure that credit card charges are reasonable, serve a public purpose, and comply with State law.

In September 2001, the City Manager and the City Commission requested an investigation into possible fraudulent use of the City's credit cards by a former Commissioner. The investigation was conducted by the City's police department and the case was referred to the State Attorney. After a full review of the evidence and the reports issued by the City's police department, the State Attorney, on February 18, 2002, concluded that there was a lack of good record keeping on the part of the City.

The police department's investigative report also disclosed that charges totaling \$5,757 on the former Commissioner's City-issued Visa credit card for a three-year period were personal in nature, and that the former Commissioner had reimbursed the City for only \$5,287 of that amount, leaving \$470 of personal charges that had not been reimbursed to the City. Examples of charges personal in nature included hotel, restaurants, airfare, cruise fees, and automobile repairs. The investigative report indicated that these amounts were based on employees' recollections, as other documentation did not exist.

As a result of the investigation, the City closed the four Visa credit card accounts. We were advised that subsequent to the 2000-2001 fiscal year, the City applied for and received one Visa credit card to be used solely by the City Manager.

Recommendation

The City Commission should enact written policies and procedures governing the control and use of credit cards. Such policies and procedures should prohibit the usage of credit cards for personal purposes and require all employees receiving credit cards to sign a written agreement evidencing their understanding of, and agreement with, the City's credit card policies and procedures. The City should enhance its controls to provide for the retention of detailed invoices for all charges incurred on City-issued credit cards. Additionally, the City should take appropriate action to recover the \$470 in personal charges outstanding from the former City Commissioner. Further, regarding the \$22,674 of unsupported credit card charges disclosed by our review, the City should either require the credit card users to provide receipts or other appropriate documentation evidencing the propriety of such charges, or recover such amounts from the users.

FINDING No. 44: Disbursement Processing

The City is responsible for establishing controls that provide assurance that the process of acquiring goods or services is effectively and consistently administered. The City's purchasing practices are primarily addressed in the

City of Lake Alfred Purchasing Policy, which establishes the dollar thresholds for obtaining quotes and bids for purchases and contracts. As noted in Finding No. 2, the City has not established written procedures governing the disbursement function; however, according to City personnel, the City's disbursement documentation is to include invoices and purchase orders, which, together with a duplicate copy of the check, comprise the voucher package.

During the 2000-2001 fiscal year, the City processed approximately 3,300 non-salary payments totaling \$4.6 million. Our examination of the documentation for selected disbursements disclosed the following deficiencies in the City's disbursement processing procedures that may limit the City's ability to ensure that goods or services are received in the quantity and quality contemplated by management's authorization:

- ***Lack of Signatures and Dates for Receipt of Goods or Services.*** The signature and dates evidencing that goods and services were received, inspected, and approved were not documented. Documentation of the date that goods and services are received is necessary for a proper cut-off of accounts payable at year-end and to evidence compliance with the Florida Prompt Payment Act (Chapter 218, Part VII, Florida Statutes), which establishes procedures and time limits for processing and paying invoices submitted by vendors to local governmental entities.
- ***Purchase Orders Not Issued.*** Purchases were generally authorized verbally and a purchase order was not issued to vendors except when specifically requested. Purchase orders and purchase requisitions serve to document management's authorizations to acquire goods and services, document the specifications and prices of the goods and services ordered, provide a basis for controlling the use of appropriated resources through encumbrances, and authorize vendors to provide goods and services to the ordering agency.

The absence of adequate supporting documentation, including invoices and purchase orders and evidence that goods and services have been received and paid for, increases the City's risk of paying for unsubstantiated or improper expenditures.

Recommendation

The City should ensure that purchase orders are used, and that voucher packages include evidence that goods and services were received.

FINDING No. 45: Contributions to Nongovernmental Organizations

Article VII, Section 10 of the State Constitution, prohibits municipalities from giving, lending, or using their taxing power or credit to aid a corporation, association, partnership, or person. According to Attorney General Opinion No.

96-90, the purpose of this provision is "to protect public funds and resources from being exploited in assisting or promoting private ventures when the public would be at most incidentally benefited."

The question as to whether a governmental entity can make donations to or otherwise use its resources to aid a nongovernmental entity has been the subject of several court decisions and Attorney General Opinions. According to Attorney General Opinion No. 79-56, the Florida Supreme Court has held that a governmental entity may utilize a nonprofit corporation as a medium to accomplish a public purpose provided that certain conditions are met. There must be a clearly identified and concrete public purpose as the primary objective and a reasonable expectation that such purpose will be substantially and effectively accomplished. Also, the governmental entity must retain sufficient control over the use of the public funds by the nonprofit corporation. Similarly, in addressing the issue of whether a board of county commissioners was authorized to donate moneys to a nonprofit organization, the Attorney General, in Opinion No. 86-44, states that the board must maintain some degree of control over the public funds to assure accomplishment of the public purpose.

During the 2000-2001 fiscal year, the City made contributions totaling \$7,891 to the Lake Alfred Chamber of Commerce. Follow-up procedures were not performed to determine the ultimate use of the contributions by the Chamber of Commerce, nor did the City execute an agreement with the organization stating the specific purpose for which the funds could be used. Absent these controls, it is not apparent how the City could be assured that the moneys provided were used for a public purpose.

Recommendation

If the City desires to contribute public funds to a nongovernmental agency, the City should clearly state in a written agreement the public purpose to be accomplished by the donation, and monitor the use of the funds to ensure that the public purpose is accomplished. To facilitate this, the written agreement should include a requirement that the organization maintain adequate records of its expenditure of the moneys provided and that the organization allow the City to review its records.

Contractual Services

The City is responsible for establishing controls that provide assurance that the process of contracting for services is effectively and consistently administered. Expenditures for contractual services totaled approximately \$630,000 for the 2000-2001 fiscal year. As discussed below, our audit disclosed deficiencies regarding the City's process of contracting for services.

FINDING No. 46: Written Agreements

As a matter of good business practice, contractual arrangements for services should be evidenced by written agreements embodying all provisions and conditions of the procurement of such services. The use of a formal written contract protects the interests of the City, identifies the responsibilities of both parties, defines the services to be performed, and provides a basis for payment.

The City contracted with an accounting firm to audit the general purpose financial statements and to prepare the comprehensive annual report for the fiscal year ending September 30, 2000. The City entered into a written agreement with the firm, which provided that additional nonauditing services were to include the preparation of the State of Florida Annual Local Governmental Financial Report (required pursuant to Section 218.32, Florida Statutes) and the Annual Report for the Police Officers' Retirement Fund. The firm was paid amounts totaling \$49,100 and \$60,000 for services related to the 1998-99 and 1999-2000 fiscal years, respectively.

Our review of this contractual arrangement for the 1998-99 and 1999-2000 fiscal years disclosed that the City incurred charges for additional nonauditing services not within the scope of services defined in the written agreement. Consequently, the City paid the firm amounts related to such services totaling \$24,050 and \$30,466 for the 1998-99 and 1999-2000 fiscal years, respectively, without benefit of a written agreement.

Recommendation

The City should ensure that future payments for auditing and nonauditing services are made pursuant to a written agreement documenting the nature of services to be performed and the compensation for such services.

FINDING No. 47: Inadequate Support for Contractual Expenditures

While testing contractual services, we noted the following instances in which payments to contractors totaling \$157,629 were not adequately supported by detailed invoices:

- **Accounting Firm.** As discussed in Finding No. 46, the City contracted with an accounting firm to provide auditing and nonauditing services. Our examination of the invoices submitted by the accounting firm supporting payments totaling \$93,094 for the 1999-2000 fiscal year disclosed that although the invoices submitted contained a general description of the services rendered, the invoices did not show hourly rates or number of hours billed. The City disputed the amount billed for auditing and nonauditing

services, and on March 18, 2002, the City and the accounting firm reached a settlement that provided for payment of \$60,000.

- ***Engineering Firm.*** The City contracted with an engineering firm in connection with projects for water and sewer, street and drainage, and various other engineering services. The City entered into a written agreement with the engineering firm, which provided that compensation for services performed under an hourly basis were to be based on actual time spent, at the firm's standard hourly rates, plus direct reimbursement of any out-of-pocket expenses (at actual cost) and sub-consultant services contracted for through the engineer. The agreement further provided that any sub-consultant services were subject to prior approval by the City. Our examination of invoices submitted by the engineering firm supporting payments totaling \$203,887 for the 2000-2001 fiscal year disclosed that sub-consultant charges totaling \$52,548 for surveying services were not supported by invoices from the sub-consultant. Further, invoices provided to the City did not contain documentation to support \$11,987 of charges reimbursed for out-of-pocket expenses. Subsequent to our inquiry, the engineering firm provided adequate documentation to support the sub-consultant's charges and the amount invoiced for the out-of-pocket expenses.

In the absence of detailed invoices describing the hourly rate charged and the number of hours billed, the City did not, at the time these payments were made, have reasonable assurance that payments made to the firms for services rendered were in compliance with the intent of the City Commission.

Recommendation

The City, prior to making future payments for contractual services, should require contractors to provide documentation sufficient for the City to determine exactly what services were provided and whether the services were billed in accordance with applicable written agreements.

Travel Expenses

Section 112.061, Florida Statutes, governs per diem and travel expenses of municipalities, except that the provisions of any special or local law, including ordinances, shall prevail over any conflicting provisions in this Section, but only to the extent of the conflict. Among the requirements of Section 112.061, Florida Statutes, are provisions establishing uniform rates (including the amounts of reimbursement that travelers may claim) and specific documentation requirements for the payment or reimbursement of travel expenses incurred by public officers, employees, and authorized persons in connection with official agency business.

During the fiscal year ended September 30, 2001, the City incurred expenditures totaling \$30,510 for travel-related expenses of City officials and employees (including \$3,700 for travel allowances paid). Our examination of travel-related

expenditures disclosed several instances in which travel expenditures were inadequately supported or not in accordance with Section 112.061, Florida Statutes, as discussed below.

FINDING No. 48: Travel Allowances

Section 112.061(7)(f), Florida Statutes, authorizes an agency head to grant monthly travel allowances in fixed amounts for use of privately owned automobiles on official business in lieu of the mileage reimbursement rate provided in Section 112.061(7)(d), Florida Statutes. The allowance is to be made on the basis of the signed statement of the traveler, filed before the allowance is granted or charged, and at least annually thereafter, showing the places and distances for an average typical month's travel on official business.

Monthly travel allowances of \$308 were paid to the former City Manager from October 2000 to November 2001. On January 7, 2002, the City Commission approved a six month agreement with the Interim City Manager which included a monthly automobile allowance of \$225. Travel allowances paid during the 2000-2001 fiscal year totaled \$4,850. We requested, but were not provided, signed statements from the former City Manager and Interim City Manager showing a typical month's travel prepared in accordance with Section 112.061(7)(f), Florida Statutes.

Pursuant to United States Treasury Regulation 1.62-2, travel mileage allowances are subject to withholding for payment of Federal income tax and other employment taxes unless they are paid pursuant to an accountable plan. However, the above-noted travel allowances were not paid pursuant to such a plan, and none of the travel allowances paid to the former City Manager or current Interim City Manager were subjected to the required withholding.

Recommendation

The City, for any future travel allowances, should obtain a signed statement from the traveler at least annually showing the places and distances for an average typical month's travel on official business as required by Section 112.061(7)(f), Florida Statutes. In addition, the City should ensure that any such allowances are subject to withholding for payment of Federal income tax and other employment taxes. Further, the City should contact the Internal Revenue Service to determine what corrective action should be taken regarding the unreported amounts.

FINDING No. 49: Subsistence Allowances

In 24 instances totaling \$343, travelers were reimbursed for meal allowances that exceed the meal allowances authorized by Section 112.061, Florida Statutes.

Some of these instances probably resulted because of City Resolution No. 03-92, which provides for increased subsistence allowances over the uniform rates established in Section 112.061, Florida Statutes, for City employees when traveling to a convention, conference, or meeting serving a direct lawful public purpose. This Resolution provides for meals to be reimbursed to travelers in the amount of \$6 per day for breakfast, \$10 per day for lunch, and \$24 per day for dinner, with accompanying receipts.

The Attorney General has ruled (Attorney General Opinion No. 74-18) that a municipality may enact an ordinance providing for travel and subsistence allowances different from those established in Section 112.061, Florida Statutes. However, the City's increased subsistence allowance was adopted by resolution rather than by ordinance or charter amendment. Therefore, City employees and officials traveling on official City business were only entitled to the subsistence allowances prescribed in Section 112.061(6)(b), Florida Statutes, which allows \$3, \$6, and \$12 per day for breakfast, lunch, and dinner, respectively.

Recommendation

If it is the City's intention to authorize subsistence allowances in excess of those prescribed by Section 112.061, Florida Statutes, the increased subsistence allowances should be enacted pursuant to ordinance.

FINDING No. 50: Unauthorized/Unsupported Travel Expenses

Pursuant to Section 112.061(3)(b), Florida Statutes, City officials/employees travel expenses are limited to those expenses necessarily incurred by them in the performance of an authorized public and City purpose, and must be within the limitations prescribed by that Section. Our audit included an examination of 60 travel-related expenses totaling \$14,571 to the former City Manager, the City Commissioners, and randomly selected employees during the period October 2000 through February 2002. This included 24 reimbursements to officials/employees totaling \$2,397, and 36 direct payments to vendors totaling \$12,174. Our examination disclosed that these expenses were not always adequately supported or in accordance with State law. Specifically, we noted one or more of the following deficiencies:

- ***Inadequate Documentation of Public Purpose.*** Supporting documentation for travel-related expenses generally did not indicate how the expense served a public purpose or how the expense benefited the City. Of 24 travel reimbursements totaling \$2,397 made to City travelers, only 8 were supported by travel expense reports (the other 16 reimbursements totaling \$1,210 were reimbursed based only on a check request). Direct payments to vendors generally were supported only by check requests and were not subsequently accounted for on a sufficiently detailed travel expense report demonstrating proper accountability for such charges or by detailed receipts. For example, 9

checks totaling \$4,833 payable to various hotels were issued for hotel accommodations in advance based on a quoted rate provided by the traveler. Documentation to support the actual amount incurred by the traveler and the length of stay was not maintained for such charges. Absent this information, we could not determine the propriety for hotel charges advanced for the benefit of these travelers.

- **Traveler Affirmation Missing.** Contrary to Section 112.061(10), Florida Statutes, in those instances when City officials or employees did submit travel expense reports, such reports did not include a statement signed by the traveler certifying that the expenses were actually incurred as necessary travel expenses in the performance of their official duties and that they were true and correct as to every material matter.
- **Time of Departure and Return.** In 19 instances totaling \$982 involving reimbursements for subsistence allowances, the travel expense reports, or check requests, did not identify the time of departure and return (required to calculate per diem and meal allowance). Absent the time of departure and return, the City's records did not document that subsistence allowances were authorized in accordance with Sections 112.061(5) and (6), Florida Statutes.
- **Meals Included in Convention or Conference Fees.** In 18 instances in which convention or conference fees were paid, conference programs or agendas were not submitted by the travelers. Such information is necessary to determine compliance with Section 112.061(6)(c), Florida Statutes, which provides that no traveler shall be reimbursed for any meal or lodging included in a convention or conference registration fee. As such, we could not determine if the travelers were improperly reimbursed for meals or lodging paid for by the City in the registration fees.
- **Local Meals.** Section 112.061(5)(b), Florida Statutes, provides that no meal allowance shall be made for meals when travel is confined to the City of the official headquarters or immediate vicinity except assignments of official business outside the traveler's regular place of employment if approved by the City. In 33 instances, meals totaling \$954 purchased at local restaurants were reimbursed to City officials/employees or paid for directly by the City. In 21 of these instances totaling \$390, the meals were reimbursed to City officials or employees through the petty cash fund (the remaining 12 instances totaling \$564 were charged to City credit cards). There was no supporting documentation in these instances evidencing that such meals were related to official City business. Absent such documentation, or a provision in the City Charter or Ordinance, it was not evident as to what authority the City relied upon in paying for the local meals.
- **Meal Reimbursements.** We noted that meals charged on City credit cards totaled \$1,609; however, because of the lack of sufficient documentation

supporting credit card charges as discussed in Finding No. 43, we could not, for such charges, determine the type of meal (breakfast, lunch, or dinner), the number of persons who were the recipients of the meals, or whether the recipients of the meals were City officials or employees. Had such detailed documentation been available, additional meal reimbursements in excess of those authorized by Section 112.061, Florida Statutes, may have been disclosed.

