



AUDITOR GENERAL

WILLIAM O. MONROE, CPA



TOWN OF EATONVILLE, FLORIDA

Operational Audit

For the Period October 1, 2001, Through March 31, 2003,
And Selected Actions Taken Prior and Subsequent Thereto

TOWN OF EATONVILLE, FLORIDA

TABLE OF CONTENTS

	PAGE NO.
ABSTRACT	1
SCOPE, OBJECTIVES, AND METHODOLOGY	1
SUMMARY OF FINDINGS	3
FINDINGS AND RECOMMENDATIONS	11
GENERAL MANAGEMENT CONTROLS.....	11
<i>Prior Audit Findings</i>	11
<i>Written Policies and Procedures</i>	11
<i>Separation of Duties</i>	12
<i>Financial Audits</i>	13
<i>Financial Emergency</i>	14
<i>Financial Condition</i>	15
BUDGETARY CONTROLS	17
<i>Budget Preparation</i>	17
<i>Budget Adoption</i>	18
<i>Budget Overexpenditures</i>	18
<i>Truth in Millage Reporting</i>	19
CASH.....	20
<i>Petty Cash</i>	20
<i>Bank Reconciliations</i>	20
<i>Check Signing</i>	21
<i>Electronic Transfer of Funds</i>	22
INVESTMENTS.....	22
<i>Authorized Investments</i>	22
<i>Investment Earnings</i>	23
FIXED ASSETS.....	24
<i>Tangible Personal Property</i>	24
<i>Purchase of Town Hall Building</i>	25
LONG-TERM DEBT	26
<i>Capital Project Financing</i>	26
<i>Debt-Related Reporting and Reserve Requirements</i>	27
RESTRICTED RESOURCES	29
<i>Accountability for Restricted Resources</i>	29
<i>Local Option and Municipal Fuel Taxes</i>	30
<i>Financial Reporting of Fund Equity – Restricted Resources</i>	31
CONTRACTS AND GRANTS.....	32
<i>Construction Contract Grants</i>	32
<i>Summer Food Program</i>	33
<i>Post Office</i>	34
<i>Developer’s Escrow Account Agreement</i>	35
REVENUES AND OTHER RECEIPTS.....	36
<i>Prenumbered Receipts</i>	36
<i>Water and Sewer Services</i>	36
<i>Utility Receivables</i>	37
<i>Denton Johnson Center</i>	37
<i>Code Enforcement Fines</i>	38
<i>Building Permit Fees</i>	39
<i>Pledged Donations</i>	39

TOWN OF EATONVILLE, FLORIDA

TABLE OF CONTENTS (Continued)

	PAGE NO.
PERSONNEL AND PAYROLL ADMINISTRATION.....	41
<i>Job Descriptions</i>	41
<i>Hiring Practices</i>	41
<i>Personnel Evaluations</i>	42
<i>Compensation Plan</i>	42
<i>Employee Pay Raises</i>	43
<i>Overtime Payments and Compensatory Leave</i>	43
<i>Employee Leave</i>	44
<i>Employee Compensation</i>	45
<i>Council Member Compensation</i>	46
<i>Taxable Compensation</i>	47
<i>General Employee Pension Fund</i>	48
<i>Police Officers' Pension Fund</i>	49
PROCUREMENT OF GOODS AND SERVICES.....	49
<i>Disbursement Processing</i>	50
<i>Unauthorized Expenditures</i>	51
<i>Installment Purchases</i>	51
<i>Competitive Selection Process</i>	52
CONTRACTUAL SERVICES.....	53
<i>Written Agreements</i>	53
<i>Police Dispatch Services</i>	54
<i>Grant Administration Services</i>	54
<i>Building Inspector Services</i>	55
<i>Contract for Fire and Emergency Services</i>	55
<i>Advance Payments to Contractors</i>	57
TRAVEL EXPENSES	58
<i>Travel Policies</i>	58
<i>Travel Reimbursements</i>	59
<i>Travel Allowances</i>	60
COMMUNICATION EXPENSES.....	61
<i>Cellular Telephones</i>	61
<i>Telecommunication Taxes</i>	62
<i>Telephone Lines</i>	63
VEHICLE MAINTENANCE AND USAGE.....	63
<i>Vehicle Maintenance</i>	63
<i>Gas Credit Cards</i>	64
<i>Full-Time Use of Town Vehicles</i>	64
RISK MANAGEMENT	65
<i>Insurance Bids</i>	65
<i>Automobile and Property Insurance</i>	66
<i>Retiree Insurance</i>	67
COMMUNITY REDEVELOPMENT AGENCY.....	67
<i>CRA Funding</i>	68
<i>CRA Interlocal Agreement</i>	69
<i>CRA Trust Fund Expenditures</i>	70
<i>CRA Creating and Amending Documents</i>	72
<i>CRA Budgets</i>	73
<i>CRA Audit Reports</i>	73

TOWN OF EATONVILLE, FLORIDA

TABLE OF CONTENTS (Continued)

	PAGE NO.
OTHER MATTERS.....	74
<i>Voluntary Property Annexation</i>	74
<i>Conflict of Interest</i>	76
<i>Public Records Retention</i>	77
<i>Council Minutes</i>	78
<i>Amended Town Charter</i>	78
AUTHORITY	79
APPENDIX A – BACKGROUND	80
APPENDIX B – UNFAVORABLY RATED FINANCIAL INDICATORS	82

ABSTRACT

***OPERATIONAL AUDIT OF THE TOWN OF EATONVILLE, FLORIDA
FOR THE PERIOD OCTOBER 1, 2001, THROUGH MARCH 31, 2003,
AND SELECTED ACTIONS TAKEN PRIOR AND SUBSEQUENT THERETO***

This abstract highlights the Findings of audit report No. 2004-178. 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 audits of governmental entities in Florida. Pursuant to Section 11.45(2)(a), Florida Statutes, the Legislative Auditing Committee, at its March 3, 2003, meeting, directed us to conduct an audit of the Town of Eatonville. Allegations that prompted the request relate to financial reporting, accounting records, financial condition, budgets, cash controls, fixed assets, debt administration, grant administration, revenues, personnel and payroll administration, and procurement procedures.

The scope of this audit included transactions during the period October 1, 2001, through March 31, 2003, 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 by specific allegations. Our purpose in obtaining an understanding of management controls and making judgments with regard thereto was to determine the nature, timing, and extent of substantive audit tests and procedures to be performed.
- 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 Eatonville, Florida, for the period October 1, 2001, through March 31, 2003, and selected actions taken prior and subsequent thereto.

GENERAL MANAGEMENT CONTROLS

Finding No. 1: Several finding included in the Town's 2000-2001 fiscal year annual financial audit report had been reported for several years without correction.

Finding No. 2: The Town had not established written policies and procedures necessary to assure the efficient and consistent conduct of accounting and other business-related functions and the proper safeguarding of assets. In addition, the Town has experienced a significant amount of employee turnover in key management positions, which weakened the Town's control environment and ability to provide consistent application of its policies and procedures.

Finding No. 3: The Town had not provided for an adequate separation of duties, or established adequate compensation controls, in certain areas of its business operations.

Finding No. 4: Contrary to law, the Town's 1999-2000 and 2000-2001 fiscal year audits were not completed, and copies of the audit reports filed with us until February 18, 2002, and June 30, 2003, respectively. In addition, as of February 2004, the 2001-2002 fiscal year audit was not complete.

Finding No. 5: The Town, for the 2000-2001 fiscal year, appears to have met the financial emergency condition specified in Section 218.503(1)(b)2.b., Florida Statutes, in that it failed to make contributions for an employee retirement plan due to lack of funds.

Finding No. 6: The Town's overall financial condition is showing signs of deterioration. 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, timely completion of financial audits, and interim financial statements.

BUDGETARY CONTROLS

Finding No. 7: Contrary to Section 166.241(3), Florida Statutes, the Town's 2001-2002 through 2003-2004 fiscal year budgets did not consider the effect of beginning fund equities available from prior years, and did not include appropriations for some funds and expenditures. Also, the individual 2001-2002 fiscal year budgets for the General and Enterprise Funds were not balanced.

Finding No. 8: Contrary to the Town's Charter, the Town's budgets were not timely adopted for the 2000-2001, 2001-2002, and 2003-2004 fiscal years. Budgets for those fiscal years were adopted from 14 to 22 days after the Charter deadline, which is the third Monday of September of each fiscal year.

Finding No. 9: Contrary to Section 166.241(3), Florida Statutes, actual 1999-2000 fiscal year expenditures exceeded amounts budgeted by \$2,498,977 in the General Fund for the 1999-2000 fiscal year, and by \$122,479 in the Enterprise Funds for the 2000-2001 fiscal year. In addition, our review of the Town's accounting records disclosed six cost center budget overexpenditures totaling \$98,500 in the General Fund for the 2001-2002 fiscal year.

<p>Finding No. 10: The Town received deficiency notices from the Florida Department of Revenue regarding the Town's Truth in Millage Certification correspondence filed pursuant to Section 200.068, Florida Statutes, for the 2000-2001, 2001-2002, and 2003-2004 fiscal years.</p>
<p>CASH</p>
<p>Finding No. 11: Petty cash disbursements were not always supported by vendor invoices or receipts, or by other documentation demonstrating the public purpose served by such disbursements. Also, vendor invoices and receipts supporting petty cash disbursements were not cancelled upon reimbursement.</p>
<p>Finding No. 12: The Town did not timely reconcile monthly bank statements to the Town's accounting records, and reconciliations prepared were not signed and dated by the preparer and reviewer. Also, the Town incurred \$2,652 of insufficient funds charges due to numerous overdrafts.</p>
<p>Finding No. 13: The Town did not always notify the bank of changes to the Town's authorized check signers in a timely manner, resulting in several checks being signed by Council members who were not authorized signers at the time the checks were signed.</p>
<p>Finding No. 14: The Town did not enter into a written agreement with a bank from which it periodically made electronic funds transfers.</p>
<p>INVESTMENTS</p>
<p>Finding No. 15: Contrary to Section 218.415, Florida Statutes, the Town invested in repurchase agreements without benefit of a written investment policy.</p>
<p>Finding No. 16: The Town's current banking agreement regarding moneys on deposit does not appear to be beneficial to the Town as bank charges exceeded credits realized by \$7,613 for the period October 2001 through August 2003. Also, the Town could have earned \$5,215 of additional interest earnings had proceeds from the library improvement loan been invested with the State Board of Administration during the period October 2001 through September 2002.</p>
<p>FIXED ASSETS</p>
<p>Finding No. 17: The Town had not established adequate controls over tangible personal property. Complete and accurate property records were not maintained, physical inventories of property were not done timely, some laptop computers were not properly marked to identify them as Town property, and documentation evidencing the disposal of ten surplus motor vehicles was not maintained.</p>
<p>Finding No. 18: The Town paid \$145,000 in excess of the appraised value for the Town Hall building, and did not document, of record, the justification for the purchase price. Subsequent to the purchase, the Town paid \$6,686 of property taxes on the property relating to the period of time prior to the Town's purchase although the taxes had already been collected from the seller by the title company upon closing.</p>

LONG-TERM DEBT

Finding No. 19: The Town did not adequately document the basis for obtaining two bank loans totaling \$1,880,000, which were subsequently refinanced only a few months later with a \$1,940,000 loan from the Florida Municipal Loan Council. Also, the Town did not, of record, consider other financing options prior to obtaining the loans, and prematurely transferred to the paying agent moneys needed for scheduled debt service payments, resulting in lost opportunities for earning interest and possible delays in paying costs associated with the library improvements project. In addition, contrary to the loan agreement with the Florida Municipal Loan Council, investment earnings on unused loan proceeds prior to October 10, 2001, were not used for the library project.

Finding No. 20: The Town did not comply with several reporting or reserve covenants relating to a \$1,940,000 loan from the Florida Municipal Loan Council and \$310,000 of Water and Sewer Revenue Bonds.

RESTRICTED RESOURCES

Finding No. 21: Contrary to Section 218.33(2), Florida Statutes, the Town did not separately account for restricted resources in the manner required by the Florida Department of Financial Service's Uniform Accounting System Manual.

Finding No. 22: The Town expended \$186,800 of local option and municipal fuel tax proceeds for Public Works Department expenses. However, the Town's records did not document the extent to which Public Works Department employees' activities related to construction, reconstruction, or maintenance of roads and streets, or to other activities for which expenditures of such moneys are allowable under Sections 336.025(1)(a)2. and 206.605(2), Florida Statutes.

Finding No. 23: Contrary to generally accepted accounting principles, the Town did not properly report fund equity related to restricted resources, which resulted in a significant misstatement of the Town's financial position.

CONTRACTS AND GRANTS

Finding No. 24: The Town was awarded a \$200,000 grant to construct a boat ramp; however, although the Town incurred \$20,800 of costs related to design work on the project, the Town did not receive the \$200,000 because it did not construct the boat ramp within the project deadline, and did not timely submit a request for an extension of the deadline.

Finding No. 25: The Town did not seek reimbursement from the Florida Department of Education for \$1,600 of food costs for the 2002 Summer Food Program, and may also be entitled to reimbursement for \$5,400 of food costs and related administrative costs for the 2003 Summer Food Program.

Finding No. 26: The Town has not taken appropriate action regarding losses from money order thefts and stamp shortages incurred in connection with its operation of a post office. In addition, the Town has experienced operating losses at the post office for four consecutive fiscal years.

Finding No. 27: The Town has not taken action to obtain moneys, to which it appears it is legally entitled, being held in an escrow account established to facilitate infrastructure improvements by a developer.

REVENUES AND OTHER RECEIPTS

Finding No. 28: The Town had not established adequate controls over building permit fee collections through the use of prenumbered receipt forms or building permits. Although prenumbered receipts were used for other collections, an accounting for the prenumbered receipt forms was not done.

Finding No. 29: The Town did not perform monthly reconciliations between gallons of water produced and gallons of water billed to customers to ensure that customers were being properly billed for water provided and to detect water leaks or other problems contributing to an abnormally high water loss rate.

Finding No. 30: For delinquent utility billings, service was disconnected and deposits applied against unpaid balances; however, the Town had not implemented any further procedures to collect these delinquent accounts, such as referral to a collection agency, nor has the Town attempted to prepare an aging of these accounts, which would assist in determining which accounts are collectible.

Finding No. 31: The Town assessed fees for use of the Denton Johnson Center; however, there was no apparent legal authority for such fees, and fees were assessed inconsistently. Also, the Town failed to collect applicable sales tax, and did not always require facility users to sign a Facility Use Contract indicating their agreement with a hold harmless clause.

Finding No. 32: The Town's Code Enforcement Board waived code enforcement fines totaling \$16,950 without documenting, of record, the reason for the fee waivers.

Finding No. 33: The Town Council improperly amended by resolution an ordinance establishing building permit fees, which brings into question the validity of the revised fee schedule. As such, individuals issued building permits after the revised fee schedule was implemented may have been under- or over-assessed fees based on fees authorized by the ordinance.

Finding No. 34: Although the Town may be entitled to an additional \$121,063 of pledged donations from a developer, it has not sought to obtain the money.

PERSONNEL AND PAYROLL ADMINISTRATION

Finding No. 35: The Town Council had not, of record, approved job descriptions to be used as a basis for establishing minimum recruitment qualifications for attracting candidates for employment.

Finding No. 36: Authorization to add new employees to the payroll was not, in several instances, documented of record. Also, the Town Council appointed a Chief Administrative Officer on an interim basis without conducting a proper screening of the applicant and reference checks. In addition, another employee who occupied two positions at different times did not meet the minimum experience and education requirements for either position.

Finding No. 37: Contrary to the Town's Personnel Manual, employee personnel evaluations were not, in many instances, completed of record.

Finding No. 38: Contrary to the Town's Personnel Manual, the Town had not implemented a Compensation Plan to use to specify salary rates for authorized Town positions.

Finding No. 39: Several employees received pay raises, as a result of promotions or merit increases, ranging from 12.5 to 41.7 percent. Contrary to the Town's Personnel Manual, the merit increases were not based on a Merit Adjustment Schedule and the pay increases for promotions exceeded allowable rates specified in the Manual. In addition, there were conflicting provisions within the Personnel Manual regarding allowable pay increases for promotions.

Finding No. 40: Contrary to the Personnel Manual, two employees were paid for accumulated compensatory time totaling 42.5 and 77.6 hours, respectively, that had not been earned in the prior 30 days.

Finding No. 41: Our review of leave and attendance records maintained during the audit period disclosed situations in which the leave provisions of the Personnel Manual may not have been applied in the manner intended by the Town Council because of conflicting provisions or undefined terms.

Finding No. 42: The Town Council did not, of record, approve employee holiday bonuses paid during the 1998 and 1999 calendar years. Also, the Town did not always document actual rates of pay used to compensate employees and pay adjustments, and approval thereof, and payments for fire inspections. In addition, police salary incentives were not paid in accordance with amounts authorized by the Florida Department of Law Enforcement.

Finding No. 43: Town Council members receive salary, travel allowance, and cash in lieu of insurance payments for serving on the Council; however, such compensation is not provided for in the Town Charter and the Town Council has not properly enacted an ordinance authorizing such compensation.

Finding No. 44: Certain Council members' and employees' fringe benefits and other compensation, including travel allowances, bonuses, and cash in lieu of insurance payments, were not reported as wages or other compensation to the Internal Revenue Service and were not subjected to the withholding of Federal income tax or the payment of other employment taxes.

Finding No. 45: Contrary to Florida Department of Management Services Rule 60T-1.006, Florida Administrative Code, the Town did not timely submit information regarding the General Employees Pension Fund to the Florida Department of Management Services, Division of Retirement, for the 1999-2000 through 2002-2003 fiscal years. In addition, budgeted contributions to the Fund were not made, nor did the Town document, of record, the Town Council's approval to forego the contributions or the basis for doing so.

Finding No. 46: The Town records indicate that the Police Officers' Pension Fund was established by ordinance in 1973; however, the Town was unable to provide the adopted ordinance. In addition, the Town's failure to provide for timely audits of the Fund resulted in delayed receipt of premium tax revenues for the 1999-2000 through 2001-2002 fiscal years.

PROCUREMENT OF GOODS AND SERVICES

Finding No. 47: Deficiencies in the processing of disbursements for goods and services included lack of properly approved and dated contracts or purchase orders; payment of invoices that were not in agreement with contracts, purchase orders, or quotes; lack of signatures or dates for receipt of goods or services; and invoices that were not properly cancelled or stamped as paid after payment.

Finding No. 48: Expenditures totaling \$9,570 were not supported by documentation demonstrating the public purpose served by the expenditures.

Finding No. 49: The Town, for \$299,869 of vehicles acquired through installment purchases, did not document that a competitive selection process was used to obtain the best interest rate available at the time that each purchase was financed. In addition, the Town did not always retain documentation related to such purchases, including payment schedules, invoices, or financing agreements.

Finding No. 50: The Town did not, in several instances, purchase goods or services using a competitive selection process in the manner required by Ordinance No. 89-116.

CONTRACTUAL SERVICES

Finding No. 51: Contrary to good business practices, the Town, in some instances, incurred expenditures for contractual services without benefit of signed written agreements.

Finding No. 52: The Town's written agreement with the City of Apopka, whereby the City provided dispatch services for the Town's Police Department, provided for an increase in fees if the number of calls increased by more than ten percent over the previous year; however, the agreement does not specify the amount of the fee increase. Although the City increased its fee for such services, the Town did not verify that the City was entitled to the fee increase.

Finding No. 53: The Town paid a contractor \$32,600 for grant administration services; however, \$11,700 of the payments was not supported by invoices, and although the remaining \$20,900 of payments was supported by invoices, such invoices were not sufficiently detailed. In addition, some of the payments were not made pursuant to written agreements.

Finding No. 54: The Town's contracted building inspectors, in several instances, did not comply with the Town's Development and Technical Codes.

Finding No. 55: The Town's contract with Orange County, whereby the County agreed to provide fire and emergency services to the Town's citizenry, may be contrary to Article VIII, Section 4 of the State Constitution, which requires dual referenda for the transfer of any power or function from a municipality to a county.

Finding No. 56: The Town made advance payments to contractors contrary to Article VII, Section 10 of the State Constitution.

TRAVEL EXPENSES

Finding No. 57: Pursuant to Section 166.021(10)(b), Florida Statutes, since the Town has established travel expense policies and procedures in its Personnel Manual, it is exempt from all provisions of Section 112.061, Florida Statutes, effective January 1, 2003. Accordingly, it is critical that the Personnel Manual provide adequately detailed guidance regarding all aspects of travel previously provided by Section 112.061, Florida Statutes; however, the Personnel Manual does not provide adequate guidance regarding travel and meal allowances.

Finding No. 58: Travel-related expenditures were not always adequately supported or in accordance with Section 112.061, Florida Statutes, or the Town's travel policies and procedures.

Finding No. 59: Travel allowances paid to Council members were not supported by documentation demonstrating that such allowances were reasonable based on applicable mileage reimbursement rates and the amount of typical miles traveled during a given month for official Town business.

COMMUNICATIONS EXPENSES

Finding No. 60: During the audit period, the Town did not have Town Council adopted policies and procedures relating to cellular telephone usage, and had not otherwise established adequate controls over the usage of cellular telephone. Consequently, several Council members and employees made numerous calls that were personal in nature and did not serve a public purpose. The Town has recovered \$6,709 from the Council members and employees but, as of February 2004, had still not been reimbursed \$5,256.

Finding No. 61: The Town paid Federal, State, and local telecommunication taxes from which it is exempt.

Finding No. 62: During the audit period, the Town paid about \$21,700 for the 47 telephone lines for which it either received no services or did not use.

VEHICLE MAINTENANCE AND USAGE

Finding No. 63: During the audit period, the Town did not maintain vehicle maintenance logs, and records of vehicle usage were often incomplete as to destination, public purpose served, or beginning and ending odometer readings.

Finding No. 64: The Town Council had not established a policy regarding the usage of gas credit cards, and credit card users were not required to sign written agreements specifying acceptable use of the credit cards. Also, credit card charges were not always supported by receipts.

Finding No. 65: The Town Council did not approve the assignment of a Town-owned vehicle on a full-time (24-hour basis) to the Public Works Director, nor was it apparent why he was assigned a vehicle on a full-time basis. In addition, the Public Works Director did not maintain a vehicle usage log to demonstrate the extent to which the vehicle was used for personal use (i.e., driving the vehicle home overnight or elsewhere) so that the value of such personal use could be reported as compensation to the Internal Revenue Service.

RISK MANAGEMENT

Finding No. 66: Contrary to Section 112.08(2)(a), Florida Statutes, and good business practices, the Town had not bid for employee health, dental, vision, property, general liability, automobile, and workers' compensation insurance coverage.

Finding No. 67: The Town had not established procedures to ensure that insurance coverage for property was adequate in the event of damage or loss of property. In addition, property insurance schedules were inaccurate and provided for insurance coverage of several vehicles no longer owned by the Town.

Finding No. 68: The Town paid the health, dental, and vision insurance premiums for a former employee who retired from the Town in 1995; however, the Town's Personnel Manual does not provide for payment of insurance premiums for retired employees and the Town Council did not, of record, approve the agreement.

COMMUNITY REDEVELOPMENT AGENCY

Finding No. 69: The Town has not made required annual contributions of tax increment revenues to the Eatonville Community Redevelopment Agency (CRA). The amount owed to the CRA as of August 31, 2003, including late fees and interest, totaled approximately \$516,000. The Town and the CRA, without authority to do so, waived the late fees and interest, and established a plan for the Town to pay monthly installments to the CRA over an extended period of time.

Finding No. 70: The Town and the CRA entered an interlocal agreement whereby the CRA agreed to provide municipal services to the Town, and the Town agreed to make quarterly payments to the CRA to compensate it for such services; however, the Town did not make \$94,268 of required payments to the CRA. Because the services provided by the CRA, at least to some extent, are unrelated to approved CRA projects as specified in the CRA Plan, the validity of this contractual arrangement is questionable. In addition, neither the Town nor the CRA's records documented the actual percentage of time that CRA employees spend on CRA related activities versus activities related to non-CRA related activities.

Finding No. 71: Audit tests disclosed several CRA Trust Fund expenditures that were not supported by documentation demonstrating how the expenditures benefited the CRA and complied with the CRA Plan and Sections 163.387(6) and 163.370(2), Florida Statutes. Also, the basis for paying \$9,028 of severance pay to the former CRA Executive Director was not apparent of record.

<p>Finding No. 72: Contrary to Section 189.418(2), Florida Statutes, several resolutions and ordinances amending the CRA Board’s composition were not timely submitted to the Florida Department of Community Affairs.</p>
<p>Finding No. 73: Contrary to Section 189.418(3), Florida Statutes, the CRA did not adopt budgets for the 1997-1998 through 2001-2002, and 2003-2004, fiscal years.</p>
<p>Finding No. 74: Contrary to Ordinance No. 97-08 and Section 163.387(8), Florida Statutes, the CRA did not provide for audits for the 1997-1998 through 1999-2000 fiscal years, and the audits for the 2000-2001 and 2001-2002 fiscal years were not completed in a timely manner, and were not, of record, provided to one of its taxing authorities.</p>
<p>OTHER MATTERS</p>
<p>Finding No. 75: The Town Council enacted ordinances providing for the voluntary annexation of certain property by an affirmative vote of two then Council members; however, since two members do not constitute a quorum as defined by Section 166.041(4), Florida Statutes, the validity of the annexations is questionable.</p>
<p>Finding No. 76: Our audit disclosed several situations that may represent conflicts of interest as contemplated by Sections 112.313 or 112.3143(3)(a), Florida Statutes.</p>
<p>Finding No. 77: During the course of our audit, the Town was unable to provide certain documents, including ordinances and resolutions. 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.</p>
<p>Finding No. 78: Town Council meeting minutes were not always approved in a timely manner, and approvals of minutes for some meetings were not made a part of the transcribed minutes.</p>
<p>Finding No. 79: The Town Charter was amended by voter referendum in March 1998; however, the Town did not file the amended Charter with the Florida Department of State until April 2003, more than five years after the Charter was revised.</p>

The Mayor of the Town of Eatonville, in a letter dated March 16, 2004, provided his response to our findings and recommendations. Excerpts from the Mayor’s written response are included under the applicable findings and recommendations. The Mayor’s response, in its entirety, may be viewed on the Auditor General’s Web site.

FINDINGS AND RECOMMENDATIONS

General Management Controls

Finding No. 1: Prior Audit Findings

Pursuant to State law, the Town is audited annually by a certified public accounting firm. As appropriate, findings included in the Town's 2000-2001 fiscal year annual financial audit report are addressed in this report. Several findings included in this report have been reported for three to six years without correction. These findings related to budgetary controls; general ledger accuracy; reconciliation of bank accounts; reconciliation of customer utility billings; building permit fees; water and sewer fees and receipts; transfers from enterprise funds; grants reporting and accounting; annual audit requirements; bond covenants; fixed assets; payroll and personnel administration; record keeping; expenditure documentation; and unrecorded debt. Failure to take corrective action in response to recommendations contained in audit reports increases the chance of errors or irregularities occurring without detection.

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

Mayor's Response

Management concurs with the findings and recommendation of the Auditor General. Every effort is being made to correct audit findings in a timely manner. The Town has hired additional staff and a financial consultant, and they have already corrected many prior year findings. To date, audit findings listed in the Audit Management letter for the year ended September 30, 2001 have been corrected.

Finding No. 2: Written Policies and Procedures

Written policies and procedures, which clearly define the 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 Town assets. In addition, written policies and procedures, if properly designed, communicated to employees, and effectively placed into operation, provide management additional assurance 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.

As similarly reported in the Town's 2000-2001 annual financial audit report, our review of Town operations disclosed that during the audit period, 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, cash, investments, fixed assets, liabilities, vehicle operation and maintenance, telecommunications, and grant administration. Instances of noncompliance or control deficiencies, which may have resulted, at least in part, from a lack of written policies or procedures, are discussed in subsequent findings. Subsequent to the audit period, the Town Council adopted policies and procedures regarding long-distance telephone service and cellular telephone usage, and vehicle operation and maintenance, at its July 1 and August 5, 2003, meetings, respectively.

The Town has experienced a significant amount of employee turnover in key management positions, affecting the Town's operations. Since calendar year 2000, the Town has had three Chief Administrative Officers (and at various times the position was unfilled) and five Finance Directors. Employee turnover weakens the Town's

control environment and ability to provide consistent application of its policies and procedures designed to provide effective internal control. The significant amount of employee turnover, particularly in key management positions, may have contributed to the numerous instances of control deficiencies and noncompliance with applicable laws disclosed in this report.

Recommendation: The Town should adopt comprehensive written policies and procedures that are 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 control deficiencies discussed in this report. The Town should also strive to provide a stable and effective working environment for employees in key positions to promote consistent application of its policies and procedures and improve the Town's ability to provide reliable financial reporting, effective and efficient operations, and compliance with applicable laws and regulations.

Mayor's Response

Management concurs with the findings and recommendation of the Auditor General. The most significant contributing factor is that the Town had a significant high amount of staff turnover which weakened the Town's control environment. The Town has hired and stabilized its work force that will create a consistent work force, as a result the staff will continue to draft policies and procedures for the Town Council to consider adopting. The development of policies and procedures is recognizable as a very important process. All departments are currently working on developing appropriate policies and procedures for adoption by the Town Council. In an effort to expedite this process staff is coordinating with other municipalities where feasible to customize the Town's needs.

Finding No. 3: Separation of Duties

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

- Water and Sewer Fee Collections. One employee was given the responsibility of recording meter readings, preparing and mailing monthly billing statements, collecting utility payments, and posting payments to customers accounts. In such a situation, it is possible for a loss of collections to occur without being timely detected.
- Payroll and Personnel Processing. One employee recorded payroll information in the payroll system and had the ability to revise the pay rates recorded by another employee prior to the submission of the payroll for processing. In such a situation, it is possible for unauthorized payroll transactions to occur without being timely detected.
- Disbursement Processing/Cash Controls. One employee recorded purchase orders in the accounting records, processed vendor invoices for payment, and was authorized to approve check request documents. This same employee was also given the responsibilities for reconciling the bank accounts to the accounting records, maintaining the petty cash fund, and serving as a relief cashier for utility billings receipts. In such a situation, it is possible for unauthorized accounts payable and cash transactions to occur without being timely detected.

We recognize that the Town has limited personnel available, making it difficult to adequately separate some functions; however, inadequate separations of duties due to lack of available personnel can be mitigated through

the implementation of compensating controls. For example, for payroll processing, a compensating control could include having a non-payroll employee review payroll reports for any unauthorized changes prior to distribution of payroll checks. Our audit disclosed that the Town had not implemented such compensating controls.

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

Mayor's Response

Management partially concurs with the findings and recommendation of the Auditor General. *The Town has already implemented some separation of duties in the areas of Water & Sewer fee collections, payroll and Personnel Processing.*

The Finance Department has already implemented internal controls dealing with separation of duties in the areas of payroll, water & sewer procedures and disbursement processing cash controls.

