



# AUDITOR GENERAL

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## CITY OF MEXICO BEACH, FLORIDA

### Follow-up on Operational Audit Report No. 2004-106

#### SUMMARY

This report provides the results of our follow-up procedures for each of the findings included in our report No. 2004-106 and the City's responses thereto. Our follow-up procedures to determine the City of Mexico Beach's progress in addressing the findings and recommendations contained in our report No. 2004-106 disclosed that the City, as of the completion of our follow-up procedures in May 2005, had adequately addressed 11 of the 38 findings included in that report. The City had partially addressed 14 findings, and had taken no action regarding the remaining 13 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 an operational audit of the City of Mexico Beach, Florida, for the period October 1, 2001, through March 31, 2003, and selected actions taken prior and subsequent thereto. Pursuant to Section 11.45(2)(l), Florida Statutes, the Auditor General, no later than 18 months after the release of our report No. 2004-106 (issued January 2004), must perform such appropriate follow-up procedures as deemed necessary to determine the City of Mexico Beach's progress in addressing the findings and recommendations contained within that report.

#### STATUS OF REPORT NO. 2004-106 FINDINGS

##### Finding No. 1: Written Policies and Procedures

###### Previously reported

During the majority of the audit period, the City had not established written policies and procedures necessary to assure the efficient and effective conduct of accounting and other business-related functions and the safeguarding of assets. Although the City Council, in March 2003, adopted Resolution No. 2003-5, establishing standard operating policies and procedures addressing most critical areas of City operations, these policies and procedures did not address certain instances of noncompliance and management control deficiencies disclosed by our audit.

We recommended that the City Council ensure that the written policies and procedures adopted pursuant to Resolution No. 2003-5 are implemented at the earliest possible date, and that such policies and procedures address the instances of noncompliance and management control deficiencies disclosed by the audit.

###### Results of follow-up procedures

*The City has partially addressed this finding.* The City adopted additional policies and procedures subsequent to the adoption of Resolution 2003-5 that were incorporated into the City's Standard Operating Procedures manual (SOP). However, these additional policies and procedures, related to the safeguarding of City checks and credit cards and City

equipment/vehicles, were not adopted pursuant to a resolution by the City Council. Furthermore, the City has not adopted policies and procedures regarding 24-hour usage of City-owned vehicles by public safety staff. The City Clerk asserts that no employee, other than public safety personnel, has 24-hour usage of City vehicles. The City's policies and procedures still do not address certain compliance issues, such as communication expense, grants administration, sale of abandoned property, debt management, use of loan proceeds, accountability for restricted funds, or donations received by the Volunteer Fire Department, a component unit of the City.

**Finding No. 2: Separation of Duties**

Previously reported

The City had not provided for an adequate separation of duties, or established compensating controls, for collections other than utility collections, disbursements, and payroll processing.

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

Results of follow-up procedures

*The City has not addressed this finding.*

Our current review disclosed the following:

- The City Clerk collects revenue items other than utility payments and also prepares the bank deposits and records the transactions in the accounting records.
- The Building Department Administrative Clerk handles all transactions for the issuance of permits, collects the moneys, issues the receipts, and retains possession of the supporting documentation.

- The City Clerk who reconciles the payroll bank statements and the general fund bank accounts also has check signing and wire transfer authority.
- Pursuant to the City's SOP for bank account reconciliations, the Mayor is responsible for review and approval of all reconciliations. However, for the bank reconciliations we examined, such review and approval was not documented of record.

Auditor Follow-up

*The Mayor, in his written response to finding No. 2, stated that the City Administrator, not the City Clerk, reconciles the general fund bank account and the payroll account. The Mayor is apparently referring to the fact that the former City Clerk is now the City Administrator and still performs the bank reconciliations in question. However, the point of our finding was the incompatible duties associated with the same individual reconciling bank accounts and also having check signing and wire transfer authority. The Mayor did not address this issue in his response.*

**Finding No. 3: Budget Preparation**

Previously reported

The City, for the 2001-02 and 2002-03 fiscal year budgets, did not include beginning fund equities available from the prior year for the general fund, and did not amend the budgets to show actual beginning fund equity balances for the enterprise funds.

We recommended that the City, pursuant to Section 166.241(3), Florida Statutes, ensure that future annual budgets consider all beginning fund equities, that the City implement procedures to assure that estimates of beginning fund equities are reasonable, and that budgets are amended to show actual ending fund equities.

Results of follow-up procedures

*The City has not addressed this finding.* For the 2004-05 fiscal year, the City did not include beginning fund equities available from the prior year for its general, special revenue or enterprise fund budgets.

Additionally, the ordinances whereby the City adopted its fiscal year 2004-05 budgets for the water, sewer, and sanitation funds differed from the appropriation amounts that were shown in the Truth-In-Millage (TRIM) advertisement for those respective funds. There was a net unexplained difference of \$355,160 between the adopting ordinances and the TRIM advertisement.

The City Clerk indicated that the City would amend the 2004-05 budget to include actual prior year ending fund cash balances. Because the budget is adopted on a basis of accounting consistent with generally accepted accounting principles for government entities (i.e., accrual and modified accrual bases), the City should amend the budget for beginning fund equity balances. Further, it should not require nine months to amend the budget for actual beginning balances.

**Finding No. 4: Budget Overexpenditures**

**Previously reported**

Contrary to Section 166.241(3), Florida Statutes, actual 2001-02 fiscal year expenditures exceeded amounts budgeted for certain expenditure object categories for the general fund and the enterprise funds, and exceeded total budgeted expenditures for the general fund.

We recommended that, although the City had available resources for the 2001-02 fiscal year to offset the above-noted overexpenditures, the City, in accordance with Section 166.241(3), Florida Statutes, ensure that expenditures do not exceed budgetary authority.

**Results of follow-up procedures**

*The City has partially addressed this finding.* For the 2003-04 fiscal year, improvement was noted.

The City’s SOP states in the Budgetary Controls section, paragraph 3.1, that “the level of budget control for staff shall be established at an amount of up to 8% per department total over original department budget totals.” Accordingly, the budgets for the enterprise funds (water, sewer and sanitation) were adopted by the City at the department level by

Ordinance Nos. 455, 456, and 457. There were no budget overexpenditures in the enterprise funds. However, the budgets for the general fund and special revenue fund were adopted by the City at the fund level by Ordinance No. 460. Although the general fund expenditures did not exceed the amounts budgeted at the fund level, expenditures in three departments exceeded the budget at the level of budgetary control established by policy. The overexpenditures in the general fund totaled \$75,529 for the three departments. The budgets for the general fund and the special revenue fund should be adopted in accordance with the City’s SOP which specifies the department level rather than the fund level as the level of budgetary control, or the City should revise the SOP.