- ***Meal Advances.*** In 3 instances totaling \$310, advances for meals made to travelers were not properly accounted for on a travel expense report.
- ***Reimbursement of Gratuities.*** In 4 instances totaling \$87, travelers were reimbursed for gratuities ranging from \$3 to \$63 per traveler. These expenses were not for incidental travel expenses authorized by Section 112.061(8)(a), Florida Statutes, nor was it apparent, of record, how these expenses were necessarily incurred in the performance of a public purpose.

Pursuant to law, adequate documentation for travel expenditures should include explanations evidencing the necessary and authorized public purpose served by the travel and sufficient details of the travel to permit a determination that reimbursements were made in accordance with applicable laws.

Recommendation

The City, in the future, should require travelers to provide adequate supporting documentation for any claims of travel expenses which clearly evidences the necessary and authorized public purpose served, including properly completed travel expense reports. In addition, the City should discontinue the practice of reimbursing travelers for travel expenses through petty cash. Further, City personnel should review the questioned travel expenses disclosed by our audit and recover amounts not adequately documented.

FINDING No. 51: Mayor's Youth Council Travel Expenses

Section 2-134 of the City Charter provides for the creation of the Mayor's Youth Council Board (MYC) consisting of seven members who are actively enrolled in a public or private high school. The Charter further provides that the Mayor will attend meetings and along, with City personnel, coordinate activities. Section 2-139 of the City Charter outlines the duties and responsibilities of the MYC as follows:

- Evaluate and review problems facing youth in the City.
- Facilitate neighborhood meetings with youth to discuss problems, needs, and suggested improvements for the community.

- Meet regularly with the Mayor to share ideas and discuss issues, concerns, and needed improvements.
- Attend City Commission meetings and participate in vision and goal sessions.
- Present recommended improvements to the City Commission and city manager of public projects and programs.
- Assist in planning youth or recreation activities.
- Evaluate and advise the City Commission or city manager on issues forwarded to the MYC for advice.

The City established separate accounts to provide for revenues (donations) and expenditures associated with the MYC. Our review of City records disclosed that the City recorded donations totaling \$204 and expenditures totaling \$6,561 in the MYC accounts for the 2000-2001 fiscal year, including, \$5,548 (87 percent of the total MYC expenditures) for travel expenses for eight people to attend a National League of Cities Conference held in Boston, Massachusetts in December 2000. The City also paid registration fees totaling \$990 for the Boston conference from an account established for the City Commission, and these charges were not recorded in the MYC account.

As discussed in Finding No. 50, our audit disclosed numerous deficiencies related to travel-related expenses. Additionally, our review of the \$6,538 of MYC travel expenditures, and supporting documentation, related to the Boston trip disclosed the following deficiencies:

- ***Public Purpose Not Documented.*** None of the expenses related to the MYC Boston trip were supported by travel expense reports, or other documentation, evidencing that the expenses were reasonable, necessary, and served a public purpose. Although there was some discussion regarding the trip in the minutes for the MYC's October 26, 2000, meeting, the minutes did not specifically address the purpose of the trip. Nor did the City records otherwise indicate how the purpose of the trip was consistent with the MYC's duties and responsibilities as defined by Section 2-139 of the City Charter.
- ***Travel Paid for Guest.*** City records disclosed that the Mayor, a City Commissioner, an employee of the City who served as a chaperone, four MYC members, and another individual, a Commissioner for the City of Wauchula, attended the conference in Boston. Our review disclosed that the City paid airfare totaling \$235 and conference registration fees of \$115 for the Wauchula City Commissioner. Further inquiry disclosed that this individual reimbursed the City \$235 for airfare; however, there was no record of the City being reimbursed for the \$115 of registration fees.

- ***Entertainment Expenses.*** Entertainment expenditures were incurred and paid on City credit cards totaling \$174 for members of the MYC to attend a basketball game and movies. It was not apparent, of record, how these expenses were necessarily incurred in the performance of a public purpose.

Recommendation

The City should establish controls to provide for the expenditure of MYC funds in accordance with Sections 2-134 and 2-139 of the City Charter. Charges incurred on behalf of the MYC should be adequately supported and retained to substantiate the propriety of charges incurred. Further, City personnel should review the questioned MYC travel expenses disclosed by our audit and recover amounts not adequately documented or authorized by Section 2-139 of the City Charter or Section 112.061, Florida Statutes.

Communication Expenditures

FINDING No. 52: Telecommunication Taxes

Customers of vendors that provide telephone services are normally subject to specified telecommunication Federal, State, and local sales or excise taxes. However, governmental entities are exempt from certain of these Federal, State, and local taxes. Pursuant to Internal Revenue Code Section 4253(i), the City is exempt from Federal taxes on telephone services. Similarly, the City is exempt from State sales taxes on telephone bills pursuant to Section 212.08(6), Florida Statutes. In addition, the City is exempt from public services taxes imposed by municipalities pursuant to Section 166.231(5), Florida Statutes. The City currently uses four different vendors for telephone services and is billed on a monthly basis.

Our review of selected telephone billings from these vendors disclosed that the City paid Federal, State, and local taxes from which it was exempt. It was not practical for us to determine the exact amount of exempt taxes paid by the City; however, based on the applicable tax, we estimated that for the 2000-2001 fiscal year that the City paid as much as \$1,000 of Federal, State, and local telecommunications taxes from which they were exempt.

Recommendation

The City should notify all of its telecommunication vendors of the City's exempt status to ensure that no future taxes of this nature are billed to the City, and attempt to obtain a refund for exempt taxes previously paid.

Vehicle Usage

FINDING No. 53: Vehicle Utilization Records

Section 508 of the Personnel Manual and Employee Handbook (Handbook) for the City of Lake Alfred provides that City equipment and vehicles may only be used for official business. The Handbook further provides that the personal use of City equipment and vehicles is strictly prohibited. Personal use is defined in the Handbook as any use of equipment or vehicles not related to City business. Insurance records indicate that as of January 2002, the City owned 50 motor vehicles, consisting of 9 automobiles, 32 trucks, and 9 fire trucks. Our review of the assignment of City vehicles and of records maintained to document their usage disclosed the following:

- ***No Policy for Assigning 24-Hour Vehicle Use.*** The Handbook did not provide for a policy regarding vehicles assigned to employees on a full-time (24-hour) basis. City records disclosed that 7 employees were assigned City-owned vehicles (excludes police and fire vehicles) on a 24-hour basis, which included taking the vehicles home after normal working hours. City records did not clearly identify the benefit served and the necessity for assigning these vehicles on a full-time basis.
- ***No Usage Log Required.*** City employees assigned vehicles on a full-time basis were not required to maintain mileage logs. Absent this information, the City could not clearly demonstrate that vehicles assigned on a 24-hour basis were used primarily for a public purpose and used only incidentally for the personal benefit of the employee assigned the vehicle.
- ***Taxable Fringe Benefit.*** United States Treasury Regulation 1.61-21(a)(3) provides that an employee's gross income includes the fair market value of any fringe benefits not specifically excluded from gross income by another provision of the Internal Revenue Code. The personal use of an employer-provided vehicle is a fringe benefit that must be included in the employee's gross income as compensation for services, unless otherwise excluded. Our review disclosed that the value of the personal use of these vehicles was not included in the employees' gross compensation reported to the Internal Revenue Service.

Recommendation

The City should determine whether or not vehicles are to be assigned on a 24-hour basis to employees, and develop written policies regarding personal use of City vehicles in association with the assignment of vehicles to employees on a 24-hour basis. The City should also maintain vehicle usage logs documenting personal use mileage, and begin reporting the value of such usage to the Internal Revenue Service. In addition, the City should contact the

Internal Revenue Service to determine what corrective action should be taken regarding the unreported value of personal use of vehicles assigned on a 24-hour basis.

Risk Management Programs

FINDING No. 54: Insurance Bids

Pursuant to Section 112.08(2)(a), Florida Statutes, municipalities are authorized to pay for all or part of premiums for life, health, accident, hospitalization, legal expense, or annuity insurance for their officers and employees, and to enter into contracts with insurance companies or professional administrators to provide such insurance. Before entering into a contract for such insurance, a municipality must advertise for competitive bids and select the most favorable bid. The City, as a matter of good business practice, should obtain competitive bids from insurance providers when acquiring other types of insurance coverage, such as commercial property, liability, and workers' compensation.

The City purchased health, life, commercial property, liability, and workers' compensation insurance coverage totaling \$303,129 during the 2000-2001 fiscal year without obtaining bids from insurance providers. In the absence of bids, the City was unable to demonstrate that it had obtained insurance coverage at the lowest cost commensurate with good business practices. Subsequent to the 2000-2001 fiscal year, the City requested bids for their health insurance coverage.

Recommendation

The City should continue to periodically bid its contracts for insurance to ensure that it has obtained the necessary coverage at the lowest cost consistent with acceptable quality and performance, and should maintain documentation evidencing such efforts.

FINDING No. 55: Health Insurance Premium Payments

Health and hospitalization coverage for City employees is provided by the City through a commercial insurance provider. The provider submitted monthly employee benefits statements to the City reporting enrollee transaction activity as a basis for the premiums due. The monthly statements were reviewed by City personnel and adjusted for changes in any employee coverage (terminations, new hires, dependents, and type of plan) prior to remitting any premiums due.

Our review of monthly billings for premiums and corresponding payments remitted to the provider by the City for health insurance coverage during the period October 1998 through February 2002 disclosed that 36 of 51 payments were remitted past the due date. Sixteen of the delinquent payments were in

excess of one month past the due date (one payment was 128 days past the due date).

In May 2000, the City was notified by the provider that coverage was canceled because of past due balances. To reinstate coverage, the provider required the City to pay \$39,924.36 for premiums up to and including May 2000; \$12,646.80 for a security deposit; and \$4,637.18 for agency fees. The past due balances resulted, in part, from the City's failure to communicate to the provider the need for premium adjustments to show changes in coverage due to employee turnover. In addition, the City did not reconcile the subsequent billings from the provider to payments made to ensure that the provider had properly adjusted the premium amounts.

Subsequently, the City enhanced its procedures to ensure that the provider is properly notified of adjustments, and the provider applied the \$12,646.80 security deposit to a subsequent billing in March 2002.

Recommendation

The City should continue its efforts to provide for the accurate and timely payment of health insurance premiums.

FINDING No. 56: Workers' Compensation Penalty Payment

The City participates in the Florida Municipal Insurance Trust risk pool offered through the Florida League of Cities for workers' compensation coverage, and paid premiums totaling \$72,125 during the 2000-2001 fiscal year. To meet the Trust's financial reporting requirements, each participating member with gross premiums less than \$100,000 is required to complete a self-audit worksheet. The Trust required that the worksheet be completed by November 30, 2001, for the 2000-2001 fiscal year and that supporting documentation be maintained with the worksheet to avoid penalty. Municipalities are subject to a penalty equivalent to 10 percent of premiums if the worksheet is not completed timely and could also be assessed additional charges for an independent audit. Our review disclosed that the City did not complete the self-audit, as required, and therefore incurred and paid an additional \$7,212 in penalties assessed by the Trust.

Recommendation

The City should ensure that future self-audits are completed in a timely manner to avoid any further penalties.

Information Technology

FINDING No. 57: Access and Security Administration Controls

Computer processing is used in significant accounting and administration applications with the City. Effective control relies on a security structure that includes operational procedures, organization, resources, and user awareness. We conducted a review of the established controls relative to information security to determine whether the controls effectively provided reliability of, and security over, the data being processed. Our review indicated that enhancements could be made to controls over access and security procedures as follows:

- **Security Awareness Program.** Security awareness by employees is an important element towards minimizing misuse of information assets. A security awareness program is designed to inform personnel of the importance of the information they handle and the legal and business reasons for maintaining its integrity, confidentiality, and availability. Employees must be aware of their responsibilities and the steps the organization is willing to take to ensure security through documentation describing security policies and the procedures and acknowledgement of an individual's responsibility. Our review disclosed that a formal ongoing security awareness program had not been implemented to apprise new users of, or re-emphasize to current users, the importance of preserving the integrity, availability, and confidentiality of the data entrusted to them. In the absence of a formal ongoing security awareness program, uninformed personnel may compromise the integrity of the City's data.
- **Disaster Recovery Plan.** A Disaster Recovery Plan is critical to the continuity of operations during a disaster. The plan should be written, and should document detailed recovery procedures to timely restore an organization's processing capabilities in the event the computer or communications facility becomes inoperable or inaccessible. To be effective, the plan should be tested periodically to identify weaknesses in the plan and to uncover any areas not addressed in the plan, provide for the training of the back-up and recovery teams, and make provisions to facilitate proper conduct in an actual emergency. Additionally, there should be several copies of the plan stored in appropriate locations, including an off-site location. The City does not have a Disaster Recovery Plan addressing such topics as riot or bomb threats; fire; hurricane preparation; lightning storms; or an inoperative computer. Without a Disaster Recovery Plan there is an increased risk that, in the event of a disaster, necessary information and communication functions of the City will be impeded.
- **Physical Security Controls.** Physical security controls are designed to provide additional safeguards over computer hardware and prevent

accidental or intentional destruction of data. Our review disclosed the computer rooms (administration and police department buildings) were not protected from water encroachment or other environmental hazards. The rooms were not locked and did not have humidity or temperature control equipment, a working sprinkler system, smoke detectors, or fire extinguishers. In addition, all employees had access to the rooms where the servers were located. Under these circumstances, damage could occur which may have been preventable.

In addition, certain important security features had not been utilized. Specific details of these security deficiencies are not disclosed in this report to avoid any possibility of compromising City operations. However, appropriate City personnel have been notified of these deficiencies.

Recommendation

The City should review the current conditions and develop a security awareness program, create a disaster recovery plan, improve physical security controls, and address security deficiencies that have been separately disclosed to City personnel.

FINDING No. 58: Utility Billing Software Implementation

During the 2000-2001 fiscal year, the City used a purchased computer program (Fund Balance) for certain financial applications such as general ledger, accounts payable, payroll, and cash receipting, but remained on a different software program (Information Management Services) for utility billing. The City attempted to convert to the Fund Balance utility billing application in October 2000; however, in attempting the conversion, the City failed to adequately test and determine that this application was operative prior to placing it into operation. The City converted to the Fund Balance utility billing application in June 2001. As a result, utility billings to customers were mailed out late from October 2000 through July 2001.

Recommendation

The City should implement procedures to ensure that any future modifications to the City's computer programs are properly designed, tested, and implemented prior to placing them into production.