- *Water & Sewer fee collections/procedures: have been separated with one (1) individual in the Public Works Department and two (2) individuals in the Finance Department instead of the previous process that only involved one (1) individual. Daily deposits are verified by a second person and the cash receipts edit is reviewed, corrected if necessary and posted to the General Ledger by the Accounting Coordinator II.*
- *Payroll & Personnel Processing. The access to inputting and updating employee payroll information has been limited to the HR Specialist, which includes the pay rates.*
- *Disbursement Process/Cash Control. The Accounts Payable process has also been separated. The Accounting Clerk inputs invoices and generates accounts payable edit report. The Accounting Coordinator II reviews all data input, and edits reports making corrections as needed. Once review is completed, the Accounting Coordinator II releases to batches to be paid. The Finance Director reviews the check register prior to releasing of the checks. The Accounting Coordinator I prepares the bank reconciliation, and the Accounting Coordinator I is no longer serving as a relief cashier.*

Recognizing the size of the administrative support staff, smaller governments are some what limited to creating full separation of duties, we will continue to re-organize to accomplish put in place as many safe guards as possible through separation of duties.

Finding No. 4: Financial Audits

Pursuant to Section 218.39 (formerly Section 11.45(3)), Florida Statutes, and Section 10.558(3), Rules of the Auditor General, the Town is required to provide for an annual financial audit and file a copy of the audit report with us no later than twelve months after the end of the fiscal year. Contrary to the law and Rule, the Town's 1999-2000 fiscal year audit was not completed, and a copy of the audit report filed with us, until February 18, 2002, and the 2000-2001 fiscal year audit was not completed, and a copy of the report filed with us, until June 30, 2003. In the 2000-2001 fiscal year audit report, the auditor indicated difficulty in performing the audit due to incomplete and inaccurate financial records as a result of the resignation of the Town's chief accountant and the lack of Town staffing. As of February 2004, the 2001-2002 fiscal year audit was not complete.

Timely audits are necessary to ensure that management is promptly informed of control deficiencies, and to ensure the prompt receipt of revenues from other governmental organizations. For example, as discussed in Finding No. 46, the Florida Department of Management Services, Division of Retirement, delayed annual revenue distributions due to untimely audits. Inasmuch as some State agencies require audit reports to be submitted prior to releasing State funds, the Town's ability to effectively manage cash flow is impaired when revenues and distributions are delayed due to untimely submittal of audit reports.

Recommendation: The Town should ensure that annual audits are completed, and that copies of audit reports are filed with us, and other appropriate entities, within statutorily mandated timeframes.

Mayor's Response

Financial Audits. Management concurs with the findings and recommendation of the Auditor General.
The Finance Department staff is aware of audit requirements and realizes the importance of timely audits. The lateness of the fiscal year 2001 audit impacted the 2002 audit that is currently taking place. The prior year lateness was due to high key staff turnover, and the current lateness is due to the same and the conduct of the operational audit by the State. The 2002 Audit is nearing completion and 2003 will be started immediately thereafter.

Finding No. 5: Financial Emergency

Section 218.503(1), Florida Statutes, defines the various criteria that constitute a state of financial emergency. Section 218.503(2), Florida Statutes, requires a local governmental entity to notify the Governor and the Legislative Auditing Committee when one or more of the conditions in Section 218.503(1), Florida Statutes, have occurred or will occur if action is not taken to assist the local governmental agency.

At its July 31, 2002, Council meeting, the Town Council adopted Resolution 2002-38, declaring a state of financial emergency for the Town. In response to our inquiries as to the Council's basis for adopting the resolution, the Mayor responded that "there is no evidence that the Town is in or was in a Financial State of Emergency," and "the Town never notified the Governor and the Legislative Auditing Committee of the state of financial emergency." The Mayor also indicated in his response that the independent auditor advised the Town Council in a public session that the Town does not meet any of the conditions of a financial emergency, and provided the Independent Auditor's Management Letter included in the 2000-2001 fiscal year financial audit report, dated March 12, 2003, in which the independent auditor stated, "nothing came to our attention that caused us to believe that [the] Town of Eatonville is in a state of financial emergency as a consequence of the conditions described in Section 218.503(1), Florida Statutes."

Notwithstanding the Mayor's assertion that the Town is not in a state of financial emergency, it appears that the Town met the financial emergency condition specified in Section 218.503(1)(b)2.b., Florida Statutes, for the 2000-2001 fiscal year in that it failed to make contributions for an employee retirement plan due to a lack of funds. As discussed in Finding No. 45, not all of the budgeted contributions were made to the retirement plan for the 1999-2000 through 2002-2003 fiscal years. In response to our request for documentation evidencing the Town Council's approval to forego the contributions, we were provided with a memorandum from a former Finance Director to the Mayor indicating that such contributions were not made for the 2000-2001 fiscal year because the Town's "cash flow would not permit" contributions to the retirement plan in the amount budgeted. Although requested, we were not provided with an explanation as to why the contributions were not made for the other fiscal years.

Recommendation: The Town should report the financial emergency to the Governor and the Legislative Auditing Committee in accordance with Section 218.503(2), Florida Statutes.

Mayor's Response

Retirement Plan. Management disagrees with in that the Town's retirement plan is a voluntary contribution plan which allows discretionary contributions.

The Town has established a voluntary pension plan, which allows discretionary contributions by the Town. Due to lack of up to date financial records, the Mayor and Town officials were not aware that the pension was not funded, it was over looked, due to a significant turn over in the finance department, and Administration, also due to lack of budget & expenditure monitoring at that

time. Based on the above we did not consider the Town in a state of financial emergency. The Town has established a voluntary pension plan which allows discretionary contribution to be made by the Town.

Auditor General's Follow-Up

The Mayor, in response to this finding, alludes to the Town's General Employee Pension Fund as being a voluntary pension plan that allows discretionary contributions by the Town, and indicates that based on these facts, he does not believe the Town is in a state of financial emergency. However, the Mayor did not dispute the fact that the Town, for the 2000-2001 fiscal year, failed to make retirement plan contributions committed in the budget ordinance due to lack of funds. As discussed in Finding No. 45, the Council is required by Ordinance No. 90-02 to annually establish the Town's contribution amount during budgetary procedures. Once established by the Council through the budget ordinance, such contributions are mandatory. As such, the Town failed to make mandatory retirement plan contributions for the 2000-2001 fiscal year.

Finding No. 6: Financial Condition

A municipality's financial condition affects its ability to provide services, on a continuing basis, at the level and quality required for the health, safety, and welfare of its citizens. Our assessment of the 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 compositions, population, and taxable property values) evaluated for the 2000-2001 fiscal year, disclosed deteriorating financial conditions. The financial condition assessment procedures consisted of evaluating 18 key financial indicators, of which 9 indicated an unfavorable rating and 1 indicated a favorable rating (the other indicators were inconclusive). The following unfavorably rated financial indicators are discussed in Appendix B (including graphs depicting the Town's trends over the five fiscal years evaluated):

- Total unreserved fund balance and retained earnings adjusted for inflation (Financial Indicator 1).
- Total unreserved fund balance expressed as a percentage of total governmental funds expenditures (Financial Indicator 2).
- Total governmental funds current liabilities expressed as a percentage of total governmental funds revenues (Financial Indicator 3).
- General long-term debt expressed on a per capita basis and adjusted for inflation (Financial Indicator 4).
- Governmental funds debt service expenditures expressed as a percentage of total governmental funds expenditures (Financial Indicator 5).
- Governmental funds revenues over (under) expenditures expressed as a percentage of total governmental funds revenues (Financial Indicator 6).
- Governmental funds intergovernmental revenues expressed as a percentage of total governmental funds revenues (Financial Indicator 7).
- Total unreserved fund balance expressed as a percentage of total governmental funds revenues (Financial Indicator 8).
- Millage rate (Financial Indicator 9).

We believe that the results for the indicators listed above indicate that the Town's overall financial condition is showing signs of deterioration, which may have contributed to the Town's state of financial emergency as

discussed in Finding No. 5. The trends and benchmarks discussed in Appendix B may indicate a declining ability to maintain a stable tax and revenue structure or an adequate level of services; a declining ability to raise the cash needed to meet ongoing fiscal obligations; impairments to liquidity; deficit spending; decreasing flexibility in allocating resources or responding to changing economic conditions; and a reduced ability to finance capital acquisitions without borrowing. Factors that may have contributed to the deteriorating financial conditions include:

- The Town had not performed periodic cash analysis and forecasts or developed 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.
- The Town had not provided for timely completion of annual financial audits as discussed in Finding No. 4.
- The Town generally has not implemented adequate controls to ensure the economic and efficient operation of the Town and safeguarding of assets. As discussed in this report, various control deficiencies exist that adversely affect the Town's financial condition, including, for example, those relating to budget overexpenditures (Finding No. 9), inefficient use of resources (Finding Nos. 18, 19, 29, 62, and 68), loss of grant revenues (Finding Nos. 24 and 25), failure to assess and collect fees (Finding Nos. 31 and 32), and failure to use good business practices in acquiring contractual services (Finding No. 50).

In addition, as discussed later in this report, our audit disclosed that the Town may have inappropriately expended local option and municipal fuel tax revenues (Finding No. 22) and has not made required contributions to the Town of Eatonville Community Redevelopment Agency (Finding No. 69). Based upon the resolution of these issues with the appropriate governmental agencies, the Town's financial condition may be further adversely affected.

We also noted that the Town Council was not periodically provided with interim financial statements. The lack of interim financial statements 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 (budget and actual) 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 to address the various control deficiencies discussed in this report that affect the Town's financial condition, perform periodic cash analysis and forecasts, 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; (4) target unreserved fund equity levels; and (5) projected revenues sufficient to cover projected costs. Town management should explore all available options to increase its revenues or decrease expenditures. In addition, Town finance personnel should provide interim financial information to the Town Council, including key summary financial information for monitoring the Town's overall financial condition.

Mayor's Response

Financial Condition: We concur with the Auditor General Findings. *The following are actions that have already been implemented. The Town has implemented programs and procedures that will assure sound and reliable financial management, and thereby assuring the Town's ability to provide services at the level and quality required is for the health, safety and welfare of our citizens. The Mayor & the Town CAO are working with the finance director and our financial consultants have implemented and are in the process of developing, programs and procedures that will improve the financial management of the Town.*

- *Establishing a monthly review of operating budgets inclusive of cash flow analysis, budget variances, operating review short falls and preparing budget adjustments as necessary. Cash analysis reviewed monthly.*
- *We reviewed our health insurance, liability, property, and casualty insurance, and went through the bid process for all of the above, which resulted in a significant savings.*
- *At the same time we identified vehicles that we paid premiums for that we did not have and thereby reducing the premium for the vehicle property and obtaining a refund.*
- *We reviewed our insurance/workers comp/unemployment charges to assure the accuracy of the charges being paid by the Town. We are investigating to potentially change the method on which the Town pays unemployment benefits. One of our goals is to decrease the worker's compensation costs as well.*
- *We investigated the potential of outsourcing functional areas within our Town where efficiency and effectiveness could be improved. The result was the outsourcing of our fire services.*
- *In the past the Town observed the cost of the lost disposal containers. The Town has implemented an Ordinance for a deposit on the garbage canister that requires the customer to bare the cost of the container if lost or removed.*

Budgetary Controls

Section 166.241(3), Florida Statutes, contains requirements for the adoption and implementation of budgets by municipalities. The Town Charter, Article II, Section 65, provides for the adoption of the Town budgets, which have been adopted by ordinances. Our review disclosed several deficiencies or noncompliance with applicable laws in the preparation, adoption, advertisement, implementation, and reporting of the budget as discussed below.

Finding No. 7: Budget Preparation

Our review of the Town's procedures for preparing the annual budgets 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. Contrary to this law, the Town, in preparing its 2001-2002 through 2003-2004 fiscal year budgets, did not consider the effect of beginning fund equities available from prior fiscal years. Failure to consider beginning fund equities in the budget diminishes the Town's ability to determine appropriate increases or decreases in revenues or expenditures that may be needed for the fiscal year for which the budget is being adopted. If balances brought forward are significantly misstated, the amount of taxes or other revenue sources contemplated in the proposed budgets may be incorrectly assessed, adversely impacting the amounts necessary to carry out planned expenditures or to establish reserves.
- The Town accounted for financial resources to be used for construction of major capital facilities in the Capital Projects Funds; however, revenues and expenditures related to capital projects were budgeted in the General Fund.

- The Town's 2001-2002 and 2002-2003 fiscal year budgets did not include budgeted expenditures for installment purchase payments. Such amounts totaled \$53,956 and \$43,337 for the 2001-2002 and 2002-2003 fiscal years, respectively.
- While the Town's total budgeted appropriations for all funds balanced, the individual 2001-2002 fiscal year budgets for the General Fund and the Enterprise Funds were not balanced. The General Fund budgeted expenditures exceeded budgeted revenues, and Enterprise Funds budgeted revenues exceeded budgeted expenditures, by \$190,848.

Recommendation: The Town, pursuant to Section 166.241(3), Florida Statutes, should ensure that future annual budgets consider all beginning fund equities, include appropriations for all funds, and present balanced budgets for each fund.

Mayor's Response

The Town Management concurs with the Findings of the Auditor General, and will comply with Florida Statute 166.241(3), in the future. We will assure that future annual budgets consider all beginning fund equities, include appropriations for all funds, and present balanced budgets for each fund.

Finding No. 8: Budget Adoption

Section 166.241(3), Florida Statutes, requires that the governing body of each municipality adopt a budget each fiscal year by ordinance unless otherwise specified in the respective municipality's charter. The Town Charter, Article VII, Section 65, states that the Town Council shall enact the budget and ordinance not later than the third Monday of September of each fiscal year. The Town's budgets for the 2000-2001, 2001-2002, and 2003-2004 fiscal years were adopted from 14 to 22 days after the Charter deadline.

Recommendation: The Town, in accordance with Article VII, Section 65 of the Town Charter, should ensure that the fiscal year budgets are adopted by the third Monday in September.

Mayor's Response

Management concurs with the recommendation of the Auditor General. By starting the budget process early in the year, we can assure the budget will be adopted according to the Town's Charter, and the Florida Statute

Finding No. 9: 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. Additionally, 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 Town's budgets established the legal level of budgetary control at the object level by cost center for the General and Enterprise Funds. The Town's annual financial audit reports disclosed budget overexpenditures totaling \$2,498,977 for the General Fund for the 1999-2000 fiscal year, and \$122,479 for the Enterprise Funds for the 2000-2001 fiscal year. Our review of the Town's accounting records disclosed six cost center budget overexpenditures totaling \$98,500 in the General Fund for the 2001-2002 fiscal year.

Recommendation: The Town, in accordance with Section 166.241(3), Florida Statutes, should ensure that future expenditures do not exceed budgetary authority.

Mayor's Response

The Towns' Management concurs with the findings and recommendation of the Auditors General. The Mayor & the Towns Chief Administrative Officer is now doing monthly budget reviews to assure the prevention of the problem of over expenditure.

Finding No. 10: Truth in Millage Reporting

Section 200.068, Florida Statutes, requires a taxing authority to certify compliance with the provisions of Chapter 200, Florida Statutes, to the Florida Department of Revenue (FDOR) within 30 days following the adoption of an ordinance or resolution establishing a property tax levy. The law requires that the certification include a copy of the ordinance or resolution so adopted; a copy of the certification of value showing rolled-back millage and proposed millage rates, as provided to the county property appraiser pursuant to Sections 200.065(1) and (2)(b), Florida Statutes; and a certified copy of the advertisement, as published pursuant to Section 200.065(3), Florida Statutes. Section 200.065(2), Florida Statutes, states (in part), that within 15 days of the meeting adopting the tentative budget, the taxing authority shall advertise in a newspaper of general circulation in the county, as provided in subsection (3), its intent to finally adopt a millage rate and budget, and that, if the hearing to adopt the millage rate and budget is recessed, a notice shall be published prior to the date the hearing will be continued.

In reviewing the Town's Truth in Millage (TRIM) Certification correspondence received from the FDOR for the 2000-2001 through 2003-2004 fiscal years, we noted the following:

- In a letter dated November 30, 2000, FDOR indicated that the Town, contrary to Section 200.068, Florida Statutes, did not submit the TRIM package for the 2000-2001 fiscal year within 30 days following the adoption of the resolution establishing the property tax levy. The Town Council adopted Resolution No. 00-16 on October 2, 2000, establishing the final millage rate; however, the TRIM package was not received by FDOR until November 13, 2000, 12 days late. The letter also stated that the Town's Resolution No. 00-16 did not indicate the percent of increase over the rolled-back rate, contrary to Sections 200.065(2)(d) and (3)(j), Florida Statutes.
- In a letter dated November 3, 2001, FDOR indicated that the Town, for the 2001-2002 fiscal year, did not comply with Section 200.065(2)(e)2., Florida Statutes, as the tentative budget hearing was recessed and continued without re-advertisement.
- In a letter dated December 9, 2003, FDOR indicated that the Town, for the 2003-2004 fiscal year, did not comply with several provisions of Section 200.065, Florida Statutes. As a result, FDOR instructed the Orange County Tax Collector to withhold, from the Town, ad valorem tax revenue collected in excess of the rolled-back rate until the Town demonstrated compliance with Section 200.065, Florida Statutes. FDOR also planned to begin withholding revenue sharing funds until the noncompliance was corrected. Subsequently, on January 15, 2004, FDOR, after review of documentation provided by the Town evidencing the Town's actions to bring it into compliance with Section 200.065, Florida Statutes, authorized the release of the ad valorem tax and revenue sharing funds to the Town.

Recommendation: To avoid the loss or delay in receipt of State revenue sharing and ad valorem tax moneys, the Town should ensure that the annual TRIM compliance requirements prescribed by Chapter 200, Florida Statutes, are met in a timely manner.

Mayor's Response

We will comply with section 200.068 of the Florida Statute. Expressively Sections, 200.065(1) and (2) (b). The budget will be started early to be in compliance with the September 30th Charter deadlines and the Florida Statute.

Cash

Finding No. 11: Petty Cash

The purpose of a petty cash fund is to have a small amount of cash available from which to make payments for items such as delivery charges, postage stamps, or inexpensive office supplies. A petty cash fund of \$200 was maintained by the Finance Department. During the period November 15, 2001, through January 31, 2003, petty cash disbursements totaled \$1,800.

Our review of petty cash disbursements disclosed that \$204 of petty cash disbursements were not supported by vendor invoices or receipts. The Town's records did not demonstrate the public purpose served by \$353 of petty cash disbursements (including \$88 of disbursements not supported by receipts, but for which we were able to determine their nature based on notations by Town personnel). These disbursements included \$142 for Christmas decorations and invitations; \$127 for food, including lunches for Town employees; \$30 for a fishing trip for senior citizens; and \$54 for other miscellaneous purchases. We also noted that vendor invoices and receipts supporting petty cash disbursements were not cancelled upon reimbursement.

Recommendation: **The Town should ensure that disbursements 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 disbursements, and the cancellation of receipts upon reimbursement.**

Mayor's Response

It is management's belief that funds are being expended from petty cash for public purposes, therefore we partially concur with the possible exception of the one (1) or two (2) times that food for a recognition luncheon for Town employees. And with the exception of a parking garage fee, which should have been an expense report done for the \$5 parking garage fee. For all items that need an expense report for the Town will require that an expense report be prepared, we are currently voiding the receipts as recommended.

Finding No. 12: Bank Reconciliations

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

As of March 31, 2003, the Town maintained several bank accounts with two banks in which public funds were deposited. Total cash held on deposit in these accounts at March 31, 2003, was \$1,287,965. On July 30, 2003, we requested reconciliations between the bank statement balances and the Town's accounting records for 11 accounts for seven months during the audit period. The Town only provided 48 of the 77 reconciliations requested, and no reconciliations were provided for 3 bank accounts, including the General Fund and payroll accounts. The reconciliations provided were not signed or dated by the preparer or reviewer. At the time of our review of bank reconciliations in August 2003, Town personnel were continuing their efforts to complete the remaining bank reconciliations.

We also noted that the Town failed to implement adequate controls to ensure that sufficient funds were available to cover checks written on the various bank accounts established by the Town. Our review of the Town's bank

statements for the period of October 2001 through August 2003 disclosed that the Town incurred insufficient funds charges totaling \$2,652 for 89 checks. We further noted that 82 of the 89 overdrafts were drawn on the Town's payroll account. The payroll account is funded by transfers from the Town's General Fund bank account after the biweekly payroll amounts are determined. However, certain payroll deductions are required to be paid from the payroll account on a schedule that differs from the dates in which the General Fund bank account transfers are made to the payroll account. Due to this timing difference, the Town has incurred numerous overdrafts which may have been preventable had the Town completed timely bank reconciliations.

The lack of timely bank reconciliations has increased the risk that errors or irregularities could occur without being promptly detected. Additionally, the Town's ability to manage its cash flow is impaired.

Recommendation: The Town should enhance controls to provide for sufficient monitoring of available cash on deposit and timely reconciliation of bank accounts. Additionally, the bank reconciliations should be signed and dated by the preparer as well as reviewed and approved by appropriate supervisory personnel.

Mayor's Response

Management concurs with the findings and recommendations of the Auditor Generals. Beginning in fiscal year 2003, bank reconciliation's for all accounts are being performed on a monthly basis. To present all bank accounts have been reconciled.

Finding No. 13: Check Signing

The Town requires the signatures of two Council members on all checks and maintains authorized signature cards with its banks. During our test of expenditures, we noted that nine checks totaling approximately \$12,340 were signed by Council members who were not authorized signers at the time the checks were signed. Additionally, two former Council members, who had not been Council members since March 2002 and November 2002, respectively, were still listed as authorized check signers for a checking account according to the bank's records as of June 18, 2003. Although this checking account had no activity during the audit period, and the account was subsequently closed in December 2003, the account had a balance of approximately \$4,900 during the audit period.

By failing to notify the bank of changes for the Town's authorized check signers in a timely manner, checks may be prepared and issued for unauthorized purposes, and may be issued and not honored by the bank upon presentation by Town vendors or employees for authorized payment of Town expenses.

Recommendation: The Town should ensure that signature cards are updated timely when there are changes to authorized signers.

Mayor's Response

Management partially concurs with the Auditors Findings and Recommendation. The checks were processed March 6, 2003, however the checks were not signed until bank signature cards were completed and signed by the new council members as a result the checks were properly sign by an authorized signer.

Auditor General's Follow-Up

The Mayor, in response to this finding, indicates that the checks were not immediately signed on the dates the checks were prepared, but were signed at later dates. If so, it is possible that the new Town Council members were authorized signers at the time they signed the checks; however, absent documentation evidencing the dates the checks were actually signed, we could not determine with certainty that the Council members were authorized signers at the time they signed the checks.

Finding No. 14: Electronic Transfer of Funds

Good control over electronic funds transfers requires the use of written agreements with each financial institution to or from which moneys are to be transferred. Such agreements should specify the locations and accounts to which transfers can be made, amounts that can be transferred, and the employees authorized to make such transfers and make changes in locations where funds can be transferred.

The Town did not, of record, enter into a written agreement with a bank from which it periodically made electronic funds transfers to other financial institutions. We noted that funds were occasionally transferred electronically to another financial institution for debt service payments when directed by the Town (for example, the \$175,000 electronic funds transfer referred to in Finding No. 19). Absent a written banking agreement, there is no documentation specifying which Town officials or employees are authorized to electronically transfer funds, and destination accounts are not specified for transfers from the Town's local bank. Although our audit did not disclose any transfers made for unauthorized purposes, the above deficiencies, combined with the deficiencies noted regarding bank reconciliations (see Finding No. 12), limit management's assurance that electronic funds transfers were properly authorized, processed, and documented.

Recommendation: The Town should enter into written electronic funds transfer agreements with all financial institutions with which it conducts business. Such agreements should specify the responsibilities of the Town and the banks, the locations and accounts where funds can be transferred, limits on amounts that can be transferred, and persons authorized to make transfers and changes in locations and accounts to which funds can be transferred.

Mayor's Response

Management partially agrees with the Auditors General's Findings. The Town does have a written agreement with banking institutions for electronic fund transfers, however the agreements do not specify the location and accounts where funds can be transferred, or the limits of those amounts which can be transferred.

Auditor General's Follow-Up

The Mayor, in response to this finding, stated that the Town does have a written agreement with banking institutions for electronic funds transfers. We requested, and were provided, a copy of the bank agreement referred to by the Mayor; however, although the agreement refers to an electronic funds transfer agreement, we were not provided a copy of the electronic funds transfer agreement.

Investments

Section 218.415, Florida Statutes, governs the investment of surplus funds by local governments. Investment activity by a local government must be consistent with a written investment policy that includes certain specified elements. The policy must be adopted by the governing body or, in the alternative, such activity must be conducted in accordance with Section 218.415(17), Florida Statutes. That Section authorizes investments in the Local Government Surplus Funds Trust Fund administered by the State Board of Administration; any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act, as provided by Section 163.01, Florida Statutes; money market funds; interest-bearing time deposits or savings accounts; and direct obligations of the United States Treasury.

Finding No. 15: Authorized Investments

The Town had no formal investment policy during the audit period. As a result, authorized investments were limited to those prescribed by Section 218.415(17), Florida Statutes. However, during the period October 2001

through September 2002, the Town, contrary to Section 218.415(17), Florida Statutes, invested some of its surplus funds in repurchase agreements.

Entities opting to invest other than as prescribed by Section 218.415(17), Florida Statutes, must adopt a written investment policy that includes the elements specified by Section 218.415, Florida Statutes. These elements include scope, investment objectives, performance measurements, prudence and ethical standards, list of authorized investments, maturity and liquidity requirements, portfolio composition, risk and diversification, list of authorized institutions and dealers from whom securities may be purchased, provisions regarding third-party custodial and master repurchase agreements, bid requirements, internal controls, continuing education, and reporting.

Recommendation: The Town should either adopt a formal investment policy as prescribed by Section 218.415, Florida Statutes, or limit its investments to those authorized by Section 218.415(17), Florida Statutes.

Mayor's Response

The Town Management concurs with the findings and recommendation of the Auditor General, the Chief Administrative Officer, Financial Consultant, and Finance Director are currently setting up an investment policy to be presented to the Mayor and Town Council. The policy will dictate a diversified portfolio and assure that the Town might increase its rate of return on any surplus funds.

Finding No. 16: Investment Earnings

During the audit period, the Town invested surplus funds in repurchase agreements and interest-bearing bank accounts. In addition, the Town pooled several bank accounts under an agreement with a bank. Our review of the City's investment of surplus funds disclosed the following:

- Under the pooled bank account agreement, the Town earns monthly credits based on the cumulative balances in all accounts and the average 3-month Treasury Bill rate. The resulting credits are used to offset the monthly bank charges incurred by the Town; however, if the credits exceed the bank charges, the excess credits are not realized by the Town, thus reducing the Town's earnings potential. From October 2001 through August 2003, bank charges exceeded credits realized by \$7,613.
- During the period October 2001 through September 2002, loan proceeds to be used for the Town's library improvements (see Finding No. 19) were invested in repurchase agreements. Had these funds been invested with the State Board of Administration (SBA) during that period, the Town would have earned \$5,215 more in investment earnings. Beginning in October 2002, the proceeds were invested in a money market account offering rates comparable to the SBA.

Recommendation: We recommend that the Town analyze its current banking needs and explore other available banking and investment options. Additionally, 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.

Mayor's Response

The Town Management concurs with the Auditors Findings, the Finance Department is currently developing an RFP which, will be developed in accordance with the Town's investment policy.

Fixed Assets

According to the Town's audited financial statements, fixed assets totaled \$8,926,165 (net of depreciation) as of September 30, 2001, consisting of \$1,807,166 in the Enterprise Fund and \$7,118,999 in the General Fixed Assets Account Group. Our review of the Town's management controls over fixed assets disclosed numerous deficiencies as discussed below.

Finding No. 17: Tangible Personal Property

To ensure proper accountability and safeguarding of tangible personal property, the Town should maintain an adequate record of each property item. As was similarly noted by the Town's contracted auditor, our audit tests disclosed the following deficiencies relating to the Town's administration of its tangible personal property:

- The Town did not maintain complete and accurate records of its tangible personal property. Upon inquiry, we were provided with a listing of property; however, this listing lacked pertinent information such as original cost, date acquired, and purchase order numbers or check numbers.
- The Town had not conducted a complete physical inventory of its tangible personal property since October 1999 until it inventoried the above-noted listing of property in April 2003.
- Four laptop computers costing \$13,668 (including accessories) purchased by the Town during the audit period were not marked in a manner to identify them as Town property.
- In response to our request to physically inspect ten motor vehicles, with a total insured value of \$119,479, listed on the Town's insurance records, we were advised that the vehicles were not available for inspection as they had been approved as surplus by the Town Council and sold at an auction. Although requested, we were not provided with documentation evidencing the transfer of these vehicles from the Town to the auctioneer or the sale of the vehicles at an auction. As such, we could not determine whether these vehicles were actually sold or whether amounts collected, if any, for each vehicle sold were properly recorded and deposited to the Town's accounts.

The deficiencies noted above 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 maintain complete and accurate records of property items, attach tags to property items to identify them as Town property, conduct annual physical inventories of property items, and reconcile the physical inventories to the property records. In addition, the Town should ensure that tangible personal property disposals are timely recorded and properly documented.

Mayor's Response

The Town management partially concurs with the Auditor General with its finding and recommendation at the time of the audit.

- *The Town did possess a fixed asset listing although it may not have contained all of the necessary information, Subsequent to the Audit, the Town has purchased a fixed asset system and is in the process of entering the information into the system.*
- *The Town has conducted, and we will continue to conduct an annual physical inventory and will reconcile the physical count to the fixed asset listing and general ledger. We will ensure that all disposals are properly handled.*

Finding No. 18: Purchase of Town Hall Building

On November 15, 1999, the Town purchased the current Town Hall building for \$815,000 pursuant to Town Council Resolution No. 99-29. Our review of available documentation related to this purchase disclosed the following deficiencies:

- The Town Council, at its November 9, 1999, meeting, approved purchasing the building for \$815,000, which exceeded the property's appraised value of \$670,000 by \$145,000. Although there was much discussion regarding the purchase at the Council's October 13 and November 9, 1999, meetings, the minutes did not disclose the justification for approving the purchase price in excess of the appraised value.
- On February 6, 2001, the Town paid \$6,686 for property taxes for the period of January 1, 1999, through November 15, 1999. According to the Settlement Statement, the taxes were collected from the seller by the title company upon closing. Although requested, we were not provided with an explanation as to why the Town paid the taxes.

Recommendation: The Town should ensure that all real property acquisitions are fully documented to explain atypical matters including purchase prices that exceed appraisal values. In addition, the Town should take appropriate legal action to recover the \$6,686 of taxes paid from the title company.