**Finding No. 5: Bank Reconciliations**

**Previously reported**

Certain City bank accounts were not properly and promptly reconciled during the audit period. For a bank account established to process payments on a loan obtained by the City, the banks statements did not reflect three deposits made by the City and three payments on the loan.

We recommended that the City ensure that proper bank reconciliations for all bank accounts are performed timely and accurately. Regarding the bank account used to account for the loan, we also recommended that the City ensure that omissions from the bank statements, or failure to make loan payments on behalf of the City, are timely corrected by the bank.

**Results of follow-up procedures**

*The City has not addressed this finding.*

Our current review disclosed the following:

- The City is not properly reconciling all of its accounts on a timely basis. For 8 of 25 accounts, no reconciliations had been

performed for the current fiscal year through February 2005.

- The payroll account reconciliation included an unexplained difference between the bank balance and the general ledger balance of \$1,011.41 for the period November 2004 through February 2005.
- As noted in our report No. 2004-106, the City hired an independent accounting firm to prepare monthly bank reconciliations for the loan account; however, the City had not, as of July 6, 2005, obtained the reconciliations from the firm preparing them. The City also had not recorded transactions related to the activity in this account in its accounting records (monthly loan payments of approximately \$18,000 and monthly interest earnings of approximately \$350).

**Auditor Follow-up**

*The Mayor, in his written response to this finding, stated that all bank accounts are reconciled on a monthly basis, that the loan account is reconciled on a monthly basis by the City’s accounting firm, and that the City had received the adjusting entries from the accounting firm and has made the entries. As noted in our finding, as of July 2005, the bank accounts were not being reconciled on a timely basis, the City had not obtained the reconciliations from the City’s accounting firm, nor had the City recorded entries related to the loan account in its accounting records.*

**Finding No. 6: Check Processing**

**Previously reported**

Accountability for checks for the City's general fund bank account was deficient in that voided checks were not properly defaced and proper accountability was not maintained for all voided checks.

We recommended that the City ensure that voided checks are retained and are properly marked as void or otherwise defaced, and maintain proper accountability for all voided checks.

**Results of follow-up procedures**

*The City has partially addressed this finding.*

Voided checks were generally retained and marked as void. However, five checks issued during the current fiscal year through February 2005 were unaccounted for. According to City staff, these checks were destroyed; however, we were not provided evidence of their destruction (e.g., a destruction certificate signed by two employees).

**Finding No. 7: Investment Policy**

**Previously reported**

City investments in repurchase agreements were not authorized by Section 218.415, Florida Statutes, or the City's investment policy. In addition, the City's investment policy did not contain all of the required elements prescribed by Section 218.415, Florida Statutes.

We recommended that the City either amend its investment policy to include authorization to invest in repurchase agreements and all elements required by Section 218.415, Florida Statutes, or terminate its repurchase agreement and invest in only those investments authorized by Section 218.415(17), Florida Statutes.

**Results of follow-up procedures**

*The City has adequately addressed this finding.*

The City is no longer invested in repurchase agreements and investments for the current fiscal year are authorized by Section 218.415(17), Florida Statutes.

**Finding No. 8: Investment Earnings**

**Previously reported**

The City could have earned additional interest income of approximately \$7,200 by investing with the Florida State Board of Administration (SBA).

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 not addressed this finding.* The City is not investing surplus funds with the SBA. Had City funds been invested with SBA for the period October 2004 through February 2005, the City would have earned \$8,228 more in investment earnings.

**Finding No. 9: Fixed Asset Records**

**Previously reported**

The City had not established general ledger control accounts for its classes of fixed assets for the general fixed assets account group. In addition, not all assets had been recorded in the City’s subsidiary property records and, although general fixed assets reported in the audited financial statements agreed in total to general fixed assets reported in the subsidiary records, totals by asset classification did not agree. Also, the City did not maintain adequate subsidiary records for tangible personal property.

We recommended that the City establish general ledger control accounts for general fixed assets and ensure the proper recording of all assets, including asset classifications, asset descriptions, and acquisition and disposal information in the subsidiary records. We also recommended that the City determine the estimated values of donated assets on the dates of acquisition and record them in the fixed asset subsidiary records if the fair value exceeded the City's capitalization threshold.

**Results of follow-up procedures**

*The City has partially addressed this finding.* The City’s subsidiary records appear to contain the necessary information for recorded items. However, we noted the following items were still not adequately addressed:

- The City has not established general ledger control accounts in the general and special

revenue funds for all classes of general capital assets.

- The enterprise funds subsidiary records for the sewer and water funds could not be reconciled to amounts recorded in the general ledger control accounts.
- The City has not taken corrective action to record in the property records donated property noted in the prior audit (a brush truck obtained through Federal surplus property in May 2001).
- One item, a 1997 Ford Explorer, disposed of by the City in May 2004 had not been removed from the City’s property records.

**Finding No. 10: Tangible Personal Property Inventory**

**Previously reported**

The City had not, of record, performed a physical inventory of its tangible personal property since some time prior to July 2001 until it performed a physical inventory in March 2003. At the time of our inquiry in August 2003, the City had not, of record, reconciled the physical inventory to the fixed asset records to determine whether differences existed between actual and recorded property.

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.* An inventory had not been taken of tangible personal property recorded in the enterprise funds since March 2003. Although inventories of tangible personal property recorded in the general and special revenue funds were taken in January 2004, they were not properly reconciled, of record, to the subsidiary records. As of September 2004, the sanitation fund’s March 2003 inventory had been reconciled to the

subsidiary records; however, the inventories for the sewer and water funds still had unreconciled differences of approximately \$150,000 and \$81,000, respectively.

**Finding No. 11: Sale of Surplus Property**

**Previously reported**

Several surplus property items disposed of during the audit period were not, of record, disposed of in the manner authorized by the City Council. In addition, documentation supporting the sale of several items was not sufficiently detailed and, as such, we could not determine whether the appropriate amount was collected for these items.

We recommended that the City ensure that disposals of surplus tangible personal property are authorized, conducted fairly, and properly documented.

**Results of follow-up procedures**

***The City has adequately addressed this finding.***

One item, a 1997 Ford Explorer was disposed of by the City in May 2004, in the manner authorized by the City Council and the disposition was properly documented (see finding No. 9 regarding lack of removal of this item from the property records).

