

**Operational Audit of the Town of Callahan, Florida**  
For the Period October 1, 2000, Through January 31, 2002,  
And Selected Actions Taken Prior and Subsequent Thereto

**OPERATIONAL AUDIT REPORT**  
Issued December 20, 2002



WILLIAM O. MONROE, CPA

**STATE OF FLORIDA  
AUDITOR GENERAL**

*TOWN OF CALLAHAN, FLORIDA*

**OPERATIONAL AUDIT**

*For the Period October 1, 2000, Through January 31, 2002,  
and Selected Actions Taken Prior and Subsequent Thereto*

# OPERATIONAL AUDIT

TOWN OF CALLAHAN, FLORIDA

FOR THE PERIOD OCTOBER 1, 2000, THROUGH JANUARY 31, 2002,

AND SELECTED ACTIONS TAKEN PRIOR AND SUBSEQUENT THERETO

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WILLIAM O. MONROE, CPA  
AUDITOR GENERAL

# AUDITOR GENERAL STATE OF FLORIDA

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December 20, 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 an operational audit be made of the

*TOWN OF CALLAHAN, FLORIDA*

*FOR THE PERIOD OCTOBER 1, 2000, THROUGH JANUARY 31, 2002,*

*AND SELECTED ACTIONS TAKEN PRIOR AND SUBSEQUENT THERETO*

The results of the operational audit of the Town of Callahan, Florida, are presented herewith.

Respectfully submitted,

A handwritten signature in cursive script that reads "William O. Monroe".

William O. Monroe

Audit supervised by:  
Ted J. Sauerbeck

Audit made by:  
Dawn M. Posey

## *ABSTRACT*

*OPERATIONAL AUDIT OF THE TOWN OF CALLAHAN, FLORIDA  
FOR THE PERIOD OCTOBER 1, 2000, THROUGH JANUARY 31, 2002,  
AND SELECTED ACTIONS TAKEN PRIOR AND SUBSEQUENT THERETO*

This abstract highlights the findings of audit report No. 03-098. 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. In a letter dated May 14, 2001, to the Legislative Auditing Committee (LAC), the Director of the State Attorney's Office in Nassau County requested that the Auditor General conduct an audit of the Town. The letter addressed several allegations, including possible irregularities in applications for State grants and administration of grant funds received by the Town, possible favoritism, undue harassment/abuses of power regarding zoning issues and issuance of building permits, and possible violations of Florida's public records laws. Pursuant to Section 11.45(3)(a), Florida Statutes, the LAC, at its June 27, 2001, meeting, directed the Auditor General to conduct the audit.

The scope of this audit included transactions during the period October 1, 2000, through January 31, 2002, 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, and other guidelines. In some instances, certain allegations required us to examine transactions related to certain specified Town officials, employees, or contractors that were the subject of the allegations.

## *OBJECTIVES*

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

- Document our understanding of the Town's management controls relevant to the areas identified in the scope of the audit. 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.
- Evaluate management's performance in administering its assigned responsibilities in accordance with applicable laws, ordinances, and other guidelines.
- Determine the extent to which the Town's management controls promoted and encouraged the achievement of management's objectives in the categories of compliance with applicable laws, ordinances, and other guidelines; the economic and efficient operation of the Town; the reliability of financial records and reports; and the safeguarding of assets.
- Determine the extent to which the Town has corrected, or is in the process of correcting, deficiencies disclosed in the Town's most recent audit reports.

## *METHODOLOGY*

The methodology used to develop the findings in this report included the examination of pertinent records of the Town 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 operational audit of the Town of Callahan, Florida, for the period October 1, 2000, through January 31, 2002, and selected actions taken prior and subsequent thereto.

### GENERAL MANAGEMENT CONTROLS

**Finding No. 1:** *The Town had not established written policies and procedures necessary to assure the efficient and effective conduct of accounting and other business-related functions and the safeguarding of assets.*

**Finding No. 2:** *The Town had not provided for an adequate separation of duties, or established compensating controls, in certain areas of its business operations.*

**Finding No. 3:** *The Town'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 control deficiencies, as discussed throughout this report, factors that have contributed to this condition include a lack of periodic cash analysis and forecast, financial plans, and interim financial statements.*

### BUDGETARY CONTROLS

**Finding No. 4:** *The Town, for the 2000-2001 and 2001-2002 fiscal year budgets, did not maintain adequate documentation to support the estimated beginning fund equities, and did not amend the budgets to show actual beginning fund equity balances. In addition, contrary to Section 166.241(3), Florida Statutes, the Town did not include appropriations for Special Revenue Funds.*

**Finding No. 5:** *Contrary to Section 166.241(3), Florida Statutes, the Town Council adopted the original budget for the 2000-2001 and 2001-2002 fiscal years, and a budget amendment for the 2000-2001 fiscal year, by resolutions rather than by ordinances.*

**Finding No. 6:** *The final budget adopted by the Town Council for the 2001-2002 fiscal year was \$25,230 less than the budget advertised and used by the Town to control its expenditures.*

**Finding No. 7:** *Contrary to Section 166.241(3), Florida Statutes, actual 2000-2001 fiscal year expenditures exceeded amounts budgeted for certain object level expenditure categories totaling \$56,961 for the General Fund, and total actual expenditures/expenses and other financing uses for the Utility and Excise Tax Funds exceeded budgeted amounts by \$7,679 and \$15,828, respectively.*



### CASH AND INVESTMENTS

**Finding No. 8:** *The Town's records did not demonstrate that a public purpose was served for petty cash fund disbursements totaling \$1,610. In addition, \$125 of petty cash fund disbursements were not supported by receipts.*

**Finding No. 9:** *The Town could have earned additional investment income of approximately \$10,000 by investing more moneys with the Florida State Board of Administration.*

### FIXED ASSETS

**Finding No. 10:** *The Town had not established general ledger control accounts for its classes of fixed assets. In addition, the Town has not established a uniform property numbering system and tangible personal property records did not include all information necessary to properly identify and evidence the establishment of accountability for property items and did not include all property items. Further, some items could not be located or were not marked as property of the Town.*

**Finding No. 11:** *The Town did not perform a physical inventory of tangible personal property during the period October 1, 2000, through January 31, 2002.*

### CASH CONTROLS AND ADMINISTRATION

**Finding No. 12:** *Prenumbered forms used to document collections and other transactions affecting cash resources were not properly accounted for.*

**Finding No. 13:** *Collections received through the mail were not documented at the initial point of collection. In addition, collections were transferred between employees without the use of a transfer document.*

### REVENUES AND OTHER RECEIPTS

**Finding No. 14:** *The Town assessed and collected \$5,700 for water and sewer connection fees in excess of the amount authorized by ordinance. In addition, several Town citizens had not, of record, paid the required water and sewer connection fees.*

**Finding No. 15:** *The Town had not established adequate controls to ensure the collection of unpaid water and sewer fees.*

**Finding No. 16:** *The Town assessed and collected \$1,138 for building permit fees in excess of the amount authorized by ordinance. In addition, the Town's records were not adequate to support the basis for \$1,164 of building permit fees assessed.*

**Finding No. 17:** *The Town had not established adequate controls to ensure the assessment and collection of amounts owed to the Town for occupational license fees and fire inspection fees. Our tests disclosed \$1,134 of occupational license fees, and \$2,640 of annual fire inspection fees, that were not collected, recorded, or deposited of record.*

**PERSONNEL AND PAYROLL ADMINISTRATION**

**Finding No. 18:** *The Planning and Zoning/Grant Administrator was paid compensation totaling \$190,590 for the 2000-2001 fiscal year. The reasonableness of such compensation was questionable and the Town had not, of record, documented how such compensation was commensurate with the Planning and Zoning/Grant Administrator's assigned responsibilities. In addition, the Planning and Zoning/Grant Administrator was overpaid \$80,168.*

**Finding No. 19:** *A 5 percent pay raise for employees approved by the Town Council at its September 17, 2001, regular meeting was not timely and equitably implemented.*

**Finding No. 20:** *The Town has not established adequate controls to ensure the accuracy of employee leave and attendance records. Sick leave used by two employees was not recorded in the employees' leave and attendance records. In addition, one of the employees, as approved by the Town Council, was paid for 30 hours for the last week in February 2002, although the employee was absent from work during that week and had no leave available. Although requested, we were not provided with an explanation as to why the Town Council approved this payment.*

**PROCUREMENT OF GOODS AND SERVICES**

**Finding No. 21:** *Deficiencies in the Town's disbursement processing procedures included a lack of vendor invoices to support payments, a lack of signatures of approval on checks, failure to use purchase orders, and failure to cancel or stamp as paid invoices to prevent duplicate payments.*

**Finding No. 22:** *Contrary to Ordinance 2-O-1995, seven purchases totaling \$5,156, each exceeding an aggregate total of \$500, were not approved by a majority of the Town Council at a regular or special meeting.*

**Finding No. 23:** *Contrary to Ordinance 2-O-1995, purchases totaling \$1,300,087 for goods or services were acquired without the benefit of a competitive selection process.*

**Finding No. 24:** *The Town made contributions totaling \$1,650 to three nongovernmental organizations without benefit of agreements setting forth the specific purposes for using the moneys and follow-up procedures to determine such use. In addition, contrary to Ordinance O-11-1988, the contributions included \$500 paid to a for-profit organization and \$150 paid to a nonprofit organization without enacting a resolution authorizing the contribution and identifying the specific public purpose served.*

**Finding No. 25:** *Our audit disclosed expenditures totaling \$9,929 for which the Town's records did not clearly demonstrate that a public purpose was served.*

**CONTRACTUAL SERVICES**

**Finding No. 26:** *Contrary to law and good business practices, the Town acquired certain contractual services without using a competitive selection process and, in some instances, without benefit of formal written agreements. Invoices submitted by some contractors for services rendered were not in sufficient detail to allow a determination as to whether fees charged, and expenses submitted for reimbursement, were appropriate. In addition, \$19,927 paid to an individual that the Town had contracted with to act as building inspector was not supported by invoices or other documentation. However, we determined, based on the terms of the written agreement with this individual and the amount of building permits revenue as recorded in the Town's accounting records, that this contractor appeared to have been overpaid \$3,617 to \$7,987 depending on the types of inspections provided.*

**Finding No. 27:** *The Town had not ensured that the building inspector had complied with the terms of his written agreement. Contrary to the written agreement and Ordinance 1-O-1986, the Planning and Zoning/Grant Administrator, rather than the building inspector, approved the issuance of numerous building permits. Also, the Town was unable to provide documentation that several building inspections were performed or were not necessary.*

**TRAVEL EXPENSES**

**Finding No. 28:** *The Town Council had not adopted an ordinance or resolution, or otherwise provided guidance, as to the assignment and proper use of Town gas credit cards. Nor did the Town require users of the credit cards to sign written agreements specifying acceptable uses of credit cards. In addition, our audit disclosed 20 instances in which gas expenses totaling \$493 were charged to a gas credit card that appeared to be of a personal nature that served no public purpose.*

**Finding No. 29:** *The Town had not established adequate controls to ensure that travel expenditures are adequately supported and in accordance with Section 112.061, Florida Statutes.*

**Finding No. 30:** *Contrary to Federal regulations, payments for nondeductible travel expenses (Class C meal allowances) were not subjected to withholding for payment of Federal income tax and employment taxes.*

**COMMUNICATION EXPENDITURES**

**Finding No. 31:** *The Town had not established adequate controls to ensure that communication expenditures served an authorized public purpose. In addition, our audit disclosed numerous cellular and long-distance telephone calls that appeared to be of a personal nature that served no public purpose.*

**Finding No. 32:** *The Town paid \$861 of Federal, State, and local telecommunication taxes from which it is exempt.*

**VEHICLE USAGE**

**Finding No. 33:** *The Town Council did not approve the assignment of Town-owned vehicles on a 24-hour basis to two employees who drove the vehicles home overnight. In addition, the Town's records did not demonstrate that the assigned vehicles were used primarily for a public purpose and used only incidentally for the personal benefit of the employees assigned the vehicles. 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.*

**Finding No. 34:** *The Town did not maintain vehicle maintenance logs for its vehicles, including the two fire trucks, that identified preventative maintenance services and repairs and the dates such services were performed.*

**RISK MANAGEMENT**

**Finding No. 35:** *The Town has not established adequate procedures to ensure that insurance coverage for real and tangible personal property was adequate in the event of damage or loss of property. As a result, the Town did not insure its fire station and insured a trash truck that was not owned by the Town.*

**COMMUNITY DEVELOPMENT BLOCK GRANT - HOUSING PROGRAM**

**Finding No. 36:** *The Town had not, of record, documented that CDBG Housing Program services were provided to applicants having the greatest need for assistance. As such, it is questionable as to whether the Town was entitled to receive \$457,000 of funding for the Program from the Florida Department of Community Affairs.*

**Finding No. 37:** *The Town overpaid a contractor \$18,040 for the construction of two houses funded from the CDBG Housing Program.*

**OTHER MATTERS**

**Finding No. 38:** *The Town did not comply with Section 166.041(3)(a), Florida Statutes, regarding the adoption of ordinances. In addition, for several emergency ordinances, the Town's records did not demonstrate the basis for adopting ordinances as an emergency, and the Town Council had not established procedures for determining whether an ordinance should be adopted as an emergency.*

**Finding No. 39:** *The Town purchased bakery items from the wife of the Town Council President, who approved payments to his wife for such services, which appears to be a conflict of interest in violation of Section 112.313(3), Florida Statutes.*

The Town's written responses to the audit findings and recommendations in audit report No. 03-098 are included under the applicable findings and recommendations.

*OPERATIONAL AUDIT OF THE TOWN OF CALLAHAN, FLORIDA*  
*For the Period October 1, 2000, Through January 31, 2002,*  
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**FINDINGS AND RECOMMENDATIONS**

**General Management Controls**

**FINDING No. 1: 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 Town business and the effective safeguarding of the Town's assets. In addition, written policies and procedures, if properly designed, communicated to employees, and effectively placed in operation, provide management additional assurances that Town activities are conducted in accordance with applicable laws, ordinances, and other guidelines, and that Town financial records provide reliable information necessary for management oversight. Written policies and procedures also assist in the training of new employees.

Our review of Town operations disclosed that the Town 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, fixed assets, accounts receivable, payroll processing, procurement of contractual services, disbursement processing (e.g., travel and communication expenses), vehicle usage, and grants administration. Instances of noncompliance or inadequate management controls, which may have resulted, at least in part, from a lack of written policies or procedures, are discussed in subsequent findings.

**Recommendation**

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

**Town Response**

*The Town Council acknowledges the need for comprehensive written policies and procedures for the activities set forth in the audit report. The Town Council will adopt*

*such policies and procedures. The Town has begun this process by contacting similar size governmental agencies for information on the policies and procedures being used by them for these activities. During the adoption process, each instance of noncompliance and management control deficiencies discussed in the audit report will be addressed.*

## **FINDING No. 2: Separation of Duties**

The Town, to the extent possible with existing personnel, should separate duties so that no one employee has access to both physical assets and the related accounting records, or to all aspects of a transaction. Failure to adequately separate duties increases the possibility that errors or irregularities could occur and not be promptly detected. The Town's 2000-2001 fiscal year annual financial audit report indicated a lack of separation of duties related to water and sewer collections. Our review of the Town's controls related to the areas included within the scope of our audit also disclosed inadequate separation of duties for other types of collections in that one employee collected money, had custody of collections, and prepared bank deposits.

We recognize that the Town has limited staff available, making it difficult to adequately separate these functions; however, some risk related to inadequate separation of duties can be mitigated through the implementation of compensating controls such as the use and control of prenumbered forms to document and account for collections. Our audit disclosed that the Town had not always implemented such compensating controls as discussed in Finding No. 12.