Mayor's Response

Management of the Town came to the decision that purchasing the existing Town Hall was in the best interest of the Town, based on the fact that it was the only available structure that would accommodate the Town's operations, and its central location within the Town. The taxes, which were in arrears on the property, were deducted from the purchase price, as indicated on the settlement statement. Therefore, it is the Town's opinion the title company does not have an obligation to pay the \$6,686.00 in taxes, as they in-fact did not collect these funds. There was basically no land available within this corridor available to construct a new facility, and after assessing construction costs versus purchasing an existing facility, Town's management thought it was a sound decision to purchase this building. The Town recognized that if you build a brand new facility that has the same square footage the Town would have spent over \$ 1,200,000 to construct the very same size Town Hall once you factor in the land cost, engineering & design cost, and construction cost.

Auditor General's Follow-Up

The Mayor, in response to this finding, stated that the Town's management thought it was a sound decision to purchase this building and cited some reasons why the Town management came to this conclusion. However, the point of our finding was that the Town Council's justification for approving a purchase price in excess of the appraised value was not documented in the minutes for the Council meeting at which such approval was rendered. For example, the Town did not document, of record, why no attempt was made to negotiate a more favorable price with the seller or explore other options (such as renovating existing Town Hall facilities) as was suggested by a then Council member at the November 9, 1999, meeting. The Mayor, in response to this finding, also stated that the \$6,686 of taxes were deducted from the purchase price and were not collected by the title company. To the contrary, the Settlement Statement shows that the taxes were collected from the seller by the title company upon closing, and there is no indication that the \$815,000 purchase price was reduced by the amount of the taxes. However, it appears that the \$6,686 of taxes was inadvertently deducted from gross proceeds due from the Town at closing. Although such explanation was not provided to us during the audit or as part of the Mayor's response to this finding, it appears that the Town's subsequent payment of the \$6,686 of taxes was to remedy the above-noted situation.

Long-Term Debt

Pursuant to Section 166.111(1), Florida Statutes, the governing body of every municipality may borrow money, contract loans, and issue bonds from time to time to finance the undertaking of any capital or other project and may pledge the funds, credit, property, and taxing power of the municipality for the payment of such debts and bonds. Our audit included a review of the various loans or financing arrangements outstanding during the period October 1, 2001, through March 31, 2003.

Finding No. 19: Capital Project Financing

On July 20, 1999, the Town Council approved Resolution Nos. 99-14 and 99-15. Resolution No. 99-14 authorized the issuance of a \$680,000 lease revenue note to finance the cost of the acquisition, construction, and installation of a public library (library project). Resolution No. 99-15 authorized the issuance of a \$1,200,000 sales tax revenue note to finance the cost of acquisition, installation, renovation, and equipping of the Town Hall and other capital improvements approved or to be approved by the Town Council. During the July 20, 1999, meeting, the Mayor noted that these loans “would be rolled over to the Florida League of Cities bond when it is in place.” The notes were subsequently obtained through a local bank in August 1999 (for \$680,000) and October 1999 (for \$1,200,000).

The Town Council, at its October 19, 1999, meeting, adopted Resolution No. 99-26 authorizing the negotiation of a loan from the Florida Municipal Loan Council (FMLC), through the Florida League of Cities. In accordance with the Resolution, the Town obtained a loan in November 1999, totaling \$1,940,000, from the proceeds of the FMLC Revenue Bonds, Series 1999B. The proceeds of the loan were used to pay the outstanding balances, including accrued interest, of the previously obtained bank loans. According to the loan agreement between the Town and the FMLC, the restrictions imposed on the use of the proceeds from the bank loans continued in effect.

Our review of the Town’s debt management decisions, including its procurement and administration of the loans, disclosed the following:

- **Financing Needs.** Although requested, we were not provided with analyses of the estimated costs for the library and Town Hall projects prepared prior to obtaining the loans. Absent such documentation, it was not apparent how the Town determined how much financing from loans, together with other financing sources such as grants, was needed to cover the costs of the library, Town Hall, and other capital improvement projects.
- **Financing Procurement.** Although requested, we were not provided with documentation evidencing that other financing options were considered prior to obtaining the loans or the method of selection of the financing providers.
- **Timing.** Excluding a \$100,000 payment to a contractor upon obtaining financing for the library project (see Finding No. 56), proceeds from the bank loans were not used for the projects prior to November 1999, the month the FMLC loan was obtained to pay off the bank loans obtained in August and October 1999. According to Resolution Nos. 99-14 and 99-15, the Town was required to pay a “breakage fee” (i.e., prepayment penalty) for early payoff of the bank loans. Fees and charges, excluding principal and interest, resulting from the acquisition and payoff of the two bank loans totaled at least \$22,900, plus an indeterminable amount of prepayment fees (documentation was not available

evidencing the amount of prepayment fees, if any). These fees and charges could have been avoided had the Town waited until it secured the loan from the FMLC. Although requested, we were not provided with an explanation as to why the Town obtained the two bank loans in August and October 1999 rather than obtaining all financing from the FMLC when needed in November 1999.

- **Debt Service Payments.** The FMLC loan covenants require annual principal and interest payments on November 1, and an interest payment on May 1, for each year through 2029. On September 19, 2002, the Town initiated an electronic funds transfer of \$175,000 from loan proceeds in the library improvements bank account to the paying agent for the FMLC Series 1999B bonds. These funds were for the principal, interest, and fees payment totaling \$105,384 due November 1, 2002, and the \$49,216 interest and fees payment due May 1, 2003. The remaining \$20,400 was held by the paying agent to be applied to the \$109,216 principal and interest payment due November 1, 2003. It was not apparent of record why the Town transferred \$69,616 of funds related to the May 1, 2003, and November 1, 2003, payments to the paying agent from 7 ½ to 13 ½ months prior to those due dates. The Town's advancement of these funds to the paying agent so far in advance of payment due dates deprived the Town of opportunities to earn interest on the funds and could have resulted in delays in paying costs associated with the library construction project.
- **Interest on Loan Proceeds.** During the period August 1999 through October 10, 2001, unused proceeds from the library improvements loans were maintained in the General Fund and other bank accounts and invested along with other Town funds. On October 10, 2001, \$571,000 of unused proceeds from the library improvements loans were transferred from the General Fund operating bank account to the library improvements bank account, after which the unused proceeds were invested in repurchase agreements or a money market account and the interest earnings retained in that account for use on the library improvements project. However, the investment earnings on such proceeds prior to October 10, 2001, were not transferred to the library improvements account but were instead retained for use in the general operations of the Town, rather than for the library project. This is contrary to Article II, Section 2.01(h)(1) of the loan agreement between the Town and the FMLC, which requires that such investment earnings be used for the library project.

Recommendation: For future projects, the Town should prepare analyses to determine: (1) the amount of financing needed; (2) the timing of the needed funds; and (3) the available financing options, and retain documentation of the analyses and the procurement of the financing process. To effectively manage its cash flow, the Town should also ensure that future transfers of funds to paying agents for annual debt payments are made consistent with required payment amounts and due dates. In addition, the Town should calculate and transfer the amount of investment earnings on unused proceeds library improvements loans prior to October 10, 2001, to the library improvements account.

Mayor's Response

Town Management concurs with the Auditors Recommendation. We will do cash flow projections, capital project, budgeting, and we will retain the analysis documents.

Finding No. 20: Debt-Related Reporting and Reserve Requirements

In addition to the loans discussed in Finding No. 19, the Town, in 1972, issued \$310,000 of Water and Sewer Revenue Bonds to finance a part of the cost of constructing additions and extensions to the sewage collection

facilities of the Town’s combined municipal water and sewer system. Our audit disclosed the following violations of covenants relating to the loans and bonds:

- Pursuant to Section 2.02(b) of the loan agreement between the Town and the FMLC, the Town must deliver to the bond insurer and the FMLC as soon as available, and in any event within 180 days after the end of each fiscal year, an audited statement of its financial position as of the end of such fiscal year reported by an independent certified public accountant. Similar requirements are provided for in the Water and Sewer Revenue bond covenants. The Town’s annual financial audit reports for the 1999-2000 and 2000-2001 fiscal years were not delivered to the Town until 500 and 611 days, respectively, after the fiscal year end.
- The Water and Sewer Revenue bond covenants also require the audit to contain a complete report of operations of the system including, but not limited to, a comparison of the report of operations to the current budget and to the operations of previous years, a balance sheet, a schedule of insurance in existence, a schedule of the application of all revenues of the system, a schedule of reserves and investments, a schedule showing the number of customers connected with the system at the end of the fiscal year, and a certificate by the auditors stating no default on the part of the Town of any covenant has been disclosed by reason of the audit. Our review of the Town’s annual financial audit reports for fiscal years ended September 30, 2000, and 2001, respectively, disclosed that these reports lacked the schedules of insurance in existence, the schedules of customers connected to the system at the end of the fiscal year, and a certification by the auditor stating no default on the part of the Town of any covenant was disclosed by the audit.
- The Water and Sewer Revenue bond covenants require that revenues generated by the water and sewer system be deposited into a separate bank account named the Town of Eatonville Water and Sewer System Revenue Fund (Revenue Fund). The covenants further require that revenues be expended only through the establishment of an Operation and Maintenance Fund, a Sinking Fund (including a debt service reserve component), and a Repair and Replacement Fund. The Sinking Fund is to be used exclusively for the purpose of paying principal and interest on the obligations. Monthly amounts to be contributed are equal to 1/12 of the principal maturing on the next succeeding anniversary date, and a sum equal to 1/6 of the next succeeding interest installment to become due on all obligations then outstanding. Monthly transfers are required to maintain the debt service reserve in the Sinking Fund at \$23,000, and the Repair and Replacement Fund at \$15,000. We determined that the amounts of the reserves required for fiscal years ended September 30, 2000, through 2002, were under-funded as follows:

Fiscal Year Ended	Reserves Required	Reserves In Bank	Under-Funded Reserves
2000	\$48,250	\$26,041	\$22,209
2001	\$48,950	\$42,357	\$6,593
2002	\$49,090	\$42,674	\$6,416

Recommendation: The Town should ensure that the annual reporting requirements are adhered to in accordance with the loan and bond covenants, and that required reserves are properly funded.

Mayor's Response

Sections 15, B (1) of the Water & Sewer, \$310,000 water & sewer revenue bonds indicates that funds received from operations of water & sewer shall be to pay the expenditures of the system, any cash balance remaining in the fund after paying and or providing for the payment of expenditures incurred during this fiscal year, after all operating liabilities have been provided for a bond & interest sinking fund should be established to accumulate the funds necessary to make the next interest & principal payment. After fulfillment of the sinking fund requirement the bond covenant requires the Town to establish a debt service fund in the amount of \$23,000 and a repair & replacement fund of not less than \$15,000. Per the bond agreement, a Reserve Fund should be established to the extent that cash is in excess of current operating obligations. It should be noted that while management funded restricted cash accounts, we do not think that it was required based on the bond agreement due to the fact that for the entire period the bond have been outstanding through FYE 2001. The available cash after providing for outstanding operating liability, inclusive of current bond obligations payable, there was no available cash to reserve. The Town will endeavor to meet future reporting requirements. The additional supplemental information required by the water & sewer revenue bond covenants, will be included in future audits.

Auditor General's Follow-Up

The Mayor, in response to this finding, indicates that Section 15(B)(1) of the bond covenants requires the Town to establish reserves to the extent that cash is in excess of current operating obligations. However, Section 15(B)(1) prescribes the requirements for the Operation and Maintenance Fund, whereas our finding relates to the Sinking Fund and Repair and Replacement Fund reserve requirements, which are prescribed in Sections 15(B)(2) and (3). In addition, cash reported on the Town's audited financial statements for the water and sewer enterprise funds, which totaled \$216,088 and \$156,510 as of September 30, 2000, and 2001, respectively, was sufficient to establish the required reserves as of those dates. As the Town's audited financial statements for the 2001-2002 fiscal year are not complete, we could not make this determination as of September 30, 2002.

Restricted Resources**Finding No. 21: Accountability for Restricted Resources**

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

Pursuant to Sections 336.025 and 206.605, Florida Statutes, the Town received local option and municipal fuel taxes that may be used only for specific transportation expenditures as defined by Sections 336.025(1)(b)3. and 206.605(2), Florida Statutes. Contrary to the FDFS Manual, the Town did not use a special revenue fund to separately account for the revenues. Instead, these moneys, which totaled \$186,800 for the period October 1, 2001, through March 31, 2003, were accounted for in the General Fund together with unrestricted Town revenues. See additional discussion in Finding No. 22.

Separate accounting for restricted revenues and other financing sources through the use of separate special revenue funds would facilitate the Town's ability to control the use of restricted moneys and demonstrate in its public records that such moneys were used for authorized purposes.

Recommendation: The Town should 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.

Mayor's Response

Management concurs with the Auditors Findings.

Finding No. 22: Local Option and Municipal Fuel Taxes

During the period October 2001 through March 2003, the Town received local option and municipal fuel tax moneys, totaling \$186,800, pursuant to Sections 336.025(1)(a) and 206.605(1), Florida Statutes. Section 336.025(1)(a)2., Florida Statutes, requires that county and municipal governments use the tax proceeds of the local option fuel tax only for transportation expenditures. Additionally, Section 206.605(2), Florida Statutes, provides that municipal governments shall use the municipal fuel tax moneys only for purposes such as the purchase of transportation facilities and road and street rights-of-way, construction or reconstruction of roads, and road or street maintenance.

As discussed in Finding No. 21, the Town did not separately account for the proceeds and uses of the local option or municipal fuel taxes in the accounting records. In response to our inquiry, we were advised that the Town expended tax proceeds received during the audit period for Public Works Department expenditures. According to Town records, the majority of the Public Works Department expenditures were for employee wages and the Department's share of utility expenses. Although the Public Works Department has responsibilities and duties related to construction, reconstruction, or maintenance of roads and streets, that Department also has other responsibilities and duties, including providing custodial services, reading meters, and maintaining water and sewer facilities. Because the Town's records did not document the extent to which Public Works Department employees' activities related to construction, reconstruction, or maintenance of roads and streets, we could not determine the extent to which the Department's expenditures for employee wages and the utility expenses were in compliance with the restrictions imposed by Sections 336.025(1)(a)2. and 206.605(2), Florida Statutes.

Recommendation: The Town should ensure that its records adequately document that local option and municipal fuel tax revenues are expended only as prescribed by Sections 336.025(1)(a)2. and 206.605(2), Florida Statutes. The Town should also determine the extent to which Public Works Department employees' activities relate to authorized purposes and determine the amount of local option and municipal fuel tax revenues, if any, not expended for the specific transportation uses as required by State law and ensure that such revenues are used for authorized purposes.

Mayor's Response

Management concurs with the Auditors Findings and Recommendation. Administration will establish a special fund to track revenue and expenditures relating to local option and municipal fuel taxes. We will also ensure that expenditures are properly classified and documented to demonstrate compliance as required by Florida State Statute. However, it should be noted that the Public Works Department's activities include a significant amount of transportation services. It is management's contention that these funds were spent in accordance with Florida State Statute.

Finding No. 23: Financial Reporting of Fund Equity - Restricted Resources

Under generally accepted accounting principles, local governments are required to classify fund equity (assets less liabilities) into appropriate categories so as to separate that portion of fund equity available for the general operation of the local government from fund equity reserved for specified purposes or not available to finance expenditures of the subsequent accounting period. The Florida Department of Financial Services (FDPS) *Uniform Accounting System Manual (Manual)* provides several fund equity reserve accounts to be used by local governments.

As previously discussed, the Town obtained financing for construction and capital improvement projects through loans and bond issues, the proceeds of which were legally restricted to expenditures for specified purposes. In addition, the Town has other resources that are restricted for specific purposes, such as tax increment revenues required to be remitted to the Eatonville Community Redevelopment Agency (CRA) and developer contributions required to be used for improvements to infrastructure. Our audit disclosed the following instances in which the Town did not properly report fund equity related to these restricted resources, resulting in a significant misstatement of the Town's financial position:

- As discussed in Finding No. 19, the Town obtained \$1,880,000 of loans from a bank to finance the acquisition, construction, and installation of a public library; the acquisition, installation, renovation, and equipping of Town Hall; and other capital improvements. The loans were subsequently refinanced through a loan from the Florida Municipal Loan Council (FMLC), through the Florida League of Cities. Since most of the funds obtained through the FMLC are restricted for purposes of the library project or the Town Hall and capital improvement projects, the unexpended balances should be reported as a reserves of fund balance, indicating that they are not available for the general operations of the Town. Our review of the Town's audited financial statements for the 1999-2000 and 2000-2001 fiscal years disclosed that the unexpended balances, totaling \$828,898 and \$765,897, as of September 30, 2000, and 2001, respectively, were not reported as reserves of fund balance.
- As discussed in Finding No. 20, the Town issued \$310,000 of bonds to finance a part of the cost of constructing additions and extensions to the sewage collection facilities of the Town's combined municipal water and sewer system. The bonds were issued pursuant to bond resolutions that contained several covenants governing the use of the bond proceeds and the security of payments to bondholders. These covenants included a requirement that the Town maintain sinking fund, debt service, and repair and replacement reserves. However, our review of the Town's audited financial statements disclosed that required retained earnings reserves of \$48,250 and \$48,950, as of September 30, 2000, and 2001, respectively, were not reported.
- As discussed in Finding No. 69, the Town has made no annual contributions to the Eatonville Community Redevelopment Agency (CRA) since its establishment. Unpaid contributions owed to the CRA totaled \$64,275 and \$132,404 as of September 30, 2000, and 2001, respectively. Our review of the Town's audited financial statements for the 1999-2000 and 2000-2001 fiscal years disclosed no indication that these amounts, or related late fees and interest, were reported as payable to the CRA. Consequently, unreserved fund balances in the General Fund were overstated by these amounts as of September 30, 2000, and 2001, respectively.

Proper reporting of fund equity is important to ensure accurate reporting of the Town's financial position. Additionally, Section 218.503(1), Florida Statutes, identifies as a condition of financial emergency the occurrence of an unreserved or total fund balance or retained earnings deficit for two successive years. Consequently, it is essential that the correct amount of fund equity, including reserved fund balance and retained earnings, be reported to properly assess the Town's financial condition, including a determination as to whether or not the Town is in a state of financial emergency.

Recommendation: The Town should ensure that fund equity related to restricted resources is properly reported and disclosed in accordance with generally accepted accounting principles and the *FDFS Manual*.

Mayor's Response

Management concurs with the Auditor General's findings with the following assumptions:

- *Proceeds from the issuance of Debt Instrument for the library project or the Town Hall and other capital improvement projects should have been placed in the CIP Fund but were inadvertently placed in General Fund. Management will report the remaining funds in the CIP Fund and any other Capital Improvement Project Funds in the future.*
- *As indicated at Finding No. 20, we concur. However, the Fund did not have available excess cash to fund the required reserves.*

While it is true that the Town did not make annual contributions to the Eatonville Community Redevelopment Agency (CRA), it should be noted that the Town incurred costs in carrying out the CRA's functions and also paid CRA related expenses incurred by the CRA. After taking these expenditures into account, the Town had no liability to the CRA through 2002.

Auditor General's Follow-Up

The Mayor, in response to this finding, indicates that after taking into account costs incurred by the Town in carrying out CRA functions, and CRA-related expenses paid by the Town, the Town had no liability to the CRA through 2002. However, our finding addressed unpaid contributions payable to the CRA as of September 30, 2000, and 2001, and the Mayor did not provide documentation evidencing CRA-related costs incurred, or expenses paid, by the Town as of those dates. In addition, if the Town had no liability to the CRA as stated by the Mayor, it is not apparent why the Town Council, as discussed in Finding No. 69, established a payment plan to pay amounts owed to the CRA for unpaid contributions. Even if the Town did incur costs and pay expenses on behalf of the CRA, this would not relieve the Town of its obligation to report a liability for unpaid contributions. Further, the Town should document costs incurred or expenses paid on behalf of the CRA, bill the CRA for such, and record an appropriate amount due from the CRA.

Contracts and Grants

Finding No. 24: Construction Contract Grants

The Town finances a number of its construction projects through State or local grants. Funding from these grants is usually withheld until the Town has incurred allowable expenditures and complied with specified grant provisions. To realize benefits from such grants, it is critical that the Town implement adequate controls over the administration of grant-funded projects to ensure that such projects are completed timely and in accordance with applicable grant provisions.

In January 2001, the Orange County Parks and Recreation Advisory Board (OCPRA Board) approved funding for a \$200,000 boat ramp project submitted by the Town. As a condition of receiving this funding, the Town was required to construct the boat ramp within two years of the award date and to submit quarterly status reports to the OCPRA Board. The Program also included a provision for a one-year extension to the deadline if the

Town submitted a request prior to the two-year deadline. Funding for the project was to be received by the Town upon completion of the project, proof of payment, and inspection by the OCPRA Board.

Because of concerns over deed restrictions on the property on which the Town intended to build the boat ramp, the OCPRA Board, in a letter to the Town dated March 15, 2001, requested evidence that the deed restrictions did not affect the planned boat ramp site. In response to our inquiry as to how the Town responded to this letter, we were provided a draft letter dated May 17, 2001, to the OCPRA Board from the Town indicating that the Town attorney was reviewing the issue to determine if a petition to the Orange County Board of County Commissioners was required. Although requested, we were not provided with documentation evidencing the Town attorney's efforts in this matter and the final determination.

The Town incurred at least \$20,800 in design work on the boat ramp project, however, it was unable to complete construction of the boat ramp prior to the original January 2003 deadline and requested a one-year extension; however, the request was submitted after the deadline. At a public hearing on March 31, 2003, the OCPRA Board denied the Town's extension request because it was not submitted prior to the project deadline and because quarterly reports had not been received from the Town since April 2002. As a consequence of the Town's noncompliance with the grant requirements, and failure to timely request a deadline extension, the Town is not eligible to receive the \$200,000 of funding awarded by the OCPRA in January 2001.

Recommendation: The Town, for future grant-funded projects, should ensure timely compliance with grant provisions, including the timely submittal of requests for deadline extensions, to prevent delays or loss of grant funding.

Mayor's Response

The Town Management concurs with the Auditors Findings and Recommendation. Any request for deadline extensions will be adhered to for all grant provisions.

Finding No. 25: Summer Food Program

During the summers of 2002 and 2003, the Town received grants from the Florida Department of Education (FDOE) to operate a summer food service program for children. For the 2002 program year, the approved period of operation was June 3, 2002, to August 2, 2002. Our review of supporting documentation disclosed expenditures totaling approximately \$1,600 of food costs incurred during the approved period of operation for which the Town had not requested reimbursement. It was not apparent, of record, why the Town did not seek reimbursement for these expenditures.

In April 2003, the Town submitted an application for a grant for the program period June 2, 2003, through August 8, 2003. On June 9, 2003, a representative of FDOE signed the application indicating FDOE's final approval of the grant for the program period June 2, 2003, through August 8, 2003. The Town began serving meals to children on June 2, 2003, and incurred \$5,400 of food costs for lunches served prior to June 6, 2003. However, the Town did not request reimbursement for these costs or administrative costs associated with serving these meals. In response to our inquiry, we were advised that the Town did not request reimbursement for these costs because they were related to meals served prior to the June 6, 2003, program commencement date indicated in FDOE's award letter dated June 5, 2003. We were also advised that FDOE's award letter indicated a June 6, 2003, program commencement date because the Town had submitted a second grant application via the Internet that listed the program commencement date as June 6, 2003. Although requested, we were not provided with documentation evidencing when the program actually commenced. If the Town's summer food

program actually commenced on June 2, 2003, and since the Town entered into an executed agreement with FDOE indicating a June 2, 2003, program commencement date, the Town may be entitled to reimbursement for program costs incurred for lunches served prior to June 6, 2003.

Recommendation: The Town should ensure that requests for reimbursement of all expenditures incurred during the authorized grant period are submitted to FDOE. The Town should also contact FDOE and seek reimbursement for the \$1,600 related to the 2002 program and, pending clarification regarding the actual 2003 program commencement date, may need to seek reimbursement for the \$5,400 and related administrative costs for the 2003 program.

Mayor’s Response

Management concurs with the Auditors Findings:

- *We will make every attempt to retrieve these funds.*
- *We are writing a letter explaining the mitigating circumstances, due to illness of the former Grants Coordinator, we had to re-train staff in Tallahassee for the Summer Food Program, one of the requirements of the Grant is that a Town employee had to be certified by the Grantor, and due to the size and limited resources of the Town, there was only one (1) certified employee during that time period and he had left the employment of the Town.*

Finding No. 26: Post Office

On September 5, 1996, the Town entered into a written agreement with the United States Postal Service (USPS) to operate a post office. Pursuant to the agreement, the Town receives \$32,000 annually for operations, provides staff to operate the post office, and is responsible for all other expenses in connection with operating the post office, including losses caused by employee misappropriation. The agreement further provides that the Town may seek an increase in its annual fee after the first two years of operating the post office.

On a periodic basis, the USPS conducts stamp audits to verify the amount of stock on hand. Since the inception of the agreement, stamp audits have disclosed shortages totaling \$10,984, of which the Town has reimbursed \$9,387 to the USPS. The most recent audit we reviewed was conducted on April 22, 2003, and disclosed a shortage of \$832. Although requested, we were not provided documentation evidencing that the Town reported the \$832 shortage to appropriate law enforcement agencies for investigation. The Town has also repaid the USPS \$12,000 resulting from money order thefts by post office employees occurring in calendar years 1997 and 2000. Although we were advised that the employees involved in the money order thefts were prosecuted and ordered by the court to pay restitution to the Town, we were not provided documentation evidencing that the Town had pursued or received the restitution.

Operating expenses, including the reimbursements noted above, have continually exceeded the revenue received from the USPS to operate the post office, resulting in a total loss of \$36,083 for the 1999-2000 through 2002-2003 fiscal years as shown below:

	Fiscal Year				Total
	1999-2000	2000-2001	2001-2002	2002-2003	
Revenue	\$32,000	\$32,000	\$32,000	\$32,000	\$128,000
Expense	40,232	42,117	46,548	35,186	164,083
Net Loss	\$(8,232)	\$(10,117)	\$(14,548)	\$(3,186)	\$(36,083)

Although requested, we were not provided documentation evidencing that the Town had requested an increase in its annual fee.

Recommendation: The Town should implement procedures designed to prevent future losses and thefts, report significant stamp shortages to the Town's Police Department or other appropriate law enforcement agencies, and seek reimbursement for such losses through insurance providers or by other means. The Town should also make inquiries with the Victim/Witness Department of the State Attorney, 5th Judicial Circuit, regarding the \$12,000 of court-ordered restitution relating to the money order thefts. In addition, the Town Council, considering the deteriorating financial conditions discussed in Finding No. 6, should request an increase in fees from the USPS or re-evaluate its decision to operate the post office if revenues continue to be insufficient to cover costs.

Mayor's Response

Administration concurs with the Auditor's Findings and Recommendations. We have done several things to limit future losses.

- *We have instituted a daily close out report with check and balance controls;*
- *Established systems in conjunction with the US Post Office to monitor operations;*
- *Coordinate quarterly audits with US Post Office;*
- *Established periodic internal audits;*
- *We are looking at moving the post office to a Town owned building thereby saving the annual rental fee of the current post office which will curtail the operating losses;*

In the event any thefts or losses that occur, we will take the appropriate administrative and/or legal actions.

Finding No. 27: Developer's Escrow Account Agreement

On June 6, 2000, the Town Council approved a developer's escrow agreement that provided for the developer to deposit \$180,000 into an escrow bank account for infrastructure improvements that would improve the water flow for fire fighting needs in a proposed development area. On January 10, 2001, in accordance with the escrow agreement, these funds were deposited into an escrow bank account, and were disbursed by the escrow agent as needed to cover the cost of completing the infrastructure improvements as described in Part A to the escrow agreement. The developer's agreement stated that upon completion of the infrastructure improvements and payment to the developer for any costs associated with the improvements, the developer was to send a notice to the escrow agent and the Town confirming such completion and receipt of funds. Within five days after receipt of such notice, the escrow agent is required to disburse any remaining funds to the Town to be used for additional infrastructure improvements described in Part B to the agreement.

The project was completed in calendar year 2001. Although our review of the bank statements for the escrow account disclosed that no disbursements had been made from the account since calendar year 2001, the developer has not sent a notice to the escrow agent or the Town confirming such completion of the project and receipt of funds necessary to cover costs related thereto. Accordingly, the escrow agent has not yet disbursed the balance in the account (\$48,439 as of January 31, 2004) to the Town. In response to our inquiry, the Mayor indicated that the Town Council probably was not aware of these moneys. The Town has not, of record, taken action to obtain the moneys remaining in the escrow account.

Recommendation: The Town should take actions to compel the developer to provide the required notice to the escrow agent and request the release of these moneys, to be deposited into the Town's

bank account for use in making infrastructure improvements as described in Part B to the escrow agreement.

Mayor's Response

Administration concurs with the Auditor's Finding. We will request the money from the Developer. We will write a letter to the Developer and request that the money's be released from escrow and placed into the Town's bank account to be used for the Towns' infrastructure and Improvement Projects.

Revenues and Other Receipts

The majority of Town revenues recorded for the 2001-2002 fiscal year were from the collection of taxes and franchise fees (approximately \$1,439,000) and utility and solid waste services (approximately \$943,000). The Town also received a substantial amount of revenue from other sources such as State and local grants, State revenue-sharing, building permits, occupational licenses, rental fees, police fines, fire inspection fees, and various other miscellaneous sources. The Town's accounting records indicate the 2001-2002 fiscal year revenues from all sources were approximately \$3,272,000.

Finding No. 28: Prenumbered Receipts

Various taxes, fees, and charges are generally received at the Town Hall. The Town also collects cash through decentralized collection points, including the Planning Department and Police Department. However, all collections are delivered to the Finance Department prior to deposit. Prenumbered receipt forms provide a means for documenting amounts collected, fixing responsibility for such amounts, and determining whether amounts collected are subsequently recorded in the accounting records and deposited. The Town issues receipts for various cash collections, including building permit fees, Denton Johnson Center rental fees, and occupational license fees; however, prenumbered receipts were not used for building permit fees, and building permits were not prenumbered. In addition, for collections for which prenumbered receipts were used, there was no accounting for the prenumbered receipt forms. In the absence of prenumbered receipt forms, and an accounting for such forms by an individual that does not collect fees, the Town lacks reasonable assurance that such collections have been properly recorded and deposited.

Recommendation: The Town should use prenumbered receipts to document all cash collections, and ensure that an accounting for prenumbered receipt forms is performed by individuals that do not have access to collections.

Mayor's Response

Administration partially concurs with the Auditor's Findings and Recommendation. We concur that the building permits were not pre-numbered, we now have pre-numbered building permits, which is being controlled by a person independent of collections. All receipts are pre-numbered and verified by a person independent of collections.

