



AUDITOR GENERAL

WILLIAM O. MONROE, CPA



Town of Welaka, Florida

Operational Audit Follow-Up

SUMMARY

This report provides a detailed description of the results of our follow-up procedures for each of the findings included in audit report No. 02-027, and the Mayor's response thereto. Our follow-up procedures to determine the Town of Welaka's progress in addressing the findings and recommendations contained in audit report No. 02-027 disclosed that the Town, as of the completion of our follow-up procedures in September 2003, had adequately addressed 6 of the 21 findings included in that report. The Town had partially addressed 11 findings, and had taken no action regarding the remaining 4 findings. In responding to 13 of the 15 findings that had not been fully addressed, the Mayor stated that the finding has been adequately addressed, but did not state what corrective action was taken or did not provide additional information or documentation evidencing that the finding had been resolved.

BACKGROUND

The Auditor General is authorized by State law to perform independent financial and operational audits of governmental entities in Florida. As directed by the Legislative Auditing Committee, we conducted an operational audit of the Town of Welaka, Florida, for the period October 1, 1999, through February 28, 2001, and selected actions taken prior to October 1, 1999. Pursuant to Section 11.45(2)(k), Florida Statutes, the Auditor General, no later than 18 months after

the release of audit report No. 02-027 (issued August 31, 2001), must perform such appropriate follow-up procedures as deemed necessary to determine the Town of Welaka's progress in addressing the findings and recommendations contained within that report.

SCOPE AND OBJECTIVES

The scope of this project included selected actions and transactions taken subsequent to August 31, 2001, to determine the extent to which the Town has corrected, or is in the process of correcting, deficiencies disclosed in audit report No. 02-027.

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.

STATUS OF AUDIT REPORT NO. 02-027 FINDINGS

Finding No. 1: Prior Audit Findings

Pursuant to Section 218.39, Florida Statutes, the Town is audited annually by a certified public accounting firm. Several findings included in the Town’s annual financial audit report for the 1999-2000 fiscal year had been reported for two to four years without correction.

Recommendation: The Town Council should ensure that audit findings are addressed in a timely manner.

Status

The Town has not adequately addressed audit report No. 02-027, Finding No. 1. We noted that 6 of the 12 findings included in the Town’s 2000-2001 annual financial audit report (dated March 5, 2002) were also included in the Town’s 2001-2002 fiscal year audit report. Two of these findings, relating to inadequate separation of duties and lack of general ledger control accounts for the utility billing system, have been reported in the Town’s last six audit reports; one of the findings, failure to reconcile subsidiary utility escrow accounts to the general ledger, has been reported in the Town’s last four audit reports; and three of the findings, relating to billing summary discrepancies, failure to reconcile salary accounts to Internal Revenue Service quarterly Forms 941, and failure to reconcile utility fund physical inventory to subsidiary records, have been reported in the Town’s last three audit reports. Further, as discussed in this report, the Town, in many instances, had not adequately addressed findings and recommendations included in audit report No. 02-027.

Mayor’s Response

We feel this finding “has been” adequately addressed. In the latest audit for the fiscal year 2001-2002, (performed by auditors Davis, Monk) there were only four infractions noted, down from nine for the previous fiscal year of 2000-2001. We feel this is a significant improvement in reconciling past discrepancies. All conditions have been addressed in the last audit with the exception of condition number 1; inadequate separation of duties. We do not feel this problem will ever be completely eliminated as there are only so many ways you can separate duties with only three office employees and a limited amount of resources available for personnel, but we have made every effort to do so.

In an effort to address all findings the Town had Daniel & Associates install “Audit Trak” software (document #1) in December of 2001. Audit tracking software was developed and installed to provide a mechanism for tracking audit findings and commitments made by the Town Council. It also provides a history of audit findings from all auditing agencies, and allows assigning responsibilities for finding resolution. All audits since 1996 have been entered into the system.

The Town has worked closely with our auditors, Davis, Monk to correct all audit findings and feels that in the next audit for fiscal year 2002-2003 all past findings will have been eliminated.

Finding No. 2: Written Policies and Procedures

The Town Council had not adopted written policies and procedures for many of its accounting and other business-related functions.

Recommendation: The Town, as applicable, should adopt comprehensive written policies and procedures consistent with applicable laws, ordinances, and other guidelines. In doing so, the Town should ensure that the written policies and procedures address the

instances of noncompliance and management control deficiencies discussed in this report.

Status

The Town has not adequately addressed audit report No. 02-027, Finding No. 2.