### **Recommendation**

**The Town should, to the extent possible, 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 Town should also ensure that adequate compensating controls are implemented to help mitigate circumstances in which adequate separation of duties is difficult with existing staff.**

### **Town Response**

*The Town Council acknowledges the need for separation of duties so that no one employee has access to both physical assets and the related accounting records, or to all aspects of a transaction. The Town responded to the Town's auditor's finding in the Town's 2000-2001 fiscal year annual financial audit report as follows:*

*Finding 01-02: Separation of Duties*

*The auditor recommends that the Town should separate duties so that one employee does not have control of all aspects of a transaction. The auditor also recommends that the Town should also ensure that adequate compensating controls are implemented to help mitigate circumstances in which adequate separation of duties is not possible. After further consultation with the auditor, the Town now uses the following procedure:*

*The auditor suggested the Town create two spreadsheets for water and sewer collections. The Town actually had several spreadsheets for water and sewer since the printer cannot produce one large spreadsheet. The first spreadsheet as implemented is for water and sewer collections, garbage, late charges and water taps. This is now in place and a person not involved in handling the receipts reviews, and signs upon the spreadsheet, bank deposits, and deposit ledger. The second spreadsheet is for closed accounts. It contains the balance due, customer deposit, and an allocation between water and sewer charges, garbage fees, and late fees. This document would reflect whether a refund was due or if there was an outstanding balance. This second spreadsheet was implemented in July, 2002. Any Council member, the Director of Public Works, or Office Manager can review and sign off on these on a monthly basis. The Office Manager will verify that the bank and computer print-outs match.*

*This procedure has already been modified somewhat regarding the spreadsheets and also now provides for daily sign-offs by the Town Clerk or other authorized person. The Town will specifically address this finding during the current (2001-2002) fiscal year annual financial audit and make such additional revisions as needed. The Town Council recognizes that problems with separation of duties involve more activities than those addressed in the above-quoted procedure and it will look for and address other areas where procedural changes or compensating controls are needed.*

**FINDING No. 3: 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. The Town's 2000-2001 annual financial audit report disclosed certain financial trends that, if continued, "could cause a deteriorating financial condition for the Town." Similarly, our assessment of the Town'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 (comparing the Town to other municipalities with similar fund composition and taxable property values) evaluated for the 2000-2001 fiscal year, disclosed indications of deteriorating financial conditions. The financial condition assessment procedures consisted of evaluating 18 key financial indicators, of which 7 indicated an unfavorable rating and 6 indicated a favorable rating (the other 5 indicators were inconclusive). Of the 7 unfavorably



rated financial indicators, 5 were related to current liabilities, long-term debt, or enterprise fund operating losses, which are discussed in the Town's 2000-2001 audit report. Our assessment disclosed the following additional unfavorable financial indicators:

- The Town's governmental fund ratio of intergovernmental revenues to total revenues was .76 for the 2000-2001 fiscal year (an increase of 17 percent from the 1996-97 fiscal year ratio of .65), which is significantly higher than the average ratio of .37 for other municipalities with similar fund composition and taxable property values. High or increasing results indicate an increased dependence on outside revenues.
- The Town's total governmental fund expenditures per capita (adjusted for inflation) of \$1,272 for the 2000-2001 fiscal year, an increase of 61 percent from the 1996-97 fiscal year, was significantly higher than the average of \$535 for other municipalities with similar fund composition and taxable property values. High or increasing results indicate that the Town may be unable to maintain services at current levels.

While the Town is not currently in a state of financial emergency as defined by Section 218.503, Florida Statutes, and there were financial indicators that had a favorable rating, we believe that the results for the indicators listed above, as well as the trends discussed in the Town's 2000-2001 fiscal year audit report, indicate that the Town's overall financial condition is showing signs of deterioration which, if not corrected, could result in a future financial emergency.

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

- A lack of periodic cash analyses and forecasts.
- A lack of financial plans, short-term (other than annual budgets) or long-term, to guide the financial activities of the Town 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, revenues, compensation, and expenditures as discussed in Findings Nos. 7, 9, 14 through 18, and 21 through 23.

We also noted that the Town Council was not periodically provided with interim financial statements. The Town contracts with a firm that provides accounting services, and which produces monthly financial statements. However, the monthly financial statements are not provided to the Town Council. Although the Town Council was provided a Treasurer's report at least monthly, the report

showed only ending cash balances and did not include sufficient information to provide an adequate assessment of the Town's financial condition. The lack of interim financial statements clearly presenting the financial condition of the Town effectively leaves the Town Council members without information necessary to gain an understanding of the financial status of the Town, 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 Town Council to more closely monitor the financial condition of the Town and provide information for financial decision-making.

### **Recommendation**

**The Town should take appropriate corrective actions as discussed in Findings Nos. 7, 9, 14 through 18, and 21 through 23, and develop short-term and long-term financial plans that include steps to strengthen the Town'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. The Town 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, interim financial statements, including key summary financial information for monitoring the Town's overall financial condition, should be provided to the Town Council.**

### **Town Response**

*The Town Council has addressed separately finding numbers 7,9, 14-18, and 21-23 in this response. The Town Council will develop comprehensive financial plans for the Town, including short-term and long-term financial plans. The Town Council will consider specific actions which will strengthen the Town's financial condition. The Town Council will analyze the existing rate structures for proprietary operations. Due to the age of the wastewater treatment plant and collection system a decrease in operating expenditures may not be obtainable until new facilities can be built. The Town is attempting to refinance the outstanding water and sewer bonds to reduce interest expenses. The Town Council will consider ways of increasing revenues, including rate increases. The Town Council is now receiving additional interim financial statements and it will consider and determine the type of information it needs to adequately monitor the Town's overall financial condition.*

### *Budgetary Controls*

Section 166.241(3), Florida Statutes, contains requirements for the adoption and implementation of budgets of municipalities. The Town Council, by Resolutions 6-R-2000 and 5-R-2001, adopted budgets for the 2000-2001 and 2001-2002 fiscal years, respectively, and by Resolution 7-R-2001, amended the original budget for the 2000-2001 fiscal year. Our review disclosed several control deficiencies or noncompliance with applicable law in the preparation, adoption, advertisement, and implementation of the budget as discussed in the following paragraphs.

#### ***FINDING No. 4: Budget Preparation***

Our review of the Town's procedures for preparing the annual budgets for the 2000-2001 and 2001-2002 fiscal years disclosed the following:

- 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 Town's audited financial statements for the 1999-2000 fiscal year showed a total ending fund equity of \$1,316,991 (excluding contributed capital) for governmental and proprietary fund types, the Town's 2000-2001 fiscal year budget showed beginning fund equities totaling only \$88,216. Likewise, although the Town's audited financial statements for the 2000-2001 fiscal year showed a total ending fund equity of \$1,425,303 (excluding contributed capital) for governmental and proprietary fund types, the Town's 2001-2002 fiscal year budget showed beginning fund equities totaling only \$76,147. The Town, in preparing its 2000-2001 and 2001-2002 fiscal year budgets, did not maintain adequate documentation to support amounts estimated as beginning fund equities available from prior years. In addition, as noted in the Town's 2000-2001 fiscal year annual financial audit report, the Town did not amend the 2000-2001 fiscal year budget to include actual beginning fund equities available from the prior fiscal year.

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 Town 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.

- Section 166.241(3), Florida Statutes, provides that the budget must regulate expenditures of the municipality, and 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. Accordingly, it is unlawful for the Town to expend moneys for purposes not contemplated by the budget. A total of \$1,592,868 of Federal grant revenues was reported on the Town's audited financial statements for the Special Revenue Fund for the 2000-2001 fiscal year. Although the Town Council approves grant agreements that are the basis for grant-related expenditures, the budgets adopted by the Town Council for the 2000-2001 and 2001-2002 fiscal years did not include appropriations for Federal and State grants.

### **Recommendation**

**The Town 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. In addition, the Town, pursuant to Section 166.241(3), Florida Statutes, should ensure that all funds are considered when preparing annual budgets.**

### **Town Response**

*The Town responded to a similar finding by the Town's auditor for the 2000-2001 fiscal year annual financial audit report as follows:*

#### *Finding 01-01: Budgeting Contracts-General*

*The auditor recommended that the Town implement a policy whereby final fund equities are included in the budget as soon as determined. The budgeted cash carry-forward amounts are by necessity estimates during the budget process. No prior auditor has recommended a budget amendment solely for the purpose of adjusting the cash carry-forward as soon as those sums are determined. It would be the policy of the Town to adjust the cash carry-forward amount in the first budget amendment adopted by the Town unless the variance was deemed substantiated.*

*The Town Council will require the Town's accounting firm to provide the Town with sufficient documentation to support the beginning fund equities presented in the annual budget. Budget amendments will be adopted, if necessary to accurately show available resources from beginning fund equities. The Town will ensure that all funds-including grant funds-are considered when preparing annual budgets.*

### **FINDING No. 5: Budget Adoption**

Section 166.241(3), Florida Statutes, provides that the governing body of each municipality adopt a budget each fiscal year by ordinance unless otherwise

specified in the respective municipality's charter. As the Town Charter does not address the method of budget adoption and amendment for the Town, the Town Council is required to adopt and amend the budget by ordinance.

Contrary to law, the Town Council adopted budgets for the 2000-2001 and 2001-2002 fiscal years and a budget amendment for the 2000-2001 fiscal year by resolutions rather than by ordinances. In adopting the budget and a budget amendment by resolution, the Town Council did not comply with Section 166.041(3)(a), Florida Statutes, which requires that the Town publish a notice of proposed enactment of the ordinance at least ten days prior to the adoption of the ordinance, and state the title of the ordinance and the place where the ordinance may be inspected.

### **Recommendation**

**The Town Council should either adopt the budget and budget amendments by ordinance as required by Section 166.241(3), Florida Statutes, or seek an amendment to the Town Charter to establish alternative procedures for the adoption of the budget and budget amendments.**

### **Town Response**

*The Town Council feels that the Trim (Truth-In-Millage) procedure provides adequate transparency and public notice of the budget process. The Town coordinates with the Nassau County Property Appraiser's Office and the Florida Department of Revenue each year. Due to the fact that the local newspaper is a weekly publication, a dual-track ordinance adoption procedure would be difficult. The Town will seek an amendment to the Town Charter to provide for the adoption of the budget or budget amendments by resolution.*

## **FINDING No. 6: Budget Advertisement**

Section 200.065(2)(d), Florida Statutes, requires that within 15 days after the meeting adopting the tentative budget, the taxing authority advertise in a newspaper of general circulation in the county its intent to finally adopt a millage rate and budget. The Town Council's adopted 2001-2002 fiscal year budget included appropriations for expenditures and reserves for all funds totaling \$968,566; however, the budget advertised by the Town in the local newspaper and used to control expenditures included appropriations for expenditures and reserves for all funds totaling \$993,797, a difference of \$25,230 from the adopted budget.

### **Recommendation**

**The Town should ensure that the final budget adopted by the Town Council agrees with the budget used by the Town to control expenditures.**

### **Town Response**

*The interim financial statements now being required by the Town Council should prevent any reoccurrence of this problem. The Town Council will ensure that the adopted budget is used to control expenditures.*

## **FINDING No. 7: Budget Overexpenditures**

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.

The 2000-2001 fiscal year budget adopted by the Town Council by Resolution 6-R-2000 established the legal level of budgetary control at the object level. Our review of the Town's accounting records disclosed 8 object level expenditure category budget overexpenditures for the 2000-2001 fiscal year totaling \$56,961 for the General Fund. In addition, we noted that the Town's total actual expenditures/expenses and other financing uses for the Utility (Water and Sewer) Fund and the Excise Tax Fund for the 2000-2001 fiscal year exceeded the total budgeted expenditures/expenses and other financing uses by \$7,679 and \$15,828, respectively.

### **Recommendation**

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

### **Town Response**

*The Town Council will by ordinance establish the budgetary level of control at the department level or sub-department level. In the future budget amendments will be adopted prior to approving any expenditures or contracting for any expenditures in excess of budgeted appropriations at the department level or sub-department level.*

## Cash and Investments

### **FINDING No. 8: Petty Cash**

The purpose of a petty cash fund is to have a small amount of cash available from which to make small payments for items such as delivery charges, postage stamps, or minor office supplies. The Town has established a petty cash fund of \$100. During the period October 1, 2000, through January 31, 2002, petty cash expenses totaled \$1,721.

Our review disclosed that the Town's records did not demonstrate that a public purpose was served for \$1,610 of these expenses. These expenses included \$1,094 for lunches at local restaurants for Town employees and for food/grocery items; \$137 for film/film development; \$100 for Christmas decorations; \$86 for flowers; and \$193 for other miscellaneous purchases. In addition, \$125 of petty cash expenses, that appeared to have been used for a public purpose based on notations by Town personnel, were not supported by receipts.

#### **Recommendation**

**The Town should ensure that expenditures of petty cash funds are made only for a public purpose, and reasonably and necessarily benefit the Town. In addition, the Town should require that documentation be maintained to support the propriety of all petty cash expenses.**

#### **Town Response**

*As a part of the adoption of comprehensive written policies and procedures set forth in the response to Finding No.1, the Town Council will adopt a written policy for control of the petty cash fund. This policy will include: (1) criteria for determining whether the purposed expenditure is for a public purpose; (2) a requirement that the expenditure reasonably and necessarily benefits the Town, and (3) supporting documentation.*

### **FINDING No. 9: 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.

The Town maintained surplus money in various interest-bearing and non-interest-bearing bank accounts. The Town's 2000-2001 annual financial audit report indicated that surplus moneys were held in low interest bank

accounts and that the Town could have earned additional interest had it invested surplus moneys with the SBA. During the period October 1, 2000, through January 31, 2002, the Town earned \$17,634 in interest. Based on information obtained from the Town's monthly bank statements, we determined that the Town could have earned additional interest of approximately \$10,000 had it invested surplus moneys with the SBA or at rates comparable with the SBA.

### **Recommendation**

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

### **Town Response**

*There is some concern that Section 17 of the Town Charter prohibits investments by the Town. The Town will seek an amendment to the Town Charter to allow prudent investments in accordance with the general law. The Town will then proceed to adopt and implement a written investment policy to provide additional revenue to the Town.*

### **Fixed Assets**

The Town's audited financial statements reported fixed assets totaling \$3,301,951 (net of depreciation) as of September 30, 2001, consisting of \$1,957,289 for proprietary fund types, and \$1,344,662 for the General Fixed Assets Account Group. Our review of the Town's controls over fixed assets disclosed several deficiencies as discussed below.

### ***FINDING No. 10: Fixed Asset Records***

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 and subsidiary records to establish accountability for each fixed asset item. Control accounts are summary accounts intended to provide a basis for reported fixed assets, and entries to control accounts should be posted contemporaneously with entries to the subsidiary records.

The Town has not established general ledger control accounts or subsidiary records for any of its classes of fixed assets. The only records provided to us that demonstrated any accountability for fixed assets were records maintained by the public accounting firm that performed the Town's annual audit; however, these records did not provide the level of accountability provided by subsidiary tangible personal property records. The Town has not established a uniform property numbering system and, as such, the property records did not include



property identification numbers. In addition, the property records did not include the physical locations, manufacture's serial numbers, and names of custodians with assigned responsibility for the property items.

Our audit tests disclosed the following deficiencies in the Town's property records:

- Of 7 items selected from the property records for our physical examination, 2 could not be located. These items included an ice machine and mosquito sprayer that originally cost \$1,400 and \$2,500, respectively. In response to our inquiry regarding the disposition of these items, we were advised that the ice machine was removed by the company that delivered a new ice machine and the mosquito sprayer was broken down into parts and donated to another Town or disposed of at the County dump. However, the Town's records did not evidence such dispositions.
- Of 19 items selected from the accounting records or by physical inspection, 9 were not included in the property records. These items were a computer, a printer, three fire safety equipment items, a floor buffer, a fax machine, a lawn mower, and a truck.
- Of the 26 total items selected for testing, 18 were not properly tagged or marked as property of the Town. These property items included a computer, a printer, a fax machine, two copier machines, three lawn mowers, a backhoe loader, a van, a tractor, and several other items.

The deficiencies noted above serve to weaken the Town's control over tangible personal property, and increase the possibility that errors or loss of property could occur and not be detected in a timely manner.

### **Recommendation**

**The Town should establish general ledger control accounts and subsidiary records supporting fixed assets, and periodically reconcile the control accounts to the subsidiary records. The Town should also implement procedures to ensure that the tangible personal property records are complete and include all information necessary to properly identify property items. In addition, the Town should ensure that all tangible personal property is tagged or marked with an identifying number. Further, the Town should ensure that deletions of property are recorded to the property records in a timely manner.**

### **Town Response**

*The Town Council acknowledges the stated deficiencies in the Town's control of its fixed assets. For a number of years the annual audit had findings addressed to the absence of fixed asset records. Several years ago, the Town undertook to identify and*

record the Town's fixed assets. The undertaking probably never reached the level of control contemplated by finding No.10. Moreover, the records were never updated in a timely fashion. The Town will establish general ledger control accounts and subsidiary records supporting fixed assets valued over a threshold level specified by the Town Council. The Town will reconcile the control accounts to the subsidiary records on an annual basis. The Town will implement procedures to ensure tangible personal property records are complete. All tangible personal property valued greater than the threshold level will be tagged or marked with an identifying number. The Town Council will designate persons to ensure this property is properly marked. Changes to the property records will be made in a timely manner.