Finding No. 29: Water and Sewer Services

The Town provides water service to Town residents through its water and sewer utility operations. We requested, and were provided, data that the Town represented as gallons of water produced and gallons of water billed to customers during the audit period, but were not provided evidence that the Town reconciled gallons of water produced to gallons of water billed. Our analysis of the data presented for the period June 2002 through March 2003 disclosed an overall water loss rate of 23 percent, and large discrepancies between the gallons produced and gallons billed for several months. For example, during July 2002, Town data indicated that

12,118,000 gallons were produced by the Town with only 7,890,165 gallons billed to customers, a difference of 4,227,835 gallons. Although requested, we were not provided with explanations for the discrepancies noted, or actions taken to resolve the differences.

As evidenced by the results of our analysis, the Town's water system may need enhancements to help reduce costs incurred due to excessive water losses. However, in the absence of documented reconciliations of water produced to water billed, and investigations to determine the causes of water losses, the Town cannot determine what enhancements are necessary.

Recommendation: The Town should perform a monthly reconciliation of the gallons of water produced to the number of gallons billed to customers to ensure that customers are being properly billed for water provided and to detect water leaks or other problems contributing to an abnormally high water loss rate.

Mayor's Response

Management concurs with the Auditors General Findings. There has been a discrepancy in the gallons produced due to inaccurate metering at the well. After analyzing the situation, it was found that the current meter was not accurately metering the water production. The Town has purchased a new meter that should be installed within the next month. Administration will also be reconciling with the number of gallons produced to the number of gallons billed.

Finding No. 30: Utility Receivables

The Town's audited financial statements reported net accounts receivable of \$42,082 in the Water and Sewer Fund for customer utility accounts as of September 30, 2001. In response to our inquiry, we were advised that when utility accounts become delinquent, service is disconnected, and the customer's utility deposit is applied against the unpaid balance. However, the Town has not implemented any further procedures to collect these delinquent accounts, such as referral to a collection agency, nor has the Town attempted to prepare an aging of these accounts, which would assist in determining which accounts are collectible. The Town has inquired with collection agencies regarding their services, but has not contracted for such services.

Recommendation: The Town should, to the extent practical, make a determination as to the likelihood of collection of delinquent utility accounts and, as appropriate, attempt to collect on such accounts through referral to collection agencies or by other means. In addition, the Town should modify its records or otherwise establish procedures for aging utility accounts receivable.

Mayor's Response

The Towns' Water & Sewer billing system currently being used by the Town provides an aging of account receivables. The Town has also established procedures to handle delinquencies and is currently seeking quotes from collection agencies to handle collections on delinquent accounts.

Finding No. 31: Denton Johnson Center

The Town's Denton Johnson Center is a multi-purpose facility that is rented for various functions. A Facility Use Contract is completed for each event and includes a tabulation of rental and other fees charged and a "Hold Harmless/Insurance Agreement," in which the contractor agrees to indemnify the Town from liability, claims, damages, and other related issues arising from the rental. Our review of five events held at the Denton Johnson Center disclosed the following discrepancies:

- Although requested, we were not provided with an ordinance, resolution, or other documentation evidencing the Town Council's authorization to assess fees for the use of the Denton Johnson Center.
- The Town does not consistently assess fees to facility users. For example, for the five events we reviewed, none of the facility users were assessed a \$30 insurance fee identified as being a standard charge in the Facility Use Contract. Also, one of the five facility users was not charged a \$140 rental fee.
- Sales tax was required to be collected, based on fees assessed in connection with facility rental, and remitted to the Florida Department of Revenue (FDOR). However, for the events reviewed for which fees were assessed, sales taxes were not charged at the time fees were collected. We were advised that instead, the Town paid sales tax to FDOR from amounts collected (which would have amounted to about \$30 for the five events we reviewed), thus reducing the Town's revenues.

Four of the five facility users did not sign the Hold Harmless/Insurance Agreement section of the Facility Use Contract. Failure to assure the acceptance of the agreement prior to the use of the facility by users not covered by the Town's insurance policies may expose the Town to potential liability issues.

Recommendation: The Town Council should adopt a fee schedule for the use of the Denton Johnson Center, and ensure that fees are assessed and collected in accordance with the adopted schedule. Additionally, appropriate sales tax should be collected and remitted to FDOR. The Town should also ensure that facility users sign the Hold Harmless/Insurance Agreement section of the Facility Use Contract.

Mayor's Response

Management concurs with the Auditor's Findings and Recommendation.

- The Town is in the process of adopting a Resolution for fee schedule for the use of the Denton Johnson Center.
- The Town customarily collects sales tax on the rental of the center, the instances cited were sales tax were not collected are isolated cases, however, we will establish policies and procedures to assure that there is not a re-occurrence of this.
- We will require the facilities users to maintain or acquire liability insurance, we will also require them to sign the Hold Harmless agreement, and name the Town as the named insurer.

Finding No. 32: Code Enforcement Fines

To enforce compliance with the Town's Development and Technical Codes, Town Ordinance No. 97-12 provided the Town's Code Enforcement Board with the authority to levy, waive, reduce, or alter fines. At its February 21, 2002, meeting, the Code Enforcement Board waived \$16,950 of fines assessed during the audit period against a property owner. The minutes for the meeting did not indicate why the fines were waived. Subsequently, the Town Council, on May 7, 2002, adopted Ordinance No. 2002-10, amending Ordinance No. 97-12 by limiting the amount of code enforcement fines that can be waived without Council authorization by the Code Enforcement Board to 10 percent of the total fines assessed. However, Ordinance No. 97-12, as amended, does not require the Code Enforcement Board to document its basis for fines waived.

Recommendation: The Town Council should amend Ordinance No. 97-12 to require the Code Enforcement Board to document, of record, reasons for waivers of fines.

Mayor's Response

Management concurs with the Auditor's Findings and Recommendation.

We no longer have a Code Enforcement Board, we are in the process of hiring a Code Enforcement Hearing Officer. We will document the reason for any fines that have been waived.

Finding No. 33: Building Permit Fees

On April 2, 2002, the Town Council passed Resolution No. 2002-18 which established a revised Building Permit Fee Schedule for the Town. The resolution was adopted to replace the fee schedule previously established by Ordinance No. 97-05. Section 166.041(2), Florida Statutes, asserts that ordinances may only be revised or amended by another ordinance. The Town's attempt to revise an ordinance with a resolution brings into question the validity of the revised fee schedule. Consequently, individuals issued building permits after April 2, 2002, may have been under- or over-assessed fees based on fees authorized by Ordinance No. 97-05. Subsequent to our inquiry, the Town Council, on November 18, 2003, adopted Ordinance No. 2003-7 establishing new building permit fees.

Recommendation: **The Town should ensure that building permit fees are assessed in accordance with applicable ordinances and that future amendments to the fee schedule are accomplished through the enactment of ordinances.**

Mayor's Response

Management concurs with the Auditor's Findings and Recommendation.

Finding No. 34: Pledged Donations

At the Town Council's workshop meeting on May 1, 2001, a local developer announced that he would donate \$150,000 to assist in the renovation of the Town's fire station. At the meeting, the Mayor indicated that the Town's goal was to raise a total of \$300,000 for the fire station renovation project, and the developer had been appointed as the chairman of a fund-raising committee to raise the additional funds. In response to our inquiry regarding the fund-raising committee, and fund-raising activities held to raise funds for the fire station renovation project, the Mayor indicated that no fund-raising committee had been formed.

There was no indication in the minutes for the Town Council's May 1, 2001, workshop meeting that the developer, at the meeting, had indicated that the \$150,000 pledge was contingent on the Town matching that amount. However, in a letter dated December 18, 2001, addressed to the Town Council, the developer indicated that he would lift the "match requirement" for \$50,000 of the \$150,000 pledged for the fire station renovation project. Also, in a letter dated December 11, 2002, addressed to the Town Council, the Executive Director for the developer's foundation indicated that there was a \$150,000 matching requirement, and that the matching was to be made with funds from "the citizens of Eatonville or other outside sources." The letter also indicated that as of the date of the letter, the foundation had paid \$72,753 to various companies and individuals on behalf of the Town and there had been no evidence of matching funds from the citizens of Eatonville, or from any other source, and requested that the \$72,753 "be put back into the bank" until the matching requirement had been satisfied. The letter further indicated that the Town would be allowed an additional 90 days after the funds were returned to match the funds, after which the "pledge will be lifted."

Based on our review of available documentation and discussions with employees and officials of the Town and the foundation, as of July 2003, the Town had received \$28,937 of contributions from the foundation in the form of direct payments, or on-behalf-of payments, as follows:

- \$5,000 was received from the foundation and deposited into a bank account that had been opened on May 7, 2001. The bank account apparently was to be used to deposit funds to be used by the Town for the fire station renovation project. The foundation's Executive Director, in her December 11, 2002, letter to the Town Council, indicated that \$150,000 was placed in this account; however, we were not provided documentation evidencing that the foundation provided the Town any moneys other than the \$5,000 that were deposited in this account.
- \$23,937 of expenses was paid by the foundation on behalf of the Town. Although the foundation's Executive Director's December 11, 2002, letter to the Town Council indicated that \$72,753 of payments had been made on behalf of the Town, \$48,816 of this amount was not supported by documentation evidencing that the payments benefited the Town.

According to the Town's records, \$229,710 of payments were made from the Town's bank account, including amounts paid to the project manager, architect, and construction contractor for services performed in connection with the fire station renovation project. We requested, but were not provided with, evidence that the Town and the developer had entered into a written agreement documenting the terms of the pledge, including matching requirements. As such, although it appears that the Town met the matching requirement as referred to in the December 11, 2002, letter from the foundation's Executive Director, it is uncertain as to whether the Town is legally entitled to the remaining \$121,063 of pledged contributions. The Town has not, of record, attempted to resolve this uncertainty and obtain the remaining pledged moneys from the developer or the foundation.

Recommendation: The Town should request, from the developer or the developer's foundation, documentation supporting all payments reportedly made on behalf of the Town, determine whether such payments were for expenditures that directly benefited the Town, and seek a resolution with the developer for the release of the remaining pledged funds. If necessary, the Town should consult with legal counsel as to any legal recourse available to the Town to obtain the remaining pledged funds.

Mayor's Response

The State Audit Report reflects that the Developer's foundation had contributed \$72,753 to the fire station renovation project, but the audit could only determine contributions from the developer's foundation in the amount of \$28,937. The differences between the contributions should be reconciled by the town and developer's foundation. As of January 16, 2004, the developer's foundation contributed an additional \$52,000 for the fire station renovation project. It appears that the developer's foundation is making a good faith effort to honor its pledged funds. Moreover, there is no documentation that a condition of the pledge was that the Town would provide matching funds. The developer's foundation appears to be making a good faith effort to honor the pledged funds and making a demand for the remaining sum of the pledged funds premature at this time.

Auditor General's Follow-Up

The Mayor, in response to this finding, stated that as of January 16, 2004, the developer's foundation contributed an additional \$52,000 for the fire station renovation project. However, according to a letter dated January 15, 2004, from the developer's foundation, this payment was an "additional grant . . . to complete the Eatonville Fire Station. We have previously pledged a \$150,000 matching funds grant in 2002." Based on this letter, the payment received in January 2004 is not related to the \$150,000 pledge and, as such, the Town still has only received \$28,937 of the original \$150,000 pledge. The Mayor, in response to this finding, also indicated that there is no documentation evidencing that the Town had to provide matching funds as a condition of receiving the pledged \$150,000. However, we believe that the above-noted letter, as well as the December 11, 2002, letter noted in the finding, indicate that there was, in fact, a matching requirement with respect to the \$150,000 pledge.

Personnel and Payroll Administration

The Town has approximately 60 employees. The Town Council has adopted several ordinances and resolutions related to officer and employee compensation in addition to the Town's Personnel Manual originally adopted by resolution on October 17, 1989, and most recently amended June 4, 2002. Our audit disclosed deficiencies in personnel and payroll administration as discussed below.

Finding No. 35: Job Descriptions

Section 400 of the Personnel Manual states that written job descriptions should be developed, maintained, and continually reviewed for all Town positions, and that job descriptions are to be used as a basis for establishing the minimum recruitment qualifications for attracting candidates for employment. Although we were provided with various job descriptions that Town staff asserted were in effect during the audit period, we were advised that the job descriptions were drafts and had not been approved by the Town Council.

Recommendation: The Town Council should review the draft job descriptions and officially adopt final versions to provide guidance for hiring decisions made regarding future job vacancies.

Mayor's Response

Management concurs with the Auditor's Findings and Recommendation. Administration has presented the Job Descriptions to Town Council for review and approval. The Job Descriptions were approved during the February 17, 2004 Town Council Meeting.

Finding No. 36: Hiring Practices

Effective control over the hiring of new employees includes verification of employment history and educational experience prior to offering employment, and the maintenance of personnel files that include completed applications, letters of reference, college transcripts (if applicable), and other appropriate documentation evidencing authorized personnel actions. Our test of eleven employees hired between October 1, 2001, and March 31, 2003, disclosed the following:

- For six employees, the Payroll/Status Change Notice forms used to document personnel actions, including new hires, did not contain approval signatures authorizing the date of hire and initial rate of pay for each position. Failure to properly document authorization to add new employees to the payroll, considering the inadequate separation of duties discussed in Finding No. 3, increases the risk that unauthorized salary payments could be made without prompt detection.
- One employee, a Chief Administrative Officer, was appointed by the Town Council on an interim basis on June 4, 2002. Section 400.04 of the Personnel Manual requires that persons interested in employment with the Town complete written applications. In addition, the Personnel Manual requires application screening and reference checks. Although requested, the Town could not provide a written application, resume, or other documentation from this individual evidencing experience and educational accomplishments. Absent such information, it is not apparent how a proper screening of the applicant and reference checks could have been done in accordance with the Personnel Manual.

In addition to the test of new hires, we noted an employee that was the Recreation Coordinator from August 13, 1999, to October 23, 2000, and the Code Enforcement Officer from February 12, 2001, through the remainder of the audit period, but did not meet the minimum requirements for either position as stated in the respective job

descriptions. Both positions required previous experience and educational accomplishments, including three years of experience for the Code Enforcement Officer position, and a bachelor's degree for the Recreation Coordinator. According to documentation in the employee's personnel file, educational accomplishments included a high school diploma and one year of nursing courses at a vocational technical school. We also noted that the employee's prior employment history did not include any relevant experience for either position.

Recommendation: The Town should document, of record, authorization to add new employees to the payroll. In addition, the Town should ensure that all applicants meet minimum educational and experience requirements prior to hire, and require that job applications be completed for all job applicants and retained on file.

Mayor's Response

Management concurs with the Auditor's Findings and Recommendation. Administration is in the process of revising the Payroll Status Forms, the revised forms will contain three (3) signatures. The Town concurs and will assure that all applicants complete the required paper work for vacant positions. All persons being hired into positions requiring specific certifications or degrees or minimum qualifications, and will comply with the Personnel Manual.

Finding No. 37: Personnel Evaluations

Section 900.01 of the Personnel Manual provides that performance evaluations shall be completed for employees after the first five months of employment or after the first five months following a change in position; upon each anniversary date; or when an employee is assigned to a new supervisor. Our test of personnel evaluations due for 30 employees during the period October 2001 through March 2003, disclosed 22 (73 percent) instances in which performance evaluations were not completed of record.

Recommendation: The Town should ensure that performance evaluations are completed as required by the Town's Personnel Manual.

Mayor's Response

Management concurs with the Auditor's Findings and Recommendation. We will comply with the Personnel Manual for performance evaluations.

Finding No. 38: Compensation Plan

Section 700.07 of the Personnel Manual states that all employees shall be paid at a rate of pay in the amount specified in the Compensation Plan (Plan). In response to our request for a copy of the Plan, we were advised that a formal Plan did not exist and that the Town's practice is to conduct salary surveys of other municipalities with each new hire. However, we were not provided documentation evidencing that such surveys were conducted.

Recommendation: The Town Council should adopt a Compensation Plan as required by the Personnel Manual to ensure that payroll costs are properly managed.

Mayor's Response

Management concurs with the Auditor's Findings and Recommendation. Administration has presented to Town Council a Classification and Pay Plan for all positions in the Town, the plan was approved by Town Council during the February 17, 2004 Council Meeting.

Finding No. 39: Employee Pay Raises

Section 700.07 of the Personnel Manual states that a promoted employee's salary will be assigned to the minimum of the new pay range or to a rate of pay 6 percent greater than the employee's current rate of pay, whichever is higher. This provision appears to conflict with Section 1200.06 of the Personnel Manual, which provides for a pay raise, due to a promotion, of 10 percent of the employee's current salary, or the minimum salary range of the new position. Additionally, Section 900.2 of the Personnel Manual allows for merit increases based on a Merit Adjustment Schedule. Our review of personnel files and payroll records disclosed eight employees who received pay raises as result of promotions or merit increases ranging from 12.5 to 41.7 percent. As noted in Finding No. 38, the Town could not provide a Compensation Plan outlining the pay ranges for each job position. In addition, the Town could not provide a Merit Adjustment Schedule to substantiate the percent of merit increases that was allowable and, as discussed in Finding No. 37, the Town has not completed performance evaluations for many of its employees. Without these documents and procedures, the Town cannot justify the basis for the salary increases received by various Town employees.

Recommendation: The Town should ensure that pay raises for all employees are equitably implemented based on a Town Council approved Compensation Plan and Merit Adjustment Schedule as required by the Town's Personnel Manual. Additionally, the Town should revise the Personnel Manual to ensure consistency among its various sections.

Mayor's Response

Management concurs with the Auditor's Findings and Recommendation.

- *It is the Town's belief that the salary adjustments pay raises given were justified based on the market, however we have adopted a new compensation plan, and are in the process of updating our Personnel Manual.*
- *Along with more stringent documentation requirements which will clarify the justification for future pay increases.*

Finding No. 40: Overtime Payments and Compensatory Leave

Section 700.02 of the Town's Personnel Manual allows for the payment of overtime for hours worked in excess of 40 hours per week when those additional hours are required by the demands of their job and authorized by the appropriate department head. Additionally, according to Sections 700.02 and 700.09(E) of the Personnel Manual, employees may earn compensatory time for hours worked in excess of the standard 40-hour work week. These hours may be accumulated to 40 hours, but must be used within 30 days of being earned. Contrary to the Personnel Manual, two employees were paid \$928 (in March 2001) and \$1,181 (in July 2000) for accumulated compensatory time totaling 42.5 and 77.6 hours, respectively, that had not been earned in the prior 30 days.

Recommendation: The Town should ensure that compensatory time is earned and used in accordance with the Personnel Manual. The Town should also take appropriate action to recover from the employees the amount of unauthorized compensatory time paid.

Mayor's Response

Management concurs with the Auditor's Findings and Recommendation. Administration is in the process of developing a standardized form for over time and compensation time. We will also assure that all compensatory time earned will be utilized by the employee before the employee may make use of annual leave.

Finding No. 41: Employee Leave

Annual, sick, and administrative leave is granted to Town employees based on guidelines established by the Personnel Manual. As prescribed by Section 800 of the Personnel Manual, permanent full-time employees earn 8.667 hours of annual leave and 8.667 hours of sick leave each month. Employees with 5 to 10 years, and 10 or more years, of full-time service earn 10.833 and 13 hours of annual leave per month, respectively. Additionally, permanent full-time employees who are in positions designated as exempt from overtime, are eligible for administrative leave with the number of days allowed dependent on the employee's position title. The Personnel Manual does not define the term "permanent."

Our review of leave and attendance records maintained during the audit period disclosed the following situations in which the leave provisions of the Personnel Manual may not have been applied in the manner intended by the Town Council:

- Section 800.05 of the Personnel Manual, regarding sick leave, provides that, "Permanent part-time employees who are scheduled to work at least ½ the regular workweek shall earn credits at a rate in proportion to the percentage of the regular workweek they are scheduled to work." This provision, which indicates that sick leave will be earned on a pro-rated basis depending on the hours an employee is scheduled to work, appears to conflict with another provision included in Section 800.05 of the Personnel Manual, which states that, "Permanent part-time employees will accumulate leave at the rate of 4.333 hours per month."
- Our review of the operating budgets for the Town's Fire Department disclosed that the Town has budgeted up to 18 part-time firefighter positions since the 2000-2001 fiscal year. Our review of the personnel files and payroll records disclosed that while many of these part-time employees worked in excess of ½ the regular workweek of a full-time public safety employee, they did not earn sick leave, which may be contrary to Section 800.05 of the Personnel Manual. In response to our inquiry, we were advised that there are no part-time employees accruing sick leave benefits. Although the Personnel Manual does not clearly define a permanent part-time employee, the continual budgeting for part-time firefighter positions by the Town Council, and the fact that several part-time firefighters were employed for over three years, indicates that these positions are permanent in nature and should be accruing sick leave benefits.
- The Interim Chief Administrative Officer (CAO) took 4 days of paid administrative leave in May 2003 within two weeks of her hire date. Although the leave was approved by the Mayor, Town policy states that administrative leave can only be authorized for permanent full-time employees. As the Personnel Manual does not define the term "permanent" for purposes of the Manual, it is unclear as to whether interim positions should be considered permanent positions for purposes of the Manual and, as such, whether the Interim CAO was entitled to payment for the administrative leave.

Recommendation: The Town Council should review and revise, as appropriate, the Personnel Manual to clarify the above-noted issues. In addition, the Town should consult with its legal counsel as to appropriate action to take regarding the sick leave that was not granted to part-time firefighters and the administrative leave paid to the Interim CAO.

Mayor's Response

Management is in the process of updating its personnel manual to clarify what benefits part-time employees may be entitled to. The town is reviewing the part-time issue and the interim employment issue.

Finding No. 42: Employee Compensation

Town employees are paid bi-weekly based on their rate of pay and hours worked for hourly employees and payroll-by-exception for salaried employees. The employee's rate of pay is documented by a Payroll/Status Change Notice initiated by a department head and approved by the Mayor or Chief Administrative Officer. Certain Fire Department personnel, in addition to their regular salary, are also paid for fire inspections performed such as those necessary to satisfy occupational license requirements. In addition, full-time police officers receive salary incentives in accordance with Section 943.22, Florida Statutes, for obtaining educational degrees and completing career development training courses. Our review of payroll transactions disclosed the following:

- The Town paid holiday bonuses to employees totaling \$3,160 and \$3,540 during the calendar years 1998 and 1999, respectively (no holiday bonuses were paid during the calendar years 2000 through 2003). In response to our inquiry, Town personnel provided a memorandum from a former Chief Administrative Officer indicating that the 1999 bonuses were to be paid to all employees based on classification and years of service; however, no documentation was provided regarding the bonuses paid during the 1998 calendar year. Further, we were not provided with documentation evidencing that the bonuses were approved by the Town Council.
- Our test of 30 payroll transactions during the period October 2001 through March 2003 disclosed four instances in which Payroll/Status Change Notices demonstrating that the rate of pay at which the employees were being paid had not been approved by authorized Town personnel.
- In April 2000, a firefighter was paid \$1,209 representing a retroactive pay adjustment from \$8 per hour to \$10 per hour for 604.5 hours worked during the period October 1999 through February 2000, although the employee's rate of pay remained at \$8 per hour after the adjustment. We requested, but were not provided a Payroll/Status Change Notice or other documentation evidencing the reason for the adjustment or approval for the adjustment.
- During the period January 2000 through March 2003, Fire Department personnel were compensated for 239 hours of fire inspection duties at \$15 per hour. For 51 of these hours recorded on an employee's timesheet for the pay period ended October 6, 2001, we requested, but were not provided with, documentation evidencing actual inspections performed by this employee for the pay period.
- Our review of the Police Officer salary incentives paid in accordance with Section 943.22, Florida Statutes, noted differences between the amounts paid and the amounts authorized by the Florida Department of Law Enforcement for four of the eight eligible officers. Differences ranged from underpayments of \$20 per month to overpayments of \$30 per month. Subsequent to our bringing this to the Town's attention, the Town, effective July 14, 2003, adjusted the payroll system to provide for the correct salary incentive payments for these employees. However, the Town did not, of record, attempt to correct previous under- or over-payments.

Recommendation: The Town should ensure that documentation evidencing Town Council approval of employee bonuses is retained. The Town should also ensure that actual rates of pay used to compensate employees, and pay adjustments, are properly documented and approved; payments for fire inspections are properly documented; and police salary incentives are paid in accordance with amounts authorized by the Florida Department of Law Enforcement.

Mayor's Response

Management concurs with the Auditor General's Findings.

Finding No. 43: Council Member Compensation

Chapter 67-1361, Laws of Florida, created the Charter for the Town of Eatonville. The Charter established a Town Council to serve as the governing body of the Town, and made no provision for Council members to be compensated. In March 1998, the Town Charter was revised, but continued to make no provision for Council members to be compensated. Our audit disclosed that Town Council members received monthly compensation. Resolution No. 62, adopted by the Town Council on July 5, 1968, established monthly payments of \$100 to the Mayor and \$50 to the remaining Council members. We were advised that adjustments to Council member compensation are approved as part of the annual budgets.

During our audit period, the Town Council approved Ordinance 2001-5 on October 9, 2001, adopting the 2001-2002 fiscal year budget. This budget authorized a bi-weekly salary of \$276.92 for the Mayor, and monthly stipends of \$200 to each remaining Council member. Also, each Council member, including the Mayor, was to receive an \$83.33 per month travel allowance and a \$266.17 per month cash in lieu of health insurance payment. The 2002-2003 fiscal year budget was adopted by Ordinance 2002-14 on September 18, 2002. Payments to the Council members, other than the Mayor, remained the same as in the prior fiscal year, but the Mayor's bi-weekly salary was increased to \$369.23. His travel allowance and cash in lieu of health insurance benefits were not approved until reinstated by unanimous Council vote on January 7, 2003. The Mayor's salary was subsequently increased to a bi-weekly amount of \$738.46 upon the adoption of Resolution 2003-16 on May 6, 2003.

Pursuant to Section 166.041(2), Florida Statutes, a Town ordinance can be amended only by another ordinance. Prior to the enactment of this law in 1973, the Town's Charter could only be amended by special act of the Florida Legislature; therefore, we question the Town's authority to amend its Charter with a resolution and establish compensation for Town Council members. In addition, Ordinances 2001-5 and 2002-14 did not comply with the requirements of Section 166.041(2), Florida Statutes, regarding the change in Town Council members' compensation as they did not state in their title, or otherwise in the ordinance, that they addressed a change in compensation for Town Council members. As a result, it is questionable as to whether the compensation payments were authorized. During the period October 2001 through March 2003, Town Council members were paid \$52,047 without specific Town Charter or ordinance provisions authorizing such payments.

Recommendation: The Town Council should ensure that future compensation paid to Council members is authorized by Town Charter amendment or 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 all compensation previously paid to Town Council members.

Mayor's Response

Under section 6, general powers of the old and new charters would allow Town Council the authority to establish compensation for Town Council members. Neither the old or new Charter prohibits the Town Council from receiving compensation. The Town

Council has changed its compensation via the budget, which is an improper way to address this issue. As a consequence of the foregoing, the Town Council may either amend the existing charter to provide for compensation of Town Council members or enact an ordinance pursuant to Section 6, of the 1998 Charter to provide for compensation of Town Council members. In the event the Town elects to enact an ordinance it should be done pursuant to Section 166.041 (2), Florida Statutes. The Town Council can ratify the compensation paid to them after enacting a charter amendment or new ordinance, which would address the questionable compensation. Based upon our legal advice, this issue will be taken before Council.

Finding No. 44: Taxable Compensation

Prior to July 2002, Council members were paid through the Town's accounts payable system with the exception of the Mayor's salary that was paid through the payroll system. Section 61 of the Internal Revenue Code defines gross income to include compensation for services, including fees, commissions, fringe benefits, and similar items. Pursuant to United States Treasury Regulation 1.61-21(a)(3), a fringe benefit provided to any person in connection with the performance of services by that person is treated as compensation for services performed by him and is includable in gross income unless the law specifically excludes it. Examples of excluded benefits are educational assistance and group-term life insurance coverage.

Our review of compensation paid to Town Council members disclosed the following taxable income and fringe benefit issues that were not properly addressed by the Town:

- The Mayor received compensation (excluding salary and travel allowances) totaling \$1,179 during calendar years 1998 through 2000 that was not included on his Forms W-2, Wage and Tax Statements or on any other tax reporting documents such as Form 1099-MISC, Miscellaneous Income. These payments were recorded in the accounting records as professional services, employee bonuses, and cash in lieu of health insurance, which represent gross income to the recipient as stated above.
- Prior to June 2003, the Town did not withhold Federal income tax on compensation paid to Town Council members, with the exception of the Mayor's salary. Upon consultation with the Internal Revenue Service in June 2003, the Town began withholding Federal income tax on all Council member compensation.
- As discussed in Finding No. 59, Town Council members received travel allowances totaling \$10,772 during the 1999 and 2000 calendar years that were not reported as taxable income to the Internal Revenue Service. Travel allowances were properly reported for the 1998, 2001, and 2002 calendar years.
- The Town paid holiday bonuses totaling \$3,160 and \$3,540 to Town employees during the 1998 and 1999 calendar years, respectively. Although requested, we were not provided with documentation evidencing that the bonuses were reported to the Internal Revenue Service for income tax purposes. Pursuant to United States Treasury Regulation 1.61-2, Christmas bonuses are considered to be taxable as compensation for services and, in accordance with United States Treasury Regulation 31.3401, are subject to withholding for payment of Federal income tax and other employment taxes. Bonus payments were made through the accounts payable system rather than the payroll system, therefore, these bonuses were not reported as wages or other compensation and were not subjected to the withholding of Federal income tax or the payment of other employment taxes.

Recommendation: The Town should annually determine what fringe benefits provided to Council members and employees should be included on employee Forms W-2. In addition, the Town, subject to its consultation with legal counsel regarding Council members' compensation (see recommendation for Finding No. 43), should determine the extent to which amounts were paid to Council members and

employees that were not reported and contact the Internal Revenue Service to determine what corrective action should be taken regarding the unreported amounts.

Mayor's Response

Management will review and determine if any reporting requirements omitted on the W-2 in regards to compensation paid to the Mayor, and make appropriate adjustments if necessary.

- *The Town prior to fiscal year 2002 issued 1099's to Council members for compensation paid to them. Beginning in fiscal year 2002 Council members compensation is reported on form W-2, the Town's payroll is processed by an outside payroll company, the Town did not withhold Federal Income Taxes on Council members compensation for the months of April, May, & June of 2003. The taxes were subsequently withheld and an amended 941 was filed.*
- *In regards to travel allowances, management will investigate and or request documents to substantiate the travel request from former town council members. Based upon the investigation, management, along with advice from council, will determine what the appropriate actions should be.*

Management concurs with Auditor General's Findings in regards to bonus pay. We will investigate if any internal revenue services regulations have been violated, and determine with legal counsel advice what corrections actions if any should be taken.