Other Matters

FINDING No. 59: Public Records Retention

Pursuant to Chapter 119, Florida Statutes, the City is required to maintain public records that are, with some exceptions, to be open for inspection by the public.

Section 119.01(4), Florida Statutes, requires all agencies, including municipalities, to establish a program for the disposal of records that do not have sufficient legal, fiscal, administrative, or archival value pursuant to retention schedules established by the Florida Department of State, Division of Library and Information Services (Division). Because of its fiduciary responsibilities associated with the handling of public funds, it is important that the City maintain adequate records demonstrating that such funds were properly utilized in carrying out its legally established duties. Failure to maintain such records in accordance with State law could result in City officials being subject to the penalties outlined in Section 119.10, Florida Statutes.

During the course of our audit, we noted that the City destroyed bank statements from the 1997-98 fiscal year on May 18, 2001, which was before the three-year retention period prescribed by the schedule established by the Division.

Recommendation

The City should exercise greater care in maintaining public records as required by Chapter 119, Florida Statutes.

FINDING No. 60: Commission Minutes

Pursuant to Section 286.011(2), Florida Statutes, the minutes of City Commission meetings were required to be promptly recorded and open to public inspection. To ensure that minutes accurately reflect all actions and proceedings of the City Commission, the minutes of each meeting should be reviewed, corrected if necessary, and approved at a subsequent Commission meeting.

Our review of transcribed minutes prepared for Commission meetings held during the 2000-2001 fiscal year disclosed that Commission approval of such minutes was not included in subsequent minutes for 15 meetings. We were advised by City personnel that a review of the actual audio tapes disclosed that Commission approval of 10 of these meetings occurred but was not made a part of the transcribed minutes. We were further advised that the minutes prepared for the other 5 meetings were not approved by the Commission. Although minutes are generally signed by the preparer of the minutes (the City Clerk), control over actual representations in the minutes could be enhanced by documenting, of record, the Commission's approval of minutes.

Recommendation

The City should ensure that all typed minutes are reviewed, corrected if necessary, and approved by the Commission of record.

APPENDICES

The following Appendices are attached to and form an integral part of this report:

Appendix - A Background.

Appendix - B Unfavorably Rated Financial Indicators.

Appendix - C Statement from Audited Official.

APPENDIX – A
BACKGROUND
FINANCIAL AND OPERATIONAL AUDIT OF THE
CITY OF LAKE ALFRED, FLORIDA
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2001, AND
SELECTED ACTIONS TAKEN PRIOR AND SUBSEQUENT THERETO

Authority

The City of Lake Alfred, Florida, was re-created in Polk County in 1973 by Chapter 73-514, Laws of Florida. As provided in Article VIII, Section 2.(b) of the Constitution of the State of Florida, and Section 166.021(1), Florida Statutes, the City is empowered to conduct municipal government, perform municipal functions, and render municipal services.

In 1973 the Florida Legislature enacted the “Municipal Home Rule Powers Act” (Chapter 73-129, Laws of Florida). This Act established Section 166.021, Florida Statutes, which extended to municipalities the exercise of powers for municipal governmental, corporate, or proprietary purposes not expressly prohibited by the Constitution of the State of Florida, general or special law, or county charter, and removed any limitations, judicially imposed or otherwise, on the exercise of home rule powers other than those expressly prohibited. The “Municipal Home Rule Powers Act” also provided that all then existing special acts pertaining exclusively to the power or jurisdiction of a particular municipality, except as otherwise provided in Section 166.021(4), Florida Statutes, were to become ordinances of the municipality on the effective date of the Act (October 1, 1973). There have been no special acts of the Florida Legislature pertaining to the City’s operations since Chapter 73-514, Laws of Florida. Procedures for amending the City Charter and establishing new ordinances are set forth in Sections 166.031 and 166.041, Florida Statutes, respectively.

The City Charter, as reestablished by Chapter 73-514, Laws of Florida, and various ordinances, establishes the general powers and duties of the City Commission, including a mayor and vice-mayor; City officials, including a city manager; administrative requirements, procedures, and guidelines for various City activities and functions; and provisions for the administration of City Commission meetings.

Organizational Structure

As provided by Article VIII, Section 2.(b) of the Constitution of the State of Florida, the City is governed by an elective legislative body. Section 2.01 of the City’s Charter provides that the City Commission shall consist of five (5) members. Section 2.05 of the City’s Charter provides that the Commission shall annually elect from among its members a mayor and vice-mayor.

APPENDIX – A (CONTINUED)
BACKGROUND
FINANCIAL AND OPERATIONAL AUDIT OF THE
CITY OF LAKE ALFRED, FLORIDA
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2001, AND
SELECTED ACTIONS TAKEN PRIOR AND SUBSEQUENT THERETO

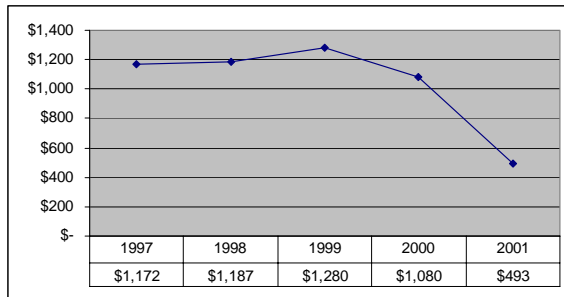
The City Commission serving during the period October 1, 2000, through January 31, 2002, were:

Larry Clark, to September 18, 2001, resigned
Mary Lou Coleman, Mayor from December 3, 2001
Nancy Z. Daley, from December 3, 2001
John Dame, Mayor to December 2, 2001,
Vice-Mayor from December 3, 2001
Mallie Free, Vice Mayor to November 28, 2001, resigned
Joseph Gallo III, from December 12, 2001
Albertus Maultsby, to November 30, 2001
Lowell K. Schmidt, from December 3, 2001

During the 2000-2001 fiscal year, and through December 17, 2001, the City Manager was James D. Drumm. The Interim City Manager through January 31, 2002, was Janice W. Shockley.

APPENDIX – B
UNFAVORABLY RATED FINANCIAL INDICATORS
FINANCIAL AND OPERATIONAL AUDIT OF THE
CITY OF LAKE ALFRED, FLORIDA
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2001, AND
SELECTED ACTIONS TAKEN PRIOR AND SUBSEQUENT THERETO

(1) Unreserved Fund Balance + Unreserved Retained Earnings (In Thousands)

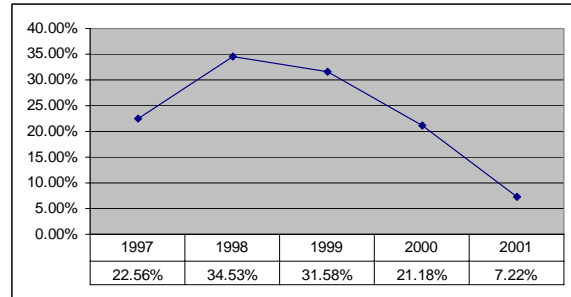


Analysis

- ❖ The City's total unreserved fund balance and retained earnings (adjusted for inflation) has decreased by \$678,948 (58 percent) from the 1996-97 to the 2000-2001 fiscal years.
- ❖ Part of the decline is attributable to the reclassification of unreserved fund balance as reserved fund balance in the Special Revenue Funds in the 2000-2001 fiscal year.
- ❖ The decrease in unreserved fund balance is partially due to the fact that the City has reported expenditures in excess of revenues for the past two fiscal years.
- ❖ The City's total unreserved fund balance and retained earnings was \$492,670 at September 30, 2001, as compared to an average of \$2,389,176 for other municipalities with similar fund composition and taxable property values.

Warning Trend. Low or declining results may indicate that the entity could have difficulty maintaining a stable tax and revenue structure or adequate level of services. Deficits may indicate a financial emergency.

(2) Unreserved Fund Balance/Total Expenditures



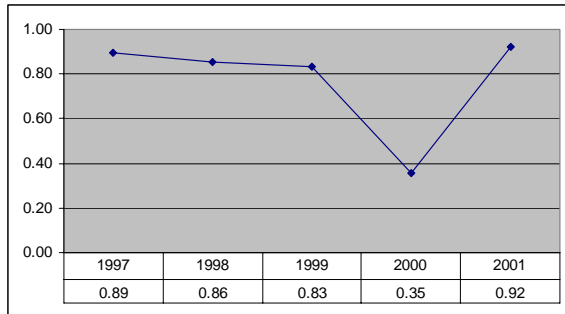
Analysis

- ❖ The City's percentages have declined since the 1996-97 fiscal year. Unreserved fund balance decreased by 82 percent while total expenditures increased by 14 percent from the 1996-97 to the 2000-2001 fiscal years.
- ❖ The City's 2000-2001 fiscal year percentage was 7.22 as compared to an average of 32.30 for other municipalities with similar fund composition and taxable property values.

Warning Trend. Low or decreasing percentages may indicate unstructured budgets that could lead to future budgetary problems even if the current fund balance is positive.

APPENDIX – B (CONTINUED)
UNFAVORABLY RATED FINANCIAL INDICATORS
FINANCIAL AND OPERATIONAL AUDIT OF THE
CITY OF LAKE ALFRED, FLORIDA
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2001, AND
SELECTED ACTIONS TAKEN PRIOR AND SUBSEQUENT THERETO

(3) Cash & Investments/Current Liabilities – Proprietary Funds

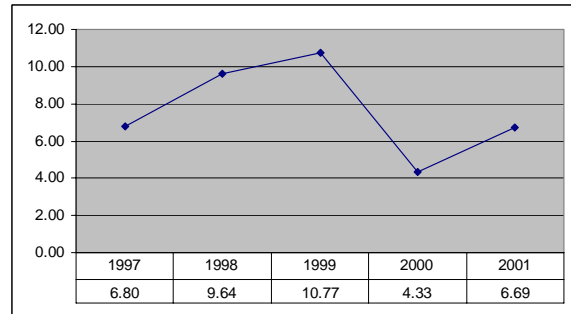


Analysis

- ❖ Although the City's five-year trend is erratic and inconclusive, the City's 2000-2001 fiscal year ratio of .92 is significantly lower than the average of 4.68 for other municipalities with similar fund composition and taxable property values.

Warning Trend. Low or decreasing ratios may indicate that the entity has overextended itself in the long run or may be having difficulty raising the cash needed to meet its current needs.

(4) Cash & Investments/(Total Expenses/12) – Proprietary Funds



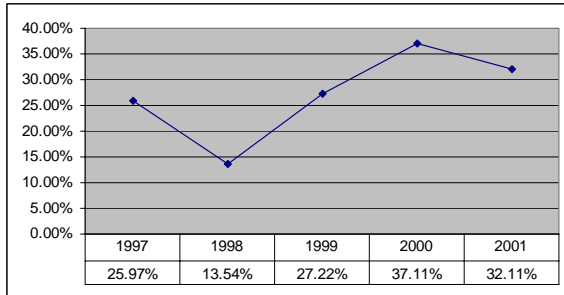
Analysis

- ❖ Although the City's five-year trend is erratic and inconclusive, the City's 2000-2001 fiscal year ratio of 6.69 is significantly lower than the average of 15.07 for other municipalities with similar fund composition and taxable property values.

Warning Trend. Low or decreasing ratios may indicate that the entity has overextended itself in the long run or may be having difficulty raising the cash needed to meet its current needs.

APPENDIX – B (CONTINUED)
UNFAVORABLY RATED FINANCIAL INDICATORS
FINANCIAL AND OPERATIONAL AUDIT OF THE
CITY OF LAKE ALFRED, FLORIDA
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2001, AND
SELECTED ACTIONS TAKEN PRIOR AND SUBSEQUENT THERETO

(5) Current Liabilities/Total Revenues – Governmental Funds

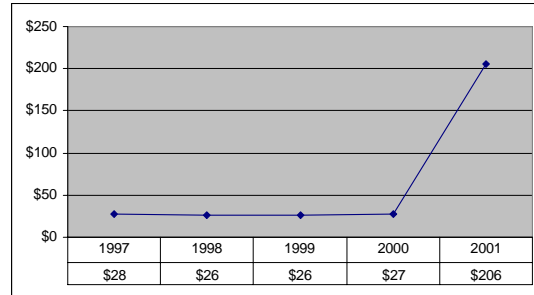


Analysis

- ❖ Although the City's percentage increased by only 24 percent from the 1996-97 to the 2000-2001 fiscal years, the City's percentage increased by 137 percent from the 1997-98 to the 2000-2001 fiscal years. During this period, current liabilities increased by 175 percent while total revenues increased by only 16 percent.
- ❖ The City's 2000-2001 percentage of 32.11 was significantly greater than the average of 14.97 percent for other municipalities with similar fund composition and taxable property values.

Warning Trend. High or increasing results may indicate liquidity problems, deficit spending, or both.

(6) Long-Term Debt/Population – Governmental Funds



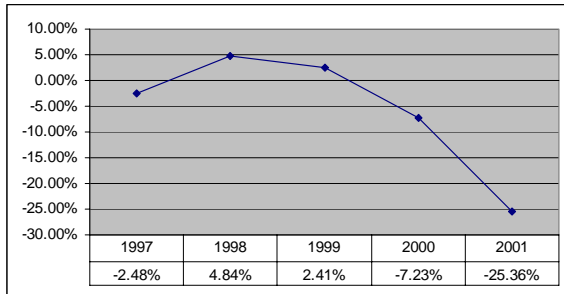
Analysis

- ❖ The City's general long-term debt increased sharply in the 2000-2001 fiscal year. This is primarily due to a \$1.6 million loan (of which \$422,000 was reported as general long-term debt) for the purchase of a fire tanker/pumper, radio system, Mariana Utilities System acquisition, and water/sewer utility line extensions.
- ❖ The City's 2000-2001 fiscal year general long-term debt per capita (adjusted for inflation) was \$206 as compared to an average of \$109 for other municipalities with similar fund composition and taxable property values.

Warning Trend. High or increasing debt per capita may indicate a decreasing level of flexibility in allocating resources or responding to economic changes, or a decreasing ability to pay long-term debt.

APPENDIX – B (CONTINUED)
UNFAVORABLY RATED FINANCIAL INDICATORS
FINANCIAL AND OPERATIONAL AUDIT OF THE
CITY OF LAKE ALFRED, FLORIDA
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2001, AND
SELECTED ACTIONS TAKEN PRIOR AND SUBSEQUENT THERETO

(7) Excess Revenues Over (Under) Expenditures/Total Revenues – Governmental Funds

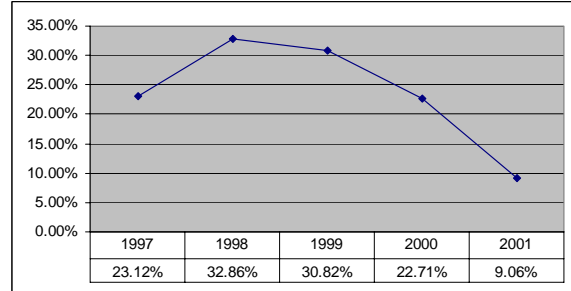


Analysis

- ❖ The City's percentages have declined by 923 percent since the 1996-97 fiscal year. During this period, excess revenues over (under) expenditures decreased by 853 percent while total revenues decreased by 7 percent.
- ❖ The City reported excess expenditures over revenues for the past two fiscal years.
- ❖ The City's 2000-2001 percentage of -25.36 was significantly lower than the average of -14.67 percent for other municipalities with similar fund composition and taxable property values.