Written policies and procedures were not available to document controls over budgets, cash, investments, fixed assets, and procurement of contractual services. Although written procedures were available to document controls over other functions, such as revenues and payroll processing, the Town Council had not, of record, adopted policies related to these functions.

Mayor’s Response

Daniel & Associates has agreed to write the office procedures for all departments, including accounting. A manual for the Utility Department and the Building Department has already been completed.

Daniel & Associates will soon begin working on a policy and procedures manual for all accounting functions. A letter from Daniel & Associates (document #2 enclosed) detailing this process has been included for your review. Davis, Monk will be provided a copy of the financial manual for examination and input. All manuals will be brought before the council for approval when complete.

Finding No. 3: Separation of Duties

The Town had not provided for an adequate separation of duties in certain areas of operations, and had not always adequately implemented certain compensating controls.

Recommendation: The Town should, to the extent practicable, 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 not possible.

Status

The Town has not adequately addressed audit report No. 02-027, Finding No. 3.

Our review of the Town’s controls related to the areas included within the scope of our prior audit disclosed that inadequate separation of duties continue to exist with respect to water and sewer collections, and other types of collections. The Town had implemented some controls to compensate for its limited staff (see Finding No. 7 for example); however, other compensating controls were lacking (see Finding No. 11 for example).

Mayor’s Response

We feel the Town has adequately addressed this finding to the best of our abilities with the resources available. We will agree to disagree. With only three employees there is only so much separation that can be done. Where we can, we did.

Finding No. 4: Budget Preparation

Contrary to Section 166.241(3), Florida Statutes, the Town did not consider all beginning fund equities available from prior fiscal years when preparing the 1999-2000 and 2000-2001 fiscal years budgets. In addition, the 1999-2000 and 2000-2001 fiscal years budgets did not include appropriations for all funds.

Recommendation: The Town, pursuant to Section 166.241(3), Florida Statutes, should consider all beginning fund equities when preparing future annual budgets, and ensure that all funds are considered when preparing future annual budgets.

Status

The Town has not adequately addressed audit report No. 02-027, Finding No. 4. Our review of the Town's procedures for preparing its 2001-2002 and 2002-2003 fiscal year budgets disclosed the following:

- Although the Town's general purpose financial statements for the 2000-2001 and 2001-2002 fiscal years showed total ending fund equities of \$154,377 and \$178,496 (excluding contributed capital), respectively, for all governmental and proprietary fund types, the Town's 2001-2002 and 2002-2003 fiscal years budgets, contrary to Section 166.241(3), Florida Statutes, did not include any beginning fund equities.
- The Town's 2001-2002 and 2002-2003 fiscal years budgets included lump sum revenue and expenditure appropriations for anticipated revenues and expenditures related to Federal and State grants (actual revenues from grants reported on the Town's audited general purpose financial statements totaled \$381,442 for the 2001-2002 fiscal year). However, such appropriations were shown as line items for the General Fund rather than being presented separately for the Special Revenue Funds, and detailed breakdowns of budgeted revenues and expenditures for the Special Revenues Funds were not shown in the same manner as for other funds. Further, although requested, we were not provided with documentation demonstrating how the amounts budgeted for Special Revenue Funds were determined.

- Although amounts received from donations and/or fund-raising events, of record, for the Town's 2001-2002 and 2002-2003 fiscal years were not significant, the budgets for those years did not include appropriations for such items.

Mayor's Response

The Town has made every effort to comply with all budget requirements. It has not been brought to our attention (by our auditors) in the past that the Town has not complied with any budget requirements. If there needs to be changes in the budget preparation then Davis, Monk will become more involved in the budget process. We rely on them to keep us informed concerning all financial matters, as we are not accountants.

Finding No. 5: Budget Adoption

The Town, in adopting the 1999-2000 fiscal year budget ordinance, did not of record comply with the notice requirements prescribed by Section 166.041(3)(a), Florida Statutes.

Recommendation: The Town Council, in the future, should ensure that budget ordinances are noticed in accordance with Section 166.041(3)(a), Florida Statutes, and maintain documentation evidencing such notices.

Status

The Town has adequately addressed audit report No. 02-027, Finding No. 5. Our review of the Town's procedures for adopting the 2001-2002 and 2002-2003 fiscal years budgets disclosed that budget ordinances were noticed in accordance with Section 166.041(3)(a), Florida Statutes.

Mayor's Response

Finding resolved.