Finding No. 45: General Employee Pension Fund

The Town of Eatonville General Employee Pension Fund (Fund), established by Ordinance No. 1990-02, was adopted by the Town Council on April 2, 1990, with an effective date of October 1, 1989. This Fund is a defined contribution retirement plan that is a part of the Florida Municipal Pension Trust Fund administered by the Florida League of Cities. Florida Department of Management Services Rule 60T-1.006, Florida Administrative Code, provides that each plan sponsor of a local retirement system or plan defined as other than those requiring actuarial reports shall provide, on an annual basis, information necessary to gather, catalog, and maintain complete information to the Florida Department of Management Services, Division of Retirement. We determined through inquiry of the Division of Retirement, that reports regarding the Town's pension plan had not, as of February 2004, been filed for the 1999-2000 through 2002-2003 fiscal years.

Our review of the Adoption Agreement for the Fund noted that the Town's contributions were specified as quarterly payments of 5 to 10 percent of participants' compensation or a discretionary basis allocated based on participant compensation. Ordinance No. 90-02 provides that the Town Council is responsible for setting the employer's contribution amount annually during budgetary procedures. As shown in the table below, the Town's budgets for the 2000-2001 through 2002-2003 fiscal years included budgeted contributions totaling \$125,200; however, actual contributions only totaled \$17,000:

	Fiscal Year			Total
	2000-2001	2001-2002	2002-2003	
Budgeted Contributions	\$52,674	\$59,927	\$12,599	\$125,200
Actual Contributions	5,000	12,000	0	17,000
Difference	\$47,674	\$47,927	\$12,599	\$108,200

Although requested, we were not provided with documentation evidencing the Town Council's approval to forego the remaining \$108,200 of budgeted contributions and its basis for doing so. However, we were provided a memorandum from a former Finance Director to the Mayor indicating that the significant decrease in budgeted

contributions for the 2002-2003 fiscal year was due to an anticipated budget shortfall. Failure to make the required contributions increases the risk that Fund assets may not be sufficient to pay benefits due to retired employees.

Recommendation: The Town should ensure that required information on the General Employees Pension Fund is submitted timely to the Division of Retirement. In addition, Town personnel should make budgeted contributions to the Fund as directed by the Town Council, or document the Town Council's approval to forego the contributions and the basis for doing so.

Mayor's Response

The Town will comply with the General Employee Pension Reporting requirements.

Finding No. 46: Police Officers' Pension Fund

The Eatonville Police Officers' Pension Fund (Fund) is a defined benefit retirement plan established in accordance with Chapter 185, Florida Statutes. Town records indicate that this Fund was established by ordinance in 1973; however, the Town was unable to provide the adopted ordinance. Contributions to the Fund are made by the participating officers through payroll deduction. In accordance with Section 185.10, Florida Statutes, Fund contributions are deposited into the Police and Firefighters' Premium Tax Trust Fund and are invested by the Florida Department of Management Services, Division of Retirement. To receive their proportional share of premium tax moneys, each municipality and its retirement fund must comply with all provisions stated in Chapter 185, Florida Statutes, including reporting requirements by February 1 of each year.

Our review of the Town records disclosed that receipt of premium tax revenues of \$4,847 and \$6,958 for calendar years 2000 and 2001, respectively, were delayed due to the Town's failure to provide a complete copy of their audited financial statements in a timely manner as discussed in Finding No. 4. Independent audit reports for the 1999-2000 and 2000-2001 fiscal years were dated 299 to 404 days past the February 1st reporting deadlines. Although a separate audit of the Fund was done for the 2001-2002 fiscal year, the audit report was not received by the Division of Retirement until January 12, 2004, 345 days after the February 1, 2003, deadline, resulting in a delayed receipt of the \$9,188 of premium tax revenues for calendar year 2002.

Recommendation: The Town should locate the 1973 ordinance that established the plan or adopt a new ordinance establishing the plan. The Town should also ensure that the reporting requirements of Chapter 185, Florida Statutes, are complied with to allow for the timely receipt and deposit of premium tax revenues into the Police Officers' Pension Fund.

Mayor's Response

Management concurs with the findings of the Auditor's General, and will endeavor to meet future reporting requirements and deadlines. It should also be noted that Management has located the 1973 Ordinance that established the Pension Plan.

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 governmental unit; 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 expenditure and to adequately describe how the expenditure will further an authorized public purpose.

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

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

Finding No. 47: Disbursement Processing

Our test of 30 expenditure vouchers totaling \$268,830 disclosed the following deficiencies in the Town's disbursement processing 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:

- In 14 instances, purchases were not supported by either a contract or purchase order that was properly approved and dated prior to the invoice date. Contracts and purchase orders serve to document management's authorizations to acquire goods and services, and the specifications and prices of the goods and services ordered, provide a basis for controlling the use of appropriated resources through encumbrances, and authorize vendors to provide goods and services to the ordering agency.
- In 6 instances, invoices were not in agreement with purchase orders, quotes, or contracts. A proper pre-audit of supporting documentation prior to payment ensures that goods or services received are in agreement with the quantity and description as specified in the documents authorizing their purchase.
- In 24 instances, supporting documentation for payments to vendors lacked a signature and date evidencing that goods and services were received, inspected, and approved by an appropriate employee. Signatures from appropriate personnel are necessary to ensure that the goods and services ordered have been received and are in good order. Dates that the goods or services were received are necessary for a proper recording of accounts payable at fiscal year-end and may be needed to evidence compliance with the Florida Prompt Payment Act (Chapter 218, Part VII, Florida Statutes), which establishes procedures and time limits for processing and paying invoices submitted by vendors to local governmental entities.
- In all 30 instances, invoices supporting payments were not properly canceled or stamped as paid after payment. Failure to cancel invoices allows for the possibility of duplicate payment.

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

Recommendation: Town personnel should ensure that written purchase orders or contracts are used to document the approval of purchases prior to incurring an obligation for payment. In addition, the Town should ensure that all voucher packages include evidence that goods and services were received by authorized employees, that a proper pre-audit of supporting documentation is done prior to payment, and that invoices are canceled when paid.

Mayor's Response

Management has updated and implemented new purchasing procedures which should alleviate many of the deficiencies cited. However it should be noted that the Town had mitigating system controls as it relates to cancellation of invoices, the AP system which is utilized for processing of invoices has an invoice number control which will only allow a vendors invoice to be processed, manual systems are in place.

Finding No. 48: Unauthorized Expenditures

The Attorney General has indicated on numerous occasions that documentation of an expenditure must be in sufficient detail to demonstrate to the postauditor and the public the authorized public purpose served by such expenditure. Our audit disclosed expenditures totaling \$9,570 for which the Town's records did not clearly demonstrate the public purpose served. Specifically, we noted expenditures of: \$3,585 for Thanksgiving turkey giveaways to senior citizens of the Town; \$2,078 for youth football activities; \$823 for food at luncheons and meetings; \$805 for flowers delivered to employees and Town residents, including memorials; \$531 for youths and chaperones to attend Universal Studios; \$395 for awards to employees and others; \$394 for tee shirts for a youth camp; \$391 for 23 youths to attend Typhoon Lagoon; \$287 for the Mayor's VIP reception during the 2003 Founders Day festivities; and \$281 for printing of Town Christmas cards. In response to our inquiry, we were advised that contributions are received for special events; however, we were not provided with documentation evidencing the amount of such contributions received that were related to the above-noted expenditures.

Recommendation: The Town should ensure and document in its public records that expenditures serve a public purpose, are reasonable, and necessarily benefit the Town.

Mayor's Response

It is Town's Management belief that the expenditures in question were for public purpose that had a direct benefit to the general public. You noted that we spent \$ 2,078 for youth football activities, this youth sport is a part of the Town's recreation program that includes a youth football team. You noted that we spent \$ 1,110 on lunches for seniors and a VIP reception again the senior program is a program that directly falls under our recreation program. The VIP reception is a part of the Towns' Marketing Program. Spending \$281.00 to have Christmas cards printed to send to our residents and businesses is no different than buying Christmas decorations for the Town.

Auditor General's Follow-Up

The Mayor, in response to this finding, stated that it is Town management's belief that the questioned expenditures were for a public purpose that had a direct benefit to the general public. However, the point of our finding was that the Town did not document in its records the public purposes served by such expenditures. Regarding the Town's \$2,078 of expenditures for youth football activities, during the audit we requested an explanation for these expenditures and were advised that they were for the Town's football team. It is not apparent how these expenditures benefited the general public as they appear to have benefited a select group of individuals, and although we were advised that the expenditures were paid from the proceeds of donations and car washes, we were not provided with documentation evidencing the amount of such proceeds collected and used to cover the expenditures. While the other expenditures referred to by the Mayor, such as lunches for seniors and Christmas cards, may have promoted a generally favorable attitude towards the Town, it was not apparent, of record, how these expenditures served a public purpose or were otherwise necessary for the health and welfare of the Town citizenry.

Finding No. 49: Installment Purchases

The Town entered into a financing agreement on May 13, 1998, to provide third-party financing to the Town for the acquisition of assets. Pursuant to the agreement, the Town purchased vehicles and public works equipment

from May 1998 through April 2003. The interest rates for these purchases ranged from 4.96 to 5.96 percent and the installment purchases totaled \$308,000. Each installment purchase was identified by an agreement number. Our audit disclosed the following deficiencies regarding the Town's procurement and financing of vehicles and equipment pursuant to this agreement:

- Although requested, we were not provided with documentation evidencing that a competitive selection process was used to obtain the best interest rate available at the time that each finance company agreement was signed. In addition, although requested, the Town did not provide bids, State contracts, or other documentation used in the purchases of 14 vehicles at a total cost of \$299,869. Absent the above-noted documentation, we could not determine that the vehicles or equipment acquired under these financing arrangements, and the financing terms obtained, were procured in a competitive manner and in accordance Town Ordinance No. 89-116 (see Finding No. 50).
- Although requested, we were not provided payment schedules, invoices, or other documentation evidencing the items purchased or amount financed for equipment and vehicles acquired under several purchases agreements. In addition, the finance agreement, payment schedule, and vendor invoice for a turf mower for \$8,000 (acquired by the Town as indicated on correspondence from the finance company) were not provided. Absent such documentation, the Town has limited assurance that payments related to the financing arrangements are being made in accordance with the agreed upon payment schedules

Recommendation: The Town should ensure that documentation demonstrating that future financings are obtained in a competitive manner. In addition, documentation necessary to demonstrate that payments related to the financing arrangements are being made in accordance with the agreed upon payment schedules should be maintained. If necessary, the Town should contact the finance company to obtain copies of payment schedules, invoices, or other documentation not currently on file with the Town.

Mayor's Response

Management concurs. The Town purchased vehicle from the State bid list In the future the Town will insure that we secure copies of state bids. The Town comply with the purchasing procurement policy in securing bids, we have also established a centralized storage area in the Finance Department.

Finding No. 50: Competitive Selection Process

To provide a means of efficiently and equitably procuring the best quality goods and services at the lowest possible cost, procurement of goods and services should be done using a competitive selection process. Town Ordinance No. 89-116, established Town purchasing procedures. Section 10 of the ordinance provides that all supplies, equipment, and contractual services, with estimated costs exceeding \$2,000, shall be purchased by formal, written contract and/or purchase order from the lowest and best responsible bidder. This Section further requires that invitations to bid, describing the goods/services to be acquired, and the time and place for the opening of bids, are to be placed in at least one official newspaper for at least five working days preceding the last day to receive proposals; and sealed bids shall be submitted to the purchasing agent, opened in public, and all bids received shall be tabulated and available for public inspection. The Ordinance allows for the Town Council to waive a formal contract in cases when it deems it advisable to do so.

Our audit disclosed 16 purchases of goods and services in excess of \$2,000 for which Town personnel could not provide newspaper advertisements, bid proposals, or bid tabulation sheets documenting that a competitive

selection process was used to procure goods and services in accordance with Ordinance No. 89-116. Absent a competitive selection process when acquiring goods and services costing more than \$2,000, the Town is not in compliance with Ordinance No. 89-116 and cannot be assured that such goods and services are being obtained at the lowest cost consistent with acceptable quality and performance.

Recommendation: The Town should ensure that goods and services are competitively selected in accordance with good business practices and Town Ordinance No. 89-116.

Mayor's Response

Management concurs. Administration is establishing a record keeping management system, which is centralized in the Finance Department.

Contractual Services

Finding No. 51: Written Agreements

As a matter of good business practice, contractual arrangements for services should be evidenced by written agreements embodying all provisions and conditions of the procurement of such services. The use of a formal written agreement protects the interests of the Town, identifies the responsibilities of both parties, defines the services to be performed, and provides a basis for payment. Our audit disclosed the following instances in which the Town incurred expenditures for contractual services without benefit of written agreements:

- Payments totaling \$11,452 to a contractor in January 2002 for services invoiced as "entertainment for the MLK 2002 concert." We were not provided a written agreement documenting the nature of these services or the agreed-upon compensation, and the Town Council did not, of record, approve the contractual services.
- Payments totaling \$16,725 and \$21,403 to a contractor for project management services related to the library and fire station projects, respectively, for the period April 2002 through June 2003. We were provided a copy of a written agreement that reportedly was entered into with the contractor; however, the agreement was unsigned.
- Payments totaling \$12,550 between December 2001 and August 2003 to a water plant operator, who had been providing services to the Town since 1995, were made without benefit of a written agreement. In September 2003, subsequent to our inquiry, the Town entered into a written agreement with the contractor.

Absent written agreements specifying the nature of services to be performed and the amount of compensation to be provided, the Town cannot be assured that contractual payments are in compliance with the intent of the Town Council or that the Town received the services to which it is entitled at agreed upon prices.

Recommendation: The Town should ensure that future payments for contractual services are made pursuant to signed written agreements documenting the nature of services to be performed and the compensation for such services.

Mayor's Response

Management concurs with the findings and recommendation. One of the first steps taken by management was to centralize records management. The Town will also ensure that copies of all contractual agreements are properly executed and maintained.

Finding No. 52: Police Dispatch Services

The Town contracted with the City of Apopka to provide dispatch services to the Eatonville Police Department. The Town entered into a written agreement with the City of Apopka dated September 2001, which stipulated an annual fee of \$75,000, payable either annually or in quarterly installments of \$18,750. The agreement provided for an increase in fees if the number of calls increased by more than ten percent over the previous year, and notification was to be provided in the event of an increase; however, the agreement does not specify the amount of the fee increase. We reviewed the invoice for the quarter ending March 31, 2003, which totaled \$20,077. Although the agreement authorized the Town to review the City of Apopka's records, the Town did not, of record, verify that the number of calls handled by the City of Apopka increased by more than 10 percent and, as such, the Town has not, of record, determined whether the City was justified in increasing its quarterly fee.

Recommendation: The Town should review the City of Apopka's records and verify that the number of calls handled by the City of Apopka increased by more than ten percent as justification for the increased fees. The Town should also seek to amend the agreement to specify the amount of the fee increase that the City is entitled to in the event that calls increase by more than ten percent.

Mayor's Response

The Town has entered into a new agreement.

Finding No. 53: Grant Administration Services

The Town contracted with a former employee to provide grant-related services in connection with Florida Recreation Development Assistance Program (FRDAP) grants. According to the Town's records, the Town paid the contractor a total of \$32,600. In response to our request for written agreements demonstrating the basis for such payments, we were provided two written agreements between the Town and the contractor, dated June 16, 1998, and September 5, 2000. Our review of these agreements and other documentation supporting these payments, disclosed the following deficiencies:

- Town personnel could not provide invoices supporting \$11,700 of payments to the contractor.
- Invoices supporting the remaining \$20,900 paid to the contractor did not contain sufficient information regarding the services rendered or out-of-pocket expenses paid.
- The invoices provided referred to work the contractor had done related to four grants; however, we were only provided written agreements relating to administration of two FRDAP grants, Community Park and Catalina Park, and which provided for total compensation of \$12,000, plus out-of-pocket expenses. Neither written agreement provided was signed by either party.

On June 17, 2002, a then Town Council member provided a memorandum to the then Chief Administrative Officer stating that "...it has come to my attention that we have overpaid [the contractor] for FRDAP services in excess of \$20,000." Although requested, we were not provided documentation evidencing actions taken by the Town to determine whether the contractor was overpaid or to otherwise resolve this matter.

Absent properly signed and executed written agreements specifying the nature of services to be performed and the amount of compensation to be provided, and sufficiently detailed invoices, we could not determine whether the contractor was properly paid for services provided, and in compliance with the agreed upon services and compensation.

Recommendation: The Town should ensure that payments for contractual services are supported by signed written agreements and detailed invoices. In addition, the Town should determine the extent to which the payments made to the contractor were for actual services rendered, and seek reimbursement of those funds paid for which services were not received.

Mayor's Response

Management concurs that payments for contractual services should be substantiated by written agreements and detailed invoices. We will investigate the alleged overpayments and take the appropriate actions upon concluding the investigation.

Finding No. 54: Building Inspector Services

The Town contracted with outside building inspectors to perform building inspections for the Town. Although the Town entered into written agreements with the building inspectors documenting their responsibilities, such agreements did not include provisions requiring the contractors to comply with the Town's Development and Technical Codes (Codes). We tested five construction projects, for the period April 2001 through October 2002, for compliance with the Town's Codes. Our audit disclosed the following instances in which the contracted building inspectors did not, of record, comply with the Town's Codes:

- Various sections of the Codes establish requirements for permits, building inspections, certificates of occupancy, site plans, and variances. For four construction projects reviewed, documentation evidencing permits, building inspections, certificates of occupancy, site plans, or variances was not available.
- Section 6-4.3 of the Codes provides that temporary certificates of occupancy may only be granted by the Town Council upon receipt of a cash or surety bond equal to 125 percent of the remaining cost to complete construction. For one of the construction projects reviewed, a temporary certificate of occupancy was issued by the Town's building inspector without, of record, Town Council approval or receipt of cash or a surety bond.

Failure to comply with requirements regarding building inspections, certificates of occupancy, site plans, and variances increases the risk that constructed facilities may not meet safety requirements established by the Town's Development and Technical Codes.

Recommendation: The Town should ensure that written agreements with contracted building inspectors include provisions requiring compliance with the Town's Development and Technical Codes, and require building inspectors to maintain adequate documentation evidencing the completion of appropriate inspections, the proper issuance of certificates of occupancy, and compliance with other provisions of the Town's Codes.

Mayor's Response

Management concurs with the Auditor General's Findings and Recommendation. The renewed contract for the building inspector will include a provision requiring his compliance with the Town's Development, Technical and other Town Codes, and that he will be required to maintain documents for the completion of every inspection, proper issuance of Certificate of Occupancy. In addition, we will require the building inspector to submit documentation of his compliance and inspections and issuance of Certificate of Occupancy prior to accepting his final voucher for a particular inspection.

Finding No. 55: Contract for Fire and Emergency Services

In January 2004, the Town entered into an interlocal agreement with the City of Maitland and the Orange County Board of County Commissioners (County), whereby the City of Maitland and the County agreed to

provide fire and rescue services to the Town's citizenry. Section 3 of the agreement provides that discipline of fire and rescue employees, and other matters incident to performance of services and control of personnel, shall remain with the City of Maitland and the County, and disputes between the Town, the City of Maitland, and the County regarding the extent of duties and functions to be rendered shall be settled by the City of Maitland or the County, as appropriate.

Article VIII, Section 4 of the State Constitution provides that dual referenda are required for the transfer of any function or power from a municipality to a county. The courts and Attorney General have indicated numerous times that this provision requires dual referenda to transfer ultimate responsibility for supervising services from one local governmental entity to another, although a contractual arrangement which does not divert the ultimate authority of such supervision does not require the referenda. Although supervisory power of the Town over fire and rescue services was transferred to the City of Maitland and the County, dual referenda were not held regarding the transfer of power to the County.

Although requested, we were not provided with documentation that the Town had performed a cost/benefit analysis associated with the outsourcing of the fire and rescue function to determine whether the outsourcing was economically beneficial to the Town. At the Town Council's December 2, 2003, meeting, at which it approved the interlocal agreement, the Mayor stated that the "existing fire budget is basically \$350,000 give and take a few thousand dollars" and indicated that a budget of about \$800,000 would be necessary to bring the Town's Fire Department's staffing level up to the staffing level of surrounding municipalities. However, according to the Town's 2003-2004 fiscal year budget, Fire Department expenditures were anticipated to total \$306,349 for that fiscal year, whereas in comparison, the Town, pursuant to the interlocal agreement, is required to pay the City of Maitland and the County a total of \$244,894 for the period January 2004 through September 2004, which equates to \$326,525 on an annualized basis. Further, we were not provided documentation evidencing that a formal study or other research was conducted that concluded there was a need to increase the level of staffing for the Town's Fire Department.

The Town, as a result of the outsourcing of fire and rescue services, should realize annual savings related to payroll, vehicle maintenance, and other costs that it will no longer incur in connection with operating a Fire Department. However, in the absence of a cost/benefit analysis associated with the outsourcing of the fire and rescue function to determine that the outsourcing was economically beneficial to the Town, we were unable to determine whether the cost savings will be sufficient to offset future payments to the City of Maitland and the County.

Recommendation: The Town should either proceed with the referenda required by Article VIII, Section 4 of the State Constitution, or seek to revise the interlocal agreement to clearly indicate that the Town retains ultimate supervisory control over fire and rescue services. In addition, the Town should perform a comprehensive cost/benefit analysis regarding the outsourcing of fire and rescue services to ensure that the Town entered into an economically advantageous agreement and, if appropriate, seek to amend or terminate the agreement.

Mayor's Response

It appears that Article VIII, Section 4, Florida Constitution may govern the Interlocal Agreement between the Town of Eatonville, City of Maitland and Orange County. The options available to the three- (3) parties would entail modifying the agreement to give the Town of Eatonville supervisory powers or alternatively, submit the transfer of fire services to the electors of each party pursuant to a Referendum. Also it appears that the legislative intent of Article VIII, Section 4, Florida Statutes was to prevent local governments from usurping each other's power without having mutual referendum. Moreover, it is the Town's position that it has retained some supervisory power over operations since it has the power to demand change in the performance of fire services. It may

terminate the interlocal agreement, it can modify the scope of fire services and it can refuse to pay for the fire services. On the other hand, there are factors, which may take the parties out of the grasp of Article VIII, Section 4, and Florida Constitution to wit:

1. Has the Town transferred a "function or its power" when it pays for the service of the other two (2) parties, i.e., dispatch and fire services?
2. What is meant by supervisory? Does it mean that the Town has to supervise the employees of the entity it hires to perform a service? Since there is a termination clause provided in the interlocal agreement does this evade the meaning of transfer?
3. How does this differ from the Town employing a private company to perform waste collection that is performed in the past?
4. Does the statute on interlocal agreements limit the application of Article VIII, Section 4, and Florida Constitution?

In conclusion, the parties may elect to file an action for declaratory relief so that a court may render a decision on the applicability of Article VIII, Section 4, and Florida Constitution to the parties interlocal agreement. The circumstances surrounding our fire services are similar to other small cities, i.e., can the county sheriff take over city policing without referendum. In the short time I have had to address this issue, I could not find any definitive case to clarify this issue or my concerns. However, I would like to add that this interlocal agreement was studied and reviewed by three (3) governmental entities which would make more probable than not that the interlocal agreement would withstand constitutional scrutiny.

Auditor General's Follow-Up

The Mayor, in response to this finding, refers to several issues that must be considered in determining whether the Town's contracting with the Orange County Board of County Commissioners for fire and rescue services represents a transfer of a function or power requiring a dual referenda, and indicates that the Town may take action to have this matter clarified in court. As such action could result in significant legal costs to the Town, we suggest that the Town either request an on-point opinion from the State of Florida Attorney General's Office or seek to revise the interlocal agreement to clearly indicate that the Town retains ultimate supervisory control over fire and rescue services.

Finding No. 56: Advance Payments to Contractors

Article VII, Section 10 of the State Constitution provides that neither the State nor any county, school district, municipality, special district, or agency of any of them, shall lend or use its taxing power or credit to aid any corporation, association, partnership, or person. According to Attorney General Opinion No. 96-90, the purpose of this provision is "to protect public funds and resources from being exploited in assisting or promoting private ventures when the public would be at most incidentally benefited." Our review of the Town's records disclosed the following instances in which advance payments were made to contractors contrary to Article VII, Section 10 of the State Constitution:

- As discussed in Finding No. 53, the Town contracted with an individual to provide grant-related services, and entered into two written agreements with the contractor. One of the written agreements for the administration of the Catalina Park project in connection with a Florida Recreation Development Assistance Program grant, provided for payments to be made on specified dates with no correlation to the services to be provided (i.e., performance by the contractor was not required prior to payment). The agreement required the contractor to provide direct supervision of the grant application, planning and design, plans review, bidding, contractor liaison, construction management, billings, project inspections, grant reporting, and grant reimbursement processes. The term of the agreement, dated September 5, 2000, was to expire March 31, 2001, and payments were to be made from September 2000 through January 2001. As of May 24, 2001, the contractor had been paid at least \$7,100 of the \$8,000 contract amount; however, other than services provided in connection with the grant application, work on the project did not commence until January 14, 2002. Therefore, most of the payments to the contractor were made prior to the related contracted services being rendered.

- On July 22, 1999, a written agreement was executed between the Town and a contractor for the development and construction of a Town library. Section 5 of the agreement provided for the advance payment of \$100,000 to the contractor upon the Town receiving the financing required to construct the library. The Town received a bank loan on August 9, 1999, and made the payment of \$100,000 to the contractor on August 10, 1999, based on an invoice referring to Section 5 of the agreement. The Town is now involved in a lawsuit in which the Town alleges that the contractor failed to perform agreed upon services in the manner provided for in the written agreement.
- As discussed in Finding No. 71, on November 18, 2002, the Eatonville Community Redevelopment Agency paid \$5,000 to a contractor as a retainer for grant consulting services for the period of one year; however, there was no evidence of this individual having provided services to the Town prior to, or after, this payment.

Recommendation: The Town should discontinue the practice of making advance payments to contractors. The Town, in consultation with its legal counsel, should take appropriate action to recover the \$5,000 from the grant consultant.

Mayor's Response

Management concurs and have not made advance payment to contractors since 2001. The Town recognizes that this is not a good and sound business practice.

Travel Expenses

Section 112.061, Florida Statutes, governs per diem and travel expenses of public agencies, including municipalities, except that provisions of any special or local law, 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 of reimbursement of travel expenses incurred by public officers, employees, and authorized persons in connection with official agency business.

Pursuant to Chapter 2003-125, Laws of Florida, a municipality that provides any per diem and travel expense policy pursuant to Section 166.021(10)(b), Florida Statutes, shall be deemed to be exempt from all provisions of Section 112.061, Florida Statutes. Any municipality that does not provide a per diem and travel expense policy remains subject to all provisions of Section 112.061, Florida Statutes. Although the Law was approved by the Governor on June 10, 2003, the section of the Law applicable to Section 166.021, Florida Statutes, applies retroactively to January 1, 2003.

Finding No. 57: Travel Policies

The Town has established travel policies and procedures in Section 1500 of its Personnel Manual. As noted above, the provisions of Chapter 2003-125, Laws of Florida, apply retroactively to January 1, 2003. Prior to that, as opined by the Attorney General in Opinion No. 2003-01, municipalities could legislate on the subject of per diem and subsistence allowances for governmental travelers; however, the rates established by Section 112.061(6), Florida Statutes, could not be exceeded. Section 1500 of the Personnel Manual provides that reimbursement for meals in a nonmajor city shall be \$6 for breakfast, \$8 for lunch, and \$14 for dinner, and reimbursements for meals in a major city shall be \$7 for breakfast, \$10 for lunch, and \$16 for dinner. However, based on Attorney General Opinion No. 2003-01, the Town Council, prior to January 1, 2003, did not have the

authority to establish meal allowances that exceeded the meal allowances provided for in Section 112.061(6), Florida Statutes. As such, prior to January 1, 2003, Town employees and officials traveling on official business were only entitled to the subsistence allowances prescribed in Sections 112.061(5) and (6)(b), Florida Statutes, which allows \$3, \$6, and \$12 per day for breakfast, lunch, and dinner, respectively, and entitlement to meal allowances was dependent on departure and arrival times of the traveler.

Pursuant to Section 166.021(10)(b), Florida Statutes, since the Town has established travel expense policies and procedures in its Personnel Manual, it is exempt from all provisions of Section 112.061, Florida Statutes, effective January 1, 2003. Accordingly, it is critical that the Personnel Manual provide adequately detailed guidance regarding all aspects of travel since such guidance previously provided by virtue of Section 112.061, Florida Statutes, will no longer apply to travel by Town officials and employees. While the Personnel Manual generally includes detailed guidance relating to travel, we noted the following instances in which the Manual does not provide adequate guidance:

- Whereas Section 112.061(7)(f), Florida Statutes, includes requirements for travel allowances, the Town's travel expense policies and procedures include no provisions addressing travel allowances. Since, as discussed in Finding No. 59, Council members receive monthly travel allowances, the Personnel Manual should include provisions addressing documentation requirement to substantiate travel allowances.
- Whereas Sections 112.061(5) and (6), Florida Statutes, specify times of departure and return for meal allowances, the Town's travel expense policies and procedures are not specific as to what the traveler's time of departure and return must be for the traveler to be entitled to the meal allowances specified in Section 1500 of the Personnel Manual. For example, while the Personnel Manual specifies that travel must begin prior to 7:00 am for the traveler to be entitled to a breakfast allowance, it does not specify a time of return, and no time of departure and return is specified for a lunch allowance.

Recommendation: The Town should ensure that its travel policies and procedures adequately address all aspects of travel, including requirements to substantiate travel allowances and to entitle travelers to meal allowances.

Mayor's Response

Management concurs and will update travel policies and procedures.

Finding No. 58: Travel Reimbursements

Our test of 31 travel expenditures totaling \$7,740 related to ten instances of travel disclosed that travel-related expenditures incurred prior to January 1, 2003, were not always adequately supported or in accordance with Section 112.061, Florida Statutes, or the Town's travel policies and procedures as discussed below:

- Section 1500 of the Personnel Manual requires pre-approval of all employee travel by the Mayor or Mayor's designee. In two instances, supporting documentation for employee travel expenditures totaling \$1,793 did not indicate pre-approval by the Mayor or other appropriate Town official. Absent such supervisory approval, the Town cannot demonstrate that travel was authorized by appropriate Town officials.
- In six instances, Travel Request and Expense Voucher forms for Council members, totaling \$4,998, lacked signatures by the Council members. To properly demonstrate compliance with Section 112.061, Florida Statutes, and the Town's travel expense policies and procedures, and to establish individual

accountability for such compliance, each traveler should sign the Travel Request and Expense Voucher form, certifying that the travel expenses were actually incurred for official Town business.