**Finding No. 12: Sale of Abandoned Property**

**Previously reported**

The City, in selling several impounded or abandoned vehicles, did not comply with Section 705.103, Florida Statutes, which requires that unclaimed proceeds from the sale be deposited into the State school fund after one year of the date of deposit of the proceeds. Except for one vehicle, amounts received for the sale of these items were not adequately documented through the use of individual receipts and, as such, we could not determine to whom the vehicles were sold and the amounts for which they were sold. In addition, one of the vehicles, a Wave Runner, remains titled in the City's name, exposing the City to possible

liability should individuals using the vehicle suffer or cause injury or death.

We recommended that the City determine the amount due to the State school fund and remit such amount as soon as possible. We also recommended that the City ensure that future sales of abandoned property are conducted, and funds remitted, in accordance with Section 705.103, Florida Statutes, and properly documented of record and that the City take action to ensure the immediate transfer of the title of the Wave Runner to the new owner.

**Results of follow-up procedures**

***The City has not addressed this finding.***

Our current review disclosed the following:

- The City has not determined the amount due or remitted the appropriate amount to the State school fund.
- The City has taken no action to ensure the transfer of title to the Wave Runner to the new owner.
- The City Council approved the sale of four abandoned vehicles on May 5, 2004. Subsequently, one of the vehicles was sold for \$250 and the other three were disposed of (towed away) with no money exchanged for the vehicles. The City transferred ownership of the abandoned vehicle (sold for \$250) by having the title reissued in the name of the City prior to the sale. Minutes of the May 5, 2004, City Council meeting indicated that the City transferred the title in order to avoid having to make the education donation to the State school fund pursuant to Section 705.103, Florida Statutes. However, it is not apparent how these actions relieve the City of the requirement to remit the moneys to the State school fund in accordance with the provisions of Section 705.103, Florida Statutes.

**Auditor Follow-up**

*The Mayor, in his written response to this finding, indicated that there are no requirements under Section 705.103, Florida Statutes, that the City must forward funds to the State school fund. As indicated in the finding, the reissuing of the titles to these vehicles in the name of the City does not, in our opinion, relieve the City of the responsibility of remitting the moneys received to the State school fund and we remain of the opinion that the City should remit these moneys as required by Section 705.103, Florida Statutes. As noted in Attorney General Opinion 99-58, it is not appropriate for the City to transfer title to property prior to sale in an attempt to circumvent the procedures of Section 705.103, Florida Statutes.*

**Finding No. 13: Debt Management**

**Previously reported**

The City, as part of its efforts to obtain financing to refund certain outstanding debt obligations of the City, and to acquire and construct capital improvements for the City's wastewater utility system, obtained financing from various sources, including a \$4,190,000 loan from the City of Gulf Breeze. Our review of the City's debt management decisions with regard to these efforts disclosed that the City may have incurred unnecessary financing costs. It was not apparent, of record, why the City borrowed \$4,190,000 from the City of Gulf Breeze, since this amount exceeded its documented financing needs by \$1,450,424. In addition, it was not apparent, of record, why the City, after it was determined that not all of the loan proceeds would be needed for originally intended purposes did not promptly pay off some of the principal balance due on the Gulf Breeze loan or pay off other outstanding debts. Further, the variable rate Gulf Breeze loan, and another variable rate loan used to pay closing costs on the Gulf Breeze loan, together comprised 42 percent of the City's total long-term debt at September 30, 2002, which is well in excess of recommended variable rate limits.

We recommended that the City perform an analysis to determine whether it would be economically beneficial

for it to pay down the Gulf Breeze loan or pay off more expensive debt (provided a favorable opinion of bond counsel is obtained) and in doing so, the City consider the propriety of maintaining such a high level of variable rate debt, evaluate the impact on debt service requirements using different interest rate assumptions, and develop contingency plans for a rising interest rate environment. We also recommended that while interest rates are low, the City consider obtaining a low fixed rate loan to pay off the Gulf Breeze loan and other outstanding debt.

**Results of follow-up procedures**

*The City has adequately addressed this finding.*

The City obtained a review, dated May 4, 2004, of its outstanding debt obligations. The analysis indicated that it would not be economically beneficial to the City to pay off any of the long-term debt.

**Finding No. 14: Use of Loan Proceeds**

**Previously reported**

Ordinance No. 338, and the City's loan agreement with the City of Gulf Breeze, provide that loan proceeds may be used to finance or refinance projects other than those specified in the loan agreement if the City obtains a favorable opinion of bond counsel. Based on documentation provided by the City, we determined that the City used approximately \$1.5 million of the Gulf Breeze loan proceeds for purposes not authorized by Ordinance No. 338 and the loan agreement without obtaining prior City Council and bond counsel approval.

We recommended that the City Council obtain approval from bond counsel for those projects financed with the loan proceeds that were not specifically authorized in the loan agreement and, for those projects not approved, restore the funds to the loan proceeds bank account to be used for authorized purposes. In addition, we also recommended that the City Council approve by ordinance all uses of the loan proceeds that are for purposes other than that

authorized by Ordinance No. 338 and the loan agreement.

**Results of follow-up procedures**

*The City has partially addressed this finding.* The City obtained bond counsel approval in May and June 2004 for \$203,865 and \$602,425, respectively, of the cited uses of the Gulf Breeze loan proceeds. However, the City had not received bond counsel approval for the remaining \$719,233 of unauthorized use of the loan proceeds noted in our report No. 2004-106.

The City did not restore the loan proceeds to the bank account for those projects not approved by bond counsel. Additionally, the City did not adopt any ordinances, other than Ordinance No. 338, for the purpose of authorizing any other use of the Gulf Breeze loan proceeds.

**Finding No. 15: State Revolving Fund Loans**

**Previously reported**

We were not provided with documentation evidencing that the City and County had agreed on the amount of debt service payments for which the City was obligated to the County related to the proceeds from a State Revolving Fund (SRF) loan obtained by the County for the benefit of the City. According to information provided by Bay County Clerk of the Court’s Office, the City was scheduled to pay debt service payments totaling \$2,626,098 over a 20-year period from 1999 to 2019.

Further, a liability associated with a SRF loan obtained by Bay County on the City's behalf was not reported on the City's financial statements or otherwise disclosed in the notes to the financial statements for the fiscal years ended September 30, 1999, 2000, 2001, and 2002.

We recommended that the City take appropriate measures to verify the accuracy of the amount of SRF loan debt service payments for which the City is obligated and document of record its concurrence as to the amount of such obligation. We also

recommended that the City ensure that its financial statements properly report and disclose, in accordance with generally accepted accounting principles, the City's liability for SRF loan debt service payments pursuant to its agreement with Bay County.