#### **FINDING No. 11: Tangible Personal Property Inventory**

The Town's audited financial statements reported tangible personal property totaling \$730,168 at September 30, 2001. The Town did not perform a physical inventory of tangible personal property during the period October 1, 2000, through January 31, 2002. Effective controls over tangible personal property include comparisons of detailed property records with existing assets at reasonable intervals, and appropriate action with respect to any differences.

#### **Recommendation**

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

#### **Town Response**

*The Town Council will require a complete physical inventory of all tangible personal property annually. An inventory will be taken in the first quarter of 2003, to assist in the preparation of proper general ledger control accounts and subsidiary records. Thereafter, an annual inventory will be conducted as close as possible to the beginning of the fiscal year. The results of these inventories will be promptly reconciled to the Town's property records. Appropriate action will be taken with respect to any difference.*

#### **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 Town Hall. Town 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 should 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 collection, 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. 12: 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. Collections of water and sewer tap fees and water and sewer deposits were documented through the use of manually prepared prenumbered receipt forms. However, most collections were not documented through the use of prenumbered receipts. For example, payments made by individuals for water and sewer bills, building applications, and occupational licenses are not documented through prenumbered receipts.

The Town issued prenumbered occupational licenses and prenumbered building applications. These prenumbered documents, if properly accounted for, and used to determine and document the amount of occupational licenses and building applications fees that should have been assessed and collected, would help mitigate the lack of usage of prenumbered receipts to document payments for occupational licenses and building applications. However, the Town did not maintain a record showing the description and numbers of prenumbered receipt forms, prenumbered building applications, and prenumbered occupational license forms purchased, personnel to whom these forms were assigned, the numbers and dates of forms used, and the numbers and dates of forms returned unused. As such, an accounting of prenumbered forms was not accomplished of record. As a result, it was not practical for us to determine whether all prenumbered receipts, building applications, and occupational licenses were properly accounted for; however, we did note that 12 prenumbered building applications were missing.

#### **Recommendation**

**The Town should use prenumbered forms to document all cash collections, 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.**

### Town Response

*The Town Council will adopt a written policy requiring the use of prenumbered forms to document all cash collections. The policy will require that a record be maintained of the forms purchased. The record of the forms purchased will be required to be reconciled quarterly to the forms on hand, assigned, used or returned, and outstanding to determine whether all forms were properly accounted for.*

### **FINDING No. 13: Responsibility for Collections**

An adequate control structure requires that collections be recorded at the initial point of collection to establish accountability as soon as possible. Also, documenting the transfer of collections between employees through the use of a transfer document can provide effective accountability should a loss of collections occur. Our audit disclosed that responsibility for collections was not documented from time of collection to subsequent deposit as follows:

- Collections received through the mail were not documented at the initial point of collection through the use of a mail log or other means.
- Collections were transferred between Town personnel without the use of transfer documents to evidence the transfer of collections.

As discussed in Finding No. 2, there is an increased risk that a loss of collections could occur because of an inadequate separation of duties related to collections. Under the above conditions, should a loss of collections occur, it may not be possible for the Town to fix responsibility for the loss to the appropriate individual.

### Recommendation

**The Town should establish procedures that require all collections to be recorded at the initial point of collection and provide for evidence of transfers of collections between employees.**

### Town Response

*The Town Council will adopt written policies and procedures to control responsibilities for collections. These procedures will include a mail log, immediate restrictive endorsements of all checks, and some method of documenting transfers of collections.*

### Revenues and Other Receipts

The majority of Town revenues are from water and sewer charges; ad valorem taxes; utility service and local option taxes; Federal and State grants; and State revenue-sharing. The Town also receives revenue from other sources such as

building permit fees, occupational license fees, fire inspection fees, and various other miscellaneous sources, including amounts from rent and royalties and fire protection services. The Town's audited financial statements reported approximately \$2.5 million in revenue from all sources for the fiscal year ended September 30, 2001.

#### ***FINDING No. 14: Water and Sewer Connection Fees***

The Town Council adopted Ordinance 1-1982, which established customer connection charges for the water and sewer system at \$400 for water main taps and \$400 for sewer main taps. Our examination of water and sewer connection fees assessed and collected during the period August 1995 through June 2001 disclosed the following:

- Contrary to Ordinance 1-1982, the Town charged a fee of \$500 each for water and sewer connections. As a result, the Town collected \$5,700 for water and sewer connection fees in excess of the amount authorized by ordinance. Although the Planning and Zoning/Grant Administrator, in a letter dated February 9, 2000, to the Town Council President, suggested that connection fees for water and sewer be increased to \$500 each, there was no action taken of record by the Town Council to increase connection fees. Subsequent to audit inquiry, the Town refunded to customers the amounts overcharged for water and sewer connection fees disclosed by our audit.
- Of the 27 homes built or under construction in the Robinwood Circle subdivision, the Town had not, of record, collected \$800 of water and sewer connection fees for 4 homes, including the home of the Town Council President, and a \$400 water connection fee for 1 home. Subsequent to audit inquiry, one of the homeowners (the Town Council President), on April 1, 2002, paid the required \$800 water and sewer connection fee.

#### **Recommendation**

**The Town should enhance its procedures to collect only those fees authorized by ordinance and collect water and sewer connection fees in a timely manner. In addition, the Town should take appropriate action to collect the unpaid water and sewer connection fees disclosed by our audit.**

#### **Town Response**

*The Town, as noted, has refunded to customers the amounts overcharged for water and sewer connection fees disclosed by the audit. The Town Council is considering the adoption of an ordinance increasing the customer connection charges for the water and sewer system to \$600.00 for water main taps and \$600.00 for sewer main taps. The Town has a new Building Official and the Town Council will adopt written*

*procedures prohibiting any new water or sewer taps without written certification from the bookkeeper that the connection fees have been paid. The Town will contact each homeowner identified as owing connection fees. The homeowner will be given a reasonable period of time to produce satisfactory evidence that the connection fees were paid. In the absence of such proof, the Town will require payment of such connection charges within a specified time limit or discontinue service.*

#### **FINDING No. 15: Water and Sewer Fees**

The Town's audited financial statements reported \$354,066 of charges for water and sewer services during the 2000-2001 fiscal year and related accounts receivable totaling \$29,550 as of September 30, 2001. Customers receiving water and sewer services were billed monthly for services rendered. For collection efforts to be effective, such efforts must be both timely and progressively strengthened. Deficiencies in either area may limit the Town's ability to maximize its collections. The Town has not established procedures for ensuring the collection of unpaid water and sewer fees as follows:

- The Town's accounts receivable subsidiary records for water and sewer billings did not identify the length of time water and sewer bills were past due. As a result, the Town could not readily determine the collectibility of amounts owed. Accounts receivable subsidiary records should establish accountability for each amount owed from individuals, firms, or corporations and provide detailed information that can be used to mail customer billings and follow-up on unpaid accounts, thereby increasing the chance that amounts owed will be collected.
- The Town Council adopted Ordinance 4-O-1988 which establishes a late fee penalty of \$5 for water and sewer bills that remain unpaid after the 10<sup>th</sup> of the month. Our examination of water and sewer bills for the months of May, June, and July of 2001 disclosed that the Town did not assess late fees totaling \$585 for May 2001 related to 117 customers who paid their water and sewer bill after the 10<sup>th</sup> of the month.

#### **Recommendation**

**The Town should enhance its procedures to ensure that water and sewer charges are promptly assessed and collected, including the proper assessment of late fees for untimely paid water and sewer bills.**

#### **Town Response**

*The Town Council will review existing procedures used for the collection of water and sewer charges. After this review, the Town will adopt written procedures-and where appropriate amend its ordinances-to address collection procedures, assessment of late*

*charges, adjustments, and deposits. These procedures will require identification of the length of time water and sewer bills are outstanding and criteria for determining collectibility.*

#### **FINDING No. 16: Building Permit Fees**

The Town Council adopted Ordinances 5-O-1994 on November 7, 1994, and 4-O-2001 on May 29, 2001, which established a building permit fee schedule for the Town of Callahan. Our test of 20 building applications for the period October 1, 2000, through January 31, 2002, disclosed the following:

- Sufficient information to clearly evidence the basis for \$1,164 of building permit fees assessed was not available for 7 building applications. In these instances, the building applications did not provide sufficient details as to the nature of the work to be performed. Consequently, we could not determine whether the fees were properly assessed in accordance with the established fee schedule.
- For building permit fees assessed on 8 building applications, the fees assessed were not consistent with the fees established by Ordinances 5-O-1994 or 4-O-2001. The Town assessed \$1,603 of fees for these applications; however, based on the established fee schedule, only \$465 of fees should have been assessed, a difference of \$1,138.

Although requested, we were not provided with explanations regarding the above-noted discrepancies. Based on the results of our test, the Town did not have adequate controls in place to ensure that building permit fees were properly assessed in accordance with Town ordinances.

#### **Recommendation**

**The Town should review and modify, as appropriate, its procedures related to the assessment of building permit fees to ensure that fees assessed are in accordance with Town ordinances and that building applications are in sufficient detail to clearly evidence the basis for fees assessed. In addition, the Town should take appropriate action to remedy the overcharges for building permit fees disclosed by our audit.**

#### **Town Response**

*The Town has a new Building Official who has the qualifications and experience to ensure that the building permit fees are properly assessed. The Town Council will work with the new Building Official to review and modify current procedures related to the assessment of building permit fees, including sufficient detail in the applications. The Town will direct the new Building Official to review the eight (8) building applications*

*reflecting overcharges disclosed by the audit. The Town will refund any overcharges on these applications confirmed by this review. The Town Council is now receiving monthly written reports from the new Building Official on all building permit fees collected.*

***FINDING No. 17: Occupational License and Fire Inspection Fees***

Town Ordinance 7-1980, as amended by Ordinance 7-O-1993, provides for any person who engages in any business, profession, or occupation in the Town to obtain an occupational license, and to pay an occupational license fee ranging from \$15 to \$25, depending on the type of occupation. Town Ordinance 3-O-1997 provides for the annual inspection of existing buildings within the corporate limits of the Town, and the payment of a fire inspection fee. The fire inspection fees, which vary based on the type of inspections (e.g., site plan review, fire protection systems), may be a fixed fee ranging from \$20 to \$50 or 35 percent of the building permit fee for fire inspections related to a construction plan review.

The Town did not maintain accounts receivable subsidiary records documenting amounts owed from business owners for occupational license fees and fire inspection fees, and had not otherwise established procedures to ensure that all businesses operating within Town limits have paid the required occupational license and fire safety inspection fees. Instead, the Town relied on: (1) the business owners to remit payment to the Town for these fees; (2) the business owners to obtain the required occupational licenses; and (3) the fire inspector to identify all occupied buildings requiring a fire inspection.

Our audit disclosed that occupational license and fire inspection fees required by Town ordinances were not always assessed and collected during the period October 1, 2000, through January 31, 2002, as follows:

- Based on a comparison of the \$8,803 of assessed fees for occupational licenses issued to the \$7,669 of occupational license fees recorded in the accounting records, it appears that \$1,134 of occupational license fees were not collected, recorded, or deposited of record.
- The Town contracts with an individual to act as the Town's fire inspector. Based on detailed invoices submitted to the Town from the Town's fire inspector, which indicated the businesses inspected and the related fees for the inspections, a total of \$5,842 of fees, net of payments to the fire inspector for services rendered, should have been assessed and collected. However, only \$3,202 of fire inspection fees were recorded in the accounting records. As such, it appears that \$2,640 of fire inspection fees were not collected, recorded, or deposited of record.



### **Recommendation**

The Town should implement procedures to ensure compliance with its ordinances establishing fees for occupational licenses and fire inspections. Such procedures should include the establishment of detailed accounts receivable subsidiary records, and the use of this information to determine amounts owed to the Town and to track the assessment, collection, recording, and deposit of such amounts. In addition, the Town should investigate the discrepancies disclosed by our audit and, if appropriate, take action to collect additional amounts due for occupational licenses and fire inspections.

### **Town Response**

*The person responsible for handling occupational license fee and fire inspection fee collections, recording, and deposits during the audit period is no longer employed by the Town. This person has been ill, and inquiries would not be appropriate until well after the beginning of 2003. The Town will review and modify procedures to ensure compliance with its ordinances governing occupational licenses and fire inspections. The new procedures will include the establishment of detailed accounts receivable subsidiary records. The Town will investigate the disclosed discrepancies and take appropriate actions.*

### **Personnel and Payroll Administration**

Town expenditures for salaries, wages, and other compensation during the period October 1, 2000, through January 31, 2002, totaled approximately \$500,000. Subsequently, the Town Council adopted several ordinances related to compensation and personnel policies and procedures.

### **FINDING No. 18: Planning and Zoning/Grant Administrator's Compensation**

During the period October 1, 2000, through January 31, 2002, the Town primarily received grant funding from the Florida Department of Community Affairs under the Community Development Block Grant (CDBG) Program (see further discussion starting on page 57), and also received grant moneys from the Florida Department of Environmental Protection and the St. Johns Water Management District. The CDBG Program guidelines allow for the Town to use a portion of the funding received for administrative costs. Pursuant to Florida Department of Community Affairs Rule 9B-43.003(2), Florida Administrative Code, administrative costs include all reasonable costs of management, coordination, monitoring, and evaluation, and similar costs and carrying charges, related to the planning and execution of community development activities that are funded in whole or in part under the CDBG Program. This Rule further provides that administrative costs shall include all costs of administration, including general administration, planning and urban design, and project administration costs.

Section 290.047(3), Florida Statutes, provides in part, that the maximum amount of grant funds that can be spent on administrative costs by an eligible local government shall be 15 percent for the housing program category. This Section further provides that eligible local governments are encouraged to consider ways to limit the amount of block grant funds used for administrative costs, consistent with the need for prudent management and accountability in the use of public funds.

Compensation for employees is normally established through the annual budget or by other Town Council actions as deemed necessary. The Planning and Zoning/Grant Administrator's fixed salary of \$36,400 for the 2000-2001 fiscal year was approved by the Town Council as part of the 2000-2001 fiscal year budget. Although the Town Council has not established written position descriptions, we were advised that the Planning and Zoning/Grant Administrator's fixed salary of \$36,400 was for duties other than for grant administration. The Town Council, at its April 20, 1998, regular meeting addressed the matter of how much the Planning and Zoning/Grant Administrator should be compensated for grant administration duties. The minutes for that meeting indicated that in discussing what would be fair compensation, a Town Council member suggested checking with other communities before determining a fair amount. However, after further discussion, the Town Council opted not to follow this suggestion, and instead approved a motion for the Planning and Zoning/Grant Administrator to receive 4 percent of grant moneys received by the Town.

Typically, many local governments utilize full- or part-time positions to perform grant-related duties, or assign some portion of an employee's time to such duties, and then allocate an appropriate portion of the employee's salary to administrative costs. It was not apparent of record how the Town Council determined that paying the Planning and Zoning/Grant Administrator 4 percent of grants received, in addition to compensation as a full-time salaried employee, was a fair and reasonable basis for compensation related to grant administration duties. On the contrary, the reasonableness of such compensation is questionable. For example, for the 2000-2001 fiscal year, the Planning and Zoning/Grant Administrator was paid a total of \$190,590 for time only partially related to grant-related duties. In comparison, a Grants Specialist V, the highest State level grant-related position, receives a maximum annual salary of about \$48,500 for full-time grant-related duties. We realize that the nature of the Planning and Zoning/Grant Administrator's responsibilities may extend beyond those of the Grants Specialist V position; however, the Town had not, of record, documented how the Planning and Zoning/Grant Administrator's compensation was commensurate to that position's assigned responsibilities.

