



AUDITOR GENERAL

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CITY OF LAKE ALFRED, FLORIDA

Follow-up on Financial and Operational Audit Report No. 03-029

SUMMARY

This report provides the results of our follow-up procedures for each of the findings included in report No. 03-029 and the City Manager's response thereto. Our follow-up procedures to determine the City of Lake Alfred's progress in addressing the findings and recommendations contained in report No. 03-029 disclosed that the City, as of the completion of our follow-up procedures in September 2004, had adequately addressed 39 of the 60 findings included in that report. The City had partially addressed 17 findings, and had taken no action regarding the remaining 4 findings.

BACKGROUND

The Auditor General is authorized by State law to perform audits of governmental entities in Florida. As directed by the Legislative Auditing Committee, we conducted a financial and operational audit of the City of Lake Alfred, Florida, for the fiscal year ended September 30, 2001, and selected actions taken prior and subsequent thereto. Pursuant to Section 11.45(2)(k), Florida Statutes, the Auditor General, no later than 18 months after the release of report No. 03-029 (issued September 30, 2002), must perform such appropriate follow-up procedures as deemed necessary to determine the City of Lake Alfred's progress in addressing the findings and recommendations contained within that report.

STATUS OF REPORT NO. 03-029 FINDINGS

Finding No. 1: Prior Audit Findings

Previously reported

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

We recommended that the City ensure that audit findings are addressed in a timely manner.

Results of follow-up procedures

The City has partially addressed this finding. We noted that three of the five findings reported in the City's 2001-02 fiscal year annual financial audit report, dated April 16, 2003, were also included in the City's 2002-03 fiscal year annual financial audit report, dated November 7, 2003, and had not been corrected as of September 2004. Further, as discussed in this report, the City had not fully addressed several findings and recommendations included in report No. 03-029.

City Response

The three findings of our independent auditor were that we lacked proper financial management, that we needed to segregate restricted cash balances in the General Ledger and that we had repeat budgetary violations. The City responded to these three (3) items by mandating that our Finance Director take college courses at City expense to upgrade his skills to a point that would be satisfactory to our auditor, by segregating these balances in our General Ledger and by passing an Ordinance giving the

City Manager the authority to move line item monies from place to place with restrictions. All these were done prior to September 2004, and although the results won't be noticed until the next audit is completed, all the concerns have been addressed.

Finding No. 2: Written Policies and Procedures

Previously reported

The City had not established written policies and procedures necessary to assure the efficient and consistent conduct of accounting and other business-related functions and the proper safeguarding of assets.

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

Results of follow-up procedures***The City has adequately addressed this finding.***

The City has established formal written procedures to document controls over cash, investments, fixed (capital) assets, revenues, budgets, cash receipts, deposits, utility billings, payroll processing, accounts payable, and computer security.

City Response

The City concurs.

Finding No. 3: Separation of Duties

Previously reported

The City had not provided for an adequate separation of duties, or established adequate compensating controls, for water and sewer fee collections, other collections, payroll and personnel processing, and disbursement processing.

We recommended that the City, 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). We also recommended that the City ensure that adequate compensating controls are implemented to help mitigate circumstances in which adequate separation of duties is not practical.

Results of follow-up procedures***The City has adequately addressed this finding.***

The City has adequately separated duties associated with payroll and personnel processing, disbursement processing, water and sewer fee collections, and other collections.

City Response

The City concurs.

Finding No. 4: Interfund Transactions

Previously reported

The City was unable to provide adequate explanations and supporting documentation for many interfund transfers and receivable/payable balances recorded in the accounting records.

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

Results of follow-up procedures***The City has adequately addressed this finding.***

The City has enhanced controls to provide for adequate explanations and documentation to support interfund transactions.

City Response

The City concurs.

Finding No. 5: Journal Entries

Previously reported

Procedures for the adjustment of the accounting records through journal entries did not provide for supervisory review and approval of the entries.

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

Results of follow-up procedures

The City has adequately addressed this finding.

Journal entries appear to be properly reviewed and approved.

City Response

The City concurs.

Finding No. 6: Financial Condition

Previously reported

The City's overall financial condition is showing signs of deterioration which, if not corrected, could result in a future financial emergency. In addition to the effects of inadequate internal controls as discussed throughout this report, factors that have contributed to this condition, include a lack of targeted fund equity levels, periodic cash analysis and forecasts, and financial plans.

We recommended that the City take appropriate corrective actions as discussed in finding Nos. 9, 11, 14, 19, 21, 32, 34, and 44, and develop short-term and long-term financial plans that include steps to strengthen the City's financial condition. We also recommended that City management analyze existing rate structures for proprietary operations to determine their sufficiency in covering expenses, and explore all available options to increase its revenues or decrease expenditures. We further recommended that City finance personnel provide interim financial information to the Commission, including key summary financial information for monitoring the overall financial condition of the City.

Results of follow-up procedures

The City has partially addressed this finding. Our assessment disclosed some improvement in the City's financial condition as a result of the 2001-02 and 2002-03 fiscal years operations as the number of key

financial indicators with unfavorable ratings declined from 11 to 8. The City has generally implemented our recommendations included in report No. 03-029, except that the City has only partially addressed finding Nos. 9 and 14.

City Response

The City concurs with the overall finding, but wishes to note that some of the financial indicators have improved.

Finding No. 7: Budget Preparation

Previously reported

The City did not maintain adequate documentation to support the estimated beginning fund balances in the 2000-01 fiscal year budget and did not amend the budget to include actual beginning fund balances.

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

Results of follow-up procedures

The City has not addressed this finding. The City did not maintain documentation to support beginning fund equities for the 2002-03 and 2003-04 fiscal years. In addition, the City did not amend the estimated beginning fund balance which understated actual amounts by \$166,405 and \$563,455 for the 2002-03 and 2003-04 fiscal years, respectively.