**Results of follow-up procedures**

*The City has not addressed this finding.*

Our current review indicated the following:

- Although the City indicated in its response to this finding that the County attorney had confirmed that the City was not liable for this debt, the City did not obtain a written opinion from the County attorney supporting the assertion that the City is not liable for the SRF loan debt service payments.
- Although the City further indicated in its response to this finding that it was seeking a legal determination regarding amending the agreement as to its liability with respect to the SRF proceeds, the May 1997 agreement was not amended to eliminate the City’s obligation to pay debt service on the SRF loan.
- The City did not verify the accuracy of the amount of the SRF loan debt service payments, nor did the City document its concurrence as to the amount of the obligation.

The September 30, 2004, audit report prepared by an independent certified public accountant on the City’s financial statements contained a note disclosure (Note 15) concerning the contract with Bay County, which stated that “. . . the City has agreed to pay for such capacity and treatment services for wastewater collected from City customers.” However, there is no liability recorded in the financial statements in the audit report.



**Finding No. 16: Accountability for Restricted Funds**

**Previously reported**

Contrary to Section 218.33(2), Florida Statutes, the City did not separately account for expenditures of moneys received as donations totaling \$58,222 in accordance with the Florida Department of Financial Services' Uniform Accounting System Manual (FDFS Manual). As a result, we could not determine for what purposes these restricted moneys had been used.

We recommended that the City establish accountability for restricted revenues through the use of separate special revenue funds in accordance with the FDFS Manual and that the City review balances of donated moneys on hand and recent transactions to ensure that the restricted moneys have been used for authorized purposes.

**Results of follow-up procedures**

*The City has not addressed this finding.* Private donations are tracked through the use of revenue codes; however, separate expenditure codes were not utilized to establish accountability for the use of the donations.

We tested the City's accounting for restricted resources other than grants and noted the following:

- According to City Council minutes, donations of \$1,150 were received from private sources for the employees' Christmas party. According to the City Clerk, employees voted not to have a party and the donors authorized buying hams and turkeys for employees and distributing the remaining funds to employees equally. We were able to verify that moneys were spent for hams and turkeys for employees and that all employees were given checks for \$17 each.
- According to City Council minutes, the Tom Sawyer Project was closed down and its funds, totaling \$8,360, donated to the City with the provision that they be used to purchase

specific Christmas decorations from a specific company. (See finding No. 37 for additional comments concerning the Tom Sawyer Project.)

However, the City had no documentation of the donors' authorizations to use the moneys donated in the above described manner.

**Auditor Follow-up**

*The Mayor, in his written response to this finding, stated that the donations in question were used for their intended purposes. However, the point of our finding was that there was no documentation presented of the donors' authorization to use the moneys in the manner described in our finding, and the Mayor did not include any such documentation in his written response.*

**Finding No. 17: Grant Reimbursements**

**Previously reported**

The City did not timely request reimbursement for a \$150,000 expenditure incurred under a grant agreement.

We recommended that, to efficiently manage cash flow, the City monitor grant activity, ensure that all grant requirements are met timely, and ensure that grant moneys are requested promptly after the City becomes eligible to receive these moneys.

**Results of follow-up procedures**

*The City has adequately addressed this finding.* Our test of grant expenditures disclosed that the City had requested grant reimbursements in a timely manner.

**Finding No. 18: Dockage Fees**

**Previously reported**

The City had not established adequate controls to assure that dockage fees for the rental of boat slips in Canal Park were properly collected and remitted to the City. The slip rental contracts were not prenumbered and did not provide adequate information, and the

contracted Assistant Harbormaster was not required to submit the rental contracts to the City.

We recommended that the City enhance its procedures to provide for prenumbered rental contracts that include sufficient information to provide for a post-audit for use in renting slip space and require the Assistant Harbormaster to submit the rental contracts to the City. We also recommended that the City assure that all contracts are accounted for, and moneys are received for all contracts written. We further recommended that the City's Harbormaster or other delegate make periodic site visits to independently verify that rental contracts have been prepared and dockage fees collected for all boats docked at the time of the site visit.

**Results of follow-up procedures**

*The City has partially addressed this finding.* The City has not implemented adequate controls over the use of rental contracts, in that the City still is not using prenumbered rental contracts. Additionally, the City has not revised its slip rental contracts to include spaces for specific vessel information (i.e., footage of vessel) to assure that appropriate fees are being charged.

The City Clerk stated that he performs site visits, usually weekly; however, documentation of the site visits was not maintained. The Clerk also indicated that he has not found any instances where boats were docked without a corresponding rental contract.

The City has not revised its contract with the Assistant Harbormaster to require that all rental contracts be submitted to the City. We observed that the City is in possession of a large number of rental contracts; however, since the rental contracts are not prenumbered, the City cannot be assured that all contracts are turned over to the City.

**Finding No. 19: Fence, Sign, and Driveway Permits**

**Previously reported**

Prenumbered documents were not used to account for fees collected for fence, sign, and driveway permits.

We recommended that the City use prenumbered documents for issuing approved fence, sign, and driveway permits so that accountability for issued permits may be established and reconciliations performed of permits issued to amounts collected, recorded, and deposited. We also recommended that the City ensure that an accounting for prenumbered permit forms is performed by individuals not responsible for approving them and that do not have access to fees collected.

**Results of follow-up procedures**

*The City has not addressed this finding.* Prenumbered documents are still not being used to issue permits. Sequential numbers are recorded by the permit clerk for the permits being issued; however, some numbers were skipped without explanation.

**Finding No. 20: Water, Sewer, and Sanitation Late Fees**

**Previously reported**

The City did not assess late fees in the manner required by City ordinances. During the audit period, the City potentially failed to assess and collect \$5,628 in late charges related to water and sewer services because billings were not mailed timely, and improperly assessed an estimated \$4,322 of late charges related to sanitation services.

We recommended that the City calculate unauthorized late fees charged for sanitation services and refund any such moneys collected, and that the City amend Ordinance Nos. 370 and 412 to provide for late charges on delinquent sanitation services. Additionally, we recommended that the City amend its SOP to coincide with applicable ordinances.

**Results of follow-up procedures**

*The City has partially addressed this finding.* The City is correctly calculating and assessing late fees as required by City Ordinance Nos. 464 and 471 for water, sewer and sanitation services.

The City did not calculate the amount of unauthorized late fees charged, nor did the City refund any of the unauthorized late fees. Although the City’s response to this finding indicated that it would “consider advertising in a local newspaper” the unauthorized late fees charged its utility customers, the City did not do so.