Finding No. 6: Budget Overexpenditures

Contrary to Section 166.241(3), Florida Statutes, actual 1999-2000 fiscal year expenditures and other financing uses exceeded amounts budgeted for certain expenditure object categories for the General Fund and in total for the Utility (Water and Sewer) Fund.

Recommendation: Although the Town had available resources for the 1999-2000 fiscal year to offset the above-noted overexpenditures, the Town, in accordance with Section 166.241(3), Florida Statutes, should ensure that future expenditures do not exceed budgetary authority.

Status

The Town has adequately addressed audit report No. 02-027, Finding No. 6. The Town Council, in adopting the 2001-2002 fiscal year budget, established the legal level of budgetary control at the fund level and, as shown on the Town's audited general purpose financial statements for the 2001-2002 fiscal year. Total actual expenditures/expenses and other financing uses did not exceed budgeted amounts at the fund level for the General and Utility funds.

Mayor's Response

Finding resolved.

Finding No. 7: Bank Reconciliations

The Town's 1999-2000 annual financial audit report, dated February 26, 2001, indicated that bank reconciliations had not been prepared since August 2000, and recommended that all bank accounts be reconciled monthly and reviewed by someone in authority. The Town's bank reconciliation procedures for the General and Utility Funds operating bank accounts were not

sufficient to ensure that bank accounts were adequately and promptly reconciled.

Recommendation: The Town should ensure that the recommendations included in the Town's annual financial report (i.e., that all bank accounts be reconciled monthly and reviewed by someone in authority) are implemented. Additionally, the Town's bank reconciliation procedures should be enhanced to ensure that reconciling items are promptly resolved and prompt adjustments made to the accounting records to correct check information discrepancies.

Status

The Town has adequately addressed audit report No. 02-027, Finding No. 7. Our review disclosed that current bank reconciliations were timely and accurate, and did not disclose any check information discrepancies.

Mayor's Response

Finding resolved.

Finding No. 8: Stale-Dated Checks

Contrary to Sections 717.117 and 717.119, Florida Statutes, checks written by the Town that had been outstanding for over a year and constituting unclaimed property as defined by Sections 717.113 and 717.115, Florida Statutes, had not been reported or remitted to the Florida Department of Financial Services (formerly the Department of Banking and Finance).

Recommendation: The Town should take appropriate action to file the required report and deliver any unclaimed moneys to the Florida Department of Financial Services (FDPS).

Status

The Town has not addressed audit report No. 02-027, Finding No. 8. The Town did not report or remit to FDFS the amounts related to checks outstanding in excess of one year as of December 31, 1999, as cited in audit report No. 02-027. We determined that some of these checks were voided because they were duplicate payments. However, contrary to Sections 717.117 and 717.119, Florida Statutes, \$982 of payroll and other expenditure checks for the Town that had been outstanding in excess of one year as of December 31, 2002 (this includes most of the checks cited in audit report No. 02-027), and which constitute unclaimed property as contemplated by Chapter 717, Florida Statutes, were not reported and remitted to the FDFS by May 1, 2003. Pursuant to Section 717.117(3), Florida Statutes, the Town may be subject to as much as \$500 in penalties for failing to timely report unclaimed property to the FDFS.

Mayor's Response

We feel the Town has adequately addressed report No. 02-027, Finding No. 8. It has been determined that the outstanding checks mentioned by the Auditor General for \$982 should never have been written; as such they would not be considered unclaimed property.

Finding No. 9: Certificates of Deposit

During the 1999-2000 fiscal year, the Town invested significant amounts of surplus moneys in certificates of deposit. Additional interest could have been earned had the excess moneys been invested through the Florida State Board of Administration (SBA), and the Town may have been able to avoid short-term borrowings.

Recommendation: The Town should review its investment practices and, when appropriate, make investments through the SBA or in other authorized investments offering competitive returns consistent with safety and liquidity requirements. If necessary, and given the subsequent enactment of Section 218.415, Florida Statutes, as well as the development of new investment products since 1947, the Town should adopt an ordinance amending Section 37 of Chapter 24975, Laws of Florida (1947), so as to permit the Town greater flexibility in making investments.

Status

The Town has not adequately addressed audit report No. 02-027, Finding No. 9. Our review of the Town's investment practices during the period September 2001 through March 2003 disclosed that the Town primarily invested surplus moneys in certificates of deposit and could not have earned additional interest through investments with the SBA. However, the Town Council had not, of record, adopted an ordinance amending Section 37 of Chapter 24975, Laws of Florida (1947), so as to permit the Town greater flexibility in making investments.