City Response

The City will make a concerted effort to improve in this regard. The Finance Director has resigned his position, but had been instructed to correct these deficiencies and to prepare a budget amendment as quickly as possible. Our new Finance Director will be tasked with this amendment as quickly as possible.

Finding No. 8: Budget Adoption

Previously reported

Procedures for adoption of the 2000-01 and 2001-02 fiscal year budgets did not provide for compliance with the time constraints for notifications to the Property Appraiser and advertisement established in Section 200.065, Florida Statutes.

We recommended that the City follow the guidelines established by Section 200.065, Florida Statutes, when adopting future annual budgets.

Results of follow-up procedures***The City has adequately addressed this finding.***

Our review of the 2002-03 and 2003-04 fiscal year budgets disclosed that the City met the guidelines established by Section 200.065, Florida Statutes.

City Response

The City concurs.

Finding No. 9: Budgetary Level of Control

Previously reported

The financial records disclosed budget overexpenditures totaling \$4.4 million for 201 object levels for the 2000-01 fiscal year. The City's total governmental fund expenditures exceeded the total budgeted expenditures by \$199,332.

We recommended that although the City had available resources for the 2000-01 fiscal year to offset the above-noted overexpenditures, the City, in accordance with Section 166.241(3), Florida Statutes, should ensure that future expenditures do not exceed budgetary authority.

Results of follow-up procedures***The City has partially addressed this finding.***

Similar findings were reported in the City's 2001-02 and 2002-03 fiscal year annual financial audit reports. Although the City's accounting records provided for a comparison of actual to budgeted expenditures at the object level, the City made only one budget

amendment during the 2001-02 and 2002-03 fiscal years. Our review of the 2002-03 fiscal year budget and related actual expenditures disclosed budget overexpenditures totaling approximately \$2.2 million for 157 object level expenditures.

On March 15, 2004, the Commission passed Ordinance No. 1063-04, which establishes the legal level of budgetary control at the fund level rather than at the object level. This ordinance provides the City Manager the authority to make line item (object level) amendments up to \$5,000 to the budget. These procedural changes, if properly implemented, should provide greater flexibility in controlling budgeted expenditures and reduce the likelihood of budgetary overexpenditures for the 2003-04 fiscal year.

City Response

The City feels as though the action taken by the City Commission to transfer line item control to the City Manager should have resolved this finding. The independent auditor should confirm this in the audit for 2003-2004.

Finding No. 10: Petty Cash

Previously reported

Petty cash fund disbursements were not always adequately documented and custody of the petty cash funds was not restricted to a specific employee.

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

Results of follow-up procedures***The City has adequately addressed this finding.***

Our review of petty cash disbursements for the period October 2002 through May 2004 disclosed that all such disbursements were adequately documented. Also, custody of petty cash funds are properly restricted to establish accountability for such funds.

City Response

The City concurs.

Finding No. 11: Bank Reconciliations**Previously reported**

The City's bank accounts were not promptly reconciled and adequate controls had not been implemented to prevent bank overdrafts.

We recommended that the City enhance controls to provide for sufficient monitoring of available cash on deposit and timely reconciliation of bank accounts.

Results of follow-up procedures***The City has adequately addressed this finding.***

Our review of bank account reconciliations during the period October 2003 through May 2004 disclosed that bank accounts were promptly reconciled and controls were enhanced to preclude bank overdraft charges.

City Response

The City concurs.

Finding No. 12: Payroll Checks**Previously reported**

Accountability for prenumbered payroll checks was deficient in that checks were used out of sequence and, in some instances, were unaccounted for. Also, access to checks was not adequately restricted.

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

Results of follow-up procedures***The City has adequately addressed this finding.***

The City has enhanced controls to provide for the proper accountability and use of payroll checks. In

addition, blank payroll checks are properly safeguarded and access to checks is properly restricted.

City Response

The City concurs.

Finding No. 13: Stale-Dated Checks**Previously reported**

Contrary to Chapter 717, Florida Statutes, stale-dated checks totaling \$814 and written-off by the City were not reported or remitted to the Florida Department of Financial Services (FDFS) (formerly Florida Department of Banking and Finance).

We recommended that the City take appropriate action to file the required report and deliver any unclaimed property to the FDFS.

Results of follow-up procedures***The City has adequately addressed this finding.***

The City filed a report of unclaimed property and remitted such amounts to the FDFS as required.

City Response

The City concurs.

Finding No. 14: Investment Earnings**Previously reported**

The City could have earned additional investment income of approximately \$30,000 by investing more moneys with the State Board of Administration (SBA) or the City's money market account rather than maintaining surplus funds in low interest or non-interest bearing accounts.

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

Results of follow-up procedures

The City has partially addressed this finding. Our review disclosed that although surplus funds were not

invested through the SBA, such funds were maintained in interest bearing checking accounts or in certificates of deposit. However, the City could have earned approximately \$3,700 of additional interest during the period September 2003 through May 2004 had it invested its surplus funds with the SBA.

City Response

Although funds were not invested in the SBA, the SBA results were used as baseline for investment, and in many cases we were able to invest at a rate above SBA results. Some funds, particularly our checking account, remain invested significantly lower than SBA rates. We do feel as though we have more work to do to improve in this regard, but feel as though we have adequately addressed this concern.

Finding No. 15: Valuation of Reported Fixed Assets

Previously reported

Values reported for fixed assets (land, building and improvements, furniture and equipment, citrus groves, library books, and construction in progress) were not supported by documentation showing their actual cost or estimated historical cost at September 30, 2001.