Warning Trend. Decreasing surpluses or increasing deficits may indicate that current revenues are not supporting current expenditures.

(8) Unreserved Fund Balances/Total Revenues – Governmental Funds



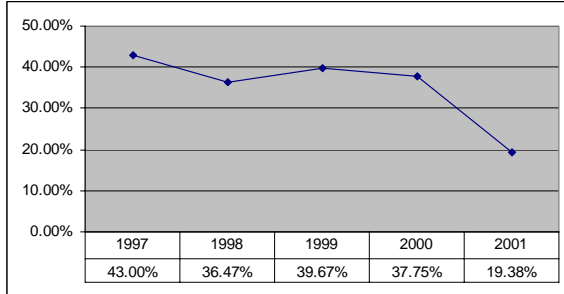
Analysis

- ❖ The City's percentages have declined by 61 percent since the 1996-97 fiscal year. During this period, unreserved fund balance decreased by 82 percent while total revenues decreased by 8 percent.
- ❖ The City's 2000-2001 percentage of 9.06 is significantly lower than the average of 33.18 percent for other municipalities with similar fund composition and taxable property values.

Warning Trend. Low or declining percentages may indicate a reduction in an entity's ability to finance capital purchases without having to borrow.

APPENDIX – B (CONTINUED)
UNFAVORABLY RATED FINANCIAL INDICATORS
FINANCIAL AND OPERATIONAL AUDIT OF THE
CITY OF LAKE ALFRED, FLORIDA
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2001, AND
SELECTED ACTIONS TAKEN PRIOR AND SUBSEQUENT THERETO

(9) Unreserved Retained Earnings/Total Operating Revenues – Proprietary Funds

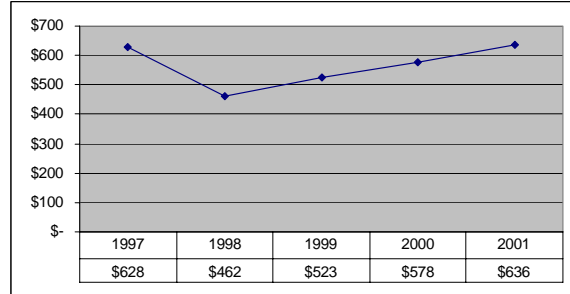


Analysis

- ❖ The City’s percentages have declined by 55 percent since the 1996-97 fiscal year. During this period, unreserved retained earnings decreased by 47 percent while total operating revenues increased by 18 percent.
- ❖ The City’s 2000-2001 percentage of 19.38 is significantly lower than the average of 91.99 percent for other municipalities with similar fund composition and taxable property values.

Warning Trend. Low or declining percentages may indicate a reduction in an entity’s ability to finance capital purchases without having to borrow.

(10) Total Expenditures/Population – Governmental Funds



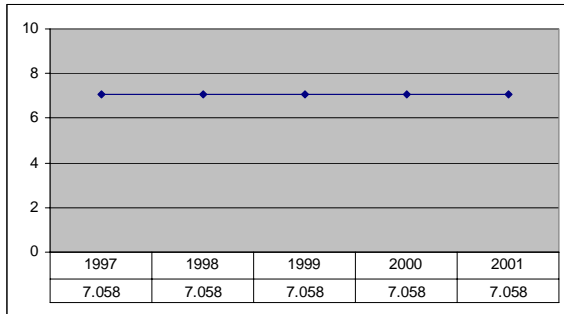
Analysis

- ❖ Although the City’s expenditures per capita increased by only 1 percent from the 1996-97 to the 2000-2001 fiscal years, the City’s expenditures per capita have increased by 38 percent since the 1997-98 fiscal year. During this period, total expenditures increased from \$1,770,253 in the 1997-98 fiscal year to \$2,704,472 in the 2000-2001 fiscal year, an increase of \$934,219 or 53 percent.
- ❖ Part of the increase in expenditures is attributable to the reclassification of the Central Garage and Motor Pool Fund from classification as an Internal Service Fund to the General Fund in the 2000-2001 fiscal year.

Warning Trend. High or increasing results may indicate that the cost of providing services is outstripping the entity’s ability to pay (i.e., the entity may be unable to maintain services at current levels).

APPENDIX – B (CONTINUED)
UNFAVORABLY RATED FINANCIAL INDICATORS
FINANCIAL AND OPERATIONAL AUDIT OF THE
CITY OF LAKE ALFRED, FLORIDA
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2001, AND
SELECTED ACTIONS TAKEN PRIOR AND SUBSEQUENT THERETO

(11) Millage Rate



Analysis

- ❖ The City's 2000-2001 fiscal year millage rate of 7.0580 was significantly higher than the average of 5.3806 for other municipalities with similar fund composition and taxable property values.

Warning Trend. Millage rates approaching 10 mills may indicate that the entity has a reduced ability to raise additional funds when needed.

NOTE: In addition to evaluating the City's five-year trends, we also compared the City's 2000-2001 fiscal year financial indicator results to the average of other municipalities with similar fund composition and taxable property values (also referred to as benchmark comparison). The benchmarks used were those averages calculated on financial and other data from the 1999-2000 fiscal year as the averages for the 2000-2001 fiscal year were unavailable at the time of our financial condition assessment. Benchmarks are not likely to change significantly from year to year. Accordingly, the results of comparisons using benchmarks developed using 1999-2000 fiscal year data should not differ significantly from the results of comparisons using benchmarks developed using 2000-2001 fiscal year data.

APPENDIX – C
STATEMENT FROM AUDITED OFFICIAL
FINANCIAL AND OPERATIONAL AUDIT OF THE
CITY OF LAKE ALFRED, FLORIDA
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2001, AND
SELECTED ACTIONS TAKEN PRIOR AND SUBSEQUENT THERETO



155 E. Pomelo Street
Lake Alfred, FL 33850-2135

CITY OF LAKE ALFRED

Ph.: (863) 291-5270
Fax: (863) 291-5317

September 23, 2002

Mr. William O. Monroe
Auditor General
State of Florida
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32399-1450

Dear Mr. Monroe:

Following is the City's written statement of explanation concerning all of the findings by the Auditor General's Office:

Finding No. 1: Prior Audit Findings

These findings included improper recording of transactions, failure to reconcile bank accounts, failure to reconcile subsidiary records to the general ledger, and a lack of detailed and accurate fixed asset records. As of April we have a new Finance Director and we now have a schedule for our bank reconciliations. A Deputy Finance Director will take care of the detail and accuracy to the General Ledger, reconciling bank accounts and we are adopting fixed asset records.

Finding No. 2: Written Policies and Procedures

The Finance Department, as one of its Fiscal Year 2003 Performance Measurements is the development and implementation of a Finance Department Procedures Manual to establish/outline the policies and daily operations procedures for the Finance Department.

APPENDIX – C (CONTINUED)
STATEMENT FROM AUDITED OFFICIAL
FINANCIAL AND OPERATIONAL AUDIT OF THE
CITY OF LAKE ALFRED, FLORIDA
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2001, AND
SELECTED ACTIONS TAKEN PRIOR AND SUBSEQUENT THERETO

Finding No. 3: Separation of Duties

Water and sewer fee collections have been separated. Other collections have policy and procedures that are handled through the front counter. We now use a payroll checklist with verification of actions taken. We have one employee with a backup to handle the blank accounts payable checks and purchase orders. We have locked cabinets in our vault so they are kept under lock and key with a sign off sheet making us more accountable.

Finding No. 4: Interfund Transactions

With the close of Fiscal Year 2002 and the beginning of Fiscal Year 2003, the use of "Due to's" and "Due From's" will be eliminated to the maximum extent possible. All transfers will be fully documented and approved by the Finance Director or Deputy Finance Director prior to posting, to ensure adequate documentation and appropriateness of entry.

Finding No. 5: Journal Entries

All journal entries will be reviewed and approved by the Finance Director or the City Manager. Reviews and approvals will be completion of action stamp affixed to journal entry worksheet(s).

Finding No. 6: Financial Condition

In concert with the City Manager, and City Commission, the Finance Director will develop a financial plan for the City, which will include short and long-term plans. This plan will establish and outline procedures for submission of financial reports; review of financial position, budget process, and revenue and expenditure estimates.

Finding No. 7: Budget Preparation

Budgets will have sufficient and detailed documentation for financial statements and annual external audits to establish and support beginning fund equities. Budget amendments will be documented and issued on a quarterly basis via ordinance as required by City Charter.

Finding No. 8: Budget Adoption

All TRIM and Florida Statute requirements relating to budget adoption procedures (notifications, advertisements and adoption) will be strictly adhered to.

APPENDIX – C (CONTINUED)
STATEMENT FROM AUDITED OFFICIAL
FINANCIAL AND OPERATIONAL AUDIT OF THE
CITY OF LAKE ALFRED, FLORIDA
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2001, AND
SELECTED ACTIONS TAKEN PRIOR AND SUBSEQUENT THERETO

Finding No. 9: Budgetary Level of Control

The City, through an ordinance, will establish the Budgetary Level of Control at the fund level for the City Commission and City Manager. Budget amendments will be made via ordinance (as required by City Charter) on a quarterly basis.

Finding No. 10: Petty Cash

Reimbursements are now properly documented with one person in control. Overpayment will not occur as we no longer allow photocopies of receipts. Multiple custodian-petty cash is now assigned to one individual with an employee backup.

Finding No. 11: Bank Reconciliations

The Finance Director and Deputy Finance Director will review bank balances daily through electronic review provided by bank. Review will be documented on form to be established. Bank reconciliations will be accomplished monthly and reviewed by Finance or City Manager.

Finding No. 12: Payroll Checks

Using checks out of sequence will not occur. With our new system the accounts will no longer be out of sequence and accountability is increased with one person being responsible issuing checks out. Unsecured blank payroll checks are locked in a cabinet in the vault with one person in charge of them.

Finding No. 13: Stale-Dated Checks

The City will comply with the provisions of 717.113 and 717.115, Florida Statutes by insuring that all unrepresented checks are researched and the amount reported and forwarded to the Florida Department of Banking and Finance within the established time frame. Review and timely submission of report to be monitored by Finance Director or City Manager.

Finding No. 14: Investment Earnings

The City has moved all of its funds to an interest bearing pooled cash account. A formal up to date investment policy will be formulated and implemented by the City.

Finding No. 15: Valuation of Reported Fixed Assets

The City is fully implementing the Fund Balance Fixed Assets program. Current departmental inventories are being conducted. Thorough search of records being

APPENDIX – C (CONTINUED)
STATEMENT FROM AUDITED OFFICIAL
FINANCIAL AND OPERATIONAL AUDIT OF THE
CITY OF LAKE ALFRED, FLORIDA
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2001, AND
SELECTED ACTIONS TAKEN PRIOR AND SUBSEQUENT THERETO

conducted to determine historical or estimated historical costs. These procedures will be part of the City's Fixed Assets Policy.

Finding No. 16: Tangible Personal Property Records

The City is implementing a Fixed Asset Policy which will address the definition, accountability, transfer, borrowing, and disposal of the City's fixed assets. All information regarding the City's fixed assets will be recorded into the Fund Balance Fixed Assets module and reviewed by the Finance Director on a quarterly basis.

Finding No. 17: Tangible Personal Property Inventory

The City's fixed Asset Policy will establish the requirement to conduct an annual inventory of all city fixed assets and reconcile said inventory to the books of record. A Review will be conducted by the Finance Director at the end of each inventory.

Finding No. 18: Internal Service Fund Fixed Assets

Appropriate review of the Internal Service Fund Fixed Assets will be conducted to establish valuation (state methodology used) and post to the General Fixed Asset Account Group.

Finding No. 19: Acquisition of Mariana Utilities System

Any future purchases of utility systems will be collaborated between engineers and written rate studies for economic feasibility will be required.

Finding No. 20: Transportation Inventory

In the Fiscal Year 2002/2003 budget, the Central Garage & Motor Pool will be acquiring and implementing a vehicle tracking and maintenance software program. Such program will track vehicle inventory acquisition.

Finding No. 21: Capital Project Financing

Loan agreements for any capital expenditures will only be passed by regular ordinances. A Rate Study will always be done in the future. The Expenditures before financing secured. We have contacted the firm of Hanifen and Imhoff who will assist the City in establishing procedures for future financing. No Emergency Ordinance will be used for financing. Unnecessary interest expense-With proper care and our Finance checklist this will not occur. Duplicate Findings-The FDEP loan was not handled properly. We will apply balances in the future for proper payment.

APPENDIX – C (CONTINUED)
STATEMENT FROM AUDITED OFFICIAL
FINANCIAL AND OPERATIONAL AUDIT OF THE
CITY OF LAKE ALFRED, FLORIDA
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2001, AND
SELECTED ACTIONS TAKEN PRIOR AND SUBSEQUENT THERETO

Finding No. 22: State Revolving Fund Loan Program

Monthly reviews by the Finance Director and City Manager are being established for fiscal year 2002/2003 and the future to insure loan reserves are at the proper levels. The City is engaging in a rate study of its utility charges to insure rates comply with loan agreements.

Finding No. 23: Other Long-Term Debt

The Finance Director or his representative along with the City Manager will review all calculations of any and all loan documents prior to and after signature of loan documents. The City will request that each loan packet contains an accurate and detailed amortization schedule of payments. Finance Director to review monthly, all loan payment amounts and report such review to City Manager.

Finding No. 24: Accountability for Long-Term Debt Transactions

With the Fiscal Year 2002/2003 budget, separate accounts to record principal and interest for each outstanding debt obligation will be established.

Finding No. 25: Accountability for Restricted Revenues

With the Fiscal Year 2002/2003 budget, separate Special Revenue Funds are being established for Federal, State and Local grants. All revenues and expenditures will be reflected directly to these funds. All Special Revenue Funds will be reviewed in conjunction with monthly financial statements.

Finding No. 26: Local Option Fuel Tax

City to review the Comprehensive Plan and the 5 and 10 year Capital Improvement Plans to account for the additional \$0.05 Local Option Fuel Tax. Refer to response for #25.

Finding No. 27: Prenumbered Forms

City has established a log for prenumbered forms to include periodic inventories by Finance or Deputy Finance Director, receipts of purchases and issues. Signatures and verification are required with each action.

Finding No. 28: Responsibility for Collections

With our new procedures there is only one person that will be in charge of security of funds. Since separation of duty at the front counter that covers the mail log receipts and restricts endorsement of checks received in person.

APPENDIX – C (CONTINUED)
STATEMENT FROM AUDITED OFFICIAL
FINANCIAL AND OPERATIONAL AUDIT OF THE
CITY OF LAKE ALFRED, FLORIDA
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2001, AND
SELECTED ACTIONS TAKEN PRIOR AND SUBSEQUENT THERETO

Finding No. 29: Missing Collections/Deposits

Our policy now is there is money exchanged between four individuals with total control and separation of duties. Money is deposited daily.

Finding No. 30: Over/Short Account

Daily wrap up of Cash Receipts and Utility Billings are reviewed and approved by Finance Director or Deputy Finance Director. All overages/shortages are reconciled prior to completing daily wrap up.

Finding No. 31: Citrus Sales

RFP's were sent out with three companies responding. Once a contract is awarded payments will not be received late and the department will oversee all tickets coming from the citrus.

Finding No. 32: Utility Services Revenues

The Finance Department is in the process of establishing written procedures for Utility Billing Operations. Finance or Deputy Finance Director review and approve all account adjustments. City continues to sent monthly billings timely. Past due notices and referral to collection agency procedures to be in Utility Billing Procedures.