Mayor's Response

The Town has adequately addressed report No. 02-027, Finding No. 9. It has been determined (and the Auditor General's Office agreed) that the Town would not have earned any more money with other investments than the certificate of deposits that were purchased. The Town Council feels that certificate of deposits were and are the safest form of investment and plans on continuing investing in this manner in the future.

Finding No. 10: Restricted Funds

Contrary to the Florida Department of Financial Services' (FDFS) *Uniform Accounting System Manual*

(Manual), which establishes financial accounting and reporting requirements for all units of local government pursuant to Section 218.33(2), Florida Statutes, the Town did not maintain separate accountability for the use of certain restricted revenue sources through the use of special revenue funds.

Recommendation: The Town should ensure that all transactions related to restricted revenues are recorded in the accounting records, and establish accountability for each restricted revenue source through the use of separate special revenue funds in accordance with the FDFS Manual. To the extent practical, the Town should review balances on hand and recent transactions to ensure that all restricted moneys have been used for authorized purposes.

Status

The Town has not adequately addressed audit report No. 02-027, Finding No. 10.

During the 2001-2002 fiscal year, the Town received several types of revenues that were legally restricted to expenditure for specified purposes. These included several Federal or State grants that were separately accounted for in a special revenue fund. However, contrary to the FDFS Manual, the Town did not use a special revenue fund to separately account for local option motor fuel taxes (\$17,344) received pursuant to Section 336.025, Florida Statutes, which may be used only for specific transportation expenditures as defined by Section 336.025(7), Florida Statutes.

Mayor's Response

The Town has adequately addressed report No. 02-027, Finding No. 10. The Town budgets all revenue and grants separately on each line item of the budget and it is accounted for separately in our accounting system with each

having its own chart of accounts general ledger number, as approved by our auditor, Davis, Monk.

Finding No. 11: Prenumbered Forms

Our audit disclosed deficiencies in management controls relating to accountability for, and safeguarding of, forms used to document collections and other transactions affecting cash resources.

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. The forms should be adequately safeguarded, and access to such forms restricted to only those employees whose duties require such access.

Status

The Town has not adequately addressed audit report No. 02-027, Finding No. 11. Our review of the Town's current procedures relating to accountability and control over prenumbered forms disclosed the following deficiencies:

- The Town did not maintain a record to account for prenumbered building permits and occupational licenses purchased, assigned, used, and unused.
- Most collections are currently documented through a computer-generated sequentially numbered receipt. However, we observed that unused prenumbered receipts, building permits, and occupational licenses were kept in Town Hall in a location that was generally

accessible by several Town employees/officials.

Mayor's Response

We feel the Town has adequately addressed Report No. 02-027, Finding 11 for the following reasons:

- *The Assistant Town Clerk enters all money collected for building permits, occupational licenses, and copies into a receipts database when the money is received. She also keeps a spreadsheet for her records to account for all permits. A copy has been supplied for your review. The money and a copy of the paperwork is given to the Town Clerk where it is deposited in the bank and entered into the accounting records.*
- *At the end of the month the receipts report is generated by the Town Clerk and checked to make sure that all money received was deposited. We feel there is accountability in this process.*
- *We feel the building and occupational license forms are secure for two reasons. The forms are kept in a locked file cabinet with the key being in a locked box on the wall. Also, the door coming into the office can only be entered by someone inside the office who presses a buzzer to allow entry. We have done everything short of hiring a security guard to watch the cabinet.*

Finding No. 12: Responsibility for Collections

Collections received through the mail were not documented at the initial point of collection, and checks were not immediately restrictively endorsed. In addition, collections were transferred between employees without the use of a transfer document.

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 among employees. All checks should be restrictively endorsed immediately upon receipt.

Status

The Town has not adequately addressed audit report No. 02-027, Finding No. 12. Our review of the Town's current controls over collections disclosed that responsibility for collections received through the mail, and transferred between Town personnel, was not documented from time of collection to subsequent deposit. Although utility payment checks received in person are immediately restrictively endorsed upon receipt, other checks received in person are not.

Mayor's Response

We feel the Town has adequately addressed report No. 02-027, Finding No. 12. We do not feel that the Town has the necessary resources to hire another office person in an attempt to track everything received at Town Hall. "All" checks are endorsed as soon as they are received into the office and then deposited in the bank or kept in the safe.

Finding No. 13: Deposit of Collections

The Town had not established adequate controls to ensure that amounts collected were recorded in the accounting records and deposited intact in a timely manner. Our tests disclosed instances where amounts collected were not, of record, posted to the accounting records and/or deposited.