- Expenditures totaling \$561 for meals related to travel to a conference by Council members were not supported by copies of the conference agenda. In the absence of the conference agenda, we could not determine whether meals were included in the registration and, as such, whether the Town had complied with Section 112.061(8)(a), Florida Statutes, which requires that the traveler's per diem be reduced for any meals included in a conference registration fee.
- Direct payments to conference sponsors and hotels generally were supported by check requests, but were not subsequently accounted for on a sufficiently detailed travel expense report. For example, five checks totaling \$2,985 were issued to hotels for advance payments for hotel accommodations for several Council members and employees. Although requested, we were not provided with documentation evidencing the actual amount incurred by the traveler and the length of stay at the hotel. Absent this information, we could not determine the propriety for hotel charges for the travelers.
- In nine instances involving \$210 of meal allowances, the travel expense vouchers, or check requests, did not identify the traveler's time of departure and return. Absent the time of departure and return, the Town's records did not document that subsistence allowances were in accordance with Sections 112.061(5) and (6), Florida Statutes. In addition, we noted seven instances in which travelers were reimbursed for meal allowances that exceeded the meal allowances authorized by Section 112.061, Florida Statutes, by \$388.

Section 1500.01(E) of the Personnel Manual requires the Finance Department to review all travel expense payment requests to determine the propriety of travel expenses. As indicated by the results of our test, the requirements of the Personnel Manual were not consistently applied.

Recommendation: The Town should require travelers to provide adequate supporting documentation for any travel expense claims, including evidence of pre-approval by Town officials, as appropriate, certifications by the traveler as to the public purpose served, conference agendas, and evidence of the traveler's time of departure and return. In addition, the Town's Finance Department personnel, as required by the Personnel Manual, should review all travel-related expenditures for compliance with applicable Town policies prior to making payment.

Mayor's Response

Management is in the process of updating its Travel Policies and Procedures in an effort to ensure that all travel expenses are adequately documented and supported.

Finding No. 59: Travel Allowances

Each Town Council member receives \$83.33 per month as a travel allowance. During the period October 2001 through December 2002, such travel allowances were subject to the requirements of Section 112.061(7)(f), Florida Statutes, which provides that an agency head may grant monthly allowances in fixed amounts for use of privately owned automobiles on official business in lieu of the mileage rate provided in Section 112.061(7)(d), Florida Statutes. However, such allowances shall be made on the basis of a signed statement of the traveler, filed before the allowance is granted, and at least annually thereafter. The statement shall show the places and distances for an average typical month's travel on official business, and the amount that would be allowed under the approved rate per mile. Although requested, the Town did not provide any such statements or other

documentation supporting the amount of travel allowances. Although the Town is no longer subject to the provisions of Section 112.061, Florida Statutes, and its travel policy does not address travel allowances as discussed in Finding No. 57, as a matter of good business practice and to demonstrate the public purpose of travel allowance payments, the basis for travel allowances should be documented as to the reasonableness of such payments.

Recommendation: The Town should ensure that future payments for travel allowances are supported by documentation demonstrating that such allowances are reasonable based on applicable mileage reimbursement rates and the amount of typical miles traveled during a given month for official Town business.

Mayor's Response

Management concurs with the Auditors Findings. The Town will adhere to the recommendations contained in the audit report.

Communications Expenses

The Town expended \$73,882 for local, long-distance, pager, and cellular telephone services during the period October 2001 through March 2003. 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. Our review disclosed deficiencies regarding communication expenditures.

Finding No. 60: Cellular Telephones

According to Town records, the Town had incurred at least \$17,852 in cellular telephone service charges during the period October 2001 through March 2003. Subsequent to our inquiry, the Town Council, at its July 1, 2003, meeting, adopted Resolution No. 2003-34 establishing policies and procedures relating to cellular telephone use. Prior to that, the Town did not have policies and procedures relating to cellular telephones and their usage, which may have contributed to the following deficiencies:

- During the audit period, six Town employees, two then Town Council members, and the Mayor used cellular telephones in the Town's name; however, the Town Council had not authorized the acquisition and use of the cellular telephones, and the cellular telephone users did not sign written agreements with the Town specifying acceptable uses of the cellular telephones.
- For the Mayor, two then Council members, and a former employee, cellular telephone bills were not available for three to five months. From those cellular telephone billings that were available, we selected certain calls, based on the frequency or length of the calls, and requested an explanation as to the nature of the Town business that necessitated the calls. In response to our inquiry, we were advised that while some of the calls were made for public purposes, many calls were made for personal reasons and several other calls were to telephone numbers for which the cellular telephone users were unable to identify the person or business called or the nature of the call. 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.
- Although requested, we were not provided with a written agreement between the Town and the cellular service provider; however, the cellular service provider attempted to collect unpaid cellular charges

totaling \$7,079 as of August 11, 2003, from the Town and totaling \$1,998 as of July 25, 2003, from the Eatonville Community Redevelopment Agency. We were advised by the former Chief Administrative Officer that the Town was disputing the charges, and had requested the cellular service provider to discontinue service. Because it had been determined that Council members and employees had frequently used the cellular telephones for personal reasons, they had been requested to reimburse the Town for the cost of the cellular telephone services. According to a schedule prepared by Town personnel, a total of \$6,709 had been recovered; however, the schedule indicated that cellular charges incurred by the Mayor, other Council members, and employees, for which the Town had not been reimbursed, totaled \$5,256 as of February 2004. According to the minutes for the Council's January 4, 2004, meeting, in response to a Council member's inquiry as to the Town's attempts to collect the amounts due from former or current Council members or employees, the Town's legal counsel advised the Town to pay the cellular services provider, and indicated that it would be difficult to recover the charges from former or current Council members and employees because the Town Council did not have an established cellular usage policy in place at the time such charges were incurred. Given the lack of Town Council authority for the Council members and employees to procure cellular telephones in the Town's name, and to use the cellular telephones for personal reasons, it is not apparent why the Town should not take some action, such as referral to a collection agency, to recover cellular telephone charges incurred by these individuals.

Recommendation: The Town should ensure that cellular telephone usage is for Town business and implement appropriate procedures to ensure compliance with the newly adopted cellular usage policy. The Town should also take action to recover from applicable current or former Council members and employees the amount of cellular telephone expenditures incurred for personal reasons.

Mayor's Response

Management concurs with the Auditors Findings and Recommendation. We have implemented a cellular phone policy to ensure compliance with the cellular use procedure. We are in the process of getting three (3) quotes from a collection agency to recover any outstanding monies. You should also note that the Mayor is paying for his own phone bill.

Finding No. 61: Telecommunication Taxes

Customers of vendors that provide telephone services are normally subject to specified Federal, State, and local sales and excise taxes. However, governmental entities are exempt from certain Federal, State, and local taxes. Pursuant to Internal Revenue Code Section 4253(i), the Town is exempt from certain 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. In addition, the Town is exempt from the public services taxes imposed by municipalities pursuant to Section 166.231(5), Florida Statutes. During the period October 2001 through March 2003, the Town was billed for taxes on cellular telephone billings from which it was exempt.

Recommendation: The Town should contact the cellular telephone service provider and request the removal of the taxes from the outstanding bills, and seek credit for any taxes previously paid on invoices.

Mayor's Response

Management concurs with the Auditor General Findings. Administration will contact the cellular phone providers in regards to obtaining credits for taxes previously paid.

Finding No. 62: Telephone Lines

According to the January 2003 telephone billing from the Florida Department of Management Services, the Town maintained 77 telephone lines to be utilized for Town business. In response to our inquiry, the Town determined that 41 of these telephone lines were not being utilized and should be disconnected. We were provided correspondence from the local telephone company which indicated that 20 of these 41 unused telephone lines were not functional. In addition, according to the Town's response to our inquiries, as of June 6, 2003, the Town had 7 active telephone lines at the Denton Johnson Center. As the Town does not have employees assigned to the Denton Johnson Center, and there appears to be need for only one line for occasions when events are held at the Center, 6 of these telephones lines are not being used. As a result, during the audit period, the Town paid about \$21,700 for 47 telephone lines for which it either received no services or did not use.

Recommendation: The Town should implement procedures to periodically review its telecommunication needs and ensure that only active, working telephone lines are included on the monthly billing statements.

Mayor's Response

Management concurs with the Auditors Findings and Recommendation. This has been corrected. There are 6 lines at the Denton Johnson Center. The Town will ensure that only active phone lines are being paid for. It should be noted that the Denton Johnson Center currently has six lines, three (3) of which are used by the Head Start Program, one by Career Choice Program, and two (2) for General Government purposes, the Town is reimbursed for the cost of the lines used for Head Start and Career Choice Programs.

Vehicle Maintenance and Usage

The Town owns several vehicles, including police cars, trucks, fire trucks, a passenger van, and a bus. Our review disclosed deficiencies in the assignment, usage, and maintenance of vehicles as discussed below.

Finding No. 63: 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. Preventative maintenance is necessary to help minimize vehicle repair or replacement costs. Requiring vehicle usage logs, which include mileage records and points of origin and destination for Town vehicles, allows the Town to determine when various maintenance thresholds are met and the purposes for which the vehicles are being utilized. The tracking of vehicle usage is necessary to help minimize vehicle repair costs and to minimize the personal use of Town vehicles.

During the audit period, the Town did not maintain vehicle maintenance logs, and records of vehicle usage were inadequate as they were often incomplete as to destination, public purpose served, or beginning and ending odometer readings. Subsequent to our inquiries, the Town Council, at its August 5, 2003, meeting adopted Resolution No. 2003-40 establishing policies and procedures regarding operation and maintenance of Town vehicles, including the required use of daily vehicle maintenance and usage logs.

Recommendation: The Town should ensure that the provisions of the recently adopted policies and procedures are implemented and monitored.

Mayor's Response

Management concurs with the findings of the Auditor General and has adopted new policies and procedures for vehicle maintenance which were implemented August 5, 2003.

Finding No. 64: Gas Credit Cards

As of April 2003, the Town had a total of 19 gas credit cards for use in fueling Town-owned vehicles, with 17 of the cards issued to Town employees and 2 of the cards unassigned. The Town Council did not establish a policy as to the proper use of the gas credit cards, and gas credit card users were not required to sign written agreements specifying acceptable uses of the gas credit cards. Our review of the monthly billing statements for June 2002 and August 2002 disclosed that Town employees charged a total of \$2,450 for which receipts were not available to support the charges. Absent a written policy that sets forth allowable usage of the Town's gas credit cards, and documentation evidencing the propriety of gas credit card charges, there is an increased risk of unauthorized gas credit card transactions.

Recommendation: The Town Council should enact written policies and procedures governing the control and use of gas credit cards. The Town should also ensure that receipts for all charges incurred on Town-issued gas credit cards are maintained and examined to ensure the propriety of gas credit card charges. Regarding the \$2,450 of unsupported credit card charges disclosed by our review, and any other credit card charges not supported by receipts, the Town should either require the credit card users to provide receipts or other appropriate documentation evidencing the propriety of such charges, or recover such amounts from the users.

Mayor's Response

Management concurs with the Auditors Findings and Recommendation. Procedures are being developed for maintenance logs, and the use of the gas cards.

- *Management has since assigned gas cards to specific individuals in the police and public works department, they will be held accountable for charges.*
- *Maintenance logs are now being maintained in the vehicles and each driver of the vehicles are required to keep a daily log for gas purchases, and receipts are turned in on a daily basis to the respective departments.*

The maintenance logs will be turned in on a weekly basis to the Finance Department. Finance will then reconcile these receipts to the invoices and maintenance logs before payment.

Finding No. 65: Full-Time Use of Town Vehicles

Beginning in January 2002, the Town provided a vehicle on a full-time (24-hour) basis to the Public Works Director. Our review of the records maintained to document usage of this vehicle disclosed the following:

- Neither the Mayor nor the Town Council, of record, approved the assignment of a vehicle to the Public Works Director on a full-time basis. Government-owned vehicles are normally assigned on a full-time basis to certain employees to allow prompt response time to emergencies. As the Public Works Director drove a Town vehicle approximately 100 miles per day commuting to and from the Director's residence, which would not allow for prompt response to emergencies, it was not apparent why he was assigned a vehicle on a full-time basis.
- The Public Works Director was not required to maintain mileage logs for his use of the vehicle. Absent mileage logs, the Town could not clearly demonstrate that the vehicle was used primarily for a public purpose, and used only incidentally for the personal benefit of the employee using the vehicle.

- United States Treasury Regulation 1.61-21(a)(3) provides that an employee's gross income includes the fair market value of any fringe benefits not specifically excluded from gross income by another provision of the Internal Revenue Code. The personal use of an employer-provided vehicle (i.e., driving the vehicle to and from the employee's residence) is a fringe benefit that must be included in the employee's gross income as compensation for services, unless otherwise excluded (e.g., as in the case of a clearly marked police or fire vehicle). Our review disclosed that the value of the personal use of this vehicle was not included in the Public Works Director's gross compensation reported to the Internal Revenue Service.

Recommendation: The Town should maintain vehicle usage logs documenting personal use mileage, and begin reporting the value of such usage 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 value of personal use of vehicles assigned on a full-time basis.

Mayor's Response

We partially agree with the Auditor General's Findings. It should be noted that there is substantiation of the personal mileage usage of the Town's vehicle by the Public Works Director, and it should also be noted that personal usage was included in the gross wages reported to the IRS for the Director of Public Works during the calendar year ending 2002.

Auditor General's Follow-Up

The Mayor, in response to this finding, indicates that there is substantiation of the personal usage of the Town's vehicle by the Public Works Director, and the value of personal usage was included in the Public Works Director's compensation reported to the Internal Revenue Service. However, although requested during the audit and subsequent to our receipt of the Mayor's response to this finding, we were not provided documentation evidencing that the Town calculated and reported the value of the Public Works Director's personal use of the vehicle to the Internal Revenue Service. We were provided a Form W-2 Wage and Tax Statement indicating that "Other" compensation of \$379.60 was reported for the Public Works Director; however, there was no documentation available evidencing the nature of the "Other" compensation or the basis for the amount reported.

Risk Management

Pursuant to Section 112.08(2)(a), Florida Statutes, municipalities are authorized to pay for all or part of premiums for life, health, accident, hospitalization, legal expense, or annuity insurance for their officers and employees, and to enter into contracts with insurance companies or professional administrators to provide such insurance. Pursuant to Article I, Section 6 of the Town Charter, the Town is granted the power to establish and regulate civil service, pension, and insurance plans, and hospitalization and death benefits for Town employees. In accordance with this Section, the Town obtained health insurance coverage from the Florida League of Cities, Florida Municipal Insurance Trust. Section 800.09 of Town's Personnel Manual states that the Town shall pay 100 percent of the premiums for individual health insurance coverage of each full-time employee.

Finding No. 66: Insurance Bids

Pursuant to Section 112.08(2)(a), Florida Statutes, before entering into a contract for officer and employee benefit insurance, a municipality must advertise for competitive bids and select the most favorable bid. The Town, as a matter of good business practice, should obtain competitive bids from insurance providers when acquiring other types of insurance coverage, such as commercial property, liability, automobile, and workers' compensation. The Town purchased health, dental, vision, general liability, automobile, property, and workers' compensation insurance coverage, paying premiums totaling \$357,560 during the 2001-2002 fiscal year.

Although requested, we were not provided documentation evidencing that the Town had ever used a competitive selection process in procuring insurance. In the absence of a competitive selection process, the Town was unable to demonstrate that it had obtained insurance coverage at the lowest cost commensurate with good business practices.

Subsequent to our inquiry, the Town publicly bid for the health, dental, vision, general liability, automobile, property, and workers' insurance, for policy coverage effective October 1, 2003.

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

Mayor's Response

The Town initiated the bid process in May 2003 for Health, Dental, Vision, Workers Compensation, and General Liability for the Town of Eatonville, thereby resulting in a lower premium with a quality product. Management will periodically go out to bid.

Finding No. 67: Automobile and 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 liability and real/personal property policies during the fiscal year 2002-2003 through the Florida League of Cities, Florida Municipal Insurance Trust. The insurance coverage was based on a schedule of insurable items provided to the insurer by the Town. As noted in Finding No. 17, several deficiencies in the Town's controls over fixed assets may affect management's ability to identify such assets and ensure that such assets are adequately insured against loss or damage. Our review of the Town's insurance coverage disclosed that the Town may be improperly insured as a result of the following:

- Our review of the insured property schedules noted that the building limits had not been updated for the 2002-2003 or 2003-2004 fiscal years, and the Town did not, of record, annually reassess the adequacy of values. As such, the Town has limited assurance that it was maintaining adequate insurance coverage for its real and personal property.
- The schedule of insurable values for the 2002-2003 fiscal year policy included \$19,090 of personal property as being located at two police substations; however, we were advised that no property is located at these substations as they are no longer used by the Town.
- The schedule of insurable values listed 13 vehicles that were no longer owned by the Town, including 10 that Town personnel indicated had been sent to auction. During the 2002-2003 fiscal year, the Town paid premiums totaling \$12,233 for the 13 vehicles.

Recommendation: The Town should ensure that all insurable assets are identified and reconciliations between insurance coverage of record and the Town's property records are performed. The Town should also contact the Florida League of Cities, Florida Municipal Insurance Trust, and request a refund of the \$12,233 in premiums paid relating to the vehicles no longer owned by the Town.

Mayor's Response

Management concurs with the Auditor's Findings and Recommendation. We have put procedures into place, which ensures reconciliation between insurance coverage records and town coverage records. And since we put this in place we have a reduction in the insurance premium and a refund.

Finding No. 68: Retiree Insurance

Our review of insurance billings disclosed that the Town paid the health, dental, and vision insurance premiums for a former employee who retired from the Town in 1995. These premiums were paid pursuant to an agreement signed by the Mayor and the retiree, providing that payment of the premiums would continue until the retiree reached an unspecified age. The agreement also stated that the Town could terminate the agreement if the retiree failed to qualify for coverage under the Town's insurance policies, or if the retiree obtained insurance coverage through another employer.

The minutes for the Town Council's April 4, 1995, workshop meeting disclosed some discussion of this agreement during the workshop; however, the Town's Personnel Manual does not provide for payment of insurance premiums for retired employees and the Town Council did not, of record, approve the agreement. Our review of the monthly premium billings for the retiree's insurance coverage disclosed that payments totaling \$8,248 were remitted during the period October 2001 through November 2003, when they were discontinued upon the retiree's death.

Recommendation: The Town Council should, if it wishes to allow the payment of insurance premiums of retiring employees in the future, adopt a policy allowing for such and prescribing the conditions for such payments.

Mayor's Response

Management concurs.

Community Redevelopment Agency

Chapter 163, Part III, Florida Statutes, also known as the "Community Redevelopment Act of 1969" (Act) authorizes the creation of a redevelopment agency for the purposes of the redevelopment of slums and blighted areas that are injurious to the public health, safety or morals, or a severe shortage of housing affordable to residents of low or moderate income. This Chapter further provides additional requirements, including, but not limited to, the manner in which such an agency may be established, the powers of the agency, and the funding of the agency.

Pursuant to Chapter 163, Part III, Florida Statutes, the Town requested that the Orange County Board of County Commissioners (County) delegate to the Town the right and authority to exercise the power to create a community redevelopment agency. The County, in March 1996, adopted Resolution 96-M-17 authorizing the Town to create a community redevelopment agency and requiring County approval of the Town's community redevelopment plan. On December 16, 1997, the Town Council adopted Resolution No. 97-23, creating the Town of Eatonville Community Redevelopment Agency (CRA), declaring the Town Council as the CRA Board, and adopting a community redevelopment plan. On January 20, 1998, the Town, the CRA, and the County entered into an interlocal agreement addressing certain requirements pertaining to tax increment funding of the CRA.

Finding No. 69: CRA Funding

Pursuant to Section 163.387, Florida Statutes, the Town Council, on December 16, 1997, adopted Ordinance No. 97-08 to establish and provide funding for a redevelopment trust fund to finance the CRA.

Section 163.387, Florida Statutes, provides that the annual funding for redevelopment trust funds established for each community redevelopment agency shall be based on tax increments of the applicable taxing authorities. The annual tax increment funding must equal 95 percent of the difference between the community redevelopment agency's current year real property ad valorem taxes levied and the ad valorem taxes levied on real property of a "base year" established by the creation of the community redevelopment agency. The taxing authorities must provide annual funding to the redevelopment trust fund by January 1, and amounts not paid by that date are assessed a 5 percent late fee and 1 percent interest penalty for each month that the payment is past due.

The taxing authorities for the CRA are the Town of Eatonville and Orange County. Our review of the tax increment funding contributed by Orange County to the CRA noted that payments have been calculated using a 1996 base year ad valorem tax value of real property totaling \$49,855,626. Our review of Town records disclosed that the Town has made no annual contributions to the CRA since its establishment. As of August 31, 2003, our calculations of the annual tax increment revenues, using the CRA's 1996 ad valorem tax value of real property as the base year, indicate that the Town owes the CRA \$515,964, including late fees and interest, as follows:

Year	Annual Contribution	Late Fee	Interest	Total Contribution
1997	\$ 5,433	\$ 272	\$ 3,640	\$ 9,345
1998	28,978	1,449	15,938	46,365
1999	29,864	1,493	12,842	44,199
2000	68,129	3,406	21,120	92,655
2001	95,710	4,786	18,185	118,681
2002	182,785	9,139	12,795	204,719
Total	\$410,899	\$20,545	\$84,520	\$515,964

Subsequent to our inquiry, the Town Council, on October 7, 2003, adopted Resolution No. 2003-54, which established a plan for the Town to pay the amount owed to the CRA for previously unpaid contributions, less payments by the Town to, or on behalf of, the CRA. The plan provides for the Town to pay the CRA \$14,469.21 annually until the amount owed the CRA is paid in full. The Resolution, which was also adopted by the Town Council acting as the CRA Board, indicates that all late fees and interest were waived. Section 163.387, Florida Statutes, does not provide for the waiver of late fees or interest on unpaid contributions, and we are unaware of any other authority for the waiver of the late fees and interest. Nor are we aware of any authority for the deferral of contributions over an extended period of time. In addition, the repayment plan does not appear to take into account additional amounts the Town owes the CRA pursuant to an interlocal agreement between the Town and the CRA as discussed in Finding No. 70.

Recommendation: The Town, in accordance with Section 163.387, Florida Statutes, and Ordinance No. 97-08, should immediately pay the CRA the required contributions and related late fees and interest, as adjusted for any payments by the Town to, or on behalf of, the CRA.

Mayor's Response

The CRA's legal counsel preliminary opinion is that the board has the authority to waive Tax Increment Funding (TIF) interest and penalty charges based on the fact that Florida Statute does not specifically address the issue. Based upon these discussions with legal counsel the Town Council adopted Resolution #2003-54 establishing the re-payment plan, this plan was also approved by the CRA Board.

Auditor General's Follow-Up

The Mayor, in response to this finding, indicates disagreement with our conclusion that the Town lacks authority to waive late fees or interest on unpaid contributions. As stated in the finding, the Town, pursuant to Section 163.387, Florida Statutes, must provide annual funding to the CRA and amounts not paid are assessed a 5 percent late fee and 1 percent interest penalty for each month that the payment is past due. While we recognize that the Town has broad home rule authority, the Town may not adopt legislation contrary to general statutory law. See Attorney General Opinion No. 95-39 holding that a county may not rescind its annual contribution of incremental tax revenue to a CRA because where "the Legislature has designated the manner in which a thing is to be done, it is in effect a prohibition against its being done in any other way." In addition, the CRA Board's acquiescence in this waiver would appear to be a clear violation of its fiduciary duty. We continue to recommend that the Town in accordance with Section 163.387, Florida Statutes, and Ordinance No. 97-08, pay the CRA required contributions and related late fees and interest.

Finding No. 70: CRA Interlocal Agreement

On July 15, 2002, the Town Council agreed to the transfer of four Town positions to the CRA, subject to approval by the CRA, whereby the CRA would begin paying the employees occupying these positions from the CRA Trust Fund. The transfer of the Town positions of Planner, Code Enforcement Officer, Community Relations Director, and Grants Coordinator was approved by the CRA on July 16, 2002. Effective August 1, 2002, the CRA began periodically transferring moneys from the CRA Trust Fund bank account to the Town's payroll bank account in amounts necessary to pay the employees occupying these positions (the employees are paid through the Town's payroll system from the payroll bank account).

On September 24, 2002, the Town Council approved an interlocal agreement with the CRA. Pursuant to the agreement, the CRA, using the four transferred positions, was to provide code enforcement, community development, community relations, and grants management services to the Town during the 2002-2003 fiscal year (the employee occupying the grants coordinator position resigned October 11, 2002, leaving only three positions funded by the CRA). The agreement required the Town to make quarterly payments to the CRA beginning October 1, 2002, as reimbursement to the CRA for services provided to the Town for the 2002-2003 fiscal year. On November 4, 2002, the Town Council approved an addendum to the agreement, which indicated that the total amount due to the CRA was \$123,636 (\$117,471 for 50 percent of the salaries for the employees occupying the transferred positions and \$6,165 for leave accumulated by these employees). Our review of the above-noted transfer of positions and the related interlocal agreement disclosed the following deficiencies:

- Although requested, we were not provided with a signed copy of the interlocal agreement. On January 8, 2003, the Town made one payment of \$29,368 to the CRA. In response to our inquiry, we were advised that the remaining balance, totaling \$94,268, had not been paid to the CRA because the interlocal agreement had not been signed by the Town or the CRA.

- Pursuant to Section 163.387(6), Florida Statutes, CRA expenditures from the CRA Trust Fund, including salary expenditures, must be directly related to financing or refinancing of redevelopment in a community redevelopment area pursuant to the approved CRA Plan. Pursuant to Section 163.370(2), Florida Statutes, such expenditures cannot be general government operating expenditures unrelated to the planning and carrying out of the CRA Plan. Under the above-noted contractual arrangement, the CRA is providing code enforcement, community development, community relations services to the Town. Notwithstanding the fact that the Town was supposed to reimburse the CRA for services provided to the Town, such services, at least to some extent, are unrelated to the planning and carrying out of the CRA Plan (see discussion in Finding No. 71). As such, the CRA's funding of these positions from the CRA Trust Fund appears to be contrary to the CRA Plan and Sections 163.387(6) and 163.370(2), Florida Statutes, which raises a question as to the validity of the contractual arrangement.
- The contractual arrangement is based on the premise that the CRA, by virtue of the transferred positions, is providing code enforcement, community development, and community relations services to the Town in return for reimbursement for 50 percent of the cost to fund those positions. However, based on discussions with current CRA staff, and review of available job descriptions for these positions, it appears that the day-to-day duties for these positions did not change as a result of the transfer, and that such duties primarily relate to the general operations of the Town rather than to CRA-related activities as prescribed in the CRA Plan. Further, neither the Town nor the CRA documents, of record, the actual percentage of time that the employees occupying these positions spend on CRA-related activities (i.e., activities related to CRA-approved projects as specified in the CRA Plan) versus activities related to non-CRA related activities. As such, it is not apparent how the Town and the CRA determined that 50 percent was an appropriate allocation percentage.

Recommendation: The Town Council should review the job responsibilities for the transferred positions to determine the legality and appropriateness of the current compensation arrangement. If the arrangement is determined to be legal and appropriate, the Town should fulfill its obligation to pay the CRA for services provided under the arrangement. In addition, the Town should require the employees in the transferred positions to document time spent on Town- and CRA-related activities.

Mayor's Response

The Town and the CRA Board are reviewing the Interlocal Agreement in an effort to determine the actual allocation percentages of positions that are responsible for overlapping functions between the Town and the CRA. Upon completion of this review, Management will resume the Interlocal Agreement payments.

Finding No. 71: CRA Trust Fund Expenditures

Section 163.387(6), Florida Statutes, states that moneys in the community redevelopment trust fund (CRA Trust Fund) may be expended from time to time for undertakings of a community redevelopment agency which are directly related to financing or refinancing of redevelopment in a community redevelopment area pursuant to an approved community redevelopment plan (Plan). Part B of the Town's community redevelopment plan, established by Resolution No. 97-23 and approved by the Orange County Board of County Commissioners (Orange County), describes the planned CRA projects. Section 163.370(2), Florida Statutes, provides that increment revenues may not be used to pay for or finance expenditures related to certain specified projects or for general government operating expenditures unrelated to the planning and carrying out of a community redevelopment plan.

During the period January 1998 through June 2003, \$308,548 of tax increment funding contributed by Orange County was deposited into the CRA Trust Fund. We tested 13 expenditures, each in excess of \$1,500, from the CRA Trust Fund to ensure that they were properly authorized, supported, and related to projects described in Part B of the CRA Plan, and not related to unauthorized uses as described in Section 163.370(2), Florida Statutes. Our test disclosed the following:

- Three checks totaling \$4,950 were paid to a consulting firm during the period April 1999 through July 1999. These payments were not supported by a signed, written agreement or by detailed invoices that described the specific times, dates, and description of the work performed. It is not apparent, of record, how these payments benefit the CRA and complied with the CRA Plan and Sections 163.387(6) and 163.370(2), Florida Statutes.
- On April 10, 2000, the CRA paid \$10,000 for consulting services that were not supported by a written agreement or by a detailed invoice that described the services performed. However, a memorandum written by the contractor only requested payment of \$5,000 for services performed on a street beautification project. At the April 4, 2000, CRA meeting, the Mayor requested that the CRA make every effort to pay the contractor \$10,000, and the CRA Board approved the payment. The minutes for the meeting did not indicate the CRA Board's rationale for approving the \$10,000 payment. Nor was it apparent, of record, how this payment benefited the CRA and complied with the CRA Plan and Sections 163.387(6) and 163.370(2), Florida Statutes.
- On November 18, 2002, the CRA paid \$5,000 to a former employee as a retainer for grant consulting services for the period of one year. Although requested, we were not provided with invoices applied against the retainer as of February 2004, or other documentation evidencing what services were provided to the CRA to substantiate this payment, or how the payment benefited the CRA and complied with the CRA Plan and Sections 163.387(6) and 163.370(2), Florida Statutes.
- On January 27, 2003, the CRA paid \$1,500 for two corporate tables at the Zora Neale Hurston Gala. In addition, on February 5, 2003, the CRA paid \$1,828, which included \$226 for the replacement cost of items not returned, for the rental of approximately 200 place settings for the Martin Luther King Freedom Fighters' Banquet. Although the CRA Plan discusses the possibility of using certain cultural events to attract new business, the Town's records did not demonstrate how these particular events related to the projects specified in Part B of the CRA Plan. Consequently, it is not apparent, of record, how these expenditures complied with the CRA Plan and Sections 163.387(6) and 163.370(2), Florida Statutes. In response to our inquiry, we were advised that the \$1,828 for the banquet should not have been paid from the CRA Trust Fund account.
- On June 20, 2003, the CRA paid \$9,745 to a contractor for lighting installed at a Town park. The contract for this service was signed by the Town, which sought grant reimbursement. The reimbursement was directly deposited by the grantor agency into the Town's General Fund bank account on July 14, 2003. It was not apparent, of record, how this expenditure benefited the CRA and complied with the CRA Plan and Sections 163.387(6) and 163.370(2), Florida Statutes, or why the \$9,745 reimbursement received by the Town was not used to replenish the CRA Trust Fund for future redevelopment projects. Subsequent to our inquiry, the Town repaid the CRA \$9,745 in October 2003.