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

Results of follow-up procedures

The City has not addressed this finding. Although requested, we were not provided sufficient evidence to demonstrate that values reported for fixed assets were based on actual cost or estimated historical cost. For example, fixed assets totaling \$2,848,355 reported on the City's financial statements as of September 30, 2003, as a single line item in the proprietary funds titled "Assets Before 10/1/87" were not supported by documentation to establish the basis for this valuation.

City Response

The City concurs, but feels as though it should be noted that the progress has been made in this regard and that the basis for figures prior to 1987 will probably never be known.

Finding No. 16: Tangible Personal Property Records

Previously reported

The tangible personal property records did not provide adequate accountability over tangible personal property as they did not contain all necessary information and did not include all property items. Further, some items could not be located or were not properly marked as City property.

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

Results of follow-up procedures

The City has not addressed this finding. Our review disclosed the following deficiencies:

- The City's property records do not include sufficient information necessary to properly identify, and establish accountability for, City-owned property.
- Our test of 20 items selected from the property records for physical observation disclosed that 13 items totaling \$86,066 could not be located.
- Our test of 10 items physically observed to trace back to the property records disclosed that 8 items were not properly included in the property records. These items included 2 vehicles, 2 computers and various other equipment.

- None of the assets acquired in the first nine months of the 2003-04 fiscal year were included in the property records or properly marked as City property.

City Response

The City will redouble efforts to correct this deficiency.

Finding No. 17: Tangible Personal Property Inventory

Previously reported

A physical inventory of tangible personal property had not been performed since 1999.

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

Results of follow-up procedures

The City has partially addressed this finding.

Although the City attempted to perform a physical inventory during the 2003-04 fiscal year, our review of documentation evidencing the physical inventory disclosed that 19 property items totaling \$107,338 were noted with a question mark indicating that such items had not been located; however, the City had not, of record, taken any actions regarding these items (e.g., remove the items from the property records or report the missing items to law enforcement for investigation). In addition, items identified on documentation evidencing the physical inventory as missing, stolen, and disposed of property had not been removed from the property records as of the time of our review.

City Response

The City will take appropriate actions regarding the property items identified by the State Auditors.

Finding No. 18: Internal Service Fund Fixed Assets

Previously reported

Although the City consolidated the Internal Service Fund into the General Fund, the Internal Service Fund fixed assets were not reported in the General Fixed Assets Account Group.

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

Results of follow-up procedures

The City has adequately addressed this finding.

Our review disclosed that assets previously reported in the Internal Service Fund were included in the General Fixed Asset Account Group at September 30, 2002, and September 30, 2003.

City Response

The City concurs.

Finding No. 19: Acquisition of Mariana Utilities System

Previously reported

The City purchased the Mariana Utilities System from Polk County, pursuant to a bid, for \$601,000 without obtaining independent appraisals or other information needed for a determination of the economic feasibility of the acquisition. The next highest bid for the System was \$251,000 less than the City's bid.

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

Results of follow-up procedures***The City has adequately addressed this finding.***

No property acquisitions have occurred since our last audit, and the City has represented that sufficient information will be obtained to demonstrate the propriety of future acquisitions.

City Response

The City concurs.

Finding No. 20: Transportation Inventory**Previously reported**

The City had not established an inventory system to track the usage, value, or quantity of transportation inventory (e.g., tubes, tires, gas, oil, etc.) items.

We recommended that the City implement an inventory system to track the usage, value, and quantity on hand for transportation inventory.

Results of follow-up procedures***The City has adequately addressed this finding.***

Our review disclosed that the City has implemented controls to properly account for transportation inventory.

City Response

The City concurs.

Finding No. 21: Capital Project Financing**Previously reported**

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

incurred; and related grant reimbursement requests were not timely filed.

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

Results of follow-up procedures***The City has adequately addressed this finding.***

Although no new projects of this type or magnitude occurred during the period subject to our follow-up review, the City, for a new Florida Department of Environmental Protection grant and loan, did not incur unnecessary interest expense or financing costs, and timely requested grant reimbursement. In addition, the City complied with City Charter provisions associated with the “bridge loan” refinancing.

City Response

The City concurs.

Finding No. 22: State Revolving Fund Loan Program**Previously reported**

The City obtained funding of approximately \$5,800,000 through the State Revolving Fund Loan Program but did not make adequate provision for loan repayment and violated loan covenants related to the escrow account, rate coverage, notification of additional debt to Florida Department of Environmental Protection (FDEP), and the repayment reserve account.

We recommended that the City enhance its controls to ensure that the monthly deposits to the escrow account are made, required reserves are properly maintained, and required notifications of FDEP are promptly made in accordance with the terms of the FDEP loan agreement. We further recommended that

the City take appropriate action to increase rate coverage ratios to that specified by the loan agreement.

Results of follow-up procedures

The City has adequately addressed this finding.

In September 2003, the City refinanced the State Revolving Fund Loan with a local bank. As a result, the covenants for this loan are no longer in effect; however, similar requirements are in effect based on a new loan with FDEP. By refinancing this debt, the City effectively increased their rate coverage ratio to comply with the requirements of the new FDEP loan covenants. In addition, in accordance with the new FDEP loan covenants, the City made monthly deposits to a loan debt service account and provided a reserve account in a sufficient amount as required.

City Response

The City concurs.

Finding No. 23: Other Long-Term Debt

Previously reported

The City failed to implement effective controls over other long-term debt, including a fire truck loan and an administration building loan. As a result, incorrect payments were made and the City incurred late payment penalties.

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

Results of follow-up procedures

The City has adequately addressed this finding.

In September 2003, the City refinanced the loan associated with the fire truck. Our review of the repayment schedule disclosed that the initial payment for the refinanced debt was properly calculated and consistent with contractual terms. Debt payments were made timely and, therefore, late fees were not incurred or paid by the City.