Recommendation: The Town should enhance its procedures to ensure that amounts collected are timely recorded in the accounting records and deposited intact. This should include discontinuing the

practice of replenishing petty cash with amounts collected, and maintaining sufficiently detailed documentation clearly evidencing that each payment received is recorded in the accounting records and deposited. Also, the Town should investigate the discrepancies disclosed by our audit, details of which were provided to the Mayor, and take appropriate action based on their findings.

Status

The Town has adequately addressed audit report No. 02-027, Finding No. 13. Our test of collections for the period October 2002 through March 2003 disclosed that collections were generally recorded and deposited in a timely manner, and the Town discontinued the use of a petty cash fund. The Town conducted an investigation regarding the \$1,631 of collections that were reported in audit report No. 02-027 as not being recorded or deposited, and provided us documentation evidencing that \$1,454 of this amount was recorded and deposited.

Mayor's Response

None.

Finding No. 14: Water and Sewer Services

The Town had not established adequate controls to ensure the timely collection of amounts due from a local camp resort for lots sold pursuant to a written agreement related to the Town's providing of water and sewer services to the camp resort. We determined that as of April 2001, the camp resort owed the Town \$4,550 for lots sold since the inception of the agreement in May 1994.

Recommendation: The Town, in consultation with its legal counsel, should take appropriate actions to compel the camp resort to pay the amount due. The Town

should also establish procedures that require periodic assessments (at least annually) of amounts due to the Town for lots sold by the camp resort and notification to the camp resort thereof.

Status

The Town has not addressed audit report No. 02-027, Finding No. 14. In July 2000, the camp resort was sold to new owners. The Town did not take appropriate action to collect amounts due from the former camp resort owner, as follows:

- The Town did not, of record, modify the agreement with the former camp resort owner to authorize such owner to pass the obligation on to the new owner, or enter into an agreement with the new owner regarding amounts due to the Town for lots sold subsequent to the sale of the camp resort in July 2000. Consequently, it is not clear whether the former camp resort owner, in addition to the \$4,550 due to the Town for lots sold prior to July 2000, owes the Town for the remaining lots sold to the new owner in July 2000. We were advised that records indicating how many lots were sold to the new owner in July 2000 were not available. However, based on the number of camp sites available to be sold as indicated in the May 1994 written agreement between the Town and the former owner (which was extended for five years in February 1999), and the number of lots sold prior to the change in ownership, we estimate that the former owner may owe the Town an additional \$25,350 for the lots acquired by the new owner if the acquisition of

these lots constituted a sale for purposes of the May 1994 agreement.

- The Town did not, of record, subsequent to the release of audit report No. 02-027, attempt to contact the former owner, initiate litigation, or otherwise take action to determine what amounts were owed the Town by the former owner and to collect such amounts.
- The Town collected \$900 from the new owners related to nine lots sold by the new owners after July 2000; however, the basis for the Town to have collected such amounts is unclear since the Town did not enter into a new agreement with the new owner evidencing that the new owner had agreed to be bound by the provisions of the Town's agreement with the former owner.

Mayor's Response

We feel the Town has adequately addressed report 02-027, Finding No. 14. Income continues to be received from the resorts current owners. The Town Council continues to seek remuneration from previous lots. The Town feels that the Auditor General's interpretation of contracts does not coincide with that of the Town on that of the original contract.

Finding No. 15: Fire Inspection Fees

The Town had not established adequate controls to ensure that annual fire safety inspections were performed for all of the Town's existing commercial buildings and new construction projects in accordance with Ordinance 97-34, and that all fees assessed were collected in accordance with Resolution 97-35R. Our tests disclosed that the Town's records did not adequately support the basis for fire safety inspection fees assessed

and also disclosed numerous inconsistencies between fees assessed and fees authorized to be assessed. Further, the Town did not take action to compel 22 businesses to pay delinquent fire safety inspection fees totaling \$715.

Recommendation: The Town should review and modify, as appropriate, its fire safety inspection procedures to ensure that inspections are performed as required, fees are assessed and collected in accordance with Resolution 97-35R, and sufficiently detailed documentation is maintained clearly evidencing the basis for fees assessed. Also, the Town Council should consider modifying Resolution 97-35R to provide consequences for failure to pay such fees. In addition, the Town should investigate the discrepancies disclosed by our audit, details of which were provided to the Mayor, and take appropriate action to remedy over or under assessments of fees.