We also noted that on June 13, 2003, the CRA paid \$9,028 as severance pay to the former CRA Executive Director, pursuant to a three-year written agreement that included a three-month severance payment upon

termination by the CRA. The former CRA Board Chairman and the former Executive Director had signed the agreement on June 2, 2003. On June 3, 2003, the Town Council passed an ordinance that disbanded the CRA Board and named the Town Council as the CRA Board. On June 5, 2003, the Town Council, acting as the new CRA Board, voted to terminate the Executive Director's contract, which resulted in the severance payment. Although requested, we were not provided documentation evidencing that the former CRA Board approved the June 2, 2003, agreement or authorized the former CRA Board Chairman to enter into the agreement. In the absence of the former CRA Board's authorization for the CRA Board Chairman to enter into the agreement, it was not apparent why the new CRA Board agreed to make the severance payment.

Recommendation: The Town should ensure that expenditures of CRA tax increment revenues are properly authorized, supported, and expended in accordance with the CRA Plan and Section 163.370, Florida Statutes.

Mayor's Response

Management concurs and will endeavor to follow good business practices by establishing policies and procedures to ensure that expenditures approved by the Board are properly supported and documented prior to payment. With regards to severance paid to the former Executive Director, the current Board, after consultation with Legal and assessing the cost benefit associated with paying the severance, it was determined that the best course of action was to make the severance payment.

Finding No. 72: CRA Creating and Amending Documents

Section 189.418(1), Florida Statutes, requires that when a new special district is created, the district must forward to the Florida Department of Community Affairs (FDCA), within 30 days after the adoption of the special act, rule, ordinance, resolution, or other document that provides for the creation of the district, a copy of the special act, rule, ordinance, resolution, or other document. This law further requires that the FDCA notify the local government or other entity and the district within 30 days after receipt of the document or documents that create the district as to whether the district has been determined to be dependent or independent. Section 189.418(2), Florida Statutes, states that any amendment, modification, or update of the document by which the district was created, including changes in boundaries, must be filed with the FDCA within 30 days after adoption.

As previously noted, the CRA was created by Resolution No.97-23 on December 16, 1997. In addition, the CRA's board composition was amended or affected by Resolution Nos. 99-04, 2001-35, and 2003-26, and by Ordinance Nos. 2002-15 and 2003-4. Contrary to Section 189.418(2), Florida Statutes, the Town did not file Resolution Nos. 99-04 and 2001-35, and Ordinance No. 2002-15 with the FDCA. Subsequent to our inquiry, the Town filed Resolution No. 2003-26 and Ordinance No. 2003-4 (both adopted June 3, 2003) with the FDCA on August 3, 2003, 61 days after their adoption.

Recommendation: The Town should ensure subsequent amendments, modification, or updates of the documents by which the CRA was created are timely submitted to the FDCA in accordance with Section 189.418(2), Florida Statutes.

Mayor's Response

Management concurs with the Auditor General's Findings. Policies and procedures have been developed and are being instituted to ensure that amended modifications or updated documents are recorded and filed in a timely manner.

Finding No. 73: CRA Budgets

Section 189.418(3), Florida Statutes, requires the governing body of each special district to adopt a budget by resolution each fiscal year. This Section requires that the total amount available from taxation and other sources, including amounts carried over from prior fiscal years, must equal the total appropriation for expenditures and revenues, and it is unlawful for any officer of a special district to expend or contract for expenditures in any fiscal year except in pursuance of budgeted appropriations. Section 189.418(4), Florida Statutes, states that the proposed budget of a dependent special district shall be contained within the general budget of the local governing authority, and be clearly stated as the budget of the dependent district. However, with the concurrence of the local governing authority, a dependent district may be budgeted separately.

Although the CRA did adopt a budget for the 2002-2003 fiscal year, the CRA did not, of record, adopt budgets for the 1997-1998 through 2001-2002, and 2003-2004, fiscal years. As the CRA's expenditures were not budgeted as part of the Town's budget for those fiscal years, the CRA was required to adopt separate budgets pursuant to Section 189.418(3), Florida Statutes.

Recommendation: **The Town should ensure a budget is prepared each fiscal year for the CRA in accordance with Section 189.418(3), Florida Statutes.**

Mayor's Response

Management concurs with the Auditor General's Findings. However, for Fiscal Year 2004, the CRA Board adopted an annual budget.

Auditor General's Follow-Up

The Mayor, in response to this finding, stated that the CRA Board adopted a 2003-2004 fiscal year budget. During the audit, we requested, but were not provided, documentation evidencing that the CRA adopted a budget for the 2003-2004 fiscal year; however, subsequent to our receipt of the Mayor's response to this finding, we were provided a copy of the CRA's adopted budget for the 2003-2004 fiscal year.

Finding No. 74: CRA Audit Reports

On December 16, 1997, the Town Council adopted Ordinance No. 97-08, establishing funding for the CRA's Trust Fund, which was created pursuant to Section 163.387(1), Florida Statutes. Ordinance No. 97-08 incorporated Section 163.387(8), Florida Statutes, which requires the CRA to provide for an independent financial audit, conducted by an independent certified public accountant, of the CRA Trust Fund each fiscal year, and a report of such audit. The Section requires that the audit report describe the amount and source of deposits into, and the amount and purpose of withdrawals from, the Trust Fund during such fiscal year. Also, the audit report must describe the amount of principal and interest paid during such year on any indebtedness to which is pledged increment revenues and the remaining amount of such indebtedness. The CRA must provide a copy of the audit report to each taxing authority.

In response to our request in July 2003, for audit reports for the 1997-1998 through 2001-2002 fiscal years, we were advised that audits of the CRA were not conducted for those fiscal years. Although the CRA, as a component unit of the Town, is annually audited as part of the Town's annual financial audit, the Town's audit reports for the 1997-1998 through 2000-2001 fiscal years did not specifically address the issues specified in Section 163.387(8), Florida Statutes, and the Town's 2001-2002 fiscal year audit has not been completed (see Finding No. 4). Subsequently, in February 2004, we were provided with CRA audit reports for the 2000-2001

and 2001-2002 fiscal years, 29 and 17 months, respectively, after the fiscal years ended September 30, 2001 and 2002. The audit reports appeared to have addressed the issues specified in Section 163.387(8), Florida Statutes, however, although requested, we were not provided documentation evidencing that the reports had been provided to Orange County, one of the CRA's taxing authorities.

An independent financial audit report, when prepared and distributed in a timely manner, would provide taxing authorities information regarding the uses of the funds provided by the increment tax revenues, the indebtedness of the CRA, and information on Trust Fund moneys available and required to complete the projects identified in the Plan or to meet the debt obligations. Further, had separate audits of the CRA been conducted timely in accordance with Ordinance No. 97-08, such audits may have more timely disclosed the control deficiencies and instances of noncompliance discussed in Finding Nos. 69 through 73.

Recommendation: The Town should ensure that independent financial audits of the CRA are timely conducted in accordance with Ordinance No. 97-08 and Section 163.387(8), Florida Statutes, and copies of the audit reports distributed to each taxing authority.

Mayor's Response

Management concurs with the Auditors General's Findings. We are in the process of issuing the reports to the Town of Eatonville, Orange County, and the State Department of Community Affairs.

Other Matters

Finding No. 75: Voluntary Property Annexation

On February 6, 2001, Ordinance No. 00-4, providing for the voluntary annexation of certain property, was adopted by the affirmative vote of two then Council members. According to the minutes for this meeting, the two Council members and the Mayor, pursuant to Section 112.3143, Florida Statutes, abstained from voting due to personal or business relationships with the property owner, who was the Mayor's brother (see further discussion in Finding No. 76). Subsequent to the annexation of this property, the property owner requested the voluntary annexation of another property parcel, which was approved by Ordinance No. 2001-2 by the two Council members at the Council's April 3, 2001, meeting. According to the minutes for that meeting, and the Council voting as recorded on that ordinance, the two Council members and the Mayor again abstained from voting.

Section 166.041(4), Florida Statutes, provides that a majority of the members of a governing body shall constitute a quorum, and an affirmative vote of a majority of quorum present is necessary to enact any ordinance or adopt any resolution. Further, the Attorney General, in Opinion No. 85-40, indicated that a majority of a quorum may legally enact any ordinance or resolution only if the members of a governing body who are legally entitled to vote still constitute a quorum (numerical majority of the entire governing body). As such, the above-noted approvals of property annexations by vote of only two of five Council members present at the meetings appears to be contrary to Section 166.041(4), Florida Statutes, in that two members do not constitute a numerical majority of the entire governing body, which raises a question as to the validity of the Town's annexation of these properties.

Recommendation: The Town should consult with its legal counsel to determine the legal status of these annexations.

Mayor's Response

As noted from the minutes of the Town Council meeting involving the voluntary annexation, there were five (5) Council members present. It only takes three (3) members to constitute a quorum at a Town Council meeting. Three (3) Council members conflicted out on the vote for voluntary annexation. The remaining two (2) Council members voted for the voluntary annexation. It is my opinion that the Town Council had a quorum and the Ordinance was properly passed and adopted by the Town Council

Auditor General's Follow-Up

The Mayor, in response to this finding, indicates disagreement with our conclusion that the above-noted approvals of property annexations by vote of only two of five Council members present at the meetings appear to be contrary to Section 166.041(4), Florida Statutes. However, the Mayor did not address the Attorney General Opinion cited in the finding that conflicts with the Mayor's interpretation of this law.

Finding No. 76: Conflict of Interest

Section 112.313, Florida Statutes, establishes standards of conduct for public officers and employees. Pursuant to Section 112.313(3), Florida Statutes, no officer or employee of a municipality may provide goods or services to a municipality unless one of the exemptions provided for by Section 112.313(12), Florida Statutes, exists. Pursuant to Section 112.313(7), Florida Statute, no public officer or employee of a municipality shall have or hold any employment or contractual relationship that will create a continuing or frequently recurring conflict between his or her private interests and the performance of his or her public duties or that would impede the full and faithful discharge of his or her duties. Also, Section 112.3143(3)(a), Florida Statutes, provides that no municipal or other local public officer shall vote in an official capacity upon any measure which would inure to his or her special private gain or loss or which he or she knows would inure to the special private gain or loss of a relative or business associate of the public officer. This Section further states such public officer shall, prior to the vote being taken, publicly state to the assembly the nature of the officer's interest in the matter from which he or she is abstaining and, within 15 days after the vote occurs, disclose the nature of his or her interest as a public record. Our audit disclosed the following situations that may represent conflicts of interest as contemplated by Sections 112.313 or 112.3143(3)(a), Florida Statutes:

- As discussed in Finding No. 34, a local developer pledged \$150,000 to assist in the renovation of the Town's fire station. During our determination as to the extent of contributions that the developer actually made to the Town, we noted that a business relationship existed between the Mayor and the developer, as the developer had established a \$40,000 line of credit for the Mayor, and subsequently loaned the Mayor \$40,000 as evidenced by a promissory note payable to the developer, dated July 20, 2001, and secured by a mortgage. The Mayor's business relationship with the developer may represent a conflict of interest under Section 112.313(7), Florida Statutes, given his continuing relationship with the developer and ongoing role in Town business that may be related to properties owned by the developer. For example, according to the minutes of the Town Council's May 1, 2001, meeting, the developer indicated that he intends to build 10 to 15 story buildings on property adjacent to property associated with the Reserve at Maitland Center project after sufficient water pressure was available. Such water pressure was achieved by virtue of infrastructure improvements pursuant to the developer's agreement approved by the Town Council in June 2000.
- As discussed in Finding No. 75, two then Town Council members and the Mayor, at the Council's February 6, 2001, and April 3, 2001, meetings, abstained from voting on the voluntary annexation of properties owned by the Mayor's brother. The Mayor abstained due to his personal relationship, while

the other two Council members indicated they had business relationships with the Mayor's brother. One of the Council members that abstained, who indicated on a disclosure of interest form that he contracted with the Mayor's brother, voted on 12 actions affecting the Mayor's brother during the period May 2001 through December 2002, including actions at the May 1, 2001, and June 19, 2001, meetings. The other Council member indicated on his disclosure of interest form that the Mayor's brother's company was the biggest supplier of products for his company, and that he would therefore have to abstain from voting as long as he was a Council member (he served until March 4, 2003). However, this Council member voted on eight actions affecting the Mayor's brother during the 2002 calendar year. The instances in which the Council members voted on matters affecting the Mayor's brother may represent violations of Section 112.3143(3)(a), Florida Statutes, if the business relationships previously disclosed by these members still existed at the time they voted. Although requested, we were not provided with an explanation of what circumstances changed regarding the Council members' business relationships with the Mayor's brother that alleviated the previously reported conflicts of interest.

- The agenda for the Town Council's April 17, 2001, meeting included the first reading of Ordinance No. 2001-3, which provided for the rezoning of property owned by the Mayor's brother. According to the minutes of that meeting, a then Council member asked that this issue be tabled until the next meeting; however, the Mayor's brother objected to this and presented three checks totaling \$2,060 (dated January 31, and February 7 and 22, 2001) that were written to the Council member by a company of which the Mayor's brother was president. The minutes further showed that the Council member stated that the checks were "commission checks" earned by the Council member; however, the former Council member did not deny receiving the checks from the Mayor's brother's company. Subsequently, at the May 1, 2001, Council meeting, the Council member voted to approve the first reading of Ordinance No. 2001-3. If the Council member had a business relationship with the Mayor's brother's company as indicated above, then any instances in which he voted on matters affecting the Mayor's brother may represent a violation of Section 112.3143(3)(a), Florida Statutes. During the period November 2000 through December 2002, the Council member did not abstain from voting on 12 actions involving the Mayor's brother.
- During the course of our audit, we noted non-payroll payments in 1998 and 1999 totaling \$5,635 to the Town's Recreation Coordinator that were recorded as professional and contractual services. According to the Town's records, the Recreation Coordinator was a Town employee during the period in which the non-payroll payments were made. Accordingly, the Recreation Coordinator's providing of services to the Town may represent a violation of Section 112.313(3), Florida Statutes, unless one of the exemptions provided for by Section 112.313(12), Florida Statutes, was applicable. Although requested, we were not provided with written agreements, invoices, or other documentation evidencing the nature of the services provided or demonstrating the existence of one of the exemptions provided for by Section 112.313(12), Florida Statutes.

Recommendation: The Town should refer the above-noted instances of possible conflicts of interest to the Commission on Ethics for a determination of whether such instances represent violations of Sections 112.313(3), 112.313(7), or 112.3143(3), Florida Statutes. In addition, the Town should provide training for the Town Council on the requirements of Sections 112.313 and 112.3143(3)(a), Florida Statutes, to help avoid future situations that could result in conflicts of interest.

Mayor's Response

In your recommendation you noted that this should be referred to the Florida Commission on Ethics. The department of ethics has investigated this issue and dismissed this as being a non-conflict of interest issue, to date the Mayor has never voted for an issue regarding this developer.

Auditor General's Follow-Up

Although not clear from the Mayor's response, it appears that the Mayor's response to this finding is directed at the first bullet of the finding regarding the \$40,000 line of credit established by a developer for the Mayor. While the Commission on Ethics recently concluded an investigation regarding the Mayor, the complaint that initiated the investigation was based on an alleged violation of Section 112.313(6), Florida Statutes, whereas our finding relates to a possible violation of Section 112.313(7), Florida Statutes. The Mayor also indicated in his response that he has never voted on an issue regarding this developer. However, the Town Council (including the Mayor) voted in June 2000 to approve an escrow agreement (see Finding No. 27) that resulted in improved water pressure in connection with the Reserve at Maitland Project, and which affected the developer's ability to develop property adjacent to property associated with the Project.

Finding No. 77 Public Records Retention

Pursuant to Chapter 119, Florida Statutes, the Town is required to maintain public records that are, with some exceptions, to be open for inspection by the public. Section 119.01(4), Florida Statutes, requires all agencies, including municipalities, to establish a program for the disposal of records without sufficient legal, fiscal, administrative, or archival value pursuant to retention schedules established by the Florida Department of State, Division of Library and Information Services (Division). Because of its fiduciary responsibilities associated with the handling of public funds, it is important that the Town maintain adequate records demonstrating that such funds were properly utilized in carrying out its legally established duties. Failure to maintain such records in accordance with State law could result in Town officials being subjected to the penalties outlined in Section 119.10, Florida Statutes.

During the course of our audit, we requested, but were not provided with, the following public records:

- Two ordinances and several resolutions, including Resolution No. 2002-47 amending the Town's Personnel Manual regarding a full-time work week, Resolution 2002-50 reinstating salaries for full-time employees, and Resolution No. 2002-53 appointing a new Town Council member to fill a vacant seat.
- Copies of bank note agreements, signed by representatives of the Town and the bank, for a \$680,000 loan obtained in connection with the Town's construction of a public library, and a \$1,200,000 loan obtained in connection with the Town's installation, renovation, and equipping of the Town Hall and other capital improvements (see Finding No. 19).

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 ensure that all Town records are maintained and available for public inspection as required by Chapter 119, Florida Statutes.**

Mayor's Response

Management concurs with the Auditors General's Findings. Administration has contacted the Florida League of Cities regarding Codification and obtained a quote from other sources.

Finding No. 78: Council Minutes

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

Our review of transcribed minutes prepared for Council meetings held during the period October 2001 through March 2003, disclosed that Council approval of such minutes was not included in subsequent minutes for six meetings. We were advised that a review of Council meeting agendas disclosed the minutes of three of these meetings were approved at subsequent meetings; however, they were not made a part of the transcribed minutes. We were also advised that no minutes for the October 1, 2002, and January 21, 2003, Council meetings were transcribed. Although minutes are generally signed by the preparer of the minutes (the Town Clerk), official control and approval of the minutes rests with the Town Council, and is enhanced by documenting, of record, the Council's approval of minutes.

We also noted several minutes that were not timely approved by the Council. While Section 286.011(2), Florida Statutes, does not specify a time period in which minutes should be approved, for our purposes, we considered approval of transcribed minutes within 35 days to be prompt. Our review disclosed that between October 1, 2001, and May 20, 2003, 9 of the 58 Council meeting minutes that were approved of record were not timely approved by the Council. The range of untimely approvals ranged from 36 to 77 days after the meeting date.

Recommendation: **The Town should ensure that all meeting minutes are transcribed, reviewed, corrected if necessary, and approved by the Council of record, in a timely manner.**

Mayor's Response

Management concurs with the Auditors General's Findings. All Town Council minutes are currently being transcribed by the Town Clerk, and presented to Town Council for approval at their subsequent Town Council Meetings.

Finding No. 79: Amended Town Charter

Section 166.031(2), Florida Statutes, requires that upon adoption of an amendment to the charter of a municipality by a majority of the electors voting in a referendum upon such amendment, the governing body of said municipality shall have the amendment incorporated into the charter and shall file the revised charter with the Florida Department of State (FDOS). The March 1998 general election included a referendum to amend the Town Charter. The Town Council, at its March 17, 1998, meeting, certified and approved the March 1998 election results. While Section 166.031(2), Florida Statutes, does not specify a time frame for filing revised charters with FDOS, we determined that FDOS did not receive the Town's revised Charter until April 7, 2003, more than five years after the Charter was revised.

Recommendation: **The Town should ensure that future amended Charters are filed with the FDOS, in a timely manner in accordance with Section 166.031(2), Florida Statutes.**

Mayor's Response

Management concurs with the Auditor General's Findings. Administration will ensure that any future amendments to the Town Charter be filed to the Secretary of State in a timely manner according to Section 166.031(2), Florida Statutes.

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 operational audit of the Town of Eatonville, Florida, for the period October 1, 2001, through March 31, 2003, and selected actions taken prior and subsequent thereto.

Respectfully submitted,



William O. Monroe, CPA
Auditor General

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, studies, and reviews as directed by the Legislature.

This audit was conducted by Keith Wolfe, 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, and other reports prepared by the Auditor General, can be obtained on our Web site at 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.

**APPENDIX A
BACKGROUND**

Authority

The Town was originally established as Eatonville Chapter 8942, Laws of Florida (1921). Chapter 67-1361, Laws of Florida, abolished Eatonville, changed the name to the Town of Eatonville, and reestablished the Town of Eatonville, Florida, in 1967. The Town is located in Orange 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). Procedures for amending the Town Charter and establishing new ordinances are set forth in Sections 166.031 and 166.041, Florida Statutes, respectively, and Section 81, Article XIV, Chapter 67-1361, Laws of Florida, as amended by the Town.

The Town Charter, as amended by various ordinances, establishes the general powers and duties of the Town Council, including the Mayor; the duties of the 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 10, Article III, Chapter 67-1361, Laws of Florida, as amended by the Town, stipulates that the Town’s governing body shall be the Town Council, composed of five (5) members at large elected by the qualified electors, one of which council members is elected as the Mayor. The members of the Town Council are elected for a term of three years, three Council members being elected in odd-numbered years, and the Mayor is elected for one of the three-year terms. Section 11, Article III, Chapter 67-1361, Laws of Florida, as amended by the Town, stipulates the Mayor shall be the presiding officer of the Town Council. The Mayor shall be the chief ceremonial officer representing the Town on public occasions, and the executive and administrative officer of the Town, charged with the efficient conduct of the Town affairs and with the enforcement of ordinances and laws within the corporate boundaries of the municipalities.

The Town Council serving during the period October 1, 2001, through March 31, 2003, were:

Anthony Grant, Mayor

Marilyn Davis, Council Seat 5 from March 5, 2002, Vice Mayor from March 18, 2003

Francis Sealey, Council Seat 3 from March 4, 2003

James Randolph, Council Seat 2 from March 4, 2003

Evelyn Nash, Council Seat 2 from November 4, 2002, until March 4, 2003

Bruce Mount, Council Seat 4 until March 4, 2003, Vice Mayor from April 2, 2002, until March 4, 2003

Michael Johnson, Council Seat 2 until November 4, 2002

Theodore Washington, Council Seat 3 until March 4, 2003

Roy Sanderson, Council Seat 5 until March 5, 2002

Note: Council Seat 4 was vacant from March 4, 2003, when Bruce Mount resigned, until Kelvean Franklin took office on May 6, 2003.

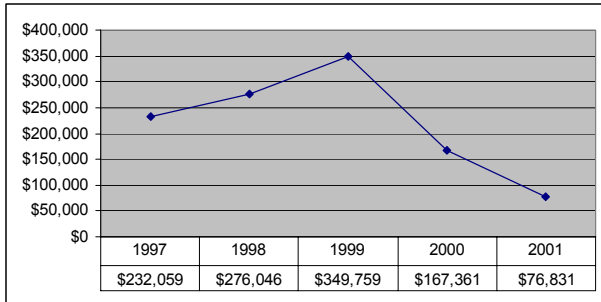
Related Audits

Our audit did not extend to an examination of the Town's financial statements. The Town's financial statements 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.

APPENDIX – B

UNFAVORABLY RATED FINANCIAL INDICATORS
 OPERATIONAL AUDIT OF THE TOWN OF EATONVILLE, FLORIDA
 FOR THE PERIOD OCTOBER 1, 2001, THROUGH MARCH 31, 2003,
 AND SELECTED ACTIONS TAKEN PRIOR AND SUBSEQUENT THERETO

(1) Unreserved Fund Balance + Unreserved Retained Earnings

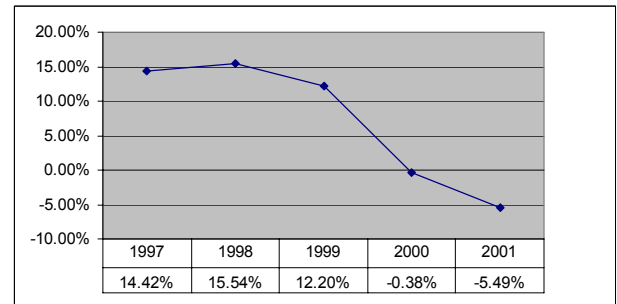


Analysis

- ❖ The Town’s total unreserved fund balance and retained earnings (adjusted for inflation) decreased by \$272,928 (78 percent) from the 1998-1999 to the 2000-2001 fiscal year.
- ❖ The decrease in unreserved fund balances is likely due to the Town reporting expenditures in excess of revenues for the past two fiscal years.
- ❖ The Town’s total unreserved fund balance and retained earnings was \$76,831 at September 30, 2001, as compared to an average of \$1,857,790 for other municipalities with similar fund composition, population, and taxable property values.

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

(2) Unreserved Fund Balance/Total Expenditures



Analysis

- ❖ The Town’s percentage decreased by 19.91 (138 percent) from the 1996-1997 to the 2000-01 fiscal year. Unreserved fund balance decreased by 146 percent while total expenditures increased by 46 percent from the 1996-1997 to the 2000-2001 fiscal years.
- ❖ The Town’s 2000-2001 fiscal year percentage was -5.49 as compared to an average of 57.24 for other municipalities with similar fund composition, population, and taxable property values.

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

APPENDIX – B (CONTINUED)

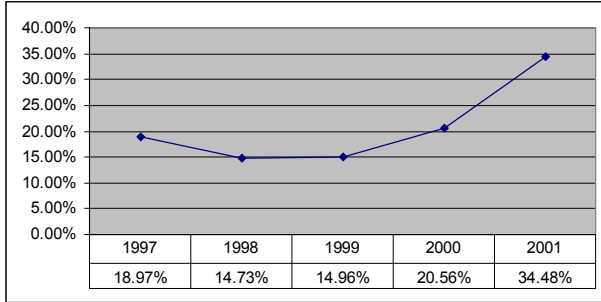
UNFAVORABLY RATED FINANCIAL INDICATORS

OPERATIONAL AUDIT OF THE TOWN OF EATONVILLE, FLORIDA

FOR THE PERIOD OCTOBER 1, 2001, THROUGH MARCH 31, 2003,

AND SELECTED ACTIONS TAKEN PRIOR AND SUBSEQUENT THERETO

(3) Current Liabilities/Total Revenues – Governmental Funds

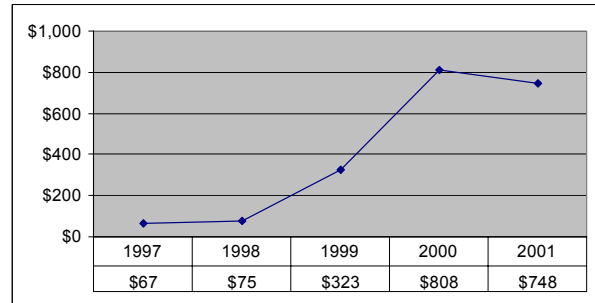


Analysis

- ❖ The Town’s percentage increased by 15.51 (82 percent) from the 1996-1997 to the 2000-2001 fiscal year.
- ❖ Since the 1996-1997 fiscal year, the Town’s current liabilities have increased by 140 percent while revenues have only increased by 32 percent.
- ❖ The Town’s 2000-2001 fiscal year percentage was 34.48 compared to an average of 12.5 for other municipalities with similar fund composition, population, and taxable property values.

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

(4) Long-Term Debt/Population



Analysis

- ❖ The Town’s general long-term debt increased from \$166,584 in the 1996-1997 fiscal year to \$1,990,890 in the 2000-2001 fiscal year.
- ❖ The Town’s 2000-2001 fiscal year long-term debt per capita (adjusted for inflation) was \$748 as compared to an average of \$247 for other municipalities with similar fund composition, population, and taxable property values.

Warning Trend. High or increasing amounts may indicate that the entity has a decreasing level of flexibility in how resources are allocated or decreasing ability to pay its long-term debt.

APPENDIX – B (CONTINUED)

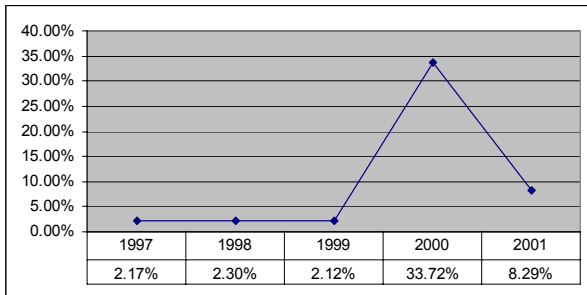
UNFAVORABLY RATED FINANCIAL INDICATORS

OPERATIONAL AUDIT OF THE TOWN OF EATONVILLE, FLORIDA

FOR THE PERIOD OCTOBER 1, 2001, THROUGH MARCH 31, 2003,

AND SELECTED ACTIONS TAKEN PRIOR AND SUBSEQUENT THERETO

(5) Debt Service/Total Expenditures – Governmental Funds

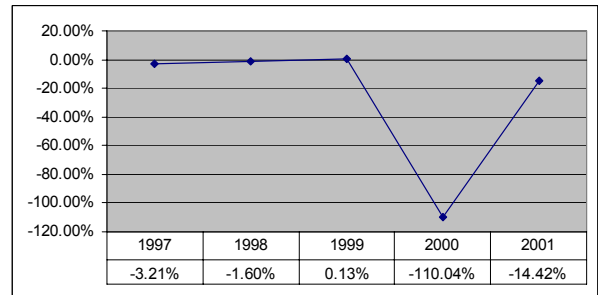


Analysis

- ❖ Debt service expenditures increased from \$40,327 in the 1996-1997 fiscal year to \$224,956 in the 2000-2001 fiscal year. The increase was due to additional long-term debt issued by the Town.
- ❖ Debt service expenditures increased by 458 percent while total expenditures increased by 46 percent from the 1996-1997 to the 2000-2001 fiscal year.
- ❖ Debt service expenditures totaled \$2,077,958 for the 1999-2000 fiscal year because the Town refinanced two long-term loans totaling approximately \$1.9 million.
- ❖ The Town’s 2000-2001 fiscal year percentage was 8.29 as compared to an average of 3.28 for other municipalities with similar fund composition, population, and taxable property values.

Warning Trend. High or increasing percentages may indicate declining flexibility the entity has to respond to economic changes.

(6) Revenues Over (Under) Expenditures/Total Revenues – Governmental Funds



Analysis

- ❖ The Town’s percentage decreased by 11.21 (349 percent) from the 1996-1997 to the 2000-2001 fiscal year. Deficits were reported for 4 of the 5 fiscal years evaluated, with a \$342,098 deficit reported for the 2000-2001 fiscal year.
- ❖ The large deficit reported for the 1999-2000 fiscal year is primarily attributable to the refinancing of two long-term loans totaling approximately \$1.9 million.
- ❖ The Town’s 2000-2001 fiscal year percentage was -14.42 as compared to an average of -4.47 for other municipalities with similar fund composition, population, and taxable property values.

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

APPENDIX – B (CONTINUED)

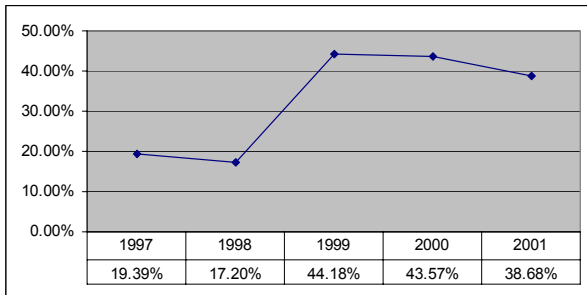
UNFAVORABLY RATED FINANCIAL INDICATORS

OPERATIONAL AUDIT OF THE TOWN OF EATONVILLE, FLORIDA

FOR THE PERIOD OCTOBER 1, 2001, THROUGH MARCH 31, 2003,

AND SELECTED ACTIONS TAKEN PRIOR AND SUBSEQUENT THERETO

(7) Intergovernmental Revenues/Total Revenues – Governmental Funds

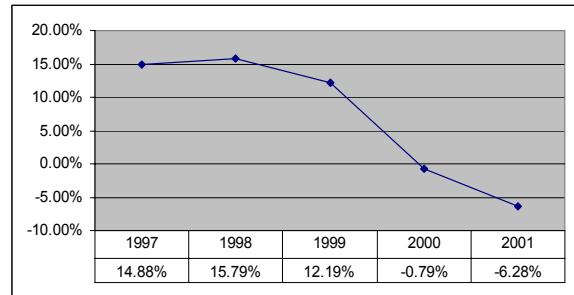


Analysis

- ❖ The Town’s percentage increased by 19.29 (99 percent) from the 1996-1997 fiscal year to the 2000-2001 fiscal year.
- ❖ The Town’s 2000-2001 fiscal year percentage was 38.68 as compared to an average of 24.05 for other municipalities with similar fund composition, population, and taxable property values.

Warning Trend. Decreasing income or increasing losses may indicate that current revenues are not supporting current expenses.

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



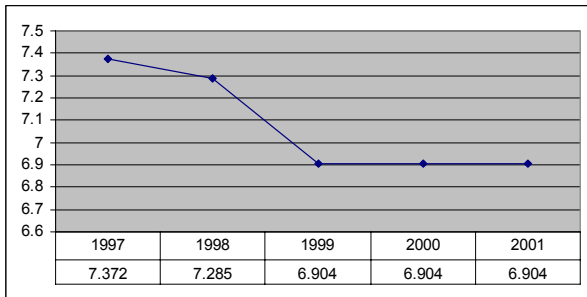
Analysis

- ❖ The Town’s percentage declined by 21.16 (142 percent) since the 1996-1997 fiscal year. During this period, unreserved fund balance decreased by 146 percent while total revenues increased by only 32 percent.
- ❖ The Town’s 2000-2001 percentage of -6.28 is significantly lower than the average of 55.53 for other municipalities with similar fund composition, population, and taxable property values.

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

APPENDIX – B (CONTINUED)
UNFAVORABLY RATED FINANCIAL INDICATORS
OPERATIONAL AUDIT OF THE TOWN OF EATONVILLE, FLORIDA
FOR THE PERIOD OCTOBER 1, 2001, THROUGH MARCH 31, 2003,
AND SELECTED ACTIONS TAKEN PRIOR AND SUBSEQUENT THERETO

(9) Millage Rate



Analysis

- ❖ The Town’s 2001 millage rate of 6.9040 was within the limitations established by Section 166.211, Florida Statutes. However, the Town’s millage rate was higher than the average of 5.3512 for municipalities with similar fund composition, population, and taxable property values.

Warning Trend. High millage rates may indicate that the entity has a reduced ability to raise additional funds when needed.



TOWN OF EATONVILLE

"THE OLDEST BLACK INCORPORATED MUNICIPALITY IN AMERICA"

ANTHONY GRANT
MAYOR

March 16, 2004

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

Re: Audit Responses

Dear Mr. Monroe:

Please be advised that Administration has responded to the Auditor Generals' Findings as a result of the Audit conducted by the Auditor Generals' Staff, for the Audit period of October 1, 2001, through March 31, 2003.

The responses to the Audit Findings are listed on the attached proceedings pages to this letter.

If there are any questions, please do not hesitate to contact my office at (407) 623-1313, ext: 225.

Sincerely,

Anthony Grant
Mayor

C: Dr. Ruth Barnes, Chief Administrative Officer
Town Council Members
Luis Harris, Town Auditor
Katrina Gibson, Finance Director
Cathlene Williams, Town Clerk

FINDING #1

Response: Management concurs with the findings and recommendation of the Auditor General. Every effort is being made to correct audit findings in a timely manner. The Town has hired additional staff and a financial consultant, and they have already corrected many prior year findings. To date, audit findings listed in the Audit Management letter for the year ended September 30, 2001 have been corrected.

FINDING #2**Response:**

Management concurs with the findings and recommendation of the Auditor General. The most significant contributing factor is that the Town had a significant high amount of staff turnover which weakened the Town's control environment. The Town has hired and stabilized its work force that will create a consistent work force, as a result the staff will continue to draft policies and procedures for the Town Council to consider adopting. The development of policies and procedures is recognizable as a very important process. All departments are currently working on developing appropriate policies and procedures for adoption by the Town Council. In an effort to expedite this process staff is coordinating with other municipalities where feasible to customize the Town's needs.

FINDING #3

Response: Management partially concurs with the findings and recommendation of the Auditor General. The Town has already implemented some separation of duties in the areas of Water & Sewer fee collections, payroll and Personnel Processing. The Finance Department has already implemented internal controls dealing with separation of duties in the areas of payroll, water & sewer procedures and disbursement processing cash controls.

- Water & Sewer fee collections/procedures: have been separated with one (1) individual in the Public Works Department and two (2) individuals in the Finance Department instead of the previous process that only involved one (1) individual. Daily deposits are verified by a second person and the cash receipts edit is reviewed, corrected if necessary and posted to the General Ledger by the Accounting Coordinator II.
- Payroll & Personnel Processing. The access to inputting and updating employee payroll information has been limited to the HR Specialist, which includes the pay rates.
- Disbursement Process/Cash Control. The Accounts Payable process has also been separated. The Accounting Clerk inputs invoices and generates accounts payable edit report. The Accounting Coordinator II reviews all data input, and edits reports making corrections as needed. Once review is completed, the Accounting Coordinator II releases to batches to be paid. The Finance Director

reviews the check register prior to releasing of the checks. The Accounting Coordinator I prepares the bank reconciliation, and the Accounting Coordinator I is no longer serving as a relief cashier.

Recognizing the size of the administrative support staff, smaller governments are somewhat limited to creating full separation of duties, we will continue to re-organize to accomplish put in place as many safe guards as possible through separation of duties.

FINDING #4

Response: Financial Audits. Management concurs with the findings and recommendation of the Auditor General. The Finance Department staff is aware of audit requirements and realizes the importance of timely audits. The lateness of the fiscal year 2001 audit impacted the 2002 audit that is currently taking place. The prior year lateness was due to high key staff turnover, and the current lateness is due to the same and the conduct of the operational audit by the State. The 2002 Audit is nearing completion and 2003 will be started immediately thereafter.

FINDING #5 Retirement Plan. Management disagrees with in that the Town's retirement plan is a voluntary contribution plan which allows discretionary contributions.

Response: The Town has established a voluntary pension plan, which allows discretionary contributions by the Town. Due to lack of up to date financial records, the Mayor and Town officials were not aware that the pension was not funded, it was overlooked, due to a significant turn over in the finance department, and Administration, also due to lack of budget & expenditure monitoring at that time. Based on the above we did not consider the Town in a state of financial emergency. The Town has established a voluntary pension plan which allows discretionary contribution to be made by the Town.

FINDING #6

Response: Financial Condition: We concur with the Auditor General's Findings. The following are actions that have already been implemented. The Town has implemented programs and procedures that will assure sound and reliable financial management, and thereby assuring the Town's ability to provide services at the level and quality required is for the health, safety and welfare of our citizens. The Mayor & the Town CAO are working with the finance director and our financial consultants have implemented and are in the process of developing, programs and procedures that will improve the financial management of the Town.

- Establishing a monthly review of operating budgets inclusive of cash flow analysis, budget variances, operating review short falls and preparing budget adjustments as necessary. Cash analysis/reviewed monthly.
 - We reviewed our health insurance, liability, property, and casualty insurance, and went through the bid process for all of the above, which resulted in a significant savings.
 - At the same time we identified vehicles that we paid premiums for that we did not have and thereby reducing the premium for the vehicle property and obtaining a refund.

- We reviewed our insurance/workers comp/unemployment charges to assure the accuracy of the charges being paid by the Town. We are investigating to potentially change the method on which the Town pays unemployment benefits. One of our goals is to decrease the worker's compensation costs as well.
- We investigated the potential of outsourcing functional areas within our Town where efficiency and effectiveness could be improved. The result was the outsourcing of our fire services.
- In the past the Town observed the cost of the lost disposal containers. The Town has implemented an Ordinance for a deposit on the garbage canister that requires the customer to bare the cost of the container if lost or removed.

FINDING #7

Response: The Town Management concurs with the Findings of the Auditor General, and will comply with Florida Statute 166.241(3), in the future. We will assure that future annual budgets consider all beginning fund equities, include appropriations for all funds, and present balanced budgets for each fund.

FINDING #8

Response: **Management concurs with the recommendation of the Auditor General.** By starting the budget process early in the year, we can assure the budget will be adopted according to the Town's Charter, and the Florida Statute

FINDING #9

Response: The Towns' Management concurs with the findings and recommendation of the Auditors General. The Mayor & the Towns Chief Administrative Officer is now doing monthly budget reviews to assure the prevention of the problem of over expenditure.

FINDING #10

Response: We will comply with section 200.068 of the Florida Statute. Expressively Sections, 200.065(1) and (2) (b). The budget will be started early to be in compliance with the September 30th Charter deadlines and the Florida Statute.

FINDING #11

Response: It is management's belief that funds are being expended from petty cash for public purposes, therefore we partially concur with the possible exception of the one (1) or two (2) times that food for a recognition luncheon for Town employees. And with the exception of a parking garage fee, which should have been an expense report done for the \$5 parking garage fee. For all items that need an expense report for the Town will require that an expense report be prepared, we are currently voiding the receipts as recommended.

FINDING #12

Response: Management concurs with the findings and recommendations of the Auditor Generals. Beginning in fiscal year 2003, bank reconciliation's for all accounts are being performed on a monthly basis. To present all bank accounts have been reconciled.

FINDING #13

Response: Management partially concurs with the Auditors Findings and Recommendation. The checks were processed March 6, 2003, however the checks were not signed until bank signature cards were completed and signed by the new council members as a result the checks were properly sign by an authorized signer.

FINDING #14

Response: Management partially agrees with the Auditors Generals Findings. The Town does have a written agreement with banking institutions for electronic fund transfers, however the agreements do not specify the location and accounts where funds can be transferred, or the limits of those amounts which can be transferred.

FINDING #15

Response: The Town Management concurs with the findings and recommendation of the Auditor General, the Chief Administrative Officer, Financial Consultant, and Finance Director are currently setting up an investment policy to be presented to the Mayor and Town Council. The policy will dictate a diversified portfolio and assure that the Town might increase its rate of return on any surplus funds.

FINDING #16

Response: The Town Management concurs with the Auditors Findings, the Finance Department is currently developing an RFP which, will be developed in accordance with the Town's investment policy.

FINDING #17

Response: The Town management partially concurs with the Auditor General with its finding and recommendation at the time of the audit.

- The Town did possess a fixed asset listing although it may not have contained all of the necessary information, Subsequent to the Audit, the Town has purchased a fixed asset system and is in the process of entering the information into the system.
- The Town has conducted, and we will continue to conduct an annual physical inventory and will reconcile the physical count to the fixed asset listing and general ledger. We will ensure that all disposals are properly handled.

FINDING #18

Response: Management of the Town came to the decision that purchasing the existing Town Hall was in the best interest of the Town, based on the fact that it was the only available structure that would accommodate the Towns operations, and it's central location within the Town. The taxes, which were in arrears on the property, were deducted from the purchase price, as indicated on the settlement statement. Therefore, it is the Towns opinion the title company does not have an obligation to pay the \$6,686.00 in taxes, as they in-fact did not collect these funds. There was basically no land available within this corridor available to construct a new facility, and after

assessing construction costs versus purchasing an existing facility, Towns management thought it was a sound decision to purchase this building. The Town recognized that if you build a brand new facility that has the same square footage the Town would have spent over \$ 1,200,000 to construct the very same size Town Hall once you factor in the land cost, engineering & design cost, and construction cost.

FINDING #19

Response: Town Management concurs with the Auditors Recommendation. We will do cash flow projections, capital project, budgeting, and we will retain the analysis documents.

FINDING #20

Response: Sections 15, B (1) of the Water & Sewer, \$310,000 water & sewer revenue bonds indicates that funds received from operations of water & sewer shall be to pay the expenditures of the system, any cash balance remaining in the fund after paying and or providing for the payment of expenditures incurred during this fiscal year, after all operating liabilities have been provided for a bond & interest sinking fund should be established to accumulate the funds necessary to make the next interest & principal payment. After fulfillment of the sinking fund requirement the bond covenant requires the Town to establish a debt service fund in the amount of \$23,000 and a repair & replacement fund of not less than \$15,000. Per the bond agreement, a Reserve Fund should be established to the extent that cash is in excess of current operating obligations. It should be noted that while management funded restricted cash accounts, we do not think that it was required based on the bond agreement due to the fact that for the entire period the bond have been outstanding through FYE 2001. The available cash after providing for outstanding operating liability, inclusive of current bond obligations payable, there was no available cash to reserve. The Town will endeavor to meet future reporting requirements. The additional supplemental information required by the water & sewer revenue bond covenants, will be included in future audits.

FINDING #21

Response: Management concurs with the Auditors Findings.

FINDING #22

Response: Management concurs with the Auditors Findings and Recommendation. Administration will establish a special fund to track revenue and expenditures relating to local option and municipal fuel taxes. We will also ensure that expenditures are properly classified and documented to demonstrate compliance as required by Florida State Statute. However, it should be noted that the Public Works Department's activities include a significant amount of transportation services. It is management's contention that these funds were spent in accordance with Florida State Statute.

FINDING #23

Response: Management concurs with the Auditor General's findings with the following

assumptions:

- Proceeds from the issuance of Debt Instrument for the library project or the Town Hall and other capital improvement projects should have been placed in the CIP Fund but were inadvertently placed in General Fund. Management will report the remaining funds in the CIP Fund and any other Capital Improvement Project Funds in the future.
- As indicated at Finding No. 20, we concur. However, the Fund did not have available excess cash to fund the required reserves.

While it is true that the Town did not make annual contributions to the Eatonville Community Redevelopment Agency (CRA), it should be noted that the Town incurred costs in carrying out the CRA's functions and also paid CRA related expenses incurred by the CRA. After taking these expenditures into account, the Town had no liability to the CRA through 2002.

FINDING #24

Response: The Town Management concurs with the Auditors Findings and Recommendation. Any request for deadline extensions will be adhered to for all grant provisions.

FINDING #25

Response: Management concurs with the Auditors Findings:

- We will make every attempt to retrieve these funds.
- We are writing a letter explaining the mitigating circumstances, due to illness of the former Grants Coordinator, we had to re-train staff in Tallahassee for the Summer Food Program, one of the requirements of the Grant is that a Town employee had to be certified by the Grantor, and due to the size and limited resources of the Town, there was only one (1) certified employee during that time period and he had left the employment of the Town.

FINDING #26

Response: Administration concurs with the Auditor's Findings and Recommendations. We have done several things to limit future losses.

- We have instituted a daily close out report with check and balance controls;
 - Established systems in conjunction with the US Post Office to monitor operations;
 - Coordinate quarterly audits with US Post Office;
 - Established periodic internal audits;
 - We are looking at moving the post office to a Town owned building thereby saving the annual rental fee of the current post office which will curtail the operating losses;
- In the event any thefts or losses that occur, we will take the appropriate administrative and/or legal actions.

FINDING #27

Response: Administration concurs with the Auditor's Finding. We will request the money from the Developer. We will write a letter to the Developer and request that the

money's be released from escrow and placed into the Town's bank account to be used for the Towns' infrastructure and Improvement Projects.

FINDING #28

Response: Administration partially concurs with the Auditor's Findings and Recommendation. We concur that the building permits were not pre-numbered, we now have pre-numbered building permits, which is being controlled by a person independent of collections. All receipts are pre-numbered and verified by a person independent of collections.

FINDING #29

Response: Management concurs with the Auditors General Findings. There has been a discrepancy in the gallons produced due to inaccurate metering at the well. After analyzing the situation, it was found that the current meter was not accurately metering the water production. The Town has purchased a new meter that should be installed within the next month. Administration will also be reconciling with the number of gallons produced to the number of gallons billed.

FINDING #30

Response: The Towns' Water & Sewer billing system currently being used by the Town provides an aging of account receivables. The Town has also established procedures to handle delinquencies and is currently seeking quotes from collection agencies to handle collections on delinquent accounts.

FINDING #31

Response: Management concurs with the Auditor's Findings and Recommendation.

- The Town is in the process of adopting a Resolution for fee schedule for the use of the Denton Johnson Center.
- The Town customarily collects sales tax on the rental of the center, the instances cited were sales tax were not collected are isolated cases, however, we will establish policies and procedures to assure that there is not a re-occurrence of this.
- We will require the facilities users to maintain or acquire liability insurance, we will also require them to sign the Hold Harmless agreement, and name the Town as the named insurer.

FINDING #32

Response: Management concurs with the Auditor's Findings and Recommendation.

We no longer have a Code Enforcement Board, we are in the process of hiring a Code Enforcement Hearing Officer. We will document the reason for any fines that have been waived.

FINDING #33

Response: Management concurs with the Auditor's Findings and Recommendation.

FINDING #40

Response: Management concurs with the Auditor's Findings and Recommendation. Administration is in the process of developing a standardized form for over time and compensation time. We will also assure that all compensatory time earned will be utilized by the employee before the employee may make use of annual leave.

FINDING #41

Response: Management is in the process of updating its personnel manual to clarify what benefits part-time employees may be entitled to. The town is reviewing the part-time issue and the interim employment issue.

FINDING #42

Response: Management concurs with the Auditor's Findings.

FINDING #43

Response: Under section 6, general powers of the old and new charters would allow Town Council the authority to establish compensation for Town Council members. Neither the old or new Charter prohibits the Town Council from receiving compensation. The Town Council has changed its compensation via the budget, which is an improper way to address this issue. As a consequence of the foregoing, the Town Council may either amend the existing charter to provide for compensation of Town Council members or enact an ordinance pursuant to Section 6, of the 1998 Charter to provide for compensation of Town Council members. In the event the Town elects to enact an ordinance it should be done pursuant to Section 166.041 (2), Florida Statutes. The Town Council can ratify the compensation paid to them after enacting a charter amendment or new ordinance, which would address the questionable compensation. Based upon our legal advice, this issue will be taken before Council.

FINDING #44

Response: Management will review and determine if any reporting requirements omitted on the W-2 in regards to compensation paid to the Mayor, and make appropriate adjustments if necessary.

- The Town prior to fiscal year 2002 issued 1099's to Council members for compensation paid to them. Beginning in fiscal year 2002 Council members compensation is reported on form W-2, the Town's payroll is processed by an outside payroll company, the Town did not withhold Federal Income Taxes on Council members compensation for the months of April, May, & June of 2003. The taxes were subsequently withheld and an amended 941 was filed.
- In regards to travel allowances, management will investigate and or request documents to substantiate the travel request from former town council members. Based upon the investigation, management, along with advice from council, will determine what the appropriate actions should be.

Management concurs with Auditor General's Findings in regards to bonus pay. We will investigate if any internal revenue services regulations have been violated, and determine with legal counsel advice what corrections actions if any should be taken.

FINDING #40

Response: Management concurs with the Auditor's Findings and Recommendation. Administration is in the process of developing a standardized form for over time and compensation time. We will also assure that all compensatory time earned will be utilized by the employee before the employee may make use of annual leave.

FINDING #41

Response: Management is in the process of updating its personnel manual to clarify what benefits part-time employees may be entitled to. The town is reviewing the part-time issue and the interim employment issue.

FINDING #42

Response: Management concurs with the Auditor's Findings.

FINDING #43

Response: Under section 6, general powers of the old and new charters would allow Town Council the authority to establish compensation for Town Council members. Neither the old or new Charter prohibits the Town Council from receiving compensation. The Town Council has changed its compensation via the budget, which is an improper way to address this issue. As a consequence of the foregoing, the Town Council may either amend the existing charter to provide for compensation of Town Council members or enact an ordinance pursuant to Section 6, of the 1998 Charter to provide for compensation of Town Council members. In the event the Town elects to enact an ordinance it should be done pursuant to Section 166.041 (2), Florida Statutes. The Town Council can ratify the compensation paid to them after enacting a charter amendment or new ordinance, which would address the questionable compensation. Based upon our legal advice, this issue will be taken before Council.

FINDING #44

Response: Management will review and determine if any reporting requirements omitted on the W-2 in regards to compensation paid to the Mayor, and make appropriate adjustments if necessary.

- The Town prior to fiscal year 2002 issued 1099's to Council members for compensation paid to them. Beginning in fiscal year 2002 Council members compensation is reported on form W-2, the Town's payroll is processed by an outside payroll company, the Town did not withhold Federal Income Taxes on Council members compensation for the months of April, May, & June of 2003. The taxes were subsequently withheld and an amended 941 was filed.
- In regards to travel allowances, management will investigate and or request documents to substantiate the travel request from former town council members. Based upon the investigation, management, along with advice from council, will determine what the appropriate actions should be.

Management concurs with Auditor General's Findings in regards to bonus pay. We will investigate if any internal revenue services regulations have been violated, and determine with legal counsel advice what corrections actions if any should be taken.

FINDING #45

Response: The Town will comply with the General Employee Pension Reporting requirements.

FINDING #46

Response: Management concurs with the findings of the Auditor's General, and will endeavor to meet future reporting requirements and deadlines. It should also be noted that Management has located the 1973 Ordinance that established the Pension Plan.

FINDING #47

Response: Management has updated and implemented new purchasing procedures which should alleviate many of the deficiencies cited. However it should be noted that the Town had mitigating system controls as it relates to cancellation of invoices, the AP system which is utilized for processing of invoices has an invoice number control which will only allow a vendors invoice to be processed, manual systems are in place.

FINDING #48

Response: It is Town's Management belief that the expenditures in question were for public purpose that had a direct benefit to the general public. You noted that we spent \$ 2,078 for youth football activities, this youth sport is a part of the Town's recreation program that includes a youth football team. You noted that we spent \$ 1,110 on lunches for seniors and a VIP reception again the senior program is a program that directly falls under our recreation program. The VIP reception is a part of the Towns' Marketing Program. Spending \$281.00 to have Christmas cards printed to send to our residents and businesses is no different than buying Christmas decorations for the Town.

FINDING #49

Response: Management concurs. The Town purchased vehicle from the State bid list in the future the Town will insure that we secure copies of state bids. The Town comply with the purchasing procurement policy in securing bids, we have also established a centralized storage area in the Finance Department.

FINDING #50

Response: Management concurs. Administration is establishing a record keeping management system, which is centralized in the Finance Department.

FINDING #51

Response: Management concurs with the findings and recommendation. One of the first steps taken by management was to centralize records management. The Town will also ensure that copies of all contractual agreements are properly executed and maintained.

FINDING #52

Response: The Town has entered into a new agreement.

FINDING #53

Response: Management concurs that payments for contractual services should be substantiated by written agreements and detailed invoices. We will investigate the

alleged overpayments and take the appropriate actions upon concluding the investigation.

FINDING #54

Response: Management concurs with the Auditor General's Findings and Recommendation. The renewed contract for the building inspector will include a provision requiring his compliance with the Towns Development, Technical and other Town Codes, and that he will be required to maintain documents for the completion of every inspection, proper issuance of Certificate of Occupancy. In addition, we will require the building inspector to submit documentation of his compliance and inspections and issuance of Certificate of Occupancy prior to accepting his final voucher for a particular inspection.

FINDING #55

Response: It appears that Article VIII, Section 4, Florida Constitution may govern the Interlocal Agreement between the Town of Eatonville, City of Maitland and Orange County. The options available to the three- (3) parties would entail modifying the agreement to give the Town of Eatonville supervisory powers or alternatively, submit the transfer of fire services to the electors of each party pursuant to a Referendum. Also it appears that the legislative intent of Article VIII, Section 4, Florida Statutes was to prevent local governments from usurping each other's power without having mutual referendum. Moreover, it is the Town's position that it has retained some supervisory power over operations since it has the power to demand change in the performance of fire services. It may terminate the interlocal agreement, it can modify the scope of fire services and it can refuse to pay for the fire services. On the other hand, there are factors, which may take the parties out of the grasp of Article VIII, Section 4, and Florida Constitution to wit:

1. Has the Town transferred a "function or its power" when it pays for the service of the other two (2) parties, i.e., dispatch and fire services?
2. What is meant by supervisory? Does it mean that the Town has to supervise the employees of the entity it hires to perform a service? Since there is a termination clause provided in the interlocal agreement does this evade the meaning of transfer?
3. How does this differ from the Town employing a private company to perform waste collection that is performed in the past?
4. Does the statute on interlocal agreements limit the application of Article VIII, Section 4, and Florida Constitution?

In conclusion, the parties may elect to file an action for declaratory relief so that a court may render a decision on the applicability of Article VIII, Section 4, and Florida Constitution to the parties interlocal agreement. The circumstances surrounding our fire services are similar to other small cities, i.e., can the county sheriff take over city policing without referendum. In the short time I have had to address this issue, I could not find any definitive case to clarify this issue or my concerns. However, I would like to add that this interlocal agreement was studied and reviewed by three (3) governmental entities which would make more probable than not that the interlocal agreement would withstand constitutional scrutiny.

FINDING #56

Response: Management concurs and have not made advance payment to contractors since 2001. The Town recognizes that this is not a good and sound business practice.

FINDING #57

Response: Management concurs and will update travel policies and procedures.

FINDING #58

Response: Management is in the process of updating it's Travel Policies and Procedures in an effort to ensure that all travel expenses are adequately documented and supported.

FINDING #59

Response: Management concurs with the Auditors Findings. The Town will adhere to the recommendations contained in the audit report.

FINDING #60

Response: Management concurs with the Auditors Findings and Recommendation. We have implemented a cellular phone policy to ensure compliance with the cellular use procedure. We are in the process of getting three (3) quotes from a collection agency to recover any outstanding monies. You should also note that the Mayor is paying for his own phone bill.

FINDING #61

Response: Management concurs with the Auditor General Findings. Administration will contact the cellular phone providers in regards to obtaining credits for taxes previously paid.

FINDING #62

Response: Management concurs with the Auditors Findings and Recommendation. This has been corrected. There are 6 lines at the Denton Johnson Center. The Town will ensure that only active phone lines are being paid for. It should be noted that the Denton Johnson Center currently has six lines, three (3) of which are used by the Head Start Program, one by Career Choice Program, and two (2) for General Government purposes, the Town is reimbursed for the cost of the lines used for Head Start and Career Choice Programs.

FINDING #63

Response: Management concurs with the findings of the Auditor General and has adopted new policies and procedures for vehicle maintenance which were implemented August 5, 2003.

FINDING #64

Response: Management concurs with the Auditors Findings and Recommendation. Procedures are being developed for maintenance logs, and the use of the gas cards.

- Management has since assigned gas cards to specific individuals in the police and public works department, they will be held accountable for charges.

- Maintenance logs are now being maintained in the vehicles and each driver of the vehicles are required to keep a daily log for gas purchases, and receipts are turned in on a daily basis to the respective departments.

The maintenance logs will be turned in on a weekly basis to the Finance Department. Finance will then reconcile these receipts to the invoices and maintenance logs before payment.

FINDING #65

Response: We partially agree with the Auditor General's Findings. It should be noted that there is substantiation of the personal mileage usage of the Town's vehicle by the Public Works Director, and it should also be noted that personal usage was included in the gross wages reported to the IRS for the Director of Public Works during the calendar year ending 2002.

FINDING #66

Response: The Town initiated the bid process in May 2003 for Health, Dental, Vision, Workers Compensation, and General Liability for the Town of Eatonville, thereby resulting in a lower premium with a quality product. Management will periodically go out to bid.

FINDING #67

Response: Management concurs with the Auditor's Findings and Recommendation. We have put procedures into place, which ensures reconciliation between insurance coverage records and town coverage records. And since we put this in place we have a reduction in the insurance premium and a refund.

FINDING #68

Response: Management concurs.

FINDING #69

Response: The CRA's legal counsel preliminary opinion is that the board has the authority to waive Tax Increment Funding (TIF) interest and penalty charges based on the fact that Florida Statute does not specifically address the issue. Based upon these discussions with legal counsel the Town Council adopted Resolution #2003-54 establishing the re-payment plan, this plan was also approved by the CRA Board.

FINDING #70

Response: The Town and the CRA Board are reviewing the Interlocal Agreement in an effort to determine the actual allocation percentages of positions that are responsible for overlapping functions between the Town and the CRA. Upon completion of this review, Management will resume the Interlocal Agreement payments.

FINDING #71

Response: Management concurs and will endeavor to follow good business practices by establishing policies and procedures to ensure that expenditures approved by the

Board are properly supported and documented prior to payment. With regards to severance paid to the former Executive Director, the current Board, after consultation with Legal and assessing the cost benefit associated with paying the severance, it was determined that the best course of action was to make the severance payment.

FINDING #72

Response: Management concurs with the Auditor General's Findings. Policies and procedures have been developed and are being instituted to ensure that amended modifications or updated documents are recorded and filed in a timely manner.

FINDING #73

Response: Management concurs with the Auditor General's Findings. However, for Fiscal Year 2004, the CRA Board adopted an annual budget.

FINDING #74

Response: Management concurs with the Auditors General's Findings. We are in the process of issuing the reports to the Town of Eatonville, Orange County, and the State Department of Community Affairs.

FINDING #75

Response: As noted from the minutes of the Town Council meeting involving the voluntary annexation, there were five (5) Council members present. It only takes three (3) members to constitute a quorum at a Town Council meeting. Three (3) Council members conflicted out on the vote for voluntary annexation. The remaining two (2) Council members voted for the voluntary annexation. It is my opinion that the Town Council had a quorum and the Ordinance was properly passed and adopted by the Town Council

FINDING #76

Response: **In your recommendation you noted that this should be referred to the Florida Commission on Ethics.** The department of ethics has investigated this issue and dismissed this as being a non-conflict of interest issue, to date the Mayor has never voted for an issue regarding this developer

FINDING #77

Response: Management concurs with the Auditors General's Findings. Administration has contacted the Florida League of Cities regarding Codification and obtained a quote from other sources.

FINDING #78

Response: Management concurs with the Auditors General's Findings. All Town Council minutes are currently being transcribed by the Town Clerk, and presented to Town Council for approval at their subsequent Town Council Meetings.

FINDING #79

Response: Management concurs with the Auditor General's Findings. Administration will ensure that any future amendments to the Town Charter be filed to the Secretary of State in a timely manner according to Section 166.031(2), Florida Statutes.