



# AUDITOR GENERAL

WILLIAM O. MONROE, CPA



## TOWN OF CEDAR GROVE, FLORIDA

Operational Audit

For the Period October 1, 2004, through December 31, 2005,  
And Selected Actions Taken Prior and Subsequent Thereto

TOWN OF CEDAR GROVE, FLORIDA

TABLE OF CONTENTS

	PAGE NO.
SUMMARY OF FINDINGS.....	i
FINDINGS AND RECOMMENDATIONS .....	1
GENERAL MANAGEMENT CONTROLS .....	1
<i>Employee Turnover</i> .....	1
<i>Staffing and Training</i> .....	1
<i>Written Policies and Procedures</i> .....	2
GENERAL ACCOUNTING CONTROLS .....	3
<i>Separation of Duties</i> .....	3
<i>Unrecorded Transactions</i> .....	4
BUDGETARY CONTROLS .....	4
<i>Budget Preparation and Adoption</i> .....	4
CASH IN BANK .....	5
<i>Bank Reconciliations</i> .....	5
<i>Check Writing Process</i> .....	6
<i>Stale-Dated Checks</i> .....	6
<i>Transfer of Funds</i> .....	7
<i>Bank Accounts Signature Cards</i> .....	7
INVESTMENTS .....	8
<i>Investment Earnings on Surplus Funds</i> .....	8
FIXED ASSETS .....	8
<i>Tangible Personal Property Records and Controls</i> .....	8
LONG-TERM DEBT .....	9
<i>Loan Approval</i> .....	10
<i>Debt Management</i> .....	10
<i>Interest Payments</i> .....	12
RESTRICTED RESOURCES.....	12
<i>Accountability for Restricted Resources</i> .....	12
REVENUES AND CASH RECEIPTS .....	13
<i>Cash Collections</i> .....	13
<i>Utility Receivables Reconciliations and Collections</i> .....	15
<i>Water Usage Rates</i> .....	15
<i>Water Service Discontinuance and Reconnection</i> .....	16
<i>Water and Sewer Deposits</i> .....	16
<i>Garbage Franchise Fees</i> .....	17
<i>Occupational License Fees</i> .....	18
<i>Permit and Plat Review Fees</i> .....	19
PERSONNEL AND PAYROLL.....	19
<i>Hiring Practices</i> .....	19
<i>State Directory of New Hires</i> .....	20
<i>Commission Compensation</i> .....	20
<i>Payroll Reporting</i> .....	21
PROCUREMENT OF GOODS AND SERVICES .....	21
<i>Disbursement Processing</i> .....	21
<i>Unauthorized Expenditures</i> .....	22
COMMUNICATION EXPENDITURES.....	23
<i>Cellular Telephone Policy</i> .....	23
<i>Telecommunication Taxes</i> .....	24

<i>Contracts with Cellular Telephone Service Provider</i> .....	24
<i>Postage Meter Usage</i> .....	24
TRAVEL EXPENSES.....	25
<i>Travel Reimbursements – Travel Vouchers</i> .....	25
CONTRACTUAL SERVICES.....	27
<i>Awarding of Contracts for Services</i> .....	27
UTILIZATION OF RESOURCES.....	29
<i>Vehicle Maintenance</i> .....	29
<i>Vehicle Taxable Fringe Benefit</i> .....	29
OTHER MATTERS.....	30
<i>Appointment of Mayor</i> .....	30
<i>Conflict of Interest</i> .....	30
<i>Commission Minutes</i> .....	31
<i>Emergency Meeting</i> .....	31
<i>Resolutions and Ordinances</i> .....	32
<i>Commissioner Abstaining from Voting</i> .....	33
<i>Comprehensive Plan Amendments</i> .....	33
<b>SCOPE</b> .....	35
<b>OBJECTIVES</b> .....	35
<b>METHODOLOGY</b> .....	35
<b>AUTHORITY</b> .....	36
<b>APPENDIX A – <i>Management Response</i></b> .....	37

---

---

**SUMMARY OF FINDINGS**

---

---

This section of our report summarizes the results of our operational audit of the Town of Cedar Grove, Florida, for the period October 1, 2004, through December 31, 2005, and selected actions taken prior and subsequent thereto.

Finding No. 1: The Town experienced a high turnover rate of key administrative employees in