Notwithstanding the reasonableness of the Planning and Zoning/Grant Administrator's Town Council approved compensation, our review of payments

totaling \$246,190 made to the Planning and Zoning/Grant Administrator during the period October 1, 2000, through January 31, 2002, disclosed that the Planning and Zoning/Grant Administrator was paid \$76,468 in excess of the 4 percent authorized by the Town Council for administering grants. In addition, she was overpaid \$700 related to her regular salary and paid \$3,000 for an unknown grant for which Town personnel could not provide an explanation or documentation. These payments are listed below:

Grant Name	<u>Grant Compensation</u>			Amount Overpaid (Underpaid)
	Grant Amount	Approved 4 Percent	Paid as of 1/31/02	
El Nino - CDBG (#00DB-6M-04-55-02-G16)	\$1,588,051	\$ 63,522	\$102,900	\$ 39,378
Housing Rehabilitation - CDBG (#00DB6-B-04-055-02-N09)	550,000	22,000	57,700	35,700
Wastewater - DEP - (SP593030)	750,000	30,000	31,500	1,500
Drainage Improvement - St. Johns River Water Management District	20,000	800	690	(110)
<b>Total Grant Administration Compensation Overpaid</b>				<b><u>76,468</u></b>
Other Unsupported Compensation:				
<i>Payment for Unknown Grant</i>				3,000
<i>Regular Salary Overpayment</i>				700
<b>Total Other Unsupported Compensation</b>				<b><u>3,700</u></b>
<b>Total Compensation Overpaid</b>				<b><u>\$ 80,168</u></b>

In response to our inquiry regarding this issue, the former Mayor advised us that the Town Council, at its May 6, 1996, regular meeting, approved that the Planning and Zoning/Grant Administrator receive, in addition to her regular salary and benefits, the maximum amount allowable for administrative costs for grants when an administrative cost limit was stated. In addition, the former Mayor advised us that the Town Council, at its April 20, 1998, regular meeting, approved for the Planning and Zoning/Grant Administrator to receive 4 percent of any grant moneys received by the Town if an administrative cost limit was not stated. However, the April 20, 1998, Town Council meeting minutes did not support the former Mayor's assertion that the 4 percent applied only to grants for which there was no stated administrative cost limit. To the contrary, the motion approved by the Town Council at its April 20, 1998, regular meeting was for the

Planning and Zoning/Grant Administrator to receive “four percent of the grant money,” and gave no indication that the 4 percent should only apply to grants that did not specify an administrative cost limit. The minutes of the April 20, 1998, Town Council meeting did include discussion regarding whether the approved 4 percent rate also applied to grants where administrative cost limits were stated; however, this discussion occurred after the motion was made and after the Town Council approved applying the 4 percent to all grants. Further, the April 20, 1998, action taken by the Town Council superceded the action taken at the May 6, 1996, regular meeting with respect to compensating the Planning and Zoning/Grant Administrator for administering grants.

### **Recommendation**

**The Town Council should ensure that compensation paid for administration of grants is reasonable in terms of amounts typically paid for such services and documented as chargeable to the grants. The Town should also seek a determination from the Florida Department of Community Affairs and other grantors as to whether the payments to the Planning and Zoning/Grant Administrator for grant administration were allowable administrative costs (also see recommendation for Finding No. 36). Further, the Town should take appropriate action to recover the \$80,168 overpaid to the Planning and Zoning/Grant Administrator.**

### **Town Response**

*The Town Council acknowledges the need to exercise greater control and oversight on grants. The Town Council will negotiate the compensation to be paid on a grant-by-grant basis. The Town Council will ensure that compensation paid for administration of grants is reasonable in terms of amounts typically paid for such services and documented or chargeable to the grants. The Town will seek a written determination from the Florida Department of Community Affairs and other grantors as to whether the payments made to the former Planning and Zoning/Grant Administrator for grant administration were allowable administrative costs. As disclosed to the auditor, the Town has received a demand letter for additional compensation to the former Grant Administrator in the sum of \$92,633.00. The Town will seek a determination of the amount of overpayment to the former Planning and Zoning/Grant Administrator, the likelihood of recovery, and the estimated costs of recovery from an independent law firm with expertise in this field.*

## **FINDING No. 19: Employee Pay Raises**

According to minutes of the September 4, and September 17, 2001, Town Council budget hearings, the Town’s 2001-2002 fiscal year budget enacted by Resolution 7-R-2001 and adopted by the Town Council at its September 17, 2001, regular meeting, included a 5 percent pay raise for all employees. However, some

employees did not immediately receive the pay raise and others received the pay raise at a rate (percentage) other than the approved 5 percent. Consequently, the Town Council, at its March 4 and March 19, 2002, regular meetings, addressed this issue and directed that a 5 percent pay raise be implemented for all employees retroactively to October 1, 2001.

The 5 percent increase approved at the March meetings was to go into effect starting with the pay period ending March 21, 2002, and each employee that had not previously received the approved 5 percent pay raise was to be paid a lump sum amount representing the difference between what was paid for prior periods and what should have been paid. However, our review of pay increases for the Town's employees disclosed that the increase was not equitably implemented because three employees received a pay raise at a rate (percentage) greater than the approved 5 percent. Specifically, our review disclosed the following:

- One employee that had not received the 5 percent pay raise approved at the Town Council's September 17, 2001, meeting correctly received a retroactive lump sum payment for the approved 5 percent. However, contrary to the Town Council's directive at its March 19, 2002, meeting, the employee's hourly rate effective for the pay period ending March 21, 2002, increased from \$11.95 to \$12.60, resulting in an effective pay raise of 5.4 percent.
- Two employees received a pay raise of only 3.5 percent for the pay period beginning October 19, 2001. Contrary to the Town Council's directive at its March 19, 2002, meeting, these two employees were not paid a retroactive lump sum amount. Instead, they received a 5 percent pay raise effective for the pay period ending March 21, 2002, which, because it was applied to their salaries as already adjusted for the 3.5 percent increase, resulted in a 2001-2002 fiscal year pay raise of greater than the approved 5 percent. We were advised that this was done at the direction of the Town Council President. However, such action was not, of record, approved by the Town Council.

### **Recommendation**

**The Town Council should ensure that pay raises for all employees are equitably implemented by specifically documenting in the Town minutes whether a pay raise represents a standard raise for all employees or a merit raise. In addition, the Town should take appropriate action to recover amounts overpaid employees due to pay raises granted in excess of raises approved by the Town Council as discussed above.**

### **Town Response**

*The Town Council will ensure that pay raises for all employees are equitably implemented. During the budgeting process the Town Council will specifically discuss whether a pay raise represents a standard raise for all employees or a merit raise. The Town Council will adopt written policies and procedures that will designate persons to ensure that authorized pay increases are implemented properly and certify in writing that this task has been properly performed. As to the overpaid employees identified during the audit period, the Town Council will obtain a detailed written report on the compensation paid to each of the three identified employees. After consideration of these reports, the Town Council will determine the appropriate action to be taken.*

### **FINDING No. 20: Leave and Attendance Records**

Sick, vacation, and administrative leave are granted to Town employees based on guidelines established by Town Ordinances 1-1978, 3-O-1987, and 1-O-1995. As prescribed by Ordinance 1-1978, employees earn 8 hours of vacation and 8 hours of sick leave each month. In addition, employees with 5 or more years of service earn 12 hours of vacation a month, employees with 10 or more years of service earn 16 hours of vacation a month, and employees with 20 or more years of service earn 24 hours of vacation a month. Each employee is also granted 2 additional days of paid absence a year. Ordinance 1-1978 further provides that, with approval, employees can redeem earned vacation leave for cash.

Our review of leave and attendance records and minutes of Town Council meetings for the period October 1, 2000, through March 4, 2002, disclosed the following:

- In response to our inquiry regarding the Planning and Zoning/Grant Administrator's leave usage, we were advised that she was out sick on November 19, 20, and 21, 2001, because of surgery, and returned to work on November 26, 2001, to work a few hours each morning for some period of time thereafter. Accordingly, at least 24 hours (3 work days), and an additional number of hours for partial days worked, should have been deducted from the Planning and Zoning/Grant Administrator's sick leave balance. However, the Town's leave and attendance records did not show any deductions from the Planning and Zoning/Grant Administrator's sick leave balance during the months of November and December 2001. Subsequent to audit inquiry, the Planning and Zoning/Grant Administrator's leave records were adjusted to show the 24 hours of sick leave used; however, no hours were deducted for partial days worked after her return to work on November 26, 2001.

- The Town Council, at a regular meeting held March 4, 2002, approved for a cashier to be paid for the last week in February 2002, during which time the employee was absent from work, although we were advised that the employee had no available leave as of February 8, 2002. On March 7, 2002, the employee was paid \$348.90 for 30 hours of time not worked. Although requested, we were not provided with an explanation as to why the Town Council approved this payment and how the Town Council determined that the cashier should be paid for 30 hours. In addition, during the period December 31, 2000, through March 31, 2002, we noted that 11 hours of sick time (5 hours in March 2001 and 6 hours in July 2001) were not deducted from the employee's sick leave balance. Subsequent to audit inquiry, this employee's leave records were adjusted to show the 11 hours of sick leave used.

### **Recommendation**

**The Town should enhance its procedures to ensure that absences by employees are accurately recorded in the Town's leave and attendance records. Such procedures should ensure that employees are only paid for time worked or for leave taken. The Town should also adjust the Planning and Zoning/Grant Administrator's leave records for leave used as a result of partial days worked. In addition, the Town Council should document in its public records justification for paying an employee for 30 hours of time not worked.**

### **Town Response**

*The Town Council will review and modify its procedures to ensure that absences by employees are accurately recorded in the Town's leave and attendance records. The person who held the position of Planning and Zoning/Grant Administrator during the audit period is no longer employed by the Town. This former employee's leave records are no longer being updated by the Town. The Town Council will review the issues related to redeeming earned vacation leave and compensation upon termination of employment for unused sick and vacation leave to determine whether the Town's ordinance was followed. The Town will also specifically review the payment to the cashier on March 7, 2002, to determine the basis, if any, for the payment.*

### **Procurement of Goods and Services**

The authority for Town officials to expend moneys is set forth in various provisions of general or special law and in ordinances enacted by the Town Council. 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 Town; and in pursuit of a public, rather than a private, purpose. These limitations require Town officials seeking to expend public funds to identify the authority relied upon for the

contemplated expenditures and to adequately describe how the expenditures 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 should be present at the point of 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 Town funds are for authorized public purposes, Town officials are responsible for establishing and maintaining internal controls, including the adoption of sound accounting practices, that will provide for the proper recording, processing, summarizing, and reporting of financial data.

Our findings concerning the public purpose for particular expenditures, and the adequacy of documentation to demonstrate such public purpose, are presented under appropriate subheadings below.

#### ***FINDING No. 21: Disbursement Processing***

The Town is responsible for establishing controls that provide assurance that the process of acquiring goods or services is effectively and consistently administered. Although the Town has established some written procedures regarding the disbursement process, including a requirement that payment for goods and services be approved by the Town Treasurer and the Town Council President, the procedures did not necessarily require the completion of a request for purchase order (i.e., purchase requisition) and the completion of a purchase order for each expenditure transaction to document prior approvals.

Our examination of 138 expenditure items totaling \$31,949 for the period December 1999 through January 2002 disclosed deficiencies in the Town's disbursement processing and recording procedures that may limit the Town's ability to ensure that goods and services are received in the quantity and quality contemplated by management's authorization. Specifically, we noted the following deficiencies:

- In 31 instances, checks for payments to vendors had only one signature of approval. Another 20 checks written to reimburse the petty cash fund also had only one signature of approval.
- None of the 138 expenditures were supported by a purchase requisition, purchase order, or other documentation of pre-approval. Purchase orders and purchase requisitions serve to document management's authorizations to acquire goods and/or services, document the specifications and prices of the goods and/or services ordered, provide a basis for controlling the use of



appropriated resources through encumbrances, and authorize vendors to provide goods and/or services to the ordering agency.

- In 44 instances, there were no vendor invoices to support the payments. In 27 of the 44 instances, the only documentation to support the purchase was a letter from the Planning and Zoning/Grant Administrator directing the bookkeeper to pay the vendor.
- In 52 instances, invoices supporting payments were not properly canceled or stamped as paid after payment to prevent duplicate payments.

The absence of adequate supporting documentation, including approved purchase requisitions and purchase orders and evidence that invoices have been paid, and the lack of signatures by two authorized check signers, increases the Town's risk of paying for unsubstantiated or improper expenditures.

### **Recommendation**

**The Town should ensure that all checks are signed by two authorized check signers and require the use of written purchase requisitions and purchase orders to document the approval of purchases prior to incurring an obligation for payment. In addition, the Town should require that each purchase be supported by an invoice from the vendor and that all invoices be canceled or stamped as paid after payment.**

### **Town Response**

*The Town has had a purchase order system in place for several years. However, the Town accepts the findings regarding the 138 expenditures not supported by documentation of pre-approval as indicative of the inadequacy or lack of compliance with the existing policy. The Town Council will review and modify the current policy to ensure future compliance. The Town Council will designate the bookkeeper as the person responsible for the release of all checks and require that the bookkeeper ensure that all checks have two authorized check signers. The Town Council will adopt written policies and procedures to require that each purchase be supported by an invoice and that all invoices be canceled or stamped as paid after payment.*

## **FINDING No. 22: Town Council Approval of Purchases**

The Town Council adopted Ordinance 2-O-1995, which established a purchasing policy for the Town. This purchasing policy provides, in part, for competitive bidding for purchases exceeding \$1,000. Section 5 of Ordinance 2-O-1995 provides that all purchasing or work done in the operation of any of the Town's departments exceeding an aggregate total of \$500 shall require the approval of a majority of the Town Council in a regular or special meeting. However, work

required for emergency repairs to the water and sewer systems, Town-owned cars, trucks and tractors, fire equipment, and other emergency repairs exceeding a cost of \$500, may be paid without prior Town Council approval provided that the matter is presented to the Town Council at its next regular meeting.

Our audit tests disclosed seven purchases totaling \$5,156, each exceeding \$500, that were not approved by a majority of the Town Council at a regular or special meeting, contrary to Section 5 of Ordinance 2-O-1995. The seven purchases included the acquisition of office supplies and various repair or renovation services. Although requested, we were not provided with documentation evidencing that these purchases were considered to be an emergency and brought before the Town Council at the next regular meeting. Although we were advised that the Town Council President approved these purchases, such approval does not constitute Town Council approval as required by Ordinance 2-O-1995.

**Recommendation**

**The Town should ensure that purchases exceeding an aggregate total of \$500 are approved by a majority of the Town Council as required by Section 5 of Ordinance 2-O-1995.**

**Town Response**

*The Town Council will review Ordinance 2-O-1995 which establishes a purchasing policy for the Town. If appropriate, due to inflation or type of expenditures (water and sewer plant repairs) the monetary limits will be adjusted. The current members of the Town Council will be fully advised of the provisions of Ordinance 2-O-1995 and the need to comply with (or modify) the established purchasing policy in the approval of all expenditures will be emphasized.*

**FINDING No. 23: Competitive Bids**

Section 1 of Ordinance 2-O-1995 provides, in part, that all improvements, materials, supplies, and work of all kinds and for any purpose done, rendered, supplied or performed for the Town, amounting to more than \$1,000 shall be let by contract to the lowest and best responsible bidder, and shall require an advertisement for the invitation to bid in a newspaper of general circulation. In addition, in accordance with the Department of Community Affairs Housing Application Instructions, the Town Council established a Housing Assistance Plan (Plan) through the adoption of Resolutions 4-R-1999 and 5-R-1999. The Plan establishes guidelines for the Community Development Block Grant (CDBG) Housing program and addresses the process used to solicit and procure construction services. The Plan, in part, specifies that the work will be advertised

for bid, that the bids will be tabulated, and that the contract will be awarded to the lowest and best bidder by the Town Council.