City Response

The City concurs.

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

Previously reported

Separate accounts were not maintained in the accounting records for the various long-term debt issues and corresponding principal and interest payments.

We recommended that the City establish separate accounts to record principal and interest payments for each outstanding debt obligation.

Results of follow-up procedures

The City has partially addressed this finding.

Although the City had established separate accounts for each debt issue, separate accounts for principal and interest payments were not established.

City Response

The City concurs, and will set up a ledger separating principal and interest.

Finding No. 25: Accountability for Restricted Revenues

Previously reported

Contrary to the Florida Department of Financial Services' (FDFS) (formerly Florida Department of Banking and Finance) *Uniform Accounting System Manual*, special revenue funds were not used to separately account for several revenue sources (Federal, state, and local grants; local option motor fuel taxes; ninth-cent fuel tax; and library donations) that are legally restricted as to the purposes for which expenditures could be made.

We recommended that the City establish accountability for each restricted revenue source through the use of separate special revenue funds in accordance with the FDFS *Manual*. We further recommended that, to the extent practical, the City

review balances on hand and recent transactions to ensure that all restricted moneys have been used for authorized purposes.

Results of follow-up procedures

The City has partially addressed this finding.

Although the City has not established a special revenue fund for each restricted revenue source, the City uses separate general ledger codes to maintain separate accountability for restricted revenues within the general fund.

As further discussed in finding No. 26, the City had \$201,999 of unexpended restricted local option fuel tax revenues at September 30, 2003. These restricted revenues were improperly included in the total unreserved fund balance reported for the general fund. As a result, the \$236,791 reported on the City's 2002-03 financial statements as unreserved fund balance for the general fund at September 30, 2003, was overstated by \$201,999 (an overstatement of approximately 85 percent).

City Response

The City will consult with its independent auditor as to the proper reporting of the local option fuel tax revenues in the General Fund.

Finding No. 26: Local Option Fuel Tax

Previously reported

Contrary to Section 336.025(1)(b)3., Florida Statutes, the capital improvement element of the City's comprehensive plan did not identify specific transportation expenditures or projects that would comply with the restricted uses of the additional \$0.05 local option fuel tax.

We recommended that the City amend its comprehensive plan and 5-year Schedule of Capital Improvements to provide for the specific uses of the additional \$0.05 local option fuel tax. We also recommended that, to the extent that the additional \$0.05 local option fuel tax proceeds received in the 1999-2000, 2000-01, and 2001-02 fiscal years were not

used for allowable transportation expenditures, such revenues be restored to the Special Revenue Fund and used for authorized purposes.

Results of follow-up procedures

The City partially addressed this finding. Our review disclosed that the City amended its comprehensive plan and 5-year Schedule of Capital Improvements to provide for the specific uses of the additional \$0.05 local option fuel tax proceeds. However, the City did not attempt to determine the extent to which additional local option fuel tax moneys were improperly expended during the 1999-2000 through 2002-03 fiscal years so as to restore any such amounts to a special revenue fund to be used for future authorized purposes. The City had \$201,999 of unexpended additional local option fuel tax revenues at September 30, 2003.

City Response

See comments from Finding No. 25.

Finding No. 27: Prenumbered Receipts

Previously reported

Prenumbered receipt forms used to document amounts collected by employees were not properly accounted for.

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

Results of follow-up procedures

The City has adequately addressed this finding.

The City has established and implemented procedures to provide for proper accountability of prenumbered forms. Our review disclosed no instances in which photocopies of prenumbered forms were used.

City Response

The City concurs.

Finding No. 28: Responsibility for Collections**Previously reported**

Responsibility for collections was not adequately documented from the point of collection to deposit due to: lack of security over collections; the absence a mail receipts log; failure to immediately restrictively endorse checks and; failure to document transfers of collections between employees.

We recommended that the City establish procedures that require all collections to be recorded at the initial point of collection and provide for evidence of transfers among employees. We also recommended that all checks be restrictively endorsed immediately upon receipt and that physical access to collections be limited to only authorized employees.

Results of follow-up procedures***The City has adequately addressed this finding.***

The City has established procedures which (1) require all collections to be recorded at the initial point of collection and provide for evidence of transfers among employees; (2) provide for the immediate restrictive endorsement of checks; and (3) limit physical access of collections to authorized employees.

City Response

The City concurs.

Finding No. 29: Missing Collections/Deposits**Previously reported**

The City had not adequately implemented procedures to assure that collections of record were subsequently recorded to the accounting records and timely deposited. Several instances of missing collections totaling \$19,617 (including \$14,940 in checks and \$4,677 in cash) were reported to the City's police department.

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

Results of follow-up procedures

The City has partially addressed this finding. Our review disclosed that the City has enhanced procedures to provide for the control and accountability for collections. In addition, in an attempt to collect the \$14,940 of missing checks, the City mailed 130 requests to the issuers of the missing checks in January 2003. However, the 130 requests for payment totaled \$10,087, or only 67 percent of the total amount of missing checks. Also, the City only mailed out one request per customer for replacement of the missing checks and no further collection efforts were pursued. As a result, the City's collection efforts yielded only \$1,628 of the missing \$14,940, or approximately 11 percent of the amount outstanding. We were advised that based on responses from customers, and the amount of time that has elapsed since the missing collections were reported, the City has chosen to cease attempts to collect payment for the missing checks.

City Response

The State Auditor report accurately reflects the City's position. Because of the hiatus between the problems and the proposed solutions, the City cannot expend the resources to try to recover money from four-year-old checks. The City has implemented procedures to insure that such an event never transpires again.