The City has amended Ordinance Nos. 370 and 412 by Ordinance Nos. 464 and 471, respectively, to provide for a 10 percent penalty on untimely payment of water, sewer, and sanitation services. However, the City has not amended its SOP to coincide with Ordinance Nos. 464 and 471 (with respect to the SOP policy of not charging late fees when the City fails to mail utility billings by the 5<sup>th</sup> of the month).

**Finding No. 21: Hiring Practices**

**Previously reported**

Our review of personnel records of 12 employees hired between June 2001 and March 2003 disclosed several instances in which the City had not, of record, obtained complete applications, verified application information, or contacted previous employers or references listed in the application.

We recommended that, to provide for efficient personnel administration, the City ensure that personnel files contain all required documentation, including complete applications, and evidence that City staff or City Council verified application data and references. We also recommended that the City Council revise position descriptions of City employees, as necessary, to include applicable minimum qualifications.

**Results of follow-up procedures**

*The City has partially addressed this finding.* Substantially complete applications were on file and information on the application and in the employees’ files indicated that the employees met the minimum qualifications for the positions. However, for eight of the ten employees tested, there was no documentation that the City verified application data or contacted references.

**Auditor Follow-up**

*The Mayor, in his written response to this finding, stated that the City verifies all previous employment and references prior to employment, and the supervisor making the checks annotates the application with his/her initials and the date of the checks. We found no such evidence of verification of previous employment or references for the eight instances cited in our finding.*

**Finding No. 22: Nepotism**

**Previously reported**

Contrary to City Ordinance No. 431, the Director of Public Works supervised his brother-in-law.

We recommended that, to comply with City Ordinance No. 431, the City discontinue allowing an employee to supervise and evaluate the employee's relative.

**Results of follow-up procedures**

*The City has adequately addressed this finding.* The Public Works Director has resigned and the employee is no longer supervised or evaluated by a relative.

**Finding No. 23: Council Members’ Compensation**

**Previously reported**

Contrary to the Internal Revenue Code, the City classified City Council members as independent contractors rather than as employees and, as such, no employment taxes were withheld or paid on their compensation. As a result, the City could be liable for unpaid employment taxes.

We recommended that the City contact the Internal Revenue Service (IRS) to determine what corrective action, if any, should be taken regarding unpaid employment taxes.

**Results of follow-up procedures**

*The City has partially addressed this finding.* The City began paying elected officials as employees on June 1, 2004. However, the City did not contact the IRS to determine if any corrective action is necessary.

**Finding No. 24: Fringe Benefits**

**Previously reported**

Contrary to United States Treasury Regulations, the City did not include certain fringe benefits provided to employees in the employees' Forms W-2, Wage and Tax Statements. Such fringe benefits included health club memberships, bar dues and late fees, lodging expenses, and moving expenses.

We recommended that the City annually determine what fringe benefits provided to employees should be included in employee Forms W-2. We also recommended that the City determine what fringe benefits provided to employees were improperly excluded from gross income and contact the IRS to determine what corrective action, if any, should be taken regarding the unreported amounts.

**Results of follow-up procedures**

*The City has not addressed this finding.* The City continued to exclude the fringe benefits from the employees' Forms W-2, Wage and Tax Statements, and failed to contact the IRS to determine if any corrective action is necessary.

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

**Previously reported**

Our audit disclosed expenditures totaling \$8,529 for which the City's records did not clearly document that a public, rather than a private, purpose was primarily served. Of this amount, a City employee repaid \$1,878

for computers purchased on behalf of the employee. Also included in this amount was \$6,426 in health club memberships that the City did not treat as compensation.

We recommended that the City clearly document in its public records that expenditures serve a public purpose, are reasonable, and necessarily benefit the City. We also recommended that the City discontinue purchasing items for employees and allowing them to repay the City.

**Results of follow-up procedures**

*The City has partially addressed this finding.* We found no instances of the City purchasing items for employees and allowing them to repay the City. However, the City is still paying a monthly fee for a corporate membership at a health club, for which all City employees may use the facility. A public purpose is asserted by the City in the form of health of City employees and reduction of sick leave taken by employees. Additionally, the City defends the fact that this benefit is not treated as compensation or any form of taxable benefit due to the inequity of taxing many employees for a benefit they have never utilized.

The City Clerk also indicated that the City has consulted with the City attorney and an accounting firm to validate these past expenditures; however, there was no documentation provided by the City Clerk concerning these discussions.

**Auditor Follow-up**

*The Mayor, in his written response to this finding, stated that all discussions with the City attorney and accounting firm concerning the questioned expenditures were telephonic in nature and no written records exist. The point of our finding was that a record of these conversations should be created which includes, for each questioned expenditure, the authorized public purpose served.*

**Finding No. 26: Disbursement Processing**

**Previously reported**

Deficiencies in the City's disbursement processing procedures consisted of failure to use purchase requisitions or purchase orders, issuance of purchase orders after items had been ordered and received and after invoices had been received, and a lack of signatures and dates evidencing the receipt, inspection, and approval of goods and services.

We recommended that the City ensure that written purchase requisitions and purchase orders are used to document the approval of purchases prior to incurring an obligation for payment. We also recommended that the City ensure that supporting documentation for disbursements includes evidence that goods or services were received.

**Results of follow-up procedures**

*The City has not addressed this finding.* We noted that for 19 of 21 expenditures tested, the date of the invoice preceded the date of the purchase order, indicating that purchase orders were completed after goods and services were ordered. For six of ten expenditures tested, the City did not have evidence of the receipt, inspection, and approval of goods and services.

**Auditor Follow-up**

*The Mayor, in his written response to this finding, stated that all disbursements have purchase orders attached and receiving documents are also attached. We did not question the existence of either purchase orders or receiving documents. Rather, we noted that the date of the invoice preceded the date of the purchase order and that the City did not have evidence of the receipt, inspection, and approval of goods and services. The Mayor did not address these issues in his written response.*

**Finding No. 27: Purchases of Goods and Services Exceeding \$3,000**

**Previously reported**

Contrary to City Ordinance Nos. 177 and 355, purchases of goods and services totaling \$69,482 were not documented as having been competitively bid or appropriately approved by the City Council. In addition, it was not apparent, of record, why newspaper advertisements were not used to solicit vendors for these purchases, as opposed to "posting" a notice.

We recommended that the City ensure that purchases exceeding an aggregate total of \$3,000 are competitively bid, including advertisement in a local newspaper when feasible, and that selection of vendors for such purchases is approved by the City Council in accordance with Ordinance Nos. 177 and 355. Evidence of such procurement efforts should be documented of record.