Our review of purchases during the period September 1998 through January 2002 disclosed purchases totaling \$1,300,087 for goods or services that were acquired without benefit of the competitive selection process required by Ordinance 2-O-1995. Specifically, we noted the following:

- Similar purchases totaling \$6,529, made to the same vendor within a relatively short time period, were not considered by the Town to be single purchases and, therefore, were not subjected to the Town's bid requirement. The treatment of these purchases as single purchases effectively circumvented the \$1,000 bid threshold provided in Ordinance 2-O-1995. Although requested, we generally were not provided with explanations of why these purchases were not bid. These purchases are listed below:

<u>Vendor/General Description of Purchase</u>	<u>Invoice or Check</u>	
	<u>Date</u>	<u>Amount</u>
<b>Callahan General Contractors</b> Remove/Replace Concrete Slabs	08/09/99	\$ 546
	08/09/99	683
<b>Total</b>		<u><b>1,229</b></u>
<b>Callahan General Contractors</b> Building Stoops - Fire Station	09/25/98	900
	09/25/98	900
	09/25/98	900
<b>Total</b>		<u><b>2,700</b></u>
<b>Nathan Higginbotham</b> Picnic Benches	07/06/01	900
	07/09/01	900
	07/23/01	800
<b>Total</b>		<u><b>2,600</b></u>
<b>Grand Total</b>		<u><b>\$6,529</b></u>

- Contrary to Ordinance 2-O-1995, purchases of goods or services totaling \$1,293,558 were made by the Town without advertising an invitation to bid in a newspaper of general circulation. Although requested, we were not provided with explanations as to why these purchases were not advertised. These purchases are listed below:

<u>Vendor/General Description of Purchase</u>	<u>Amount of Purchase</u>
<b>Callahan General Constructors</b>	
Installing sidewalk at Ewing Park (1)	\$ 4,500
Labor/material for work at Town Hall	2,460
Labor/material for work at Town Hall	1,150
Phase II construction work at Ewing Park (2)	45,600
Stoops on back door of Fire Station	<u>1,800</u>
Total	<u><u>55,510</u></u>
<b>Civil Tech Design, Inc.</b>	
Services related to wastewater treatment facility (3)	<u>116,000</u>
<b>Clark Sales Display</b>	
Christmas decorations	<u>9,000</u>
<b>Daniel S. Brim, Esquire</b>	
Legal services (3)	<u>37,285</u>
<b>Hygena House Movers</b>	
Services to move a house	<u>8,550</u>
<b>James Moore and Company, CPA</b>	
Auditing Services (3)	<u>34,000</u>
<b>Mullis and Keene, CPA, P.C.</b>	
Accounting services (3)	<u>12,800</u>
<b>Raines Construction Company</b>	
Construction of six houses under the CDBG Housing Program (2)	<u>197,585</u>
<b>Shelton Guynn Construction</b>	
Construction of one house under the CDBG Housing Program (2)	<u>13,093</u>
<b>Spectrum Business Products</b>	
Office supplies	<u>1,365</u>
<b>T.L. Higginbotham</b>	
Building inspection services (3)	<u>19,927</u>
<b>Vallencourt Construction Co., Inc.</b>	
Services related to wastewater treatment facility (3)	<u>723,917</u>
<b>Wayne Higginbotham Construction</b>	
Construction of three houses under the CDBG Housing Program (2)	<u>64,526</u>
<b>Grand Total</b>	<u><u>\$1,293,558</u></u>

- (1) Bid was originally advertised and awarded to another contractor; however, contractor decided not to perform the job and Callahan General Constructors was awarded the work without the Town readvertising and rebidding the job.
- (2) Although one or more bids were submitted for the project, there was no documentation, of record, evidencing that the Town had advertised an invitation to bid.
- (3) See additional discussion in Finding No. 26.

Fair and open competition is a basic tenet of public procurement and such competition reduces the appearance and opportunity for favoritism and inspires

public confidence that contracts are awarded equitably and economically. In the absence of full implementation of a competitive selection process, the Town's assurances and the public's confidence are limited regarding the fair, equitable, and economical procurement of goods and services.

### **Recommendation**

**The Town should review its purchasing practices and take the necessary steps to ensure that purchases are competitively selected in accordance with good business practices, grant regulations, and Town ordinances.**

### **Town Response**

*The Town will review its purchasing practices. All Town officials will be advised of the requirements for competitive bidding under general law, Town ordinances, grant regulations and good business practices. Many of the disclosed items relate to grant expenditures. Some of these items are currently being reviewed by the Florida Department of Community Affairs. The Town is seeking a technical visit from DCA to resolve the remaining open issues.*

## **FINDING No. 24: Contributions to Nongovernmental Organizations**

The Town Council adopted Ordinance O-11-1988, authorizing the Town Council to enact resolutions for the payment of money or in-kind donations to nonprofit organizations where such donations serve a public purpose by promoting the health, safety, and welfare of the citizens of the Town and such resolutions make a specific finding as to the public purposes of the donations. Additionally, as discussed in Attorney General Opinion Nos. 79-56 and 86-44, governmental entities may utilize a nonprofit corporation as a medium to accomplish a public purpose provided that there is a clearly identified and concrete public purpose as the primary objective, and a reasonable expectation that such purpose will be substantially and effectively accomplished, and the governmental entity retains sufficient control over the use of the public funds by the nonprofit corporation.

During the period October 1, 2000, through January 31, 2002, the Town made cash contributions totaling \$1,650 to three nongovernmental organizations. The Town did not perform follow-up procedures to determine the ultimate use of the \$1,650 of cash contributions, and the Town did not execute any agreements with these organizations stating the specific purpose for which the funds were to be used. While contributions such as these may be intended to serve a legitimate public purpose, absent these controls, it is not apparent how the Town had an appropriate level of assurance that the moneys provided to these organizations were used for intended public purposes. In addition, our review of these contributions disclosed the following:

- \$500 of the contributions were to Alluring Designs, a for-profit organization (for the organization of a Miss Callahan Pageant); however, Ordinance O-11-1988 does not authorize contributions to for-profit organizations.
- \$150 of the cash contributions were to the Shriners Circus Fund, a nonprofit organization (for the purchase of circus tickets for underprivileged children); however, contrary to Ordinance O-11-1988, this was done without enacting a resolution authorizing the cash contribution and identifying the specific public purpose served.

### **Recommendation**

**The Town, for contributions to nonprofit organizations, should establish resolutions in accordance with Ordinance O-11-1988. In addition, the Town should enter into written agreements with organizations to which the Town makes contributions, stating the specific public purpose for which the contributions are to be used, and monitor the use of the funds to ensure that the public purpose is accomplished. To facilitate this, the written agreements should include a requirement that the organization maintain adequate records of its expenditures of the moneys provided and that the organization allow the Town to examine its records. In addition, should the Town Council wish to make contributions to for-profit organizations, it should amend Ordinance O-11-1988 to allow such contributions.**

### **Town Response**

*The Town Council does not wish to amend Ordinance O-11-1988 to allow contributions to for-profit organizations at this time. The Town will carefully screen all applicants to ensure only non-profit organizations may submit requests for funding to the Town Council. Prior to making any future contributions, the Town Council will review and, if appropriate, modify Ordinance O-11-1998.*

*The Town Council will determine whether a resolution should be required. The Town Council will provide for written agreements, identification of a concrete public purpose, the retention of adequate control of the use of public funds, and record keeping.*

### **FINDING No. 25: Inadequately Documented/Unauthorized Expenditures**

Our test of expenditures during the period December 1999 through January 2002 disclosed expenditures totaling \$9,929 for which the Town's records did not clearly document the public purpose served. Although requested, we were not provided with any explanation for \$1,328 of these expenditures. Explanations for the remaining \$8,601 of expenditures were provided and \$2,036 of these expenditures appeared to be for a public purpose based on the explanations provided; however, such explanations were not documented, of record, at the

time the payments for the expenditures were made. Further, explanations provided for the remaining \$6,565 of expenditures indicated that they were for hospitality or entertainment purposes as follows:

- \$2,800 were for bakery items to provide refreshments for attendees of Town Council meetings and were provided for public relations and goodwill to State legislators in Tallahassee (see Finding No. 39 for a further discussion on these expenditures);
- \$1,769 were for food and decorations related to a Christmas party for employees and family to show “unity and spirit” between the Town employees and their jobs;
- \$859 were for lunches at local restaurants or other food purchases;
- \$619 were for plants or flowers for employees or other individuals; and
- \$518 were for award plaques for employees or Town Council members.

However, according to Attorney General Opinion No. 68-12, absent specific legal authority, expenditure of public funds for hospitality and entertainment are not proper expenditures of public funds. We are unaware of any such specific authority in law regarding expenditure of Town moneys.

### **Recommendation**

**The Town should clearly document in its public records that expenditures serve a public purpose, are reasonable, and necessarily benefit the Town, and the specific legal authority for hospitality and entertainment expenditures.**

### **Town Response**

*The Town Council will adopt an ordinance providing guidelines for Town expenditures to ensure that such expenditures serve a public purpose, are reasonable, and necessarily benefit the Town. The Town will review the issue of expenditure of public funds for hospitality and entertainment to determine whether specific authority in law does exist for these types of expenditures. Until such specific authority is clearly established, the Town will make no future expenditures for hospitality and entertainment.*

### **Contractual Services**

The Town is responsible for establishing internal controls that provide assurance that the process of acquiring contractual services is effectively and consistently administered. As a matter of good business practice, procurement of services should be done using a competitive selection process to provide an effective means of equitably procuring the best quality services at the lowest possible cost. In addition, 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 Town, identifies the responsibilities of both parties, defines the services to be performed, and provides a basis for payment. Further, to ensure that contractors comply with applicable terms and conditions of the contract and that the contractor's performance is effective in accomplishing the objectives established in the contract, effective monitoring procedures should be established.

Expenditures for contractual services during the period October 1, 2000, through January 31, 2002, totaled approximately \$1,970,000. As discussed below, our audit disclosed several deficiencies regarding the Town's processes for contracting for services.

### ***FINDING No. 26: Awarding of Contracts for Services***

As discussed in Finding No. 23, the Town did not comply with advertisement and bid requirements prescribed by Ordinance 2-O-1995 regarding the purchase of various goods or services. Our review of the Town's procedures for procuring various types of contractual services disclosed the following additional instances of noncompliance with applicable State laws or good business practices:

#### **Auditing Services**

Pursuant to Section 218.391(2) (formerly Section 11.45(3)(a)6.), Florida Statutes, municipalities are required to establish an auditor selection committee and auditor selection procedures for employing a firm to perform the municipality's required annual audit. The Town may elect to use its own selection procedures or the procedures outlined in Section 218.391(3) (formerly 11.45(3)(a)7.), Florida Statutes. The Town, contrary to Section 218.391(2) (formerly Section 11.45(3)(a)6.), Florida Statutes, did not use a competitive selection process prior to entering into two written agreements with the public accounting firm (one related to audits for the fiscal years ended September 30, 1998, through 2000, and the other related to audits for the fiscal years ended September 30, 2001, through 2004) that had initially been selected as the Town's auditor in 1997.

The Town's written agreements with the public accounting firm stated that fees would be based on actual time spent at standard hourly rates, and indicated that the firm would be reimbursed for out-of-pocket costs. For the annual audits ending September 30, 2000, and September 30, 2001, the firm was paid \$18,000 and \$16,000, respectively. While our audit testing did not disclose any overpayments to the public accounting firm, invoices supporting these payments were not in sufficient detail to demonstrate the specific nature of the services provided, the hourly rate, the number of hours, or details of the out-of-pocket expenses for which the firm was seeking reimbursement. Subsequent to audit inquiry, we were provided with a detail listing of the employees who worked on



the audits, the hours worked, and the hourly rates. When comparing this listing to the invoices submitted by the public accounting firm, we noted that the listing did not agree to the invoices. For example, the amount shown as payable on the invoice for the period ending September 25, 2001, totals \$8,496; however, the detail listing provided indicated that the cost of services provided through September totaled \$5,071.

#### Accounting Services

The Town Council, at a regular meeting held November 4, 1996, selected a firm to provide accounting services, including, reconciling bank accounts, making adjusting journal entries, posting deposits and checks to the general accounting system, entering the original budget and budget amendments to the general accounting system, and producing monthly financial statements for each fund. The Town entered into a written agreement dated December 13, 1996, with the firm. Subsequently, the Town Council opted to continue using the same firm to provide accounting services and entered into a written agreement with the firm dated January 13, 2001. However, the Town did not use a competitive selection process prior to the original selection of the firm, or the continued use of the firm, for accounting services. During the period October 1, 2000, through January 31, 2002, the firm was paid \$12,800.

#### Legal Services

The Town Council, at a regular meeting held November 15, 1976, selected a law firm to provide legal services and has used that firm since that date. The Town did not use a competitive selection process prior to selecting or continuing the legal services provided by the law firm. In addition, payments for legal services were made without the benefit of a written agreement specifying the exact nature of the legal services to be provided or the basis for payment. While the Town Council, by adopting Resolution 13-R-1999, effective October 18, 1999, provided for the amount of compensation to be paid the law firm for legal services provided, this Resolution does not constitute a written agreement between the Town and the law firm specifying the exact nature of the legal services to be provided or the basis for payment. During the period October 1, 2000, through January 31, 2002, the firm was paid \$37,285.

#### Engineering Services

Section 287.055(4), Florida Statutes, requires that the Town publicly announce and enter into a formal competitive selection and negotiation process for engineering services on each occasion when construction costs are estimated to exceed \$250,000 or when a planning or study activity fee is estimated to exceed \$25,000. The Town utilized an engineering firm for a project, with an estimated cost of \$1,750,000, related to improvements to its wastewater treatment facility. The Town entered into two separate agreements with the engineering firm dated August 8, 2000, and August 22, 2001, without utilizing the competitive selection and negotiation process required by Section 287.055, Florida Statutes. During the

period October 1, 2000, through January 31, 2002, the engineering firm was paid \$116,000 related to the project.

### Construction Services

The Town obtained services from a construction firm for construction related to drainage improvement. Although the Town engaged the firm based upon its lowest competitive bid (\$1,506,849), the Town did not enter into a written agreement with the firm. During the period October 1, 2000, through January 31, 2002, the construction firm was paid \$1,144,592 related to the drainage improvement project from Florida Department of Community Affairs Community Development Block grant moneys. Our review of invoices submitted by the contractor disclosed that substantial changes were made in the scope of work subsequent to the initial bid award as compared to the initial work plan. For example, the original bid documents described the scope of work as including approximately 11,450 linear feet of drainage improvement, approximately 5,500 linear feet of roadway curbs and gutters, approximately 24,000 linear feet of sidewalk improvements, and various water and sewer relocations. However, the invoices subsequently submitted by the construction firm contained changes in the project, including an \$183,389 estimate for a retention (drainage) pond.

The Town also obtained services from a construction firm for construction of improvements to its wastewater treatment facility. The Town did not, of record, utilize a competitive selection process and did not enter into a written agreement with the construction firm. During the period October 1, 2000, through January 31, 2002, payments totaling \$723,917 were made to the construction firm related to the wastewater treatment facility project.

The lack of written agreements with its construction firms specifying services to be performed and the responsibilities of the parties involved, has limited the Town's ability to evaluate the reasonableness of payment requests and to enforce performance in the event of a dispute. For example, there may be significant ramifications to the Town related to the digging of the drainage pond. The drainage pond was dug by the construction firm on private and public property not owned by the Town and was dug without obtaining the necessary permits from the St. Johns River Water Management District. As a result, the Town may have to negotiate settlements with the property owners and may be subject to fines or penalties for failure to obtain the permits. Absent written agreements between the Town and construction firms identifying the responsibilities of the parties, it is not clear as to which party would be held legally liable regarding the drainage pond incident.

### Building Inspection Services

For the period July 1999 through September 2002, the Town entered into a written agreement with a building inspector to perform all inspections required

under the Southern Standard Building Code and other adopted codes and laws relating to building standards. The Town did not use a competitive selection process prior to acquiring the services of the building inspector. We were advised that the Town did not use a competitive selection process to select the building inspector because the appointment of a building inspector was considered an emergency due to the retirement of the Town's former building inspector. However, although requested, we were not provided with Town Council meeting minutes or other documentation evidencing that the Town Council had selected the building inspector on an emergency basis. Further, even if it an emergency situation existed necessitating the temporary appointment of a building inspector without using a competitive selection process, it is not apparent why the Town did not subsequently use such a process to permanently select a building inspector.

The written agreement with the building inspector provided that the building inspector would receive \$200 a month, 50 percent of the fees collected for site plan reviews, and 75 percent of the fees collected for all other inspections. For building inspections performed during the period October 1, 2000, through January 31, 2002, the building inspector was paid \$19,927. Although requested, we were not provided with invoices or other documentation supporting how these payments were calculated or how they complied with the terms of the written agreement. We compared the building permit revenue as recorded in the Town's accounting records to the payments made to the building inspector, and determined that the Town appeared to have paid the building inspector from \$3,617 to \$7,987 more than what was provided for based on the terms of the written agreement. We could not determine the exact amount of the overpayments because documentation supporting the payments did not adequately distinguish inspections related to site plan reviews from other inspections. In addition, we noted that the building inspector received a payment of \$673.23 for travel-related expenses; however, this type of payment is not provided for in the Town's written agreement with the building inspector.

Without using a competitive selection process when acquiring contractual services, the Town cannot be assured that such services are obtained at the lowest cost consistent with acceptable quality and performance. Further, in the absence of a written agreement specifying the nature of the services to be performed and the amount of the compensation to be provided, and detailed invoices describing the services provided, the Town cannot be assured that payments made to contractors are in compliance with the intent of the Town Council and that the Town received the services to which it was entitled.