Finding No. 30: Over/Short Account**Previously reported**

Due to problems with the City's utility billing software and a lack of review and follow-up of discrepancies in the billing records, the City was unable to provide explanations for over/short account balances. As of September 30, 2001, the over/short account balance

included a shortage of \$15,629.49 representing the cumulative effect of the differences (overages and shortages) between utility billing reports and actual deposits.

We recommended that the City continue its efforts to resolve the differences resulting from the utility billing software. We also recommended that overages and shortages be immediately investigated by City personnel to determine the causes, and that any instances of cash overages and shortages resulting from closing out daily utility billing activity be immediately reviewed and approved by supervisory personnel.

Results of follow-up procedures

The City has adequately addressed this finding.

Controls have been enhanced to properly monitor and account for utility billing collections. In addition, the City implemented new software to correct the discrepancies between the utility billing software and actual collections posted to the general ledger.

City Response

The City concurs.

Finding No. 31: Citrus Sales

Previously reported

The City had not implemented controls to assure that all citrus fruit harvested from the City's citrus groves were properly accounted for and that corresponding revenues were received timely.

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

Results of follow-up procedures

The City has adequately addressed this finding.

Controls have been enhanced to provide for the accurate and timely receipt of citrus sales and related revenues.

City Response

The City concurs.

Finding No. 32: Utility Services Revenues

Previously reported

The City's utility billing and collection procedures, including those related to supervisory review of accounts and account adjustments, timeliness of billings, and collection of delinquent accounts, were not adequate to assure the timely payment of utility bills by users.

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

Results of follow-up procedures

The City has adequately addressed this finding.

The City has established procedures to provide for enhanced control and accountability over utility billing and collection.

City Response

The City concurs.

Finding No. 33: Utility Service Deposit

Previously reported

Utility deposits were not maintained in an interest-bearing account and reconciliations between the bank account and the subsidiary records for customer deposits were not performed.

We recommended that the City enhance controls to provide for periodic reconciliations of customer utility

deposits and consider maintaining such deposits in an interest-bearing account.

Results of follow-up procedures

The City has adequately addressed this finding.

Utility deposits are maintained in an interest bearing account and customer deposits were reconciled as of May 2004.

City Response

The City concurs.

Finding No. 34: Uncollected Revenues

Previously reported

Fees or charges required by various City ordinances for business license fees, fire inspection fees, sewer system surcharges, and reconnection fees were not always assessed and collected.

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

Results of follow-up procedures

The City has adequately addressed this finding.

Controls have been enhanced to ensure compliance with the City's billing ordinances and collection of revenues owed to the City for business licenses, fire inspection fees, sewer system surcharges, and reconnection fees.

City Response

The City concurs.

Finding No. 35: Hiring Practices

Previously reported

Documentation evidencing the hiring of personnel was not always available as applications, personnel action record (PAR) forms, and payroll deductions authorizations were not always retained and employment histories were not verified.

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

Results of follow-up procedures

The City has adequately addressed this finding.

Our review disclosed that the City has enhanced controls associated with documentation to support hiring of personnel and the maintenance of personnel files.

City Response

The City concurs.

Finding No. 36: Nepotism

Previously reported

Contrary to Section 112.3135, Florida Statutes, a department head was responsible for the approval of time reported by a relative who worked part-time for the City.

We recommended that the City, to the extent practical, remedy this situation through reassignment of the duties of the above-noted employees.

Results of follow-up procedures

The City has adequately addressed this finding.

The City has reassigned employees so that employees are not directly supervised by relatives.

City Response

The City concurs.

Finding No. 37: State Directory of New Hires**Previously reported**

Contrary to Section 409.2576, Florida Statutes, numerous individuals hired by the City were not reported to the State Directory of New Hires.

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

Results of follow-up procedures***The City has adequately addressed this finding.***

Our review of 20 new hires subsequent to September 30, 2002, disclosed that the City reported each new hire to the State Directory of New Hires as required by law.

City Response

The City concurs.

Finding No. 38: Personnel Evaluations**Previously reported**

Contrary to the City's Personnel Manual and Employee Handbook, personnel evaluation forms were not available to document merit-based pay adjustments for several employees.

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

Results of follow-up procedures***The City has adequately addressed this finding.***

Our review of 15 employees receiving merit-based pay adjustments from October 2002 through February 2004 disclosed that sufficient documentation was maintained to support the pay adjustments as required by the Handbook.

City Response

The City concurs.

Finding No. 39: Salary Overpayments**Previously reported**

The rate of pay for three employees exceeded the maximum salary ranges in the Commission-approved pay plan and for one employee was below the minimum salary range.

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

Results of follow-up procedures***The City has adequately addressed this finding.***

Our review of 30 City employees disclosed that rates of pay were consistent with those authorized by the Commission-approved budget and corresponding pay plan.

City Response

The City concurs.

Finding No. 40: Salary Advances**Previously reported**

Sixteen pay advances totaling \$5,192 were made to 11 employees without documenting the reasons for the advances. Article VII, Section 10 of the State Constitution prohibits pay advances. In addition, the City was unable to provide documentation evidencing the repayment of \$372 of pay advances owed by 3 employees.

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

Results of follow-up procedures

The City has partially addressed this finding. No salary advances were made subsequent to September 2002 through the time of our review in February 2004. However, although requested, we were not provided

with documentation evidencing that the City had taken action to recover the \$372 in outstanding claims.

City Response

The City has adequately addressed this finding into the future.

Finding No. 41: Employee Bonuses

Previously reported

Bonuses totaling \$2,760 were paid to employees, but were not reported as wages or other compensation and subjected to withholding for payment of Federal income taxes and other employment taxes.