Status

The Town has not addressed audit report No. 02-027, Finding No. 15. The Town, contrary to Ordinance 97-34, has not provided for fire safety inspections since August 31, 2001. We were advised that the Town has been unable to hire a fire safety inspector to conduct the inspections since the former inspector terminated his contractual relationship with the Town. However, although requested, we were not provided with documentation evidencing that the Town had taken appropriate action to procure such services, such as advertising the need for fire safety inspection services, sending solicitations to potential inspectors, or contacting the State Fire Marshal or certified fire inspector organizations to obtain names of potential inspectors. Subsequent to our inquiry, the Town Council, at its August 12, 2003, meeting, approved a motion to advertise

the Town's need for a qualified fire safety inspector. The Town Council did not modify Resolution 97-35R to provide consequences for failure to pay fire safety inspection fees, and did not take action to collect the \$715 of delinquent fire safety inspection fees.

Mayor's Response

The Town has adequately addressed report No. 02-027, Finding No. 15. The Town has contracted fire inspection services for the Town through LW&A (document #3 enclosed) as of October 7, 2003. The Code Enforcement Board has the authority to enforce payment of fire inspection fees.

Finding No. 16: Council Members' Compensation

Increases in Town Council members' compensation pursuant to budgets adopted by Ordinances 96-3 and 98-13 may have been contrary to law and, as a result, Council members may have been overpaid \$33,900 during the period October 1996 through February 2001.

Recommendation: The Town Council should ensure that future increases in Council members' compensation are specifically addressed by properly noticed ordinances in the manner prescribed by Section 166.041, Florida Statutes. The Town Council should also consult with legal counsel regarding any actions that should be taken relating to compensation paid in excess of that authorized by Ordinance 89-8.

Status

The Town has adequately addressed audit report No. 02-027, Finding No. 16. The Town Council, in the manner required by Section 166.041(2), Florida Statutes, adopted Ordinance 2001-12, which ratified and reaffirmed increases

in Town Council members compensation provided by Ordinances 96-3 and 98-13.

Mayor's Response

None.

Finding No. 17: Hiring Practices

The Town had not established adequate controls to ensure that only qualified applicants were hired. Our tests disclosed several instances of noncompliance with Resolution 94-2B, which establishes requirements for hiring new employees.

Recommendation: The Town should review and modify its procedures for hiring new employees to ensure compliance with Resolution 94-2B.

Status

The Town has not adequately addressed audit report No. 02-027, Finding No. 17. In October 2001, the Town Council adopted Resolution 2001-16R, which established additional requirements relating to the hiring of new employees. Our test of new hires during the period September 2001 through March 2003 disclosed that the hirings appeared to be consistent with Resolutions 94-2B and 2001-16R. However, we noted that for two of the new hires tested, which involved full-time positions, there was nothing of record demonstrating that the Town contacted previous employers or otherwise verified that the new hires had sufficient work or educational experience required for the positions for which they were hired.

Mayor's Response

The Town feels it has adequately addressed report No. 02-027, Finding No. 17. Council member Alfred Johnson has been responsible for all functions of the hiring process

for new employees. He has interviewed, checked references, and qualifications of each applicant, with the Police Chief doing a background check on each person hired.

Finding No. 18: Awarding of Contracts for Services

Contrary to law and good business practices, the Town acquired certain professional services without using a competitive selection process and, in some instances, without benefit of formal written agreements. In addition, invoices submitted by contractors for financial services were not in sufficient detail to allow a determination as to whether fees charged were appropriate, and some fees charged appeared to be inconsistent with those agreed upon.

Recommendation: The Town should comply with the competitive selection provisions of Section 11.45(3)(a), Florida Statutes (2000), when acquiring auditing services for the Town. As a matter of good business practice and/or as required by State law, the Town should award contracts for professional services only after using a competitive selection process and enter into written agreements with selected contractors to document the nature of the services to be performed and the amount of compensation to be provided. The Town, for those instances identified in which invoices submitted by contractors were not in sufficient detail or included fees that were inconsistent with those previously agreed upon, should obtain adequate invoices and/or clarification and take appropriate action regarding any overpayments or underpayments that are identified.

Status

The Town has not adequately addressed audit report No. 02-027, Finding No. 18. Our review of the Town's acquisition and payment for

selected professional services for the period September 2001 through March 2003 disclosed several deficiencies as discussed below.