**Results of follow-up procedures**

*The City has adequately addressed this finding.* Our test of purchases in excess of \$3,000 indicated that the City had complied with applicable bid requirements.

**Finding No. 28: Awarding of Contracts for Services**

**Previously reported**

Contrary to State law, City Ordinances, or good business practices, the City acquired certain contractual services without using a competitive selection process and, in some instances, without benefit of formal written agreements. In addition, invoices submitted by a firm that provided accounting and auditing services were not in sufficient detail to allow a determination as to whether fees charged, and expenses submitted for reimbursement, were appropriate.

We recommended that the City comply with the provisions of Sections 218.391(2) and 287.055, Florida

Statutes, when acquiring auditing and engineering services, respectively. We also recommended that, as a matter of good business practice and to comply with Ordinance Nos. 177 and 355, the City obtain contractual services only after using a competitive selection process, and enter into written agreements with the contractors selected to document the nature of services to be performed and the amount of compensation to be provided. We further recommended that the City obtain adequate invoices for auditing and accounting services.

**Results of follow-up procedures**

*The City has partially addressed this finding.* We tested contracts and invoices for two certified public accounting firms and the City’s Attorney. We found the City’s contract with the City Attorney and invoices related thereto were adequate and sufficiently detailed.

We found that the contract for auditing services was not sufficient to allow for monitoring and verification of the billings. While the contract established a total fee amount that could not be exceeded, the fees were to be based on standard hourly rates plus out-of-pocket costs. The standard billing rates and a complete list of out-of-pocket costs eligible for reimbursement were not established in the contract. Further, the invoices from both firms presented lump-sum balances due, which would not allow for verifying the billings.

**Finding No. 29: Travel Allowances**

**Previously reported**

The City had not, of record, documented in the manner required by Section 112.061, Florida Statutes, the reasonableness of a \$375 monthly travel allowance approved for the City Administrator.

We recommended that the City Council require the City Administrator to provide documentation supporting the amount of typical miles traveled during a given month for official business, and amend the City Administrator's contract to provide a reasonable monthly travel allowance consistent with Section

112.061(7)(f), Florida Statutes. We also recommended that the City recover from the City Administrator any amounts paid for travel allowances in excess of amounts that he was entitled to pursuant to Section 112.061(7)(d), Florida Statutes.

**Results of follow-up procedures**

*The City has partially addressed this finding.* As of April 19, 2005, the City no longer pays a travel “allowance” to any officials or employees, according to the City Clerk.

The City has not recovered, or attempted to recover, the amounts paid to the former City Administrator that were in excess of the limitations imposed by Section 112.061(7)(d), Florida Statutes.

**Finding No. 30: Unauthorized/Unsupported Travel Expenses**

**Previously reported**

For several travel advances paid to employees, the City records did not demonstrate that the travel actually took place and that the actual expenses were at least as much as those anticipated on the travel advance request. In addition, some travel expense advance calculations were not consistent with Section 112.061, Florida Statutes, or good business practices.

We recommended that the City ensure that employees provide adequate supporting documentation (including properly completed travel forms that provide for departure and arrival times) after the date(s) of travel for any travel expense claims. We also recommended that the City ensure that travel expenses reimbursed are in accordance with City policy, and such policy is applied to all travelers equally.

**Results of follow-up procedures**

*The City has not addressed this finding.* Our test of six travel expenditures disclosed the following:

- One disbursement of \$126 was an advance for meals for six days at \$21 per day for a trip to Ocala. The City’s SOP-ADM-109-1 requires the completion of a Travel Arrangements

Form for an advance for meals, but none was attached to the documentation supporting the disbursement (voucher packet).

- An advance of \$100 was issued to one employee for the purchase of fuel, of which \$56 was expended and \$44 was returned to the City. However, there were no receipts included in the documentation supporting the disbursement for fuel costs of \$56, contrary to SOP-ADM-109, Section 2.8. Furthermore, the travel voucher related to this trip was signed by someone other than the actual traveler.
- A disbursement of \$217.92 for three nights lodging did not have receipts attached to the documentation supporting the disbursement, contrary to Section 112.061(6)(a), Florida Statutes.
- The City had not revised its travel voucher form to provide for departure and arrival times. Therefore, we were again precluded from determining the travelers' entitlement to meal allowances included on the travel vouchers.

**Auditor Follow-up**

*The Mayor, in his written response to this finding, stated that all City employees traveling on City business are now required to fill out advance travel requests which delineate the reasons for the travel as well as destinations and dates and times of travel. However, the point of our finding was that the travel voucher form, not the advance travel request form referred to by the Mayor, did not require departure and travel times, and it was unclear in the Mayor's response whether the City's travel voucher form had been revised to include this information. Additionally, the Mayor did not address in his written response the instances noted in our finding concerning lack of documentation supporting the disbursements.*

**Finding No. 31: Vehicle Utilization Records**

**Previously reported**

The City, for vehicles assigned to employees on a 24-hour basis, did not require maintenance of vehicle usage logs to demonstrate that the vehicles were used primarily for a public purpose, and used only incidentally for the personal benefit of the employees, and to provide a means for determining the value of personal usage to be included in the employees' gross income reported to the Internal Revenue Service.

We recommended that the City Council require employees to maintain detailed vehicle usage logs for vehicles assigned on a 24-hour basis and that these logs demonstrate that the vehicles were used primarily for a public purpose and only incidentally benefited the employee personally, and be used to determine the value of personal use to be included in the employee's Form W-2, Wage and Tax Statements, when applicable.

**Results of follow-up procedures**

*The City has adequately addressed this finding.* According to the City Clerk, no employees outside the Police and Fire Departments are assigned a vehicle on a 24-hour basis.

**Finding No. 32: Financial Reporting**

**Previously reported**

Contrary to generally accepted accounting principles, the City's Volunteer Fire Department, a nonprofit corporation, and a component unit of the City, was not reported in the City's audited financial statements for the fiscal years ended September 30, 2000, 2001, and 2002.

We recommended that the City ensure, in the future, that the Corporation is treated as a component unit in the City's financial statements, and that the Corporation's activities are subject to audit as part of the City's annual financial audit required by Section 218.39, Florida Statutes.

**Results of follow-up procedures**

***The City has adequately addressed this finding.***

The September 30, 2004, audit report states in Note (1)(a) that, "A nonprofit corporation formed by the City's volunteer fire department is considered a component unit of the City. However, its operations and assets are not material to the City's financial statements. Accordingly, the volunteer fire department's operations and financial position are not included in the City's financial statements."