Finding No. 33: Utility Service Deposits

The Utility Billing Procedures will include procedures for monthly reconciliations of customer utility deposits. Deposits are maintained in an interest bearing account.

Finding No. 34: Uncollected Revenues

Business Licenses have been submitted, second notices have been sent showing a penalty up to \$250. Uncollected Fire Inspection Fees for fire suppression systems for our five companies have been given to the Fire Chief. Uncontrolled Sewer System Surcharge-We will be addressing the 25% monthly charge for outside the city limits in the next 90 days.

Uncollected reconnection fee will also be started within the next 90 days.

Finding No. 35: Hiring Practices

Applications not retained-with new personnel procedures all applications. The personnel Technician has established these procedures. The employment history is now being verified. All personnel have an Action record form. All payroll deduction authorizations are being retained.

APPENDIX – C (CONTINUED)
STATEMENT FROM AUDITED OFFICIAL
FINANCIAL AND OPERATIONAL AUDIT OF THE
CITY OF LAKE ALFRED, FLORIDA
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2001, AND
SELECTED ACTIONS TAKEN PRIOR AND SUBSEQUENT THERETO

Finding No. 36: Nepotism

Nepotism will not occur. The City Manager/Building Official will sign off on all work directly related to relations.

Finding No. 37: State Director of New Hires

The Personnel Technician faxes all new hires in the day the employee fills out his required personnel information.

Finding No. 38: Personnel Evaluations

Formal personnel evaluations are now a two sheet evaluation with the Personnel Technician sending out attention to the Department Director 30 days prior to the evaluation date.

Finding No. 39 Salary Overpayment

With each new hire, transfer, promotion or demotion, the salary range is checked thoroughly.

Finding No. 40 Salary Advances

As of December 2001, the Interim City Manager did not allow any salary advances.

Finding No. 41 Employee Bonuses

Future employee bonuses will be provided through gift certificates rather than cash payments. Any tax ramifications will be dealt with in accordance with applicable tax laws.

Finding No. 42 Overtime Payments

Department Heads are now required to obtain, in writing, the City Manager's approval for all overtime prior to its utilization. Emergency use of overtime will be backed up, on the next business day, in writing to the City Manager.

Finding No. 43 Credit Card usage

The City Manager now has total control of the City's credit card. The card is kept in the safe and approved by the City Manager for all purchases.

APPENDIX – C (CONTINUED)
STATEMENT FROM AUDITED OFFICIAL
FINANCIAL AND OPERATIONAL AUDIT OF THE
CITY OF LAKE ALFRED, FLORIDA
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2001, AND
SELECTED ACTIONS TAKEN PRIOR AND SUBSEQUENT THERETO

Finding No. 44 Disbursement Processing

Each Department is now required to complete a purchase order, approved by the City Manager for each purchase. Voucher packets now have copy of purchase order, signed receiving certificate and request for payment.

Finding No. 45 Contributions for Nongovernmental Organizations

Contributions for non-governmental organizations will have to be submitted to the City Commission for their approval. All requests will be submitted to the City Manager. Monies will be given to the Chamber of Commerce with the City Manager having final approval using the reimbursable grant procedures.

Finding No. 46 Written Agreements

Any additional charges from our auditing firm will be presented in written form and approved through the City Commission.

Finding No. 47 Inadequate Support for Contractual Expenditures

Future payments for contractual services require contract to provide detailed documentation to support their billing. Finance Department to verify billing in accordance with written agreements.

Finding No. 48 Travel Allowances

We will be presenting an ordinance to our Commission for mileage reimbursement rates. The Commission will be reviewing the car allowance for City Managers.

Finding No. 49 Subsistence Allowance

The per diems per day will be presented to the Commission in the form of a new ordinance.

Finding No. 50 Unauthorized unsupported travel expenses

Prior to any travel, everyone is briefed on travel reimbursement requirements. Receipts for expenditures must be provided prior to payment.

Finding No. 51 Mayor's Youth Council Travel Expenses

With the new City credit card, the restricted use shall cover any and all travel expenses.

APPENDIX – C (CONTINUED)
STATEMENT FROM AUDITED OFFICIAL
FINANCIAL AND OPERATIONAL AUDIT OF THE
CITY OF LAKE ALFRED, FLORIDA
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2001, AND
SELECTED ACTIONS TAKEN PRIOR AND SUBSEQUENT THERETO

Finding No. 52 Telecommunication Taxes

The City is in the process of sending tax exempt certificates to its telecommunications vendors.

Finding No. 53 Vehicle Utilization Records

The City is developing a vehicle utilization policy which will include 24 hour assigned vehicles, establish usage logs and applying applicable taxes as required.

Finding No. 54 Insurance Bids

RFP's for Risk Managements will be put out for this upcoming year.

Finding No. 55 Health Insurance Premium Payments

Due to proper procedures all insurance payments are made in a timely manner. There are no late payments and the Personnel Technician reconciles billing from month to month.

Finding No. 56 Workers' Compensation Penalty Payment

The City has directed the Finance Director to prepare the annual worker' compensation self-audits in a timely manner.

Finding No. 57 Access and Security Administration Controls

Part of the Finance Department Operating Manual will include provisions regarding access and security to computer systems. Passwords will be changed periodically, but not longer than 6 month intervals.

Finding No. 58 Utility Billing Software Implementation

The City will, with any future installations of new software programs, review and test prior to full implementation.

Finding No. 59 Public Record Retention

We now have certified individuals for record retention and all handling of public records will be maintained through the City Clerk's office.

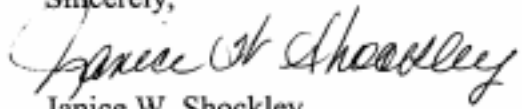
Finding No. 60 Commission Minutes

Transcribing of minutes is done in a timely manner and approval of minutes will be done in accordance.

APPENDIX – C (CONTINUED)
STATEMENT FROM AUDITED OFFICIAL
FINANCIAL AND OPERATIONAL AUDIT OF THE
CITY OF LAKE ALFRED, FLORIDA
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2001, AND
SELECTED ACTIONS TAKEN PRIOR AND SUBSEQUENT THERETO

I have responded to the findings as thoroughly as possible. Should there be any further questions, please do not hesitate to call me at (863) 291-5270.

Sincerely,



Janice W. Shockley
Interim City Manager

AUDITOR'S REPORT AND FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT ON GENERAL PURPOSE FINANCIAL STATEMENTS

GENERAL PURPOSE FINANCIAL STATEMENTS

Combined Balance Sheet - All Fund Types and Account Groups

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Governmental Fund Types

Combined Statement of Revenues, Expenses, and Changes in Retained Earnings - All Proprietary Fund Types

Combined Statement of Cash Flows - All Proprietary Fund Types

Combined Statement of Changes in Plan Net Assets - Pension Trust Funds

Notes to Financial Statements



WILLIAM O. MONROE, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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111 West Madison Street
Tallahassee, Florida 32399-1450



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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT ON GENERAL PURPOSE FINANCIAL STATEMENTS

We have audited the accompanying general purpose financial statements of the City of Lake Alfred, Florida, as of and for the fiscal year ended September 30, 2001, listed on page 89 of this report. These general purpose financial statements are the responsibility of City management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Lake Alfred General Employees' Retirement Plan or the financial statements of the Lake Alfred Police Officers Retirement Plan, reported as blended component units on the accompanying general purpose financial statements. The financial activities of the two retirement plans comprise 100 percent of the transactions and account balances of the Fiduciary Fund types. The financial statements of the two retirement plans were audited by another auditor whose reports have been provided to us, and our opinion on the general purpose financial statements, insofar as it relates to the amounts included for the two retirement plans, is based on the reports of the other auditor.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit and the reports of the other auditor provide a reasonable basis for our opinion.

The values of land, buildings, and improvements, furniture and equipment, citrus groves, library books, and construction-in-progress reported in the Enterprise Funds and the General Fixed Assets Account Group represent the major portion of the City's investment in fixed assets. As discussed in Finding No. 15, subsidiary accounts or other documentation showing the actual or estimated historical cost of individual assets were not adequate to support the total reported value of these assets. It was not practical in the circumstances to apply alternative auditing procedures to determine the fairness of the amounts reported. Fixed assets represent 100 percent of the account balances in the General Fixed Assets Account Group and comprise approximately 80 percent of the assets of the Proprietary Fund Types.

In our opinion, based on our audit and the reports of the other auditor, except for the amounts reported as fixed assets in the Enterprise Funds and the General Fixed Asset Account Group, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City as of September 30, 2001, and the results of its operations and the cash flows of its Proprietary Fund Types for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America. Because the accounting records were not adequate to support values reported for fixed assets, we do not express an opinion on the accompanying balance sheet for the Enterprise Funds and the General Fixed Assets Account Group or the combined statement of revenue, expenses, and changes in retained earnings for the Enterprise Funds.

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the City's internal control and our tests of its compliance with certain provisions of laws, administrative rules, regulations, contracts and grants, and other guidelines included under the heading ***INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL BASED ON AN AUDIT OF THE GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS***. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Respectfully submitted,



William O. Monroe
September 30, 2002

EXHIBIT - A
CITY OF LAKE ALFRED
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
September 30, 2001

	Governmental Fund Types		Proprietary
	General	Special Revenue	Fund Types Enterprise
ASSETS AND OTHER DEBITS			
Cash and Cash Equivalents	\$ 783,127		\$ 153,859
Restricted Cash		63,164	761,241
Investments			
Accounts Receivable	19,758		389,554
Interest Receivable			
Due from Other Funds	50,070	125,062	466,106
Due from Other Agencies	17,427		196,212
Inventories	17,772		
Fixed Assets:			
Land, Buildings and Improvements			8,725,380
Furniture and Equipment			273,191
Citrus Groves			1,592,139
Accumulated Depreciation			(4,068,468)
Library Books			
Construction in Progress			1,136,105
Amount to be Provided For:			
Retirement of Notes Payable			
Payment of Installment Purchases			
Compensated Absences			
TOTAL ASSETS AND OTHER DEBITS	<u>\$ 888,154</u>	<u>\$ 188,226</u>	<u>\$ 9,625,319</u>
LIABILITIES, FUND EQUITY, AND OTHER CREDITS			
Liabilities:			
Payroll Deductions and Withholdings Payable	\$ 21,100		\$ 864
Accounts Payable	54,166		27,390
Notes Payable - Current			352,911
Construction Contracts Payable			301,865
Construction Contracts Payable - Retainage			33,541
Due to Other Funds	616,857		51,045
Due to Other Agencies	676		6,870
Accrued Interest Payable			60,864
Deposits Payable			159,969
Installment Purchases Payable			
Notes Payable			4,278,143
Compensated Absences Payable			18,438
Total Liabilities	<u>692,799</u>		<u>5,291,900</u>
Fund Equity and Other Credits:			
Contributed Capital			3,456,198
Investment in General Fixed Assets			
Retained Earnings			
Reserved for Stormwater Expansion			30,662
Reserved for Sanitation Equipment			110,624
Reserved for Future Expansion of Water and Sewer Systems			222,931
Reserved for Debt Service			174,305
Unreserved			338,699
Fund Balances:			
Reserved for Transportation		160,565	
Reserved for Public Library		2,554	
Reserved for Public Safety Expenditures		17,167	
Reserved for Restricted Grants		7,940	
Reserved for Employee Pension Benefits			
Unreserved:			
Designated for Inventory Replacement	17,772		
Undesignated	177,583		
Total Fund Equity and Other Credits	<u>195,355</u>	<u>188,226</u>	<u>4,333,419</u>
TOTAL LIABILITIES, FUND EQUITY, AND OTHER CREDITS	<u>\$ 888,154</u>	<u>\$ 188,226</u>	<u>\$ 9,625,319</u>

The accompanying notes to the financial statements are an integral part of this statement.

EXHIBIT - A

Fiduciary Fund Types Pension Trust	Account Groups		Total (Memorandum Only)
	General Fixed Assets	General Long-Term Debt	
\$	\$	\$	\$ 936,986
2,421,326			824,405
			2,421,326
9,021			409,312
26,664			9,021
			667,902
			213,639
			17,772
	1,270,638		9,996,018
	833,664		1,106,855
			1,592,139
			(4,068,468)
	213,973		213,973
			1,136,105
		714,978	714,978
		77,182	77,182
		82,048	82,048
<u>\$ 2,457,011</u>	<u>\$ 2,318,275</u>	<u>\$ 874,208</u>	<u>\$ 16,351,193</u>
\$	\$	\$	\$ 21,964
			81,556
			352,911
			301,865
			33,541
			667,902
			7,546
			60,864
			159,969
		77,182	77,182
		714,978	4,993,121
		82,048	100,486
		874,208	6,858,907
			3,456,198
	2,318,275		2,318,275
			30,662
			110,624
			222,931
			174,305
			338,699
			160,565
			2,554
			17,167
			7,940
2,457,011			2,457,011
			17,772
			177,583
<u>2,457,011</u>	<u>2,318,275</u>	<u></u>	<u>9,492,286</u>
<u>\$ 2,457,011</u>	<u>\$ 2,318,275</u>	<u>\$ 874,208</u>	<u>\$ 16,351,193</u>

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EXHIBIT - B
CITY OF LAKE ALFRED
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
For the Fiscal Year Ended September 30, 2001

	Governmental Fund Types		Total (Memorandum Only)
	General	Special Revenue	
Revenues			
Taxes	\$ 1,099,935	\$ 197,420	\$ 1,297,355
Licenses and Permits	38,326		38,326
Intergovernmental Revenue	474,066	60,088	534,154
Charges for Services	72,696		72,696
Fines and Forfeitures	86,826	5,540	92,366
Interest and Other	121,031	1,480	122,511
Total Revenues	1,892,880	264,528	2,157,408
Expenditures			
Current:			
General Government	507,772		507,772
Public Safety	1,072,878	562	1,073,440
Physical Environment	26,581		26,581
Transportation	320,202	155,264	475,466
Culture and Recreation	228,582		228,582
Capital Outlay	291,904	31,270	323,174
Debt Service:			
Principal	28,711		28,711
Interest and Fiscal Charges	40,747		40,747
Total Expenditures	2,517,377	187,096	2,704,473
Excess (Deficiency) of Revenues Over Expenditures	(624,497)	77,432	(547,065)
Other Financing Sources (Uses)			
Operating Transfers In	630,554	29,137	659,691
Loan Proceeds	417,383		417,383
Operating Transfers Out	(529,117)		(529,117)
Total Other Financing Sources (Uses)	518,820	29,137	547,957
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	(105,677)	106,569	892
Fund Balances, October 1, 2000	507,955	374,453	882,408
Adjustments to Decrease Fund Balance	(206,923)	(292,796)	(499,719)
Fund Balances, October 1, 2000, as Restated	301,032	81,657	382,689
Fund Balances, September 30, 2001	\$ 195,355	\$ 188,226	\$ 383,581

The accompanying notes to the financial statements are an integral part of this statement.