Auditing and Nonauditing Services. The Town did not comply with State law or good business practices in acquiring and paying for auditing and nonauditing services, as follows:

- Contrary to Section 218.391(2) (formerly Section 11.45(3)(a)6.), Florida Statutes, the Town still did not, of record, establish an auditor selection committee and auditor selection procedures regarding the Town's required annual audit.
- The Town's actual procedures for procuring an auditor for the 2001-2002 fiscal year audit included advertising in a newspaper in Gainesville (the same city in which the audit firm that the Town has used for several years is located) its intent to receive requests for proposals for auditing services. The Town's procedures for acquiring auditing services were not adequate to ensure that it received proposals from all qualified firms because the Town did not advertise in other surrounding cities, such as Daytona Beach, Jacksonville, Ocala, and Palatka, or attempt to contact audit firms doing business in such cities. In addition, the advertisement was published for only one day.
- The Town has also used the above-noted audit firm to provide nonauditing services for several years, and the Town Council, at its October 8, 2002, meeting, approved the continued use of the firm for such services. Although requested, we were not provided with documentation

evidencing that the Town used a competitive selection process prior to selecting the firm to provide the nonauditing services.

- In audit report No. 02-027, we noted that payments to the firm for auditing and nonauditing services rendered during the period October 1999 through February 2001, totaling \$14,238, were not supported by adequately detailed invoices from the firm, including payments totaling \$7,351 for which no invoices were available. We also reported that the firm was paid \$150 more than the amount shown as payable on an invoice. The Town subsequently obtained invoices supporting the \$7,351; however, \$9,382 of the \$14,238 is still not supported by adequately detailed invoices. Also, the Town did not, of record, recover the \$150 overpayment from the firm. In addition, \$17,556 of payments to the firm during the period September 2001 through March 2003 were not supported by sufficiently detailed invoices. In response to our inquiry, we were advised that the audit firm was charging the Town a flat fee of \$9,200 for the 2001-2002 fiscal year audit; however, this is not consistent with the written agreement between the Town and the audit firm, which states that fees for services “will be based on the actual time spent at our standard hourly rates, plus travel and other out-of-pocket costs...” and provides that total audit fees (excluding fees related to the audit of Federal and State financial assistance received by the Town) shall not exceed \$9,200.

Legal Services. The Town did not comply with good business practices in contracting for legal services, as follows:

- The Town continued to use the same law firm selected in 1996 without benefit of a documented competitive selection process.
- The Town continued to make payments to the law firm (\$52,825 during the period September 2001 through March 2003) without benefit of a written agreement specifying the nature of the services to be provided. Payments for out-of-pocket expenses totaling \$3,486 were not supported by documentation evidencing that these costs were actually incurred by the firm on behalf of the Town.
- In audit report No. 02-027, we noted, regarding payments to the firm for services rendered during the period October 1999 through February 2001, that the firm was overpaid \$179.50. The Town did not, of record, recover the overpayment from the firm.

Computer Networking Services. Although audit report No. 02-027 did not include findings specifically related to computer networking services, our follow-up procedures disclosed that the Town did not comply with good business practices in contracting for such services, as follows:

- The Town Council, at its October 9, 2001, meeting, approved the use of a firm to provide computer networking services. The minutes for that meeting indicate that three other firms had expressed interest in providing the services; however, although requested, we were not provided with

documentation evidencing that the Town used a competitive selection process prior to selecting the firm to provide these services.

- Payments to the firm during the period September 2001 through March 2003 included \$15,460 for what appeared to be reimbursements to the firm for computer equipment it purchased for the Town from other vendors. It was not clear from the Town's written agreement with the firm that the firm was contracted with to provide the Town with computer equipment in this manner. Further, although requested, we were not provided with documentation (e.g., invoices from the other vendors) evidencing the actual cost incurred by the firm to purchase the computer equipment.

Mayor's Response

The Town has adequately addressed the Auditor General's report 02-027, Finding No. 18. Compliance has been met as to the intent of the law. When auditing contracts were reviewed proper advertising was met and responses from Broward and Hillsborough County verify that the letter of the law was met. Also, all Davis, Monk invoices in question were given to the auditors and we feel they were in sufficient detail.

Legal services when readdressed will be handled accordingly. Current Council was fully satisfied in records of March, April, May, of 1996.

Networking services were properly handled and upon next review will be considered under the proper procedures as intended.

Finding No. 19: Public Records Retention

During the course of our audit, the Town was unable to provide certain public records, including

bank statements or other financial records evidencing the existence of certificates of deposit, a bank promissory note, and a loan agreement with the United States Department of Agriculture (USDA). Town personnel were unable to provide explanations for the missing public records and there was nothing, of record, to indicate that the records were disposed of in accordance with a disposal program established pursuant to Section 119.01(4), Florida Statutes.