### **Recommendation**

**The Town should comply with the competitive selection provisions of Sections 218.391(2) and 287.055(4), Florida Statutes, when acquiring auditing**

and engineering services, respectively. Also, as a matter of good business practice, the Town should obtain contractual services only after using a competitive selection process, and enter into written agreements with the contractors selected to document the nature of services to be performed and the amount of compensation to be provided. The Town, for those instances identified above in which invoices submitted by contractors were not in sufficient detail, should obtain adequate invoices or clarification and take appropriate action regarding overpayments or underpayments that are identified.

### Town Response

*The Town has used the competitive selection provisions of Section 218.391(2), and 287.055(4), Florida Statutes when acquiring auditing and engineering services in the past. The Town will review the deficiencies disclosed in the audit report to identify the reasons for non-compliance with these two statutes. The Town will adopt written policies and procedures for awarding of contracts for services not governed by these statutes, current contractual relationships will be reviewed to determine the earliest time at which these relationships can be terminated so that a new competitive selection process can be used. For all new contractors written agreements will be required to document the nature of services performed and the amount of compensation to be provided. The Town will seek adequate invoices or clarification for the instances disclosed in which invoices submitted by contractors were not in sufficient detail. The Town will determine and take appropriate action regarding overpayments or under payments.*

### **FINDING No. 27: Contract for Building Inspector Services**

As noted in Finding No. 26, the Town entered into a written agreement with the building inspector for the period July 1999 through September 2002. Our audit disclosed the following instances in which the Town had not ensured that the building inspector had complied with the terms of the written agreement:

- Consistent with Section 553.79(2), Florida Statutes, the Town's written agreement with the building inspector requires that all applications for building permits, along with plans and specifications, be submitted to the building inspector for approval prior to the issuance of building permits. Our review of the 112 building permit applications completed during the period October 1, 2000, through January 31, 2002, disclosed that, contrary to the written agreement, the Town's building inspector did not, of record, approve the building permit applications. Instead the Planning and Zoning/Grant Administrator approved the applications and subsequently issued building permits. This is contrary to Ordinance 1-O-1986, which requires the building inspector to approve or disapprove building permit applications.

- The Town's written agreement with the building inspector requires that the building official perform all inspections required under the Standard Building Code and other adopted codes and laws relating to building standards. Section 105.01 of the Standard Building Code requires that the building official inspect all buildings, structures, electrical, gas, mechanical and plumbing systems, from time to time, during and upon completion of the work for which a building permit was issued. Our review of 30 building permit applications issued during the period October 1, 2000, through January 31, 2002, disclosed 18 instances in which the Town was unable to provide us documentation that building inspections were performed or were not necessary.

### **Recommendation**

**The Town should enhance its procedures to ensure that the building inspector provides services in accordance with the contractual agreement.**

### **Town Response**

*The Town now has a new Building Official who is knowledgeable and experienced. The Town utilized a competitive selection process prior to entering into a written agreement with the new Building Official. The Town feels that all of the disclosed matters in Finding No.: 27 have now been corrected.*

### **Travel Expenses**

Section 112.061, Florida Statutes, governs per diem and travel expenses of public agencies, including municipalities, except that the provision of any special or local law (and we are not aware of any such laws affecting the Town of Callahan during the audit period), present or future, 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 business.

### **FINDING No. 28: Unauthorized Gas Credit Card Expenses**

The Town has a commercial gas credit card account with two cards issued on the account. One card was assigned to the Planning and Zoning/Grant Administrator and the other card was assigned to the Public Works Director. However, the Town Council did not approve, of record, the issuance of the gas credit cards, and did not adopt an ordinance or, resolution, or otherwise provide guidance, as to the proper use of assigned gas credit cards. Further, the Town

did not require these employees to sign written agreements specifying acceptable uses of gas credit cards. Absent a written policy that sets forth allowable usage of the Town's gas credit cards, there is an increased risk of inappropriate credit card transactions.

Our review of the Town's billings for the commercial gas credit cards during the period October 1, 2000, through January 31, 2002, disclosed 20 instances in which gas expenses totaling \$493 were charged to the card assigned to the Planning and Zoning/Grant Administrator that appeared to be of a personal nature based on the date gas purchases were made (on weekends and outside of normal business hours) and the location purchases were made (in Georgia). In response to our inquiry, we were advised that documentation, such as travel reimbursement vouchers, hotel receipts, or meeting agendas, was not available to demonstrate that these expenditures were necessary and served an authorized public purpose, that no public purpose was served by these expenditures, and that no reimbursement had been requested or received by the Town for these expenditures.

### **Recommendation**

**The Town Council should enact written policies and procedures governing the control and use of credit cards. Such policies should prohibit the usage of Town 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 Town's credit card policies and procedures. In addition, the Town should take appropriate action to recover the \$493 of personal credit card charges from the Planning and Zoning/Grant Administrator.**

### **Town Response**

*The Town Council feels that the use of a limited number of credit cards is appropriate, provided sufficient controls are in place. The Town Council will adopt written policies and procedures governing the control and use of credit cards. These policies will prohibit the usage of Town credit cards for personal purposes. All employees receiving credit cards will be required to sign a written agreement evidencing their understanding of, and agreement with, the Town's credit card policies and procedures. The Town Council will take appropriate action to recover the \$493.00 of personal credit card charges from the Town's former employee.*

## **FINDING No. 29: Unauthorized/Unsupported Travel Expenses**

Pursuant to Section 112.061(3)(b), Florida Statutes, Town officials/employees travel expenses are limited to those expenses necessarily incurred by them in the performance of an authorized public and Town purpose, and must be within the

limitations prescribed by that Section. Our review of the Town's 17 travel expenditures totaling \$1,291 for the period October 1, 2000, through January 31, 2002, related to travel performed by the Planning and Zoning/Grant Administrator, disclosed that these expenditures were not adequately supported and in accordance with Section 112.061, Florida Statutes, as follows:

- Two travel expenditures totaling \$122 were not supported by a travel voucher form or other documentation demonstrating how these expenditures served a public purpose.
- Contrary to Section 112.061(10), Florida Statutes, in three instances totaling \$340 in which a travel voucher form was available, the form was not signed by the traveler certifying that the expenses were actually incurred by the traveler.
- Ten travel expenditures involving \$429 of reimbursements for meal allowances were supported by a travel voucher form that did not include the time of departure or return. Absent the time of departure or return, Town records did not document that meal allowances were in accordance with Sections 112.061(5) and (6), Florida Statutes.

### **Recommendation**

**The Town should require that officials/employees provide adequate supporting documentation (including properly completed travel forms) for any travel expense claims. Such forms should clearly evidence the travel necessity and authorized public purpose served.**

### **Town Response**

*By written policies and procedures, the Town will require adequate documentation for travel expenses claims, designate the bookkeeper to review such claims for completeness prior to submission to the Town Council, and review by the Town Council for approval.*

### **FINDING No. 30: Taxable Meal Allowances**

Internal Revenue Code Section 162(a)(2) provides that there shall be allowed as a deduction all the necessary expenses paid or incurred during the taxable year in carrying on any trade or business, including travel expenses while "away from home." The United States Supreme Court has interpreted the "away from home" requirement as requiring that the taxpayer be away from home overnight or at least long enough to require rest or sleep. Class C travel, as defined in Section 112.061(2), Florida Statutes, does not involve travel away from home overnight and, therefore, Class C meal allowances are not considered to be deductible

traveling expenses. United States Treasury Regulation 1.62-2 provides that reimbursements for nondeductible traveling expenses must be reported as wages or other compensation on the employee's Form W-2, and are subject to withholding and payment of employment taxes.

Our review of travel expenditures during the period October 1, 2000, through January 31, 2002, disclosed that \$127 of nondeductible Class C meal allowances paid to the Planning and Zoning/Grant Administrator were not reported as wages or other compensation and were not subjected to withholding for payment of Federal income tax and employment taxes.

### **Recommendation**

**The Town should begin reporting Class C meal allowances to the Internal Revenue Service. In addition, the Town should contact the Internal Revenue Service to determine what corrective action should be taken regarding the unreported amounts.**

### **Town Response**

*The person who previously held the position of Planning and Zoning/Grant Administrator is no longer employed by the Town. No other employees are currently receiving Class C meal allowances. The Town recognizes that such meal allowances may occur in the future. The Town will adopt written policies which will require that future Class C meal allowances be subjected to withholding and employment taxes and reported to the Internal Revenue Service. The Town will contact the Internal Revenue Service to determine what corrective action should be taken regarding the \$127.00 unreported amount.*

### **Communication Expenditures**

The Town utilized independent vendors to provide local, long-distance, and cellular telephone services, and the Town expended \$16,218 during the period October 1, 2000, through January 31, 2002, for communication expenditures. Town management is responsible for establishing adequate controls that provide reasonable assurance that long-distance and cellular telephone calls made serve an authorized public purpose. In addition, management should establish procedures that prohibit employees and Town Council members from making personal long-distance or cellular telephone calls and preclude payment for such calls. Our review disclosed deficiencies regarding communication expenditures as discussed below.

### ***FINDING No. 31: Unauthorized/Unsupported Communication Expenditures***

Telephone logs or similar records identifying the parties called or the purpose of the telephone calls were not maintained for long-distance and cellular telephone calls, and the Town had not otherwise, of record, provided for an independent



review of telephone billings to determine that calls were made for an authorized public purpose. Specifically, our review of long-distance and cellular telephone expenditures disclosed the following:

- During the period October 1, 2000, through January 31, 2002, the Town Council President was reimbursed \$1,230 for cellular telephone calls that he reportedly made using his personal cellular telephone. However, he did not provide Town personnel with documentation, such as telephone logs or detailed invoices with written notations, evidencing the public purpose served by these telephone calls.
- Cellular telephone billings paid by the Town during the period October 1, 2000, through January 31, 2002, indicated that the Planning and Zoning/Grant Administrator had incurred charges of \$3,792 on a Town cellular telephone. Based on our review of these billings, we noted numerous instances in which the telephone calls appeared to be of a personal nature based on the date of the call (on weekends, on holidays, and outside of normal business hours) and the location called (residents' homes and cellular telephones in Georgia). Although requested, we were not provided with explanations or documentation of the public purpose served by these telephone calls. The former Mayor indicated in his written response to our inquiry that the cellular telephone used by the Planning and Zoning/Grant Administrator was for her to stay in touch with her family and the Town and for her health, safety, and welfare; however, we were not provided with documentation evidencing that the Town Council had approved usage of the cellular telephone in this manner. In addition, the Attorney General, in opinion No. 75-07, indicated that telephone calls necessitated by considerations personal to a traveler are not reimbursable as a communication expense of the traveler. Based on the Attorney General's opinion, it appears that usage of a cellular telephone for personal reasons at the expense of the Town is not permissible.
- We reviewed long-distance telephone billings paid by the Town for the period September 13, 2000, through October 12, 2000, and the period November 13, 2000, through December 12, 2000, which totaled \$119.44 and \$79.28, respectively, for telephones at Town Hall and the water and sewer plant. Our review disclosed numerous instances in which the telephone calls appeared to be of a personal nature based on the date of the call (on weekends) and the location called (doctors' offices, residents' homes in Georgia and in Florida, a photography studio, and a home furnishing catalog). Correspondence from the Planning and Zoning/Grant Administrator indicated that these calls were made for the benefit of the general public. However, although requested, we were not provided with

explanations or documentation as to the public purpose served by these telephone calls.

- Our review of long-distance telephone billings paid by the Town for the period November 13, 2000, through December 12, 2000, for a telephone located at the fire station disclosed that a charge of \$84.83 was made to a psychic at a 900 pay-per-call phone number. We are unaware of any public purpose that could have been served by this telephone call. Subsequent to audit inquiry, the Town requested that the telephone company place a phone block on telephones for 900 pay-per-call phone numbers.

In the absence of adequate controls over long-distance and cellular telephone usage, the Town could not be assured that all telephone calls served a public purpose.

### **Recommendation**

**The Town should implement a procedure whereby an individual, other than the Town official or employee placing the call, reviews telephone billings to ensure that all calls serve a public purpose. The Town should also prohibit employees from making or being reimbursed for personal long-distance or cellular telephone calls. Further, the Town should take appropriate action to recover from applicable Town officials and employees the amount of telephone expenditures incurred for personal use.**

### **Town Response**

*The Town Council will adopt written policies and procedures whereby an elected official reviews telephone billings to ensure that all calls serve a public purpose. A second elected official will review all calls, if any, made by the primary reviewer. The Town Council feels that employees should be permitted to make occasional long-distance or cellular telephone calls of a personal nature provided that the employee pays the cost of the call promptly. The Town Council will review and take appropriate action to recover from applicable Town officials and employees the amount of telephone expenditures incurred for personal use.*

## **FINDING No. 32: Telecommunication Taxes**

Customers of vendors that provide telephone services are normally subject to specified 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 Town is exempt from Federal taxes on telephone services. Similarly, the Town is exempt from State sales taxes on telephone bills pursuant to Section 212.08(6), Florida Statutes, and gross receipts taxes on communication services pursuant to Section 202.125(3), Florida Statutes.

In addition, the Town is exempt from the public service taxes imposed by municipalities pursuant to Section 166.231(5), Florida Statutes.

The Town used three different vendors for wireless cellular telephone services, one vendor for local telephone services, and one vendor for long-distance telephone services. Our review of all telephone billings from these vendors during the period October 1, 2000, through January 31, 2002, disclosed that the Town paid \$861 of Federal, State, and local telecommunications taxes from which it was exempt.

### **Recommendation**

**The Town should notify these vendors of the Town's exempt status to ensure that no future taxes of this nature are billed to the Town, and attempt to obtain refunds for exempt taxes previously paid.**

### **Town Response**

*The Town has notified the five vendors of telephone services of the Town's exempt status. The Town Council will review all future invoices to insure that no future taxes of this nature are paid. The Town will attempt to obtain refunds for exempt taxes previously paid.*

### **Vehicle Usage**

As of March 25, 2002, the Town owned nine motor vehicles, consisting of four trucks, two fire trucks, two jeeps, and one van. Our review disclosed several deficiencies and violations of applicable law in the assignment, usage, and maintenance of the vehicles as discussed below.

### **FINDING No. 33: Vehicle Utilization Records**

During the audit period, the Town provided vehicles on a full-time (24-hour) basis to the Public Works Director and the Planning and Zoning/Grant Administrator, who drove the vehicles home overnight. Our review of the assignment of Town vehicles and of records maintained to document their usage disclosed the following:

- In a letter dated June 3, 2000, the Town Council President and the former Mayor authorized the Public Works Director and the Planning and Zoning/Grant Administrator to drive any and all vehicles owned by the Town; however, this letter did not approve the 24-hour assignment of Town-owned vehicles to these employees, and the Town Council had not, of record, approved such assignment and use.

- The Public Works Director and Planning and Zoning/Grants Administrator were not required to maintain mileage logs. Absent this information, the Town 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.
- United States Treasury Regulation Section 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 personal use of these vehicles was not included in the employees' gross compensation reported to the Internal Revenue Service.

### **Recommendation**

**The Town Council should take appropriate action to approve any assignment of Town-owned vehicles on a 24-hour basis. In addition, the Town should maintain vehicle usage logs documenting personal use mileage, and begin reporting the value of such usage to the Internal Revenue Service. The Town should also contact the Internal Revenue Service to determine what corrective action should be taken regarding the unreported value of personal use of vehicles assigned to the Public Works Director and Planning and Zoning/Grant Administrator.**

### **Town Response**

*The Town Council will discuss the assignment of a town-owned vehicle to the Public Works Director. The position of Planning and Zoning Administrator has been separated from the position of Grant Administrator. No town-owned vehicle is currently assigned to either the Zoning Administrator/Building Official or the Grant Administrator. The Town Council will adopt written policies and procedures requiring vehicle usage logs documenting all mileage and identifying personal use mileage and that the value of personal usage be reported to the Internal Revenue Service. The Town will contact the Internal Revenue Service to determine what corrective action should be taken regarding the unreported value of personal use of vehicles assigned to the Public Works Director and Planning and Zoning/Grant Administrator.*

### **FINDING No. 34: Vehicle Maintenance**

Implementing a vehicle maintenance program, which includes preparing vehicle maintenance logs that identify preventative maintenance services and repairs, and dates such services were performed, provides vehicle cost information regarding the operating efficiency of the vehicle and helps to prevent substantial

vehicle damage. Preventative maintenance is necessary to help minimize vehicle repair or replacement costs.