**Finding No. 33: Meeting Notices**

**Previously reported**

Although Attorney General opinions indicate that organizations such as the City's Volunteer Fire Department (i.e., private entities created by public agencies and acting on behalf of public agencies in the performance of their public duties) are subject to the Sunshine Law (Section 286.011, Florida Statutes), meetings of the City's Volunteer Fire Department were not advertised or other public notice given.

We recommended that, to comply with the Sunshine Law, meetings of the Corporation be noticed in accordance with Section 286.011, Florida Statutes.

**Results of follow-up procedures**

***The City has adequately addressed this finding.***

Our review of the City's documentation of meetings held by the Volunteer Fire Department revealed that the meetings were noticed, in compliance with Section 286.011, Florida Statutes.

**Finding No. 34: Cash Controls**

**Previously reported**

The City's Volunteer Fire Department (VFD) had not implemented adequate controls over donations received. Control deficiencies included lack of separation of duties, issuance of checks to "cash," lack of documentation of bank account reconciliations, inappropriate payments from the donations account,

and lack of documentation of the purpose for which donations were received.

We recommended, to the extent possible, that duties be segregated to ensure that all phases of a transaction are not processed by one individual. We also recommended that the Corporation avoid writing checks to "Cash" when possible; use the Donations Account for donations and expenses related to the purchase of fire equipment only, as required by the Corporation's bylaws; document the purpose of donations received through the use of prenumbered cash receipts, when practicable, and retain a copy of donations made by check; and ensure that a proper accounting is maintained for each donation type.

**Results of follow-up procedures**

***The City has not addressed this finding.***

- All transactions for the four bank accounts for the VFD for the audit period were handled by the same individual.
- Prenumbered cash receipts were not used for all donations received and the City did not retain a copy of the check when donations were made by check.
- Purchases for items other than fire equipment continue to be made from the donations account.

**Auditor Follow-up**

***The Mayor, in his written response to this finding, stated that the Volunteer Fire Department bank account transactions are no longer handled by any City employees and all donations are received by prenumbered receipts. The Mayor did not identify which person or persons are now performing this function. The point of our finding was that the transactions for the four Volunteer Fire Department bank accounts should not be handled by the same individual. Furthermore, the Mayor did not address the issue of improper purchases from the donations account in his written response.***



**Finding No. 35: Conduit Debt**

**Previously reported**

The City, from December 1997 to May 1999, issued \$25,815,000 in bonds, the proceeds of which were to be loaned to nonprofit corporations to finance the cost of the acquisition, renovation, and improving of public service facilities in the State of Florida. The City was named as a defendant in a class action lawsuit alleging lack of oversight and referencing the default status of the bonds. Our audit disclosed certain deficiencies regarding the City's oversight and administration of these bond issues. These deficiencies included the failure to check references and obtain background information on individuals requesting City sponsorship of bond issues, failure to monitor and assure collection of all fees owed to the City, and lack of documentation of competitive selection and written contracts with bond professionals.

We recommended that the City carefully evaluate any future considerations of issuing conduit debt, including obtaining background information on potential borrowers and individuals associated with the issuances, and determining the City's responsibilities in the event of default. We also recommended that for any future bond issues, the City competitively select bond professionals, use written contracts, document the process in its public records, and ensure that all fees due are collected.

**Results of follow-up procedures**

*The City has adequately addressed this finding.* The City has not issued any additional conduit debt or other bonded debt.

**Finding No. 36: Boat Trailer Parking Lot**

**Previously reported**

In July 2003, the City Council approved a letter of understanding between the City and a development corporation (Corporation) that provides for the City to improve and use approximately five acres of the

Corporation's property for a period of no greater than two years, and for all improvements to the property, upon termination of the two-year period, to be owned by the Corporation. The City subsequently entered into a renewable two-year lease with the Corporation for use of the property at a rate of \$1 a year, and the lease requires that an easement be granted to the City before use of the property can begin. Although we were advised that the Corporation has not granted an easement to the City, improvements had already been made to the property, and a total of at least \$125,000 of improvements to the property were planned. The City had not demonstrated, of record, that this arrangement was the most economically viable option.

We recommended that the City Council document in the City's public records how it was determined that the agreement is the most economically viable option available. In addition, prior to making any further improvements to the Corporation's property, we also recommended that the City obtain the required easement from the Corporation and a written commitment from the Corporation that it would donate the improved property to the City.

**Results of follow-up procedures**

*The City has not addressed this finding.* The City Attorney, in a letter dated February 19, 2004, stated that in his opinion the City could properly improve the private land by paving it for a boat trailer parking lot for the use of the citizens of the City. He further stated that he was not aware of any law prohibiting the proposed City activity and also stated that no other economically feasible or viable options exist. However, the City still has not received the required easement or written commitment from the Corporation that it will donate the improved property to the City.

The City, as of May 2005, had spent over \$140,000 to improve the Corporation's property, excluding legal fees paid to the City Attorney. The City did, however, receive a donation in the amount of \$100,000 for this project.

**Finding No. 37: City of Mexico Beach Beautification Project**

**Previously reported**

Our audit disclosed several factors indicating that individuals who made contributions that were ultimately deposited to the account of a nonprofit organization for Tom Sawyer Day (an event held each March in which participants donate their time in beautifying the City's parks) may have believed they were making the contributions to the City.

We recommended that, to avoid confusion within the community, the City operate separately from the administration of the Project's funds, including authorizing expenditures, check-writing, deposit of donation collections, and bookkeeping responsibilities. We also recommended that any checks inadvertently written to the City be returned to the donor with an appropriate explanation and that the City also not lend the City logo to signs connected to Tom Sawyer Days and advise vendors and administrators of the Project that it is illegal for the City's sales tax exemption number to be used by another organization.

**Results of follow-up procedures**

*The City has adequately addressed this finding.*  
 The City did not hold a Tom Sawyer Day in March 2004 or 2005. (See finding No. 16 for additional comments concerning the Tom Sawyer Day Project.)

**Finding No. 38: Council Meetings**

**Previously reported**

The minutes for several City Council meetings were not timely approved; one meeting was not properly noticed; and one meeting was not held within the City's jurisdiction in a place that was readily accessible by the public.

We recommended that the City ensure that City Council meetings are held within the City's jurisdiction and held in a place that is accessible by the public. We also recommended that the City also ensure that all meetings are properly noticed and that all minutes are

reviewed, corrected if necessary, and timely approved by the City Council.

**Results of follow-up procedures**

*The City has partially addressed this finding.*  
 Although the City noticed all meetings and held them within the City's jurisdiction, in a place accessible by the public, the City did not timely approve the minutes for all meetings held. For example, minutes for 17 meetings held during the period June 16, 2004, through March 16, 2005, were not approved until April 12, 2005.