EXHIBIT - C
CITY OF LAKE ALFRED
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GOVERNMENTAL FUND TYPES
For the Fiscal Year Ended September 30, 2001

	Governmental Fund Types		
	Budget	Actual	Variance - Favorable (Unfavorable)
Revenues			
Taxes	\$ 1,391,626	\$ 1,099,935	\$ (291,691)
Licenses and Permits	37,300	38,326	1,026
Intergovernmental Revenue	503,788	474,066	(29,722)
Charges for Services	30,570	72,696	42,126
Fines and Forfeitures	70,200	86,826	16,626
Interest and Other	110,657	121,031	10,374
Total Revenues	2,144,141	1,892,880	(251,261)
Expenditures			
Current:			
General Government	419,390	507,772	(88,382)
Public Safety	1,051,880	1,072,878	(20,998)
Physical Environment	27,990	26,581	1,409
Transportation	483,815	320,202	163,613
Culture and Recreation	266,423	228,582	37,841
Capital Outlay	123,647	291,904	(168,257)
Debt Service:			
Principal	30,000	28,711	1,289
Interest and Fiscal Charges	91,446	40,747	50,699
Total Expenditures	2,494,591	2,517,377	(22,786)
Excess (Deficiency) of Revenues Over Expenditures	(350,450)	(624,497)	(274,047)
Other Financing Sources (Uses)			
Operating Transfers In	383,219	630,554	247,335
Loan Proceeds		417,383	417,383
Operating Transfers Out	(213,719)	(529,117)	(315,398)
Total Other Financing Sources (Uses)	169,500	518,820	349,320
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	(180,950)	(105,677)	75,273
Fund Balances, October 1, 2000	180,950	507,955	327,005
Adjustments to Decrease Fund Balance		(206,923)	(206,923)
Fund Balances, October 1, 2000, as Restated	180,950	301,032	120,082
Fund Balances, September 30, 2001	\$	\$ 195,355	\$ 195,355

The accompanying notes to the financial statements are an integral part of this statement.

Governmental Fund Types			Total (Memorandum Only)		
Special Revenue					
Budget	Actual	Variance - Favorable (Unfavorable)	Budget	Actual	Variance - Favorable (Unfavorable)
\$	\$ 197,420	\$ 197,420	\$ 1,391,626	\$ 1,297,355	\$ (94,271)
	60,088	60,088	37,300	38,326	1,026
			503,788	534,154	30,366
2,500	5,540	3,040	30,570	72,696	42,126
50	1,480	1,430	72,700	92,366	19,666
			110,707	122,511	11,804
2,550	264,528	261,978	2,146,691	2,157,408	10,717
			419,390	507,772	(88,382)
4,000	562	3,438	1,055,880	1,073,440	(17,560)
			27,990	26,581	1,409
	155,264	(155,264)	483,815	475,466	8,349
			266,423	228,582	37,841
6,550	31,270	(24,720)	130,197	323,174	(192,977)
			30,000	28,711	1,289
			91,446	40,747	50,699
10,550	187,096	(176,546)	2,505,141	2,704,473	(199,332)
(8,000)	77,432	85,432	(358,450)	(547,065)	(188,615)
	29,137	29,137	383,219	659,691	276,472
				417,383	417,383
			(213,719)	(529,117)	(315,398)
	29,137	29,137	169,500	547,957	378,457
(8,000)	106,569	114,569	(188,950)	892	189,842
8,000	374,453	366,453	188,950	882,408	693,458
	(292,796)	(292,796)		(499,719)	(499,719)
8,000	81,657	73,657	188,950	382,689	193,739
\$	\$ 188,226	\$ 188,226	\$	\$ 383,581	\$ 383,581

EXHIBIT - D
CITY OF LAKE ALFRED
COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN RETAINED EARNINGS - ALL PROPRIETARY FUND TYPES
For the Fiscal Year Ended September 30, 2001

	Proprietary Fund Types		Total (Memorandum Only)
	Enterprise	Internal Service	
Operating Revenues:			
Charges for Services	\$ 1,732,252	\$	\$ 1,732,252
Other - Grove Revenue	15,586		15,586
Total Operating Revenues	1,747,838		1,747,838
Operating Expenses:			
Salaries	388,132		388,132
Operating Expenses	760,073		760,073
Materials and Supplies	161,051		161,051
Depreciation	331,654		331,654
Total Operating Expenses	1,640,910		1,640,910
Operating Income	106,928		106,928
Nonoperating Revenues (Expenses):			
Impact Fees and Equipment Assessments	56,524		56,524
Interest Expense	(196,833)		(196,833)
Interest Income	8,073		8,073
Other	96,646		96,646
Total Nonoperating Revenues (Expenses)	(35,590)		(35,590)
Income Before Operating Transfers	71,338		71,338
Operating Transfers In	529,117		529,117
Operating Transfers Out	(659,691)		(659,691)
Net Loss	(59,236)		(59,236)
Retained Earnings, October 1, 2000	668,888	41,087	709,975
Adjustments to Increase (Decrease) Retained Earnings	267,569	(41,087)	226,482
Retained Earnings, October 1, 2000, as Restated	936,457		936,457
Retained Earnings, September 30, 2001	\$ 877,221	\$	\$ 877,221

The accompanying notes to the financial statements are an integral part of this statement.

EXHIBIT - E
CITY OF LAKE ALFRED
COMBINED STATEMENT OF CASH FLOWS -
ALL PROPRIETARY FUND TYPES
For the Fiscal Year Ended September 30, 2001

	Proprietary Fund Types		Total (Memorandum Only)
	Enterprise	Internal Service	
Cash Flows from Operating Activities:			
Cash Received for Utility Billings	\$ 1,532,731	\$	\$ 1,532,731
Cash Payments to Suppliers for Goods and Services	(534,164)		(534,164)
Cash Payments to Employees for Services	(400,726)		(400,726)
Net Cash Provided by Operating Activities	597,841		597,841
Cash Flows from Noncapital Financing Activities:			
Impact Fees and Equipment Assessments	56,524		56,524
Other Nonoperating Revenues	80,651		80,651
Net Cash Provided by Noncapital Financing Activities	137,175		137,175
Cash Flows from Capital and Related Financing Activities:			
Acquisition and Construction of Capital Assets	(1,179,213)		(1,179,213)
Principal Paid on Outstanding Debt	(274,839)		(274,839)
Interest Paid on Outstanding Debt	(146,762)		(146,762)
Proceeds from Loans	923,867		923,867
Net Cash Used by Capital and Related Financing Activities	(676,947)		(676,947)
Cash Flows from Investment Activities:			
Interest Income	8,073		8,073
Net Cash Provided by Investment Activities	8,073		8,073
Net Increase in Cash	66,142		66,142
Cash and Cash Equivalents at Beginning of Year	372,995	200,601	573,596
Adjustments to Beginning Cash and Cash Equivalents	475,963	(200,601)	275,362
Cash and Cash Equivalents at Beginning of Year, Restated	848,958		848,958
Cash and Cash Equivalents at End of Year	\$ 915,100	\$	\$ 915,100

Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:

Operating Income (Loss)	\$ 106,928
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Depreciation	331,654
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(199,520)
Decrease in Due from Other Funds	90,198
Increase in Due from Other Agencies	(196,212)
Increase in Compensated Absences Payable	8,605
Decrease in Accounts Payable	(6,360)
Decrease in Other Accrued Liabilities	(2,762)
Increase in Due to Other Funds	75,850
Increase in Due to Other Agencies	6,870
Increase in Deposits Payable	47,184
Increase in Construction Contracts Payable - Retainage	33,541
Increase in Construction Contracts Payable	301,865
Total Adjustments	490,913
Net Cash Provided by Operating Activities	\$ 597,841

The accompanying notes to the financial statements are an integral part of this statement.

EXHIBIT - F
CITY OF LAKE ALFRED
COMBINED STATEMENT OF CHANGES IN PLAN NET ASSETS -
PENSION TRUST FUNDS
For the Fiscal Year Ended September 30, 2001

	General Employees' Retirement Plan	Police Officers' Retirement Plan	Totals (Memorandum Only)
Additions:			
Contributions:			
Contributions Received from Employer	\$ 108,276	\$ 8,788	\$ 117,064
Contributions Received from Plan Members	15,645	19,004	34,649
Contributions Received from the State of Florida		15,249	15,249
Total Contributions	<u>123,921</u>	<u>43,041</u>	<u>166,962</u>
Investment Income (Loss):			
Net Decrease in Fair Value of Investments	(210,663)	(62,223)	(272,886)
Realized Gains on Sales of Securities		9,075	9,075
Reimbursement by Trustee for Bond Value Decline		1,645	1,645
Interest and Dividends	43,482	1,325	44,807
Investment Expenses	(15,753)	(9,168)	(24,921)
Net Investment Loss	<u>(182,934)</u>	<u>(59,346)</u>	<u>(242,280)</u>
Total Additions	<u>(59,013)</u>	<u>(16,305)</u>	<u>(75,318)</u>
Deductions:			
Administrative Expenses:			
Legal	1,204	2,179	3,383
Actuarial	2,825	3,500	6,325
Travel and Training	1,370	1,050	2,420
Benefits		23,049	23,049
Total Deductions	<u>28,448</u>	<u>6,729</u>	<u>35,177</u>
Net Decrease	(87,461)	(23,034)	(110,495)
Net Assets Held in Trust for Pension Benefits:			
Beginning of Year	<u>1,575,108</u>	<u>992,398</u>	<u>2,567,506</u>
End of Year	<u>\$ 1,487,647</u>	<u>\$ 969,364</u>	<u>\$ 2,457,011</u>

The accompanying notes to the financial statements are an integral part of this statement.

EXHIBIT - G
CITY OF LAKE ALFRED
NOTES TO FINANCIAL STATEMENTS
September 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- **Reporting Entity**

The City of Lake Alfred, Florida, a political subdivision of the State Florida incorporated under the authority of Chapter 165, Florida Statutes, was re-created in Polk County in 1973 by Chapter 73-514, Laws of Florida. The City operates under a commission-manager form of municipal government and provides general municipal services, including the following: public safety, public works, public utilities, culture, recreation, and community development.

Criteria for determining if other entities are potential component units that should be reported within the City's general purpose financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. The application of these criteria provides for identification of any entities for which the City is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's general purpose financial statements to be misleading or incomplete. Based on the application of these criteria, the following component units are included within the City's reporting entity:

- **Blended Component Units.** The City's General Employees' Retirement Plan, described in Note 14, is administered through a Trustee. Assets necessary to fund the program are transferred to the Trust; however, under the terms of the Trust agreement, the City retains control of the assets. In addition, the Retirement Plan exists solely to provide benefits to employees of the City. Therefore, the financial activities of the Trust are reported in the City's financial statements.

EXHIBIT – G (Continued)
CITY OF LAKE ALFRED
NOTES TO FINANCIAL STATEMENTS
September 30, 2001

The City's Police Officers' Retirement Plan, described in Note 15, is administered through a Trustee. Assets necessary to fund the program are transferred to the Trust; however, under the terms of the Trust agreement, the City retains control of the assets. In addition, the Retirement Plan exists solely to provide benefits to employees of the City. Therefore, the financial activities of the Trust are reported in the City's financial statements.

- **Basis of Presentation**

Accounting policies conform with accounting principles generally accepted in the United States of America applicable to State and local governmental units. Accordingly, the City's accounting system is organized on the basis of funds and account groups. A fund is an accounting entity having a self-balancing set of accounts for recording assets, liabilities, fund equity, revenues, either expenditures or expenses depending on fund type, and other financing sources and uses.

Resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The several individual generic funds are grouped, in the financial statements of this report, into governmental, proprietary, and fiduciary fund types as follows:

GOVERNMENTAL FUND TYPES

- **General Fund** - to account for all financial resources not required to be accounted for in another fund.
- **Special Revenue Funds** - to account for the financial resources of local option gas taxes, law enforcement education and training funds, forfeiture funds, and funds accumulated for the construction of a new library.

EXHIBIT – G (Continued)
CITY OF LAKE ALFRED
NOTES TO FINANCIAL STATEMENTS
September 30, 2001

PROPRIETARY FUND TYPES

- Enterprise Funds - to account for operations that are financed and operated in a manner similar to private businesses where the intent of the governing body is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

FIDUCIARY FUND TYPES

- Pension Trust Funds - to account for resources used to finance the retirement programs. This fund is accounted for in the same manner as proprietary fund types.

ACCOUNT GROUPS

Account groups are not funds. They consist of self-balancing sets of accounts and are used only to establish accounting control over general fixed assets and general long-term obligations. Account groups are not used to account for available resources or the actual acquisition of fixed assets or payment of liabilities.

- General Fixed Assets Account Group - to establish accounting control for general fixed assets. General fixed assets are usually acquired with resources of governmental fund types and used in association with activities of those funds. Fixed assets of proprietary funds are reported as assets in those funds rather than in the general fixed assets account group.
- General Long-term Debt Account Group - to establish accounting control for long-term debts and other long-term obligations of governmental fund types. Long-term obligations of funds using proprietary fund accounting

EXHIBIT – G (Continued)
CITY OF LAKE ALFRED
NOTES TO FINANCIAL STATEMENTS
September 30, 2001

are reported as liabilities in those funds rather than in the general long-term debt account group.

- **Basis of Accounting**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental fund types are accounted for using the modified accrual basis of accounting. Under the modified accrual basis, revenues, except for certain grant revenues, are recognized when they become measurable and available. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred. The principal exceptions to this general rule are: (1) prepaid items are generally not accrued; (2) interest on general long-term debt is recognized as expenditures when due; and (3) expenditures related to liabilities reported as general long-term debt are recognized when due.

The enterprise and pension trust funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. These funds are accounted for as proprietary activities under standards issued by the Financial Accounting Standards Board through November 1989 and applicable standards issued by the Governmental Accounting Standards Board.

EXHIBIT – G (Continued)
CITY OF LAKE ALFRED
NOTES TO FINANCIAL STATEMENTS
September 30, 2001

- **Budgetary Basis of Accounting**

The City performs the following procedures in establishing the final budget balances as reported on the financial statements:

- On or before August 1 each year, the City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing the following October 1. The annual operating budget serves as legal authorization for expenditures and the proposed means of financing them. The legal level of budgetary control is the object level.
- The budget provides a financial plan of municipal funds and activities for the ensuing fiscal year, with the expenditures classified at the object level for the main functional departments and activities of the City.
- After public notice, public hearings are conducted at City Hall to obtain citizen comments.
- Prior to October 1 each year, the City Commission adopts the budget by ordinance.
- Appropriations lapse at the end of each fiscal year.
- Budgets are prepared for governmental funds using the same modified accrual basis of accounting as is used to account for actual transactions.

- **Cash**

Cash deposits are held by banks qualified as public depositories under Florida law. All deposits are insured by Federal depository insurance and/or collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes. For purposes of the

EXHIBIT – G (Continued)
CITY OF LAKE ALFRED
NOTES TO FINANCIAL STATEMENTS
September 30, 2001

Statement of Cash Flows, cash and cash equivalents consists of cash demand deposits and money market accounts, including restricted cash.

- **Investments**

Investments made locally consist of United States Treasury securities, obligations of United States Government agencies and instrumentalities, corporate bonds, money market mutual funds, and bank common funds, all held by the City's two pension plans reported as blended component units and are reported at fair value. Types and amounts of investments held at fiscal year-end are described in a subsequent note on investments.

- **Inventories**

Inventories consist of motor fuel, transportation parts, and expendable supplies held for consumption in the course of City operations. Inventories are stated at cost on the first-in, first-out basis.

- **Fixed Assets and Depreciation**

Expenditures for fixed assets acquired or constructed for general City purposes are reported in the governmental fund type that financed the acquisition or construction; whereas, the fixed assets so acquired are capitalized (recorded) at cost in the general fixed assets account group. Fixed assets are recorded at cost, when known, or at estimated historical cost when actual cost is not determinable. Contributed or donated assets are valued at their estimated fair market value on the date received. Public domain (infrastructure) general fixed assets consisting of roads, bridges, curbs, gutters, streets, sidewalks, drainage systems, and street lights are not capitalized.