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

Results of follow-up procedures

The City has partially addressed this finding. The City paid bonuses totaling \$2,610 and \$2,275 in December 2002 and November 2003, respectively, without reporting such amounts as wages or other compensation subject to withholding for payment of Federal income taxes and other employment taxes. Further, although we were advised that the City subsequently contacted the IRS regarding unreported bonuses, the City and the IRS have not reached an agreement as to whether certain bonuses are taxable, nor have they agreed upon corrective action regarding the \$2,760 of bonuses reported in report No. 03-029.

City Response

Again, the City has adequately addressed this finding by processing all future bonuses through the payroll system, but historical payments remain unresolved until such time as the IRS renders an opinion. It is the City's position that these fall under the guidelines of de minimus payments and consequently are of no importance from an accounting standpoint. The City will always process these types of payments through the payroll system in the future.

Finding No. 42: Overtime Payments

Previously reported

During the 2000-01 fiscal year, City employees were paid \$90,900 for overtime worked (primarily for the police and fire departments), without documentation of prior authorization, contrary to the City's Personnel Manual and Employee Handbook.

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

Results of follow-up procedures

The City has adequately addressed this finding.

Although the City has amended its policies to no longer require written documentation of prior authorization for overtime, procedures have been enhanced to provide for greater monitoring and justification for overtime. Our review disclosed that overtime payments for salary and related benefits were reduced to \$70,140 during the 2002-03 fiscal year and \$9,125 for the first 9 months of the 2003-04 fiscal year, in comparison to the \$90,900 of overtime paid during the 2000-01 fiscal year.

City Response

The City concurs.

Finding No. 43: Credit Card Usage

Previously reported

Deficiencies in the control and use of City credit cards provided to two commissioners, the City Manager, and an employee included lack of guidance on use of the credit cards; personal use of the credit cards and subsequent reimbursement contrary to Article VII, Section 10 of the State Constitution; lending of the credit cards to other employees; and lack of supporting receipts. Additionally, our audit disclosed \$22,674 of unsupported credit card charges, and the

City had not been reimbursed for \$470 of personal charges by a former City Commissioner.

We recommended that the City Commission enact written policies and procedures governing the control and use of credit cards. Such policies and procedures should prohibit the usage of credit cards for personal purposes and require all employees receiving credit cards to sign a written agreement evidencing their understanding of, and agreement with, the City's credit card policies and procedures. We also recommended that the City enhance its controls to provide for the retention of detailed invoices for all charges incurred on City-issued credit cards and take appropriate action to recover the \$470 in personal charges outstanding from the former City Commissioner. We further recommended, regarding the \$22,674 of unsupported credit card charges, that the City 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.

Results of follow-up procedures

The City has partially addressed this finding. Our review disclosed that the City established written policies and procedures providing guidance as to the proper use of City credit cards and enhanced controls related to credit card usage.

Our testing of credit card payments during the 2002-03 and 2003-04 fiscal years, and related actions, disclosed that such payments generally were supported by billing statements and credit card slips or vendor's sales receipts; however, in those instances in which the credit card was used for travel purposes, charges were not reflected on the traveler's expense report nor was the expense report attached to the credit card billing statement. Additionally, payments associated with amounts billed for City credit cards were not paid timely, resulting in approximately \$1,400 in finance charges, late payment charges, and over the credit line charges from October 2002 to June 2004. Our review disclosed that rather than paying the statement balance, the City determined the actual balance due on

the credit card and remitted payment by phone at an additional cost of \$15 per transaction. Also, the City had not taken action to obtain documentation or seek reimbursement related to the \$23,144 of questioned credit card charges reported in report No. 03-029.

City Response

The City concurs and wishes the State Auditor to note that the late payments and interest charge payments have been corrected and that the Finance Department has been instructed to immediately cease phone payments and partial payments.

Finding No. 44: Disbursement Processing

Previously reported

Deficiencies in the procedures for processing disbursements for goods and services included a lack of signatures and dates for receipt of the goods or services and failure to issue purchase orders.

We recommended that the City ensure that purchase orders are used, and that voucher packages include evidence that goods and services were received.

Results of follow-up procedures

The City has adequately addressed this finding. Our examination of expenditures for the period October 2003 through June 2004 disclosed that purchase orders were issued and voucher packages included evidence that goods and services were received.

City Response

The City concurs.

Finding No. 45: Contributions to Nongovernmental Organizations

Previously reported

Contributions totaling \$7,891 were made to the Lake Alfred Chamber of Commerce without an agreement setting forth the specific purposes for the use of the money and follow-up procedures were not performed to determine the ultimate use.

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

Results of follow-up procedures

The City has partially addressed this finding. The City contributed \$7,000 and \$4,000 during the 2002-03 and 2003-04 fiscal years, respectively, to the Lake Alfred Chamber of Commerce without benefit of written agreements. However, Commission minutes documented that the City has had some input and consideration regarding recent donations, and controls have been enhanced to provide for financial reports from the Chamber of Commerce.

City Response

The City no longer advances money to any group and consequently an agreement is not required. No contributions are made without Commission approval and without a presentation for request of funds before the Commission in open session. All requests for funds are documented as to public purpose, and such documentation is reviewed by the City prior to making contribution payments.

Finding No. 46: Written Agreements

Previously reported

The City paid \$24,050 and \$30,466 for the 1998-99 and 1999-2000 fiscal years, respectively, to an accounting firm without the benefit of a written agreement.

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

Results of follow-up procedures

The City has adequately addressed this finding.

Payments made to the City's accountant were made pursuant to a written contract and were consistent with the terms of the contract.

City Response

The City concurs.

Finding No. 47: Inadequate Support for Contractual Expenditures

Previously reported

Payments totaling \$157,629 to an accounting firm and an engineering firm were not adequately supported by detailed invoices.

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

Results of follow-up procedures

The City has adequately addressed this finding.