**SCOPE AND OBJECTIVES**

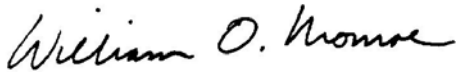
The scope of this project included selected actions and transactions taken subsequent to January 2004 to determine the extent to which the City has corrected, or is in the process of correcting, deficiencies disclosed in our report No. 2004-106.

**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 our report No. 2004-106, operational audit of the City of Mexico Beach, Florida, for the period October 1, 2001, through March 31, 2003, and selected actions taken prior and subsequent thereto.



William O. Monroe, CPA  
Auditor General

**CITY RESPONSE**

The City response is included in this report as Appendix A.

This follow-up review was conducted by Anita Marlowe, 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 [jjmdwyer@aud.state.fl.us](mailto:jjmdwyer@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.

APPENDIX A  
CITY RESPONSE



P.O. Box 13425 · Mexico Beach, Florida · 32410  
PHONE: 850-648-5700 · FAX: 850-648-8768

City response to follow-up Audit report No. 2004-106

Finding #1. The city will continue to review and expand our standard operating procedures to include those items found to not be addressed in finding #1.

Finding #2. a) The City Clerk no longer records the transactions in the accounting records. All deposits are reviewed by the Acting City Administrator.

b) The Building Department is being reorganized effective September 1, 2005 under contract with an outside agency. The department clerk will no longer be accepting any moneys. The building clerk will figure all fees due the City and turn over the paperwork to the Public Works Director's Assistant, who will receipt for the fees. The fees will then be turned over to the City Clerk for deposit in the appropriate accounts.

c) The City Clerk does not reconcile the bank accounts. The City Administrator reconciles all General Fund bank accounts, to include the Payroll Account.

d) Please see paragraph c.

Finding #3. The budget for FY 2005/2006 does include beginning fund balances. The City will amend the FY 2004/2005 budget to include the beginning fund balances.

Finding #4. All General Fund budgets for the future will be adopted at the department level, as per the city's SOP.

Finding #5 a) All bank accounts are reconciled on a monthly basis.

b) Please see para a.

c) The Gulf Breeze loan account is reconciled on a monthly basis by our outside accounting firm. The City has received the adjusting entries to date from the accounting firm and has made the entries.

Finding #6 The destruction certificate has been accomplished.

Finding #8 City surplus funds are now swept daily into an interest bearing money market account. The interest rate is monitored monthly against the SBA.

118 N. 14th St. Mexico Beach, FL 32410

**APPENDIX A (CONTINUED)**  
**CITY RESPONSE**

- Finding #9. a) General ledger control accounts for the general and special revenue funds for general fixed assets have been established.  
 b) Sewer and water fund subsidiary accounts now are reconciled.  
 c) Donated property has been recorded.  
 d) The 1997 Ford Explorer has been removed.

Finding #10. A new property inventory is planned for January 2006. All records will be reconciled at that time.

Finding #12. The Department of Public Safety replies to this finding: "It is the Departments position that all abandoned vehicles sold were done within FSS 705.103. All abandoned vehicles were obtained legally by various impoundment reasons. All owners were contacted via registered mail or hand delivery. The vehicles were titled in the name of the City of Mexico Beach. The vehicles were legally surplussed and then sold. All funds were deposited in the General Fund. There are no requirements under FSS 705.103 that state the City must forward funds received from the sale of City property.

In regards to the wave runner sold by the City, there is no threat to the City being liable for this vessel. The owner was given all documentation to title said vessel in his name. The vessel was found to be in too poor of shape to use and was destroyed. The owner has since lost all paperwork and has refused to title a vessel that no longer exists. Therefore, the City cannot assume any liability for a vessel that does not exist.

Since the findings have been issued, the Department of Public Safety no longer receives impounded vehicles. The policy has been changed and the Department only allows vehicles to be impounded by a towing service. The only exception is for vehicles that are being confiscated for forfeiture for drug law violations."

Finding #14 The City has sought bond counsel approval for the remaining expenditures but to date has received no definitive answer.

Finding #15 The County Attorney has not responded in writing to date. The City is still attempting to obtain his written legal opinion.

- Finding #16 All donations noted were donated to the City for certain specific projects:
- a) The monies donated to the City for the Christmas party and buying hams and turkeys were donated to enhance the happiness and wellbeing of City employees. That no party took place and the employees voted to disperse the rest of the money as bonus' had that effect.
  - b) The Tom Sawyer project was never a City group. The Tom Sawyer project donated the money to but decorations. This was done.

Finding #18 The City will implement the use of pre-numbered rental contracts.

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**APPENDIX A (CONTINUED)**  
**CITY RESPONSE**

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Finding #19 On September 1, 2005, the City entered into an agreement with EPCI to manage the Building Department. The City retains the money receiving responsibility. All other functions are to be managed by EPCI. They utilize their own forms.

Finding #20 The City will amend the SOP to coincide with the revised ordinances. The City has determined that it would be economically unfeasible to try to locate and repay the estimated overpayment of late charges.

Finding #21 The City verifies all previous employment and references prior to employment. The supervisor making the checks annotates the application with his/her initials and the date of the checks.

Finding #23 Upon advise of the Cities accountants, no notification of the IRS was necessary.

Finding #24 Upon advise of the Cities accountants, no notification of the IRS was necessary.

Finding #25 All discussions were telephonic in nature and no written records exist.

Finding #26 All disbursements have purchase orders attached. Also attached are all receiving documents.

Finding #28` Future accounting and auditing billings will comply with this finding.

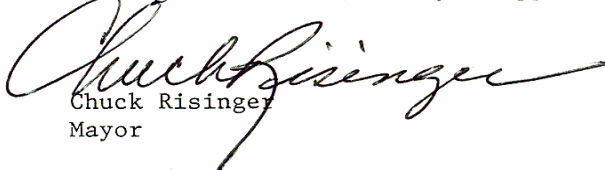
Finding #29 The former City Administrator no longer resides in the City. No attempt has been made to recover the alleged overpayments. The payments were according to his contract and were properly reported as income to him on his W-2 form.

Finding #30 All City employees traveling on City business are now required to fill out advance travel requests which delineates the reason for travel as well as destinations and dates and times of travel. A travel reimbursement form is also required for all travel reimbursements and advances.

Finding #34 The Volunteer Fire Department bank account transactions are no longer handled by any City employees. All donations are receipted by prenumbered receipts.

Finding #36 The City has received the easement to utilize the property.

Finding #38 To date, the City has approved all minutes.

  
Chuck Risinger  
Mayor

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