Recommendation: The Town should contact the bank and USDA to obtain the requested records. In addition, the Town should exercise greater care in maintaining public records as required by Chapter 119, Florida Statutes, and should establish a program for disposal of public records in accordance with Section 119.01(4), Florida Statutes.

Status

The Town has not adequately addressed audit report No. 02-027, Finding No. 19.

During the course of our follow up procedures, we generally were provided with available Town records as requested. However, the Town Council did not, of record, obtain from the bank and the USDA the documents we requested as noted in audit report No. 02-027. The Town, pursuant to Section 119.01(4), Florida Statutes, established a program for disposal of public records.

Mayor's Response

The Town feels it has adequately addressed report No. 02-027, Finding No. 19. We have accounted for every certificate of deposit purchased by the Town and comply with all requirements as set forth by the terms of the utility loan with Rural Development. The Auditors were supplied with the information they needed to investigate this finding.

The Town followed the directions on the State web site in the disposal of records that did not need to be kept.

Finding No. 20: Public Records Copy Fees

The Town, for a public records request that required extensive effort by Town personnel, did not demonstrate that related charges were calculated in accordance with Section 119.07(1)(b), Florida Statutes, and the Town's Public Records Ordinance, and has been unable to recover costs associated with the request. Also, the Town's Public Records Ordinance may not be consistent with State law.

Recommendation: The Town should establish procedures to ensure, for future public record requests, that charges are properly assessed in accordance with Section 119.07(1)(b), Florida Statutes, and Public Records Ordinance 98-5. The Town should also seek legal clarification from the Attorney General as to the legality of its Public Records Ordinance regarding special service charge provisions and, if appropriate based on such clarification, should amend Ordinance 98-5 accordingly.

Status

The Town has not addressed audit report No. 02-027, Finding No. 20. The Town did not obtain legal clarification from the Attorney General as to the legality of its Public Records Ordinance 98-5 regarding special service charge provisions, and has not amended Ordinance 98-5.

Mayor's Response

We feel the Town has adequately addressed report 02-027, Finding No. 20. The Town continues to stand firm that Ordinance 98-5 meets and complies with Section 119.07(1)(b).

Legal clarification from the Attorney General is the responsibility of the party contesting said ordinance and not the responsibility of the municipality.

Finding No. 21: Sunshine Law

Contrary to Section 286.011, Florida Statutes (i.e., the Sunshine Law), minutes of the meetings of the budget committee, which made recommendations to the Town Council regarding the preparation of the Town's annual budgets, were not recorded.

Recommendation: To comply with the Sunshine Law, minutes should be promptly recorded for meetings of any committees that have the authority to make recommendations to the Town Council affecting official Town business.

Status

The Town has adequately addressed audit report No. 02-027, Finding No. 21. Meetings were advertised, and minutes kept, for committee meetings held during the period September 2001 through March 2003.

Mayor's Response

Finding resolved.

AUTHORITY

Pursuant to the provisions of Section 11.45(2)(k), Florida Statutes, I have directed that this report be prepared to present the results of our follow-up procedures regarding findings and recommendations included in audit report No. 02-027 – operational audit of the Town of Welaka, Florida, for the period October 1, 1999, through February 28, 2001, and selected actions taken prior to October 1, 1999.

MAYOR'S RESPONSE

The Mayor of the Town of Welaka, in a letter dated October 17, 2003, provided his response to our findings. Excerpts from the Mayor's response are included under the applicable findings above. The Mayor's response, in its entirety, together with attachments provided by the Mayor, may be viewed on the Auditor General's Web site.

The Auditor General is provided for by the State Constitution and is appointed by the Legislature to audit public records and perform related duties. The Auditor General is the instrument by which accountability of government is reported to the Legislature and the citizens of the State of Florida. To promote accountability in government and improvement in government operations, the Auditor General makes audits of State agencies and local governments, and conducts special audits and other engagements as directed by the Legislature. This project was conducted by Sonya Findley, CPA, and supervised by Ted J. Sauerbeck, CPA. Please address inquiries regarding this report to James M. Dwyer, CPA, Audit Manager, via E-mail at jimdwyer@aud.state.fl.us or by telephone at **(850) 487-9031**.

This report, as well as other audit reports prepared by the Auditor General, can be obtained on our Web site (<http://www.state.fl.us/audgen>); by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.