Our review disclosed that such payments appeared to be adequately supported and in accordance with written agreements.

City Response

The City concurs.

Finding No. 48: Travel Allowances

Previously reported

Monthly travel allowances totaling \$4,850 were paid to the former City Manager and Interim City Manager without the signed typical month's travel statements required by Section 112.061(7)(f), Florida Statutes, and the allowances were not subjected to required withholding for Federal income tax purposes.

We recommended that the City, for any future travel allowances, obtain a signed statement from the traveler

at least annually showing the places and distances for an average typical month's travel on official business. We also recommended that the City ensure that any such allowances are subject to withholding for payment of Federal income tax and other employment taxes and contact the Internal Revenue Service to determine what corrective action should be taken regarding the unreported amounts.

Results of follow-up procedures

The City has partially addressed this finding. The City's contract with the City Manager provides for the City Manager to receive a \$300 per month travel allowance in lieu of being reimbursed for mileage while traveling on City business. Although travel allowances paid to the City Manager are now reported as taxable income and subjected to withholding for Federal income tax purposes, such amounts are not based on a signed typical month's travel statement. Nor had the City otherwise demonstrated the reasonableness of the \$300 monthly travel allowance. In addition, although we were advised that the City contacted the IRS, the City and the IRS have not agreed upon corrective action regarding the \$4,850 of travel allowances not subjected to withholding for Federal income tax purposes as reported in report No. 03-029.

City Response

This finding has been adequately addressed by virtue of deleting the reference to a "travel allowance" in the City Manager's contract. All payments are run through the payroll system and have proper withholding. Historical errors in payment have not yet been addressed by the IRS.

Finding No. 49: Subsistence Allowances

Previously reported

In 24 instances totaling \$343, travelers were paid subsistence allowances that exceeded the subsistence allowance rates established in 112.061, Florida Statutes. These instances were the result of the City Commission improperly establishing subsistence

allowances by Resolution No. 03-92 in excess of those prescribed by Section 112.061(6)(b), Florida Statutes.

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

Results of follow-up procedures

The City has adequately addressed this finding.

The Legislature, through the enactment of Chapter 2003-125, Laws of Florida, created Section 166.021(10)(b), Florida Statutes, which states that the governing body of a municipality may provide for a per diem and travel expense policy for its travelers that varies from the provisions of Section 112.061, Florida Statutes, and any such policy existing on January 1, 2003, shall be valid and in effect.

As a result of the above-noted law, and because Resolution No. 03-92 was in effect at January 1, 2003, City Commissioners and employees traveling on City business were entitled to the subsistence allowances established by Resolution No. 03-92 effective January 1, 2003. Our test of travel-related expenditures subsequent to January 1, 2003, through June 18, 2003, disclosed that subsistence allowances generally were paid in accordance with Resolution No. 03-92.

City Response

The City concurs.

Finding No. 50: Unauthorized/Unsupported Travel Expenses

Previously reported

Travel expenses paid for City Commissioners and certain employees were not always adequately supported to evidence the authorized public purpose of the travel and permit a determination of compliance with applicable laws. For example, our review of travel reimbursements disclosed several instances in which traveler affirmations were missing, times of departure and return were not identified, conference

programs or agendas were not submitted, local meals for officials/employees were incorrectly reimbursed or paid directly, meals charged on City credit cards lack sufficient documentation, meal advances were not properly accounted for, and travelers were improperly reimbursed for gratuities.

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

Results of follow-up procedures

The City has not addressed this finding. Our review of 30 travel-related expenditures during the period October 2002 through May 2004 disclosed continuing deficiencies in the supporting documentation, including lack of documentation as to public purpose or how the expense benefited the City, and sufficiently detailed travel expense reports, including a statement signed by the traveler certifying that the expenses were actually incurred as necessary for travel expenses in the performance of their official duties and that they were true and correct as to every material matter.

In June 2004, in response to our inquiry, we were advised that for future travel-related expenditures, a revised travel expense report will be used to better document the public purpose served for travel expenses, and that the new travel expense report includes the required traveler affirmation and the time of departure and return.

City Response

The City has corrected this item moving forward.

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

Previously reported

The City incurred \$6,538 of Mayor's Youth Council (MYC) travel expenses for eight people to attend a National League of Cities Conference in Boston, Massachusetts. None of the expenses were supported by travel expense reports evidencing that the expenses were reasonable, necessary, and served a public purpose, nor were there records to document how the trip served the duties and responsibilities of the MYC.

We recommended that the City establish controls to provide for the expenditure of MYC funds in accordance with Sections 2-134 and 2-139 of the City Charter and for such expenditures to be adequately supported to substantiate the propriety of charges incurred. We also recommended that City personnel review the questioned MYC travel expenses disclosed by our audit and recover amounts not adequately documented or authorized by Section 2-139 of the City Charter or Section 112.061, Florida Statutes.

Results of follow-up procedures

The City has partially addressed this finding. On December 16, 2002, the Commission passed an ordinance abolishing the Mayor's Youth Council; however, our review disclosed that the City had not reviewed the \$6,538 in questioned MYC travel expenses disclosed by our previous audit or recovered any amounts not adequately documented and/or authorized.

City Response

The City concurs, although once again the hiatus between recognition of a problem and the possible solution makes recovery at this stage very difficult indeed.

Finding No. 52: Telecommunication Taxes

Previously reported

The City paid an estimated \$1,000 in Federal, State, and local telecommunication taxes from which the City is exempt.

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

Results of follow-up procedures***The City has adequately addressed this finding.***

Subsequent to our inquiry, the City, in June 2004, contacted their current telecommunication vendor and requested tax exempt status and a refund. The City received a refund in September 2004 in the amount of \$573.14.

City Response

The City concurs.