The Town did not prepare vehicle maintenance logs for its vehicles, including two fire trucks. In addition, our audit disclosed that the Town paid a vendor \$6,884 to repair one of the Town's fire trucks. In a letter to the Town from the vendor, dated May 3, 1999, a service technician indicated that, due to the extensive damage of the pump and its components, these trucks needed to be set up on a scheduled maintenance program. The letter also indicated that if the fire truck had been properly maintained, the damage would not have occurred.

### **Recommendation**

**The Town should implement a vehicle maintenance program that includes the preparation of vehicle maintenance logs that identify preventative maintenance services and repairs and dates such services are performed on each vehicle.**

### **Town Response**

*The Town Council will adopt written policies and procedures to implement a vehicle maintenance program. This policy will designate the person responsible for vehicle maintenance in each department. This policy will also require the preparation of vehicle maintenance logs that identify preventive maintenance services and repairs, along with the dates such services are performed.*

### **Risk Management**

#### ***FINDING No. 35: Property Insurance***

Town management has the responsibility to ensure that all Town assets are adequately insured. To accomplish this, management should establish controls that provide for the identification of all insurable assets and the associated risks, and reconciliations between recorded insurance coverages and the Town's property records to ensure that all Town assets are properly insured.

The Town purchased automobile physical damage, real/personal property, and inland marine policies during the 2001-2002 fiscal year. These coverages were obtained through the Florida League of Cities, Florida Municipal Insurance Trust. The insurance coverages obtained, which are based on a schedule of insurable items provided to the insurer by the Town, included actual cash value for automobiles, \$2,765,508 for buildings, \$73,873 for personal property, and \$87,567 for an inland marine policy to cover other miscellaneous equipment. As discussed in Findings Nos. 10 and 11, we noted several deficiencies in the Town's controls over fixed assets which affect management's ability to identify such

assets. In addition, our review of the Town's recorded insurance coverages and the Town's tangible personal property records, disclosed that the Town was improperly insured as follows:

- The Town's fire station was not included on the schedule of insurable items provided to the insurer. Subsequent to our audit inquiry, Town personnel submitted a Florida Municipal Insurance Trust Vehicle, Equipment, and Property change form to the insurer to add the fire station to the Town's insurable property at a replacement cost of \$658,015.
- Included on the insurer's schedule of insurable items was a trash truck with a cost of \$53,835 that the Town did not own. Subsequent to audit inquiry, Town personnel determined that the trash truck belongs to the Town of Callaway, Florida, and that the trash truck was mistakenly added to the schedule of insurable items. The Town subsequently notified the insurer to remove this item and the insurer has indicated that the Town will be refunded an amount for premiums paid relating to the trash truck.

### **Recommendation**

**The Town should ensure that all insurable assets and the associated risks are identified, and reconciliations between insurance coverages of record and the Town's property records are performed.**

### **Town Response**

*The Town will review all insurance coverage on a semi-annual basis to ensure that all insurable assets are covered and associated risks are identified.*

### **Community Development Block Grant - Housing Program**

The Town was awarded \$550,000 from the Florida Department of Community Affairs related to a Community Development Block Grant (CDBG) for activities related to housing rehabilitation, replacement, and temporary relocation. During the period October 1, 2000, through January 31, 2002, the Town reported CDBG expenditures related to this grant totaling \$373,400. As discussed below, our review of the Town's administration of these grant moneys disclosed certain matters that may constitute material noncompliance or questioned costs; however, such determination is ultimately the responsibility of the grantor agency.

### ***FINDING No. 36: Lack of Documentation of Eligibility Scoring and Ranking***

In accordance with the Town's agreement with the Florida Department of Community Affairs and the Housing Application Instructions, the Town Council established a Housing Assistance Plan (Plan) through the adoption of

Resolutions 4-R-1999 and 5-R-1999. The Plan established guidelines for the CDBG Housing Program, which included provisions that eligible applicants be given priority in the following order: (1) Participant is disabled or handicapped head of household; (2) Participant is over 62 years of age; (3) Participant has a large family of five or more; and (4) Participant has a small family of four or less. Points assigned to these specific criteria should be totaled to provide a ranking score for each applicant. If there is more than one eligible applicant, applicants must be prioritized according to a ranking score and services provided to applicants in rank order until no grant funds remain. Although requested, we were not provided with a ranking of eligible applicants demonstrating the calculated scores assigned to each applicant based on the criteria specified in the Plan. Without documentation that eligible applicants were selected based on calculated scores and rankings, the Town cannot demonstrate that housing program services were provided to applicants having the greatest need for assistance. As such, it is questionable as to whether the Town was entitled to funding received from the Florida Department of Community Affairs for this Program, which totaled approximately \$457,000 during the period October 1, 2000, through January 31, 2002.

### **Recommendation**

**The Town should ensure that documentation is prepared to evidence that CDBG Housing Program services are provided to those eligible applicants identified as having the greatest need. Given the above-noted lack of documented compliance with the Plan guidelines established for the CDBG Housing Program, and other findings included in this report related to the Program (see Findings Nos. 18, 23, and 26), the Town should seek a determination from the Florida Department of Community Affairs as to its entitlement to funding received for this Program.**

### **Town Response**

*The Town has entered into a contract with a new Grant Administrator after a competitive selection process. The Town is seeking a technical assistance meeting with the Florida Department of Community Affairs to resolve this finding and other issues raised by the DCA in its review of this grant.*

### **FINDING No. 37: Overpayments for House Construction**

Our review of expenditure transactions funded from the CDBG Housing Program during the period October 1, 2000, through January 31, 2002, disclosed two instances in which the Town overpaid a contractor for the construction of two houses. The Town contracted with a construction company to build each house for \$41,000; however, the Town paid the construction company \$50,020 for each, resulting in overpayments of \$9,020 for each house, or \$18,040 in total.

Upon inquiry, we were advised that the Town is currently in the process of correcting this clerical error with the contractor and recovering the overpayments.

**Recommendation**

**The Town should continue its efforts to collect the \$18,040 of overpayments. In addition, the Town should implement procedures to ensure that payments to contractors are made in accordance with contractual terms and conditions.**

**Town Response**

*The Town has entered into a contract with a new Grant Administrator after a competitive selection process. The Town will continue its efforts to collect the \$18,040.00 of overpayment. The inclusion of the grants into the budget and interim financial statements will help the Town Council to monitor future performance.*

**Other Matters**

***FINDING No. 38: Adoption of Ordinances***

Section 166.041(3)(a), Florida Statutes, provides that a proposed ordinance may be read by title, or in full, on at least 2 separate days and shall, at least 10 days prior to adoption, be noticed once in a newspaper of general circulation in the municipality. However, Section 166.041(3)(b), Florida Statutes, provides that the governing body of a municipality may, by a two-thirds vote, enact an emergency ordinance without complying with the requirements of Section 166.041(3)(a), Florida Statutes.

Our review of 10 ordinances adopted by the Town during the period January 1, 2001, through February 28, 2002, disclosed the following:

- For 3 ordinances adopted by the Town, the Town did not read the ordinances on at least 2 separate days, advertise the ordinances, or adopt the ordinances at least 10 days after notice in a newspaper of general circulation contrary to Section 166.041(3)(a), Florida Statutes. These ordinances are listed below:

<b>Ordinance No.</b>	<b>Ordinance Topic</b>
3-O-2000	Providing for salaries to be paid to Town officials.
2-O-2001	Creating a code enforcement officer system.
4-O-2001	Establishing a building permit fee schedule.

Subsequent to audit inquiry, the Town Council, based upon advice from its legal counsel, retroactively enacted Ordinance 3-O-2000 in the manner required by Section 166.041, Florida Statutes.



- For 6 emergency ordinances adopted by the Town, Town records did not demonstrate the basis for adopting the ordinances as an emergency, and the Town Council had not established procedures for determining whether an ordinance should be passed as an emergency. These emergency ordinances are listed below:

<b>Ordinance No.</b>	<b>Ordinance Topic</b>
2-O-2000	Adopting a nuisance policy.
4-O-2000	Amending Town of Callahan sign ordinance.
1-O-2001	Establishing fees for duplication of public records.
5-O-2001	Requiring and collecting permit fees from providers of communications services.
7-O-2001	Imposing the temporary moratorium on new connections to the wastewater collection system.
2-O-2002	Eliminating the temporary moratorium on new connections to the wastewater collection system.

Improper application of the emergency exception to adopting ordinances may result in circumvention of the ordinance adoption requirements of Section 166.041(3)(a), Florida Statutes, and thereby diminish public awareness of Town business and the public’s opportunity to comment on a proposed ordinance.

**Recommendation**

**To ensure the validity of the Town’s ordinances, the Town, in consultation with its legal counsel, should take appropriate action to adopt the ordinances noted above in accordance with Section 166.041(3)(a), Florida Statutes. In addition, the Town should establish procedures that provide specific criteria or guidelines for determining when the adoption of an ordinance is deemed an emergency and should document in the Town records the justification for such emergency.**

**Town Response**

*The Town acknowledges that 3-O-2000 was not properly adopted originally; but, as noted in the findings the adoption process has now been completed. The Town believes that Ordinances No. 2-O-2001 and 4-O-2001 were properly adopted. The Town will ensure that all ordinances are properly adopted in accordance with Section 166.041(a), Florida Statutes, in the future. The Town Council will establish specific written criteria and guidelines for determining when the adoption of an ordinance is deemed an emergency. The Town Council will document in the Town records the justification for each such emergency.*

## ***FINDING No. 39: Conflict of Interest***

Pursuant to Section 112.313(3), Florida Statutes, no employee of an agency acting in his or her official capacity as a purchasing agent, or public officer acting in his or her official capacity, shall either directly or indirectly purchase, rent, or lease any realty, goods, or services for his or her agency from any business entity of which the officer or employee or the officer's or employee's spouse or child is an officer, partner, director, or proprietor or in which such officer or employee or the officer's or employee's spouse or child, or any combination of them, has a material interest. Section 112.313(1), Florida Statutes, defines a public officer to include any person elected or appointed to hold office in any agency, including any person serving on an advisory body.

Our audit disclosed that the Town purchased bakery items from the wife of the Town Council President, and the Town Council President approved payments to his wife for such services. This appears to be a conflict of interest in violation of Section 112.313(3), Florida Statutes. The Town Council President's wife received payments from the Town totaling \$855 and \$1,800, respectively, during the 2000 and 2001 calendar years for bakery items (see previous discussion in Finding No. 25).

### **Recommendation**

**The Town should consult with the Florida Commission on Ethics to determine whether the above-mentioned situation represents a conflict of interest in violation of Section 112.313(3), Florida Statutes, and implement procedures to ensure future purchases of goods and services are not made from vendors related to Town officials to avoid conflicts of interest.**

### **Town Response**

*The Town will consult with the Florida Commission on Ethics to determine whether the disclosed situation represents a conflict of interest in violation of Section 112.313(3), Florida Statutes. The Town will adopt written policies and procedures to require disclosure and ensure future purchases of goods and services are not made from vendors related to Town officials.*

*APPENDIX - A  
BACKGROUND  
OPERATIONAL AUDIT OF THE TOWN OF CALLAHAN, FLORIDA  
FOR THE PERIOD OCTOBER 1, 2000, THROUGH JANUARY 31, 2002,  
AND SELECTED ACTIONS TAKEN PRIOR AND SUBSEQUENT THERETO*

*Authority*

Chapter 6333, Laws of Florida, established the Town of Callahan, Florida in 1911. The Town is located in Nassau County, Florida. As provided in Article VIII, Section 2.(b) of the State Constitution, and Section 166.021(1), Florida Statutes, the Town 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 Town since Chapter 57-1212, Laws of Florida. Procedures for amending the Town Charter and establishing new ordinances are set forth in Sections 166.031 and 166.041, Florida Statutes, respectively.

The Town Charter, as established by Chapter 6333, Laws of Florida (1911), and amended by various special acts of the legislature and ordinances, establishes the general powers and duties of the Town Council; provides for Town officials, including an elected Mayor and Town Clerk; administrative requirements, procedures, and guidelines for various Town activities and functions; and provisions for the administration of Town Council meetings.

### Organizational Structure

As provided by Article VIII, Section 2.(b) of the State Constitution, the Town is governed by an elective legislative body. Section 12 of Chapter 27446, Laws of Florida (1951), provides that the Town Council consists of five members, who shall be elected at large and serve for two-year terms.

The Town Council serving during the period October 1, 2000, through January 31, 2002, were:

*Barney Adams*  
*Claudine Braddock*  
*Mark McAninch*  
*Robert Rau*  
*Jack Sikes, Town Council President*

During the period October 1, 2000, through January 31, 2002, the Mayor was David Johnson (referred to as the former Mayor in this report).

### Related Audits

Our audit did not extend to an examination of the Town's financial statements. The Town's financial statements, and Federal awards and State financial assistance administered by the Town, for the fiscal year ended September 30, 2001, were audited by a certified public accounting firm and the audit report is on file as a public record with the Town.

# Town of Callahan

A Florida Municipality  
P. O. Box 5016  
Callahan, Florida 32011  
(904) 879-3801

December 16, 2002

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

Dear Mr. Monroe:

The Mayor and Town Council received the list of preliminary and tentative audit findings on November 19, 2002. The Town Council has reviewed the findings during three (3) regular meetings and (2) special meetings. The Mayor, Council President, and Town Clerk have also worked as a committee to prepare this response. The following is the Town's written statement of explanation concerning all of the findings by the Auditor General's Office.

<b>Finding No. 1:</b>	<b><i>Written Policies and Procedures</i></b>
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The Town Council acknowledges the need for comprehensive written policies and procedures for the activities set forth in the audit report. The Town Council will adopt such policies and procedures. The Town has begun this process by contacting similar size governmental agencies for information on the policies and procedures being used by them for these activities. During the adoption process, each instance of noncompliance and management control deficiencies discussed in the audit report will be addressed.

<b>Finding No. 2:</b>	<b><i>Separation of Duties</i></b>
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The Town Council acknowledges the need for separation of duties so that no one employee has access to both physical assets and the related accounting records, or to all aspects of a transaction. The Town responded to the Town's auditor's finding in the Town's 2000-2001 fiscal year annual financial audit report as follows:

Finding 01-02: Separation of Duties

The auditor recommends that the Town should separate duties so that one employee does not have control of all aspects of a transaction. The auditor also recommends that the Town should also ensure that adequate compensating controls are implemented to help mitigate circumstances in which adequate separation of duties is not possible. After further consultation with the auditor, the Town now uses the following procedure:

The auditor suggested the Town create two spreadsheets for water and sewer collections. The Town actually had several spreadsheets for water and sewer since the printer cannot produce one large spreadsheet. The first spreadsheet implemented is for water and sewer collections, garbage, late charges and water taps. This is now in place and a person not involved in handling the receipts reviews, and signs upon the spreadsheet, bank deposits, and deposit ledger. The second spreadsheet is for closed accounts. It contains the balance due, customer deposit, and an allocation between water and sewer charges, garbage fees, and late fees. This document would reflect whether a refund was due or if there was an outstanding balance. This second spreadsheet was implemented in July, 2002. Any Council member, the Director of Public Works, or Office Manager can review and sign off on these on a monthly basis. The Office Manager will verify that the bank and computer print-outs match.

This procedure has already been modified somewhat regarding the spreadsheets and also now provides for daily sign-offs by the Town Clerk or other authorized person. The Town will specifically address this finding during the current (2001-2002) fiscal year annual financial audit and make such additional revisions as needed. The Town Council recognizes that problems with separation of duties involve more activities than those addressed in the above-quoted procedure and it will look for and address other areas where procedural changes or compensating controls are needed.

<b>Finding No. 3:</b>	<b><i>Financial Condition</i></b>
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The Town Council has addressed separately finding numbers 7,9,14-18, and 21-23 in this response. The Town Council will develop comprehensive financial plans for the Town, including short-term and long-term financial plans. The Town Council will consider specific actions which will strengthen the Town's financial condition. The Town Council will analyze the existing rate structures for proprietary operations. Due to the age of the wastewater treatment plant and collection system a decrease in operating expenditures may not be obtainable until new facilities can be built. The Town is attempting to refinance the outstanding water and sewer bonds to reduce interest expenses. The Town Council will consider ways of increasing revenues, including rate increases. The Town Council is now receiving additional interim financial statements and it will consider and determine the type of information it needs to adequately monitor the Town's overall financial condition.