Assets in the general fixed assets account group are not depreciated. Depreciation of buildings, equipment, and vehicles in the enterprise funds is computed using the straight-line method over the following estimated useful lives:

EXHIBIT – G (Continued)
CITY OF LAKE ALFRED
NOTES TO FINANCIAL STATEMENTS
September 30, 2001

Class of Assets	Estimated Life-Years
Water and Sewer Plant	25 - 40
Buildings	15 - 40
Equipment	3 - 20
Citrus Trees	20

Interest costs incurred during construction of fixed assets are not capitalized as part of the cost of construction.

Current-year information relative to changes in general fixed assets is described in a subsequent note.

- **Restricted Assets**

Certain resources from impact fees, utility maintenance fees, utility deposits, and other enterprise fund revenues are classified as restricted assets on the balance sheet because the use of such assets is limited by the City charter, City ordinances or resolutions, or loan covenants.

- **Long-Term Debt and Compensated Absences**

Long-term obligations that will be financed from resources to be received in the future by governmental fund types are reported in the general long-term debt account group, not in individual funds. Long-term obligations to be financed from resources of the enterprise funds and the pension trust fund are recorded in those funds rather than in the general long-term debt account group.

In governmental fund types, compensated absences, "i.e., paid absences for employee vacation leave," are accrued as expenses when earned in the enterprise funds, which use the accrual basis of accounting. In governmental fund types, compensated absences are recorded as an expenditure when leave is used or when accrued as payable to employees entitled to cash payment in lieu of taking leave. Compensated absences that exceed this amount at fiscal year-end are reported in

EXHIBIT – G (Continued)
CITY OF LAKE ALFRED
NOTES TO FINANCIAL STATEMENTS
September 30, 2001

the general long-term debt account group and recorded as expenditures when used in subsequent years.

Changes in general long-term debt for the current year are reported in a subsequent note.

- **Property Taxes - Revenue Recognition**

The City is authorized by State law to levy property taxes for City operations, capital improvements, and debt service.

Property taxes consist of ad valorem taxes on real and personal property within the City. Property values are determined by the Polk County Property Appraiser and property taxes are collected by the Polk County Tax Collector.

The City adopted the 2000 tax levy on September 28, 2000. Taxes become an enforceable lien on property as of January 1; tax bills are mailed in October; and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

Taxes become delinquent on April 1 of the year following the year of assessment and State law provides for enforcement of collection of personal property taxes by seizure of the property to satisfy unpaid taxes and for enforcement of collection of real property taxes by the sale of interest-bearing tax certificates to satisfy unpaid taxes. The procedures result in the collection of essentially all taxes prior to September 30 of the year following the year of assessment.

Property tax revenue is recognized when taxes are received by the City except that revenue is accrued for taxes collected by the Polk County Tax Collector at fiscal year-end but not yet remitted to the City. Because any delinquent taxes collected after September 30 would not be material, delinquent taxes receivable are not accrued and no delinquent tax revenue deferral is recorded.

EXHIBIT – G (Continued)
CITY OF LAKE ALFRED
NOTES TO FINANCIAL STATEMENTS
September 30, 2001

Millages and taxes levied for the current year are presented in a subsequent note.

- **Total Columns on the Combined Statements**

Total columns on the accompanying Exhibits A, B, C, D, E, and F are captioned "Memorandum Only" because they are presented only to facilitate financial analyses. Inasmuch as the total columns include fund types, and account groups that use different bases of accounting, include both restricted and unrestricted amounts, and include interfund transactions that have not been eliminated, data in the total columns is not intended to present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation.

2. REPORTING CHANGES

The adjustments to beginning fund balance, retained earnings, and contributed capital in the general, special revenue, internal service, and enterprise funds are the result of individual fund reclassifications to other fund types as noted below:

- In prior fiscal years, the City reported the activities of the Water, Sewer, and Refuse Collection Clearing Fund, the Central Garage and Motor Pool Sinking Fund, and the Central Garage and Motor Pool Fund in internal service funds. For the 2000-2001 fiscal year, with the exception of the Water, Sewer, and Refuse Collection Clearing Fund, which is now reported in an enterprise fund, the City began reporting the activities of these funds in the General Fund.
- The City, in prior fiscal years, reported the activities of the Equipment Reserve Fund and the Water and Sewer Expansion Fund as special revenue funds. For the 2000-2001 fiscal year, the City began reporting the activities of these funds in the enterprise funds.

EXHIBIT – G (Continued)
CITY OF LAKE ALFRED
NOTES TO FINANCIAL STATEMENTS
September 30, 2001

- The City, in prior fiscal years, reported the activities of the Utility Tax and Franchise Fee Fund as a special revenue fund. For the 2000-2001 fiscal year, the City began reporting the activities of this fund in the General Fund.

- The City, in prior fiscal years, reported the assets and liabilities of the Water, Sewer, and Garbage Deposit Fund as an agency fund. For the 2000-2001 fiscal year, the City began reporting the assets and liabilities of this fund in an enterprise fund.

**3. EXPENDITURES OVER APPROPRIATIONS
IN INDIVIDUAL FUNDS**

The City's accounting records provided for a comparison of budgeted to actual expenditures at the object level, the legal level of control. Included in budget variances shown on Exhibit C are expenditures in excess of appropriations, totaling approximately \$4.4 million, for 201 object level expenditure categories. Total actual expenditures for governmental funds exceeded total budgeted expenditures by \$199,331.

4. INVESTMENTS

Generally accepted accounting principles require that the credit risk of investments be classified into the following three categories:

- Risk Category 1 - Insured or registered, or securities held by the City or its agent in the City's name.

- Risk Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.

- Risk Category 3 - Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the City's name.

EXHIBIT – G (Continued)
CITY OF LAKE ALFRED
NOTES TO FINANCIAL STATEMENTS
September 30, 2001

Certain investments, such as investment pools managed by other governments and mutual funds, cannot be categorized because the City's investments are not evidenced by specific, identifiable investment securities.

Investments at September 30, 2001, are shown below:

	Risk Category			Carrying Amount
	1	2	3	
United States Treasury securities	\$178,733	\$ -	\$ -	\$178,733
Obligations of United States Government				
Agencies and instrumentalities	327,457			327,457
Corporate bonds	140,305			140,305
	<u>646,495</u>			
Total	<u>\$646,495</u>	<u>\$ -</u>	<u>\$ -</u>	
Money market mutual funds				69,850
Bank common funds				<u>1,704,981</u>
Total investments				<u>\$2,421,326</u>

5. ACCOUNTS RECEIVABLE

Accounts receivable reported in the General Fund represent uncollected franchise and tower rental fees.

Accounts receivable reported in the enterprise funds represent fees for uncollected utility services provided by the City (billed and unbilled) and citrus grove fees. The accounts receivable are net of a \$96,396.58 allowance for uncollectible accounts.

6. CHANGES IN GENERAL FIXED ASSETS

Changes in general fixed assets are shown below:

EXHIBIT – G (Continued)
CITY OF LAKE ALFRED
NOTES TO FINANCIAL STATEMENTS
September 30, 2001

	Balance 10-1-2000	Additions	Deletions	Balance 9-30-2001
Land, Buildings and Improvements	\$ 1,270,638			\$ 1,270,638
Furniture and Equipment	621,509	212,155		833,664
Library Books	213,973			213,973
Total	\$ 2,106,120	\$ 212,155	\$ -	\$ 2,318,275

7. ENTERPRISE FUNDS FIXED ASSETS

A summary of enterprise funds fixed assets at September 30, 2001 follows:

	Amount
Land, Buildings and Improvements	\$ 8,725,380
Furniture and Equipment	273,191
Citrus Groves	1,592,139
Construction in Progress	1,136,105
Less, Accumulated Depreciation	<u>(4,068,468)</u>
Net value reported	<u>\$ 7,658,347</u>

8. INSTALLMENT PURCHASES PAYABLE

The classes and amounts of property being acquired under installment purchase agreements are as follows:

	Balance at 9-30-2001
Street sweeper	\$69,980
Computer equipment	<u>80,020</u>
Total	<u>\$150,000</u>

Future minimum installment purchase agreement payments and the present value of the minimum lease payments as of September 30 are as follows:

EXHIBIT – G (Continued)
CITY OF LAKE ALFRED
NOTES TO FINANCIAL STATEMENTS
September 30, 2001

Fiscal Year Ending September 30	Amount
2002	\$ 25,904
2003	25,904
2004	25,904
2005	6,476
Total minimum installment purchases payments	84,188
Less, amount representing interest	7,006
Present value of minimum installment purchase payments	\$ 77,182

The stated interest rate is 5.0649 percent.

9. NOTES PAYABLE

Notes payable are comprised of the following:

EXHIBIT – G (Continued)
CITY OF LAKE ALFRED
NOTES TO FINANCIAL STATEMENTS
September 30, 2001

	<u>Proprietary Funds</u>	<u>General Long-Term Debt</u>	<u>Balance at 9-30-2001</u>
<hr/>			
<u>Florida Department of Environmental Protection</u>			
\$5,826,000, plus capitalized interest of \$45,571.06. Borrowed 1-3-1990 and 3-14-1991, under provisions of Section 166.111, Florida Statutes. Interest rate of 3.97 percent on \$4,956,571.06 and 4.06 percent on \$915,000. Proceeds used for construction of wastewater plant. Matures 5-1-2011, with annual principal and interest payments of \$418,330.80.	\$3,395,599		\$3,395,599
<hr/>			
<u>First Union National Bank</u>			
\$260,000, borrowed 6-17-1996, under provisions of Section 166.111, Florida Statutes. Interest rate of 5.38 percent. Proceeds used to purchase a fire truck. Matures 6-17-2006, with semi-annual principal and interest payments of \$13,000 plus accrued interest. The City has paid \$1,300 in semi-annual payments since the inception of the loan. This will require a balloon payment at end of the loan of \$113,800.		243,800	\$243,800
<hr/>			
<u>SunTrust Bank</u>			
\$69,000, borrowed 2-5-1997, under provisions of Section 166.111, Florida Statutes. Interest rate of 5.25 percent. Proceeds used to purchase the Administration Building. Forty equal quarterly principal and interest payments of \$1,884.10, with balance due on 5-5-2007.		49,296	\$49,296
<hr/>			
<u>Bank of America, N.A.</u>			
\$1,600,000, borrowed 1-18-2001, under provisions of Section 166.111, Florida Statutes. Interest rate of 6 percent. Proceeds used to finance the purchase of a fire tanker/pumper and radio system, the acquisition of the Mariana Utilities System, and water/sewer system extensions and improvements. The City renegotiated the loan with the Bank on 2-5-2002. Matures 3-5-2003.	1,178,118	421,882	\$1,600,000
<hr/>			
<u>First National Bank of Polk County</u>			
\$60,000, borrowed 5-9-2001, under provisions of Section 166.111, Florida Statutes. Interest rate of 4.95 percent. Proceeds used to purchase a lighting loader sanitation truck. Matures 5-9-2006, with quarterly principal and interest payments of \$3,404.98.	57,337		\$57,337
Total Notes Payable	\$4,631,054	\$714,978	\$5,346,032

Debt service requirements to maturity as of September 30, 2001, are as follows:

EXHIBIT – G (Continued)
CITY OF LAKE ALFRED
NOTES TO FINANCIAL STATEMENTS
September 30, 2001

Fiscal Year Ending September 30	Proprietary Funds		General Long-Term Debt		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2002	\$ 352,911	\$ 187,350	\$ 52,141	\$ 32,948	\$ 405,052	\$ 220,298
2003	1,425,049	150,440	432,105	22,299	1,857,154	172,739
2004	318,146	113,805	31,602	11,904	349,748	125,709
2005	330,952	100,999	31,901	10,205	362,853	111,204
2006	340,869	87,676	146,017	8,491	486,886	96,167
Later years	1,863,127	228,527	21,212	772	1,884,339	229,299
Total	<u>\$ 4,631,054</u>	<u>\$ 868,797</u>	<u>\$ 714,978</u>	<u>\$ 86,619</u>	<u>\$ 5,346,032</u>	<u>\$ 955,416</u>

10. CHANGES IN GENERAL LONG-TERM DEBT

The following is a summary of changes in general long-term debt:

Description	Balance 10-01-2000	Adjustments	Additions	Deductions	Balance 9-30-2001
Installment Purchases Payable	\$ -	\$ 98,502	\$ -	\$ 21,320	\$ 77,182
Notes Payable	54,082	246,400	421,882	7,386	714,978
Compensated Absences Payable	57,931		24,117		82,048
Total	<u>\$ 112,013</u>	<u>\$ 344,902</u>	<u>\$ 445,999</u>	<u>\$ 28,706</u>	<u>\$ 874,208</u>

The adjustments column represents the changes to beginning liability balances as a result of the elimination of the internal service funds and the reclassification of a note payable to an installment purchase payable. Records kept for compensated absences relate only to hours earned, used, and available. Accordingly, only the net change in compensated absences payable is shown.

11. CONTRIBUTED CAPITAL

Contributed capital recorded in the proprietary funds represents equity acquired through capital grants and capital contributions from developers, customers, and other funds. Contributions from Federal, State, or local grants restricted for capital acquisitions or construction are recorded as contributed capital, when received. Amounts reported as contributed capital from developers and customers represent

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CITY OF LAKE ALFRED
NOTES TO FINANCIAL STATEMENTS
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water and sewer connection fees collected pursuant to Section 58-1 of the Code of Ordinances, and are restricted for future expansion of the water and sewer systems. During the fiscal year, the following changes in contributed capital occurred due to the reclassification of funds, discussed in Note 2.:

	<u>Enterprise</u>	<u>Internal Service</u>	<u>Total</u>
Contributed Capital, October 1, 2000	\$ 3,066,388	\$ 499,729	\$ 3,566,117
Adjustments to Contributed Capital	55,730	(499,729)	(443,999)
Contributed Capital, October 1, 2000, Restated	3,122,118	-	3,122,118
Additions to Contributed Capital	334,080	-	334,080
Contributed Capital, September 30, 2001	<u>\$ 3,456,198</u>	<u>\$ -</u>	<u>\$ 3,456,198</u>

12. INTERFUND RECEIVABLES AND PAYABLES

The following is a summary of interfund receivables and payables:

<u>Funds</u>	<u>Interfund</u>	
	<u>Receivables</u>	<u>Payables</u>
General	\$ 50,070	\$ 616,857
Special Revenue	125,062	
Enterprise	466,106	51,045
Pension Trust	26,664	
Total	<u>\$ 667,902</u>	<u>\$ 667,902</u>

13. PROPERTY TAXES

The following is a summary of millage and taxes levied on the 2000 tax roll for the 2000-2001 fiscal year:

	<u>Millage</u>	<u>Taxes Levied</u>
Nonvoted Tax:		
Operating municipal levy	<u>7.058</u>	<u>\$ 641,382</u>

EXHIBIT – G (Continued)
CITY OF LAKE ALFRED
NOTES TO FINANCIAL STATEMENTS
September 30, 2001

14. LOCAL RETIREMENT PROGRAM – GENERAL EMPLOYEES’ RETIREMENT PLAN

- **Plan Description**

The General Employees’ Retirement Plan is the administrator of a single-employer contributory defined-benefit pension plan (Plan). The Plan was established by City Ordinance No. 911-99 and can be amended or terminated by City Ordinance. The Plan is a component unit of the City of Lake Alfred, Florida, because it exists solely to provide benefits to employees of the City and the City retains control of the assets. Accordingly, assets of the Plan are included in the City general purpose financial statements and are blended with those of the Police Officers’ Retirement Plan.