Finding No. 53: Vehicle Utilization Records

Previously reported

The City assigned seven vehicles to employees on a 24-hour basis without clearly identifying the necessity and benefits. Vehicle usage logs were not maintained and the personal use of the vehicles was not included in the employees' gross compensation reported to the Internal Revenue Service.

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

regarding the unreported value of personal use of vehicles assigned on a 24-hour basis.

Results of follow-up procedures***The City has partially addressed this finding.***

Although Section 13.01 of the City of Lake Alfred Personnel Manual and Employee Handbook prohibits personal use of City vehicles, the City has not provided for controls to monitor the use of such vehicles assigned on a 24-hour basis. We were advised by City personnel that a vehicle utilization log has been developed and will be used to demonstrate the use of City-owned vehicles beginning next fiscal year. Further, although we were advised that the City contacted the IRS, the City and the IRS have not agreed upon corrective action with regard to the unreported value of personal use of vehicles assigned on a 24-hour basis.

City Response

The City would remind the auditors that each individual authorized the use of a take home vehicle was required to sign a form indicating their responsibilities and limitations on the use of these vehicles over a year ago, and that these signed forms are on file in the City Clerk's office. We feel this to be an important component in our attempt at compliance.

Finding No. 54: Insurance Bids

Previously reported

The City purchased various types of insurance at a total cost of \$303,129 for the 2000-01 fiscal year without obtaining bids from insurance providers.

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

Results of follow-up procedures***The City has adequately addressed this finding.***

The City recently bid the various contracts for insurance coverage.

City Response

The City concurs.

Finding No. 55: Health Insurance Premium Payments**Previously reported**

Numerous employee health and hospitalization insurance premium payments were remitted past the due date and in one instance coverage was cancelled due to past due balances.

We recommended that the City continue its efforts to provide for the accurate and timely payment of health insurance premiums.

Results of follow-up procedures***The City has adequately addressed this finding.***

Our examination of insurance premium payments during the period September 2002 through April 2004 disclosed that such payments were made timely.

City Response

The City concurs.

Finding No. 56: Workers' Compensation Penalty Payment**Previously reported**

The City did not complete a required self-audit relating to the Florida Municipal Insurance Trust risk pool and incurred \$7,212 in penalties assessed by the Trust.

We recommended that the City ensure that future self-audits are completed in a timely manner to avoid any further penalties.

Results of follow-up procedures***The City has adequately addressed this finding.***

The City provided the necessary information to the Florida Municipal Insurance Trust risk pool and avoided paying any penalties during the 2001-02 and 2002-03 fiscal years.

City Response

The City concurs.

Finding No. 57: Access and Security Administration Controls**Previously reported**

Enhancements could be made to controls over computer access and security in the areas of security awareness, disaster recovery plans, and physical security.

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

Results of follow-up procedures***The City has partially addressed this finding.***

Although the City has enhanced controls related to security awareness and physical security, a disaster recovery plan has not been prepared or tested, and certain other important security deficiencies have not been corrected. Specific details of these security deficiencies are not disclosed in this report to avoid any possibility of compromising City operations. However, appropriate City personnel have been notified of the deficiencies.

City Response

The City concurs.

Finding No. 58: Utility Billing Software Implementation**Previously reported**

Late billings to utility customers resulted from the failure to adequately test a new utility billing application prior to placing the application in operation.

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

Results of follow-up procedures***The City has adequately addressed this finding.***

The City has implemented commercial software applications for accounting and fixed assets. We were advised that both applications were installed and tested using three months data prior to placing them into production, and the City has not experienced problems with either application. Our tests of billings subsequent to the installation of the accounting application disclosed no problems.

City Response

The City concurs.

Finding No. 59: Public Records Retention

Previously reported

The City destroyed bank statements from the 1997-98 fiscal year prior to completion of the required three-year retention period.

We recommended that the City exercise greater care in maintaining public records as required by Chapter 119, Florida Statutes.

Results of follow-up procedures***The City has adequately addressed this finding.***

Our review disclosed no instances in which the City destroyed public records prematurely.

City Response

The City concurs.

Finding No. 60: Commission Minutes

Previously reported

Commission approval of transcribed minutes was not always documented, of record, in the minutes of subsequent meetings.

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

Results of follow-up procedures***The City has adequately addressed this finding.***

Our review disclosed that the minutes from October 2002 through February 2004 were properly approved by the Commission.

City Response

The City concurs.

SCOPE AND OBJECTIVES

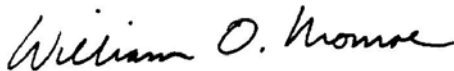
The scope of this project included selected actions and transactions taken subsequent to September 30, 2002, through September 2004 to determine the extent to which the City has corrected, or is in the process of correcting, deficiencies disclosed in report No. 03-029.

METHODOLOGY

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

AUTHORITY

Pursuant to the provisions of Section 11.45(2)(k), Florida Statutes, I have directed that this report be prepared to present the results of our follow-up procedures regarding findings and recommendations included in report No. 03-029 – financial and operational audit of the City of Lake Alfred, Florida, for the fiscal year ended September 30, 2001, and selected actions taken prior and subsequent thereto.



William O. Monroe, CPA
Auditor General

CITY MANAGER'S RESPONSE

The City Manager, in a letter dated January 5, 2005, provided his response to our findings. Excerpts from the City Manager's response are included under the applicable findings above. The City Manager's response, in its entirety, may be viewed on the Auditor General's Web site.

This follow-up review was conducted by David A. Blanton, CPA, and supervised by George J. Cotellis, Jr., CPA. Please address inquiries regarding this report to James M. Dwyer, CPA, Audit Manager, via e-mail at jimdwyer@aud.state.fl.us or by telephone at (850) 487-9031.

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