**Finding No. 4: *Budget Preparation***

The Town responded to a similar finding by the Town's auditor for the 2000-2001 fiscal year annual financial audit report as follows:

**Finding 01-01: Budgeting Contracts-General**

The auditor recommended that the Town implement a policy whereby final fund equities are included in the budget as soon as determined. The budgeted cash carry-forward amounts are by necessity estimates during the budget process. No prior auditor has recommended a budget amendment solely for the purpose of adjusting the cash carry-forward as soon as those sums are determined. It would be the policy of the Town to adjust the cash carry-forward amount in the first budget amendment adopted by the Town unless the variance was deemed substantiated.

The Town Council will require the Town's accounting firm to provide the Town with sufficient documentation to support the beginning fund equities presented in the annual budget. Budget amendments will be adopted, if necessary to accurately show available resources from beginning fund equities. The Town will ensure that all funds-including grant funds-are considered when preparing annual budgets.

**Finding No. 5: *Budget Adoption***

The Town Council feels that the Trim (Truth-In-Millage) procedure provides adequate transparency and public notice of the budget process. The Town coordinates with the Nassau County Property Appraiser's Office and the Florida Department of Revenue each year. Due to the fact that the local newspaper is a weekly publication, a dual-track ordinance adoption procedure would be difficult. The Town will seek an amendment to the Town Charter to provide for the adoption of the budget or budget amendments by resolution.

**Finding No. 6: *Budget Advertisement***

The interim financial statements now being required by the Town Council should prevent any reoccurrence of this problem. The Town Council will ensure that the adopted budget is used to control expenditures.

**Finding No. 7: *Budget Over Expenditures***

The Town Council will by ordinance establish the budgetary level of control at the department

level or sub-department level. In the future budget amendments will be adopted prior to approving any expenditures or contracting for any expenditures in excess of budgeted appropriations at the department level or sub-department level.

**Finding No. 8: *Petty Cash***

As a part of the adoption of comprehensive written policies and procedures set forth in the response to Finding No.1, the Town Council will adopt a written policy for control of the petty cash fund. This policy will include: (1) criteria for determining whether the proposed expenditure is for a public purpose; (2) a requirement that the expenditure reasonably and necessarily benefits the Town, and (3) supporting documentation.

**Finding No. 9: *Investment Earnings***

There is some concern that Section 17 of the Town Charter prohibits investments by the Town. The Town will seek an amendment to the Town Charter to allow prudent investments in accordance with the general law. The Town will then proceed to adopt and implement a written investment policy to provide additional revenue to the Town.

**Finding No. 10: *Fixed Asset Records***

The Town Council acknowledges the stated deficiencies in the Town's control of its fixed assets. For a number of years the annual audit had findings addressed to the absence of fixed asset records. Several years ago, the Town undertook to identify and record the Town's fixed assets. The undertaking probably never reached the level of control contemplated by finding No.10. Moreover, the records were never updated in a timely fashion. The Town will establish general ledger control accounts and subsidiary records supporting fixed assets valued over a threshold level specified by the Town Council. The Town will reconcile the control accounts to the subsidiary records on an annual basis. The Town will implement procedures to ensure tangible personal property records are complete. All tangible personal property valued greater than the threshold level will be tagged or marked with an identifying number. The Town Council will designate persons to ensure this property is properly marked. Changes to the property records will be made in a timely manner.

**Finding No. 11: *Tangible Personal Property Inventory***

The Town Council will require a complete physical inventory of all tangible personal property annually. An inventory will be taken in the first quarter of 2003, to assist in the preparation of proper general ledger control accounts and subsidiary records. Thereafter, an annual inventory will be conducted as close as possible to the beginning of the fiscal year. The



results of these inventories will be promptly reconciled to the Town's property records. Appropriate action will be taken with respect to any difference.

**Finding No. 12:** *Prenumbered Forms*

The Town Council will adopt a written policy requiring the use of prenumbered forms to document all cash collections. The policy will require that a record be maintained of the forms purchased. The record of the forms purchased will be required to be reconciled quarterly to the forms on hand, assigned, used or returned, and outstanding to determine whether all forms were properly accounted for.

**Finding No. 13:** *Responsibility for Collection*

The Town Council will adopt written policies and procedures to control responsibilities for collections. These procedures will include a mail log, immediate restrictive endorsements of all checks, and some method of documenting transfers of collections.

**Finding No. 14:** *Water and Sewer Connection Fees*

The Town, as noted, has refunded to customers the amounts overcharged for water and sewer connection fees disclosed by the audit. The Town Council is considering the adoption of an ordinance increasing the customer connection charges for the water and sewer system to \$600.00 for water main taps and \$600.00 for sewer main taps. The Town has a new Building Official and the Town Council will adopt written procedures prohibiting any new water or sewer taps without written certification from the bookkeeper that the connection fees have been paid. The Town will contact each homeowner identified as owing connection fees. The homeowner will be given a reasonable period of time to produce satisfactory evidence that the connection fees were paid. In the absence of such proof, the Town will require payment of such connection charges within a specified time limit or discontinue service.

**Finding No. 15:** *Water and Sewer Fees*

The Town Council will review existing procedures used for the collection of water and sewer charges. After this review, the Town will adopt written procedures—and where appropriate amend its ordinances—to address collection procedures, assessment of late charges, adjustments, and deposits. These procedures will require identification of the length of time water and sewer bills are outstanding and criteria for determining collectibility.

**Finding No. 16:** *Building Permit Fees*

The Town has a new Building Official who has the qualifications and experience to ensure that the building permit fees are properly assessed. The Town Council will work with the new Building Official to review and modify current procedures related to the assessment of building permit fees, including sufficient detail in the applications. The Town will direct the new Building Official to review the eight (8) building applications reflecting overcharges disclosed by the audit. The Town will refund any overcharges on these applications confirmed by this review. The Town Council is now receiving monthly written reports from the new Building Official on all building permit fees collected.

**Finding No. 17:** *Occupational License and Fire Inspection Fees*

The person responsible for handling occupational license fee and fire inspection fee collections, recording, and deposits during the audit period is no longer employed by the Town. This person has been ill, and inquiries would not be appropriate until well after the beginning of 2003. The Town will review and modify procedures to ensure compliance with its ordinances governing occupational licenses and fire inspections. The new procedures will include the establishment of detailed accounts receivable subsidiary records. The Town will investigate the disclosed discrepancies and take appropriate actions.

**Finding No. 18:** *Planning and Zoning/Grant Administrator's Compensation*

The Town Council acknowledges the need to exercise greater control and oversight on grants. The Town Council will negotiate the compensation to be paid on a grant-by-grant basis. The Town Council will ensure that compensation paid for administration of grants is reasonable in terms of amounts typically paid for such services and documented or chargeable to the grants. The Town will seek a written determination from the Florida Department of Community Affairs and other grantors as to whether the payments made to the former Planning and Zoning/Grant Administrator for grant administration were allowable administrative costs. As disclosed to the auditor, the Town has received a demand letter for additional compensation to the former Grant Administrator in the sum of \$92,633.00. The Town will seek a determination of the amount of overpayment to the former Planning and Zoning/Grant Administrator, the likelihood of recovery, and the estimated costs of recovery from an independent law firm with expertise in this field.

**Finding No. 19:** *Employee Pay Raises*

The Town Council will ensure that pay raises for all employees are equitably implemented.

During the budgeting process the Town Council will specifically discuss whether a pay raise represents a standard raise for all employees or a merit raise. The Town Council will adopt written policies and procedures that will designate persons to ensure that authorized pay increases are implemented properly and certify in writing that this task has been properly performed. As to the overpaid employees identified during the audit period, the Town Council will obtain a detailed written report on the compensation paid to each of the three identified employees. After consideration of these reports, the Town Council will determine the appropriate action to be taken.

**Finding No. 20: *Leave and Attendance Records***

The Town Council will review and modify its procedures to ensure that absences by employees are accurately recorded in the Town's leave and attendance records. The person who held the position of Planning and Zoning/ Grant Administrator during the audit period is no longer employed by the Town. This former employee's leave records are no longer being updated by the Town. The Town Council will review the issues related to redeeming earned vacation leave and compensation upon termination of employment for unused sick and vacation leave to determine whether the Town's ordinance was followed. The Town will also specifically review the payment to the cashier on March 7, 2002, to determine the basis, if any, for the payment.

**Finding No. 21: *Disbursement Processing***

The Town has had a purchase order system in place for several years. However, the Town accepts the findings regarding the 138 expenditures not supported by documentation of pre-approval as indicative of the inadequacy or lack of compliance with the existing policy. The Town Council will review and modify the current policy to ensure future compliance. The Town Council will designate the bookkeeper as the person responsible for the release of all checks and require that the bookkeeper ensure that all checks have two authorized check signers. The Town Council will adopt written policies and procedures to require that each purchase be supported by an invoice and that all invoices be canceled or stamped as paid after payment.

**Finding No. 22: *Town Council Approval of Purchases***

The Town Council will review Ordinance 2-O-1995 which establishes a purchasing policy for the Town. If appropriate, due to inflation or type of expenditures (water and sewer plant repairs) the monetary limits will be adjusted. The current members of the Town Council will be fully advised of the provisions of Ordinance 2-O-1995 and the need to comply with (or modify) the establish purchasing policy in the approval of all expenditures will be emphasized.

**Finding No. 23:** *Competitive Bids*

The Town will review its purchasing practices. All Town officials will be advised of the requirements for competitive bidding under general law, Town ordinances, grant regulations and good business practices. Many of the disclosed items relate to grant expenditures. Some of these items are currently being reviewed by the Florida Department of Community Affairs. The Town is seeking a technical visit from DCA to resolve the remaining open issues.

**Finding No. 24:** *Contributions to Nongovernmental Organizations*

The Town Council does not wish to amend Ordinance O-11-1988 to allow contributions to for-profit organizations at this time. The Town will carefully screen all applicants to ensure only non-profit organizations may submit requests for funding to the Town Council. Prior to making any future contributions, the Town Council will review and, if appropriate, modify Ordinance O-11-1998.

The Town Council will determine whether a resolution should be required. The Town Council will provide for written agreements, identification of a concrete public purpose, the retention of adequate control of the use of public funds, and record keeping.

**Finding No. 25:** *Inadequately Documented/Unauthorized Expenditures*

The Town Council will adopt an ordinance providing guidelines for Town expenditures to ensure that such expenditures serve a public purpose, are reasonable, and necessarily benefit the Town. The Town will review the issue of expenditure of public funds for hospitality and entertainment to determine whether specific authority in law does exist for these types of expenditures. Until such specific authority is clearly established, the Town will make no future expenditures for hospitality and entertainment.

**Finding No. 26:** *Awarding of Contracts for Services*

The Town has used the competitive selection provisions of Section 218.391(2), and 287.055(4), Florida Statutes when acquiring auditing and engineering services in the past. The Town will review the deficiencies disclosed in the audit report to identify the reasons for non-compliance with these two statutes. The Town will adopt written policies and procedures for awarding of contracts for services not governed by these statutes, current contractual relationships will be reviewed to determine the earliest time at which these relationships can be terminated so that a new competitive selection process can be used. For all new contractors written agreements will be required to document the nature of services

performed and the amount of compensation to be provided. The Town will seek adequate invoices or clarification for the instances disclosed in which invoices submitted by contractors were not in sufficient detail. The Town will determine and take appropriate action regarding overpayments or under payments.

**Finding No. 27: *Contract for Building Inspector Services***

The Town now has a new Building Official who is knowledgeable and experienced. The Town utilized a competitive selection process prior to entering into a written agreement with the new Building Official. The Town feels that all of the disclosed matters in Finding No.: 27 have now been corrected.

**Finding No. 28: *Unauthorized Gas Credit Card Expenses***

The Town Council feels that the use of a limited number of credit cards is appropriate, provided sufficient controls are in place. The Town Council will adopt written policies and procedures governing the control and use of credit cards. These policies will prohibit the usage of Town credit cards for personal purposes. All employees receiving credit cards will be required to sign a written agreement evidencing their understanding of, and agreement with, the Town's credit card policies and procedures. The Town Council will take appropriate action to recover the \$493.00 of personal credit card charges from the Town's former employee.

**Finding No. 29: *Unauthorized/Unsupported Travel Expenses***

By written policies and procedures, the Town will require adequate documentation for travel expenses claims, designate the bookkeeper to review such claims for completeness prior to submission to the Town Council, and review by the Town Council for approval.

**Finding No. 30: *Taxable Meal Allowances***

The person who previously held the position of Planning and Zoning/Grant Administrator is no longer employed by the Town. No other employees are currently receiving Class C meal allowances. The Town recognizes that such meal allowances may occur in the future. The Town will adopt written policies which will require that future Class C meal allowances be subjected to withholding and employment taxes and reported to the Internal Revenue Service. The Town will contact the Internal Revenue Service to determine what corrective action should be taken regarding the \$127.00 unreported amount.

**Finding No. 31:** *Unauthorized/Unsupported Communication Expenditure*

The Town Council will adopt written policies and procedures whereby an elected official reviews telephone billings to ensure that all calls serve a public purpose. A second elected official will review all calls, if any, made by the primary reviewer. The Town Council feels that employees should be permitted to make occasional long-distance or cellular telephone calls of a personal nature provided that the employee pays the cost of the call promptly. The Town Council will review and take appropriate action to recover from applicable Town officials and employees the amount of telephone expenditures incurred for personal use.

**Finding No. 32:** *Telecommunication Taxes*

The Town has notified the five vendors of telephone services of the Town's exempt status. The Town Council will review all future invoices to insure that no future taxes of this nature are paid. The Town will attempt to obtain refunds for exempt taxes previously paid.

**Finding No. 33:** *Vehicle Utilization Records*

The Town Council will discuss the assignment of a town-owned vehicle to the Public Works Director. The position of Planning and Zoning Administrator has been separated from the position of Grant Administrator. No town-owned vehicle is currently assigned to either the Zoning Administrator/Building Official or the Grant Administrator. The Town Council will adopt written policies and procedures requiring vehicle usage logs documenting all mileage and identifying personal use mileage and that the value of personal usage be reported to the Internal Revenue Service. The Town will contact the Internal Revenue Service to determine what corrective action should be taken regarding the unreported value of personal use of vehicles assigned to the Public Works Director and Planning and Zoning/Grant Administrator.

**Finding No. 34:** *Vehicle Maintenance*

The Town Council will adopt written policies and procedures to implement a vehicle maintenance program. This policy will designate the person responsible for vehicle maintenance in each department. This policy will also require the preparation of vehicle maintenance logs that identify preventive maintenance services and repairs, along with the dates such services are performed.

**Finding No. 35:** *Property Insurance*

The Town will review all insurance coverage on a semi-annual basis to ensure that all insurable assets are covered and associated risks are identified.

**Finding No. 36:** *Lack of Documentation of Eligibility Scoring and Ranking*

The Town has entered into a contract with a new Grant Administrator after a competitive selection process. The Town is seeking a technical assistance meeting with the Florida Department of Community Affairs to resolve this finding and other issues raised by the DCA in its review of this grant.

**Finding No. 37:** *Overpayments for House Construction*

The Town has entered into a contract with a new Grant Administrator after a competitive selection process. The Town will continue its efforts to collect the \$18,040.00 of overpayment. The inclusion of the grants into the budget and interim financial statements will help to Town Council to monitor future performance.

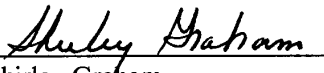
**Finding No. 38:** *Adoption of Ordinances*

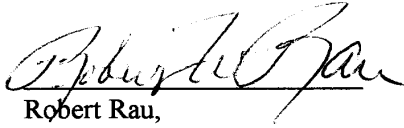
The Town acknowledges that 3-O-2000 was not properly adopted originally; but, as noted in the findings the adoption process has now been completed. The Town believes that Ordinances No. 2-O-2001 and 4-O-2001 were properly adopted. The Town will ensure that all ordinances are properly adopted in accordance with Section 166.041(a), Florida Statutes, in the future. The Town Council will establish specific written criteria and guidelines for determining when the adoption of an ordinance is deemed an emergency. The Town Council will document in the Town records the justification for each such emergency.

**Finding No.: 39:** *Conflict of Interest*

The Town will consult with the Florida Commission on Ethics to determine whether the disclosed situation represents a conflict of interest in violation of Section 112.313(3), Florida Statutes. The Town will adopt written policies and procedures to require disclosure and ensure future purchases of goods and services are not made from vendors related to Town officials.

The Town of Callahan greatly appreciates the professionalism displayed by the persons assigned to this audit by your office. If any additional information is required at this time, please contact the Honorable Shirley Graham, Mayor, at the Callahan Town Hall.

  
Shirley Graham,  
Mayor

  
Robert Rau,  
Council President