The Plan is administered by a board of seven trustees, one of whom shall be the City Manager, two of whom, unless otherwise prohibited by law, shall be legal residents of the City, who shall be appointed by the Lake Alfred City Commission, and three of whom shall be members of the Plan, who shall be elected by a majority of the general employees who are members of the Plan. The seventh trustee shall be chosen by a majority of the previous six trustees.

Participation in the Plan is available to all full-time City employees who are not police officers and who have completed one year of service. Plan members contribute 2 percent of salary with the City contributing at an actuarially determined rate, currently 15 percent of annual covered payroll. Contributions are deposited with the Trustee where they are accumulated in pooled separate accounts for the payment of benefits.

Employees are fully vested after 10 years of service, or 5 years of service if employed on or before October 1, 1999. Benefits are payable at normal retirement, the earlier of age 60 with 5 years of service or age 57 with 10 years of service, equal to 2.5 percent of average compensation multiplied by the number of service years.

EXHIBIT – G (Continued)
CITY OF LAKE ALFRED
NOTES TO FINANCIAL STATEMENTS
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Average final compensation is determined from the average salary of the best five years of the last ten years of service prior to retirement, termination or death, or the average as a full-time general employee, whichever is greatest. Early retirement is available with reduced benefits at age 55 with 10 years of service.

At October 1, 2000, the participant data consisted of:

Retirees and beneficiaries currently receiving benefits	1
Vested terminated employees	16
Current employees:	
Vested	7
Nonvested	<u>21</u>
Total	<u>45</u>

- **Summary of Significant Accounting Policies and Plan Asset Matters**

BASIS OF ACCOUNTING – The Plan’s financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employees services are performed. Additional contributions required to fully meet the actuarial contribution requirements for the year, if material, are accrued as revenue at year end. Benefit payments, contribution refunds to participants, and plan expenses are reported as plan expenses when paid.

METHOD USED TO VALUE INVESTMENTS – Investments are reported at fair value as determined by the Trustee. Earnings and dividends are continually reinvested, and the income is deemed to be unrealized until the sale or liquidation of the common fund units occurs.

- **Schedule of Funding Progress**

The following is a schedule of the Plan’s funding progress as prepared in accordance with *Governmental Accounting Standards Board Statement No. 27*.

EXHIBIT – G (Continued)
CITY OF LAKE ALFRED
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September 30, 2001

Annually, additional years will be added until six years of information is presented:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c)
10/01/00	\$1,575,107	\$1,919,411	\$344,304	82.06%	\$734,806	46.86%
10/01/99	1,358,824	1,726,123	367,299	78.72%	690,090	53.22%
10/01/98	1,134,947	1,311,568	176,621	86.53%	545,279	32.39%
10/01/97	944,559	1,233,987	289,428	76.55%	568,050	50.95%
10/01/96	784,047	1,084,664	300,617	72.28%	466,103	64.50%

- **Schedule of Contributions From the City**

The following table presents the annual required contribution from the employer (annual pension cost) as prepared in accordance with *Governmental Accounting Standards Board Statement No. 27*, and the percent actually contributed in cash by the employer. The annual pension cost (APC) is equal to the portion assigned to each year of the actuarially determined normal cost plus an amount sufficient to amortize the unfunded accrued liability over no more than 30 years. The annual pension cost decreased for the current year is primarily due to an actual investment return, that exceeded the actuarial assumption.

EXHIBIT – G (Continued)
CITY OF LAKE ALFRED
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September 30, 2001

<u>Year Ended</u> <u>September 30</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of</u> <u>APC Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
2001	\$78,613	138%	\$0
2000	97,032	100%	\$0
1999	59,082	100%	\$0
1998	83,294	100%	\$0
1997	69,537	101%	\$0
1996	18,785	108%	\$0

- **Significant Actuarial Assumptions**

The information presented above was determined as part of the actuarial valuations at the dates indicated. The annual required contribution for the Plan for the current year was determined as part of the October 1, 2000, actuarial valuation using the frozen entry age cost method. The actuarial assumptions included an 8 percent investment rate of return (net of administrative expenses) and projected salary increases of 6 percent per year, and both included an inflation component of 3 percent. The remaining unfunded actuarial accrued liability is being amortized over the next 11 to 29 years. The actuarial value of assets was determined using pure market value. This method will be changed with the next actuarial valuation, dated October 1, 2001, to an average market value method, which uses the average annual market value rate of return for the past four years to smooth the effects of short-term volatility in the market. The affects of this change will be reflected in next year's actuarial valuation.

15. LOCAL RETIREMENT PROGRAM – POLICE OFFICERS' RETIREMENT PLAN

- **Plan Description**

The Police Officers' Retirement Plan is the administrator of a single-employer pension plan (Plan) established by the City, for the benefit of its police officers.

EXHIBIT – G (Continued)
CITY OF LAKE ALFRED
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September 30, 2001

The Plan was established by City Ordinance No. 778-96 and can be amended or terminated by City Ordinance. The Plan is a component unit of the City of Lake Alfred, Florida, because it exists solely to provide benefits to employees of the City and the City retains control of the assets. Accordingly, assets of the Plan are included in the City's general purpose financial statements and are blended with those of the General Employees' Retirement Plan.

The Plan is administered by a board of trustees. This board is comprised of two police officers elected by a majority of the Plan members, two City residents appointed by the City Commission, and a fifth member chosen by a majority of the trustees.

Participation in the Plan is available to all police officers. For the fiscal year ending September 30, 2001, covered employees contributed 5 percent of their salary and the City contributed 2.3 percent. Contributions are also provided by the State of Florida from a tax on casualty insurance premiums. The City is also required to contribute such amounts as are necessary to fund any shortfall in contributions necessary to fully fund the actuarially required annual contribution for the Plan. Costs of administering the Plan are financed from the investment earnings.

Employees are fully vested after 10 years of service. Police officers may retire at the earlier of age 55 with 10 years service or age 52 with 25 years of service. Members who have attained age 50 and have completed 10 years of service are eligible for early retirement and may elect reduced benefits. Benefits at normal retirement are computed at 2.25 percent of the average compensation multiplied by the number of service years. Average final compensation is determined from the average salary of the best five years of the last ten years of service prior to retirement, termination or death, or the average as a full-time general employee, whichever is greatest.

EXHIBIT – G (Continued)
CITY OF LAKE ALFRED
NOTES TO FINANCIAL STATEMENTS
September 30, 2001

At October 1, 2000, the participant data consisted of:

Retirees and beneficiaries currently receiving benefits	0
Vested terminated employees	0
Current employees: Vested	4
Nonvested	<u>8</u>
Total	<u>12</u>

- **Summary of Significant Accounting Policies and Plan Asset Matters**

BASIS OF ACCOUNTING – The Plan’s financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed. Amounts funded by the State from the tax on insurance premiums are recorded in the period in which they are received from the State. Additional contributions required to fully meet the actuarial contribution requirements for the year, if material, are accrued as revenue at year end, as the State of Florida mandates that any contribution funding deficiencies be made up as a condition of receiving future State tax moneys. Benefit payments, contribution refunds to participants, and plan expenses are reported as plan expenses when paid.

METHOD USED TO VALUE INVESTMENTS – Investments, which consist entirely of bank common trust funds, are reported at fair value as determined by the Trustee. Earnings and dividends are continually reinvested, and the income is deemed to be unrealized until the sale or liquidation of the common fund units occurs.

- **Schedule of Funding Progress**

The following is a schedule of the Plan’s funding progress as prepared in accordance with *Governmental Accounting Standards Board Statement No. 27*. Annually, additional years will be added until six years information is presented:

EXHIBIT – G (Continued)
CITY OF LAKE ALFRED
NOTES TO FINANCIAL STATEMENTS
September 30, 2001

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
10/01/00	\$1,008,239	\$1,096,375	\$88,136	91.96%	\$368,282	23.93%
10/01/98	801,575	896,104	94,529	89.45%	321,807	29.37%
10/01/95	517,147	517,147	0	100.00%	255,132	0.00%
10/01/92	359,002	359,002	0	100.00%	196,236	0.00%

- **Schedule of Contributions From the City**

The following table presents the annual required contribution from the employer (annual pension cost) as prepared in accordance with *Governmental Accounting Standards Board Statement No. 27*, and the percent actually contributed in cash by the employer. The annual pension cost (APC) is equal to the portion assigned to each year of the actuarially determined normal cost plus an amount sufficient to amortize the unfunded accrued liability over no more than 30 years.

<u>Year Ended September 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2001	\$ 8,720	101%	\$0
2000	8,720	100%	\$593
1999	10,631	111%	\$0
1998	18,015	115%	\$0

- **Significant Actuarial Assumptions**

The information presented above was determined as part of the actuarial valuations at the dates indicated. The annual required contribution for the Plan for the current year was determined as part of the October 1, 2000, actuarial valuation using the frozen entry age cost method. The actuarial assumptions included an 8 percent investment rate of return (net of administrative expenses) and projected salary increases of 6 percent per year, and both included an inflation

EXHIBIT – G (Continued)
CITY OF LAKE ALFRED
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component of 3 percent. The remaining unfunded actuarial accrued liability is being amortized over the next 28 years. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value by increasing the actuarial value of assets using the average annual market value rate of return for the past 4 years.

16. CONSTRUCTION CONTRACT COMMITMENTS

The following is a summary of major construction contract commitments remaining at fiscal year-end:

Project	Contract Amount	Completed to Date	Balance Committed
Mariana Utilities System improvements:			
Contractor	\$ 520,985	\$ 301,865	\$ 219,120
Homer K. Addair Career Academy - utility extension:			
Contractor	41,318		41,318
Total	<u>\$ 562,303</u>	<u>\$ 301,865</u>	<u>\$ 260,438</u>

17. RISK MANAGEMENT PROGRAMS

Automobile liability, general liability, and health and hospitalization coverage are being provided through purchased commercial insurance with minimum deductibles for each line of coverage. The City participates in the Florida Municipal Insurance Trust risk pool offered through the Florida League of Cities for workers' compensation coverage.

EXHIBIT – G (Continued)
CITY OF LAKE ALFRED
NOTES TO FINANCIAL STATEMENTS
September 30, 2001

18. TRUST FUNDS

The assets, liabilities, and retained earnings at September 30, 2001, are as follows:

	Total	Pension Trust Funds	
		General Employees	Police Officers
Assets			
Investments	\$2,421,326	\$1,467,930	\$953,396
Interest Receivables	9,021	9,021	
Due from Other Funds	26,664	10,696	15,968
Total Assets	\$2,457,011	\$1,487,647	\$969,364
Retained Earnings			
Retained Earnings	\$2,457,011	\$1,487,647	\$969,364
Total Retained Earnings	\$2,457,011	\$1,487,647	\$969,364

19. CONTINGENCIES

The City has elected to reimburse the State directly for its unemployment claims rather than participate in the State insurance fund for this purpose. As a result, the cost for unemployment claims is deducted when paid. Such costs have been insignificant in the past and no provisions for potential claims have been made in the financial statements.

20. SUBSEQUENT EVENTS

On February 5, 2002, the City refinanced a \$1,600,000 note payable with the Bank of America, N.A. The terms of the renegotiated note provide for the payment of monthly accrued interest payments to be made by the City at the rate of London InterBank Offered Rate plus 2 percent. The agreement also provides that the note shall be repaid in installments of \$40,000 each due and payable, together with the accrued interest, in May 2002, August 2002, November 2002, and February 2003, and the entire remaining principal balance of \$1,440,000, together with all accrued unpaid interest, due and payable in full on March 5, 2003.

EXHIBIT – G (Continued)
CITY OF LAKE ALFRED
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On October 4, 2001, the City secured additional loan funding through the Florida Department of Environmental Protection (FDEP) to provide financing under the State Revolving Fund program for construction of drinking water projects in the amount of \$262,500. The first semiannual payment for the loan is due June 15, 2004. The City has also secured additional loan funding through FDEP to finance influent transmission, treatment, and refuse upgrades to the wastewater treatment plant in the amount of \$324,763. The first semiannual payment for the loan is due April 15, 2004.

COMPLIANCE AND INTERNAL CONTROL REPORTS

***INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL
BASED ON AN AUDIT OF THE GENERAL PURPOSE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS***

***INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH CONTRACTUAL
PROVISIONS INCLUDED IN THE FLORIDA DEPARTMENT OF ENVIRONMENTAL
PROTECTION STATE REVOLVING FUND LOAN AGREEMENT***



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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL BASED ON AN AUDIT OF THE GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the general purpose financial statements of the City of Lake Alfred, Florida, as of and for the fiscal year ended September 30, 2001, and have issued our report thereon included under the heading ***INDEPENDENT AUDITOR'S REPORT ON GENERAL PURPOSE FINANCIAL STATEMENTS***. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our report on the general purpose financial statements included disclosures regarding our reference to the reports of other auditors. The financial statements of the Lake Alfred General Employees' Retirement Plan, and the Lake Alfred Police Officers' Retirement Plan, were audited by another auditor and, accordingly, this report does not extend to those retirement plans.

Compliance

As part of obtaining reasonable assurance about whether the City's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, ordinances, administrative rules, and other guidelines, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. However, our procedures did disclose certain instances of noncompliance that are not material to the general purpose financial statements. These matters are discussed in the ***FINDINGS AND RECOMMENDATIONS*** section of this audit report.

Internal Control

In planning and performing our audit of the City's general purpose financial statements for the fiscal year ended September 30, 2001, we considered the City's internal control to determine our auditing procedures for the purpose of expressing our opinion on the City's general purpose financial statements and not to provide assurance on the City's internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. These matters are discussed in the ***FINDINGS AND RECOMMENDATIONS*** section of this audit report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions in the ***FINDINGS AND RECOMMENDATIONS*** section of this audit report collectively, and in some instances individually, represent material weaknesses. We considered these reportable conditions in determining the nature, timing, and extent of audit tests and procedures performed. Except for fixed assets, these conditions do not affect the ***INDEPENDENT AUDITOR'S REPORT ON GENERAL PURPOSE FINANCIAL STATEMENTS***.

This report is intended for the information of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, and applicable management. Copies of this report are available pursuant to Section 11.45(7), Florida Statutes, and its distribution is not limited.

Respectfully submitted,



William O. Monroe
September 30, 2002



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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH CONTRACTUAL PROVISIONS INCLUDED IN THE FLORIDA DEPARTMENT OF ENVIRONMENTAL PROTECTION STATE REVOLVING FUND LOAN AGREEMENT

We have audited the general purpose financial statements of the City of Lake Alfred, Florida, as of and for the fiscal year ended September 30, 2001, and have issued our report thereon included under the heading ***INDEPENDENT AUDITOR'S REPORT ON GENERAL PURPOSE FINANCIAL STATEMENTS***. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

As part of obtaining reasonable assurance about whether the City's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, ordinances, administrative rules, and other guidelines, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. However, our procedures did disclose certain instances of noncompliance with the State Revolving Fund Loan Agreement that are not material to the general purpose financial statements. These matters are discussed in Finding No. 22 in the ***FINDINGS AND RECOMMENDATIONS*** section of this audit report.

This report is intended for the information of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Department of Environmental Protection, and applicable management. Copies of this report are available pursuant to Section 11.45(7), Florida Statutes, and its distribution is not limited.

Respectfully submitted,

William O. Monroe
September 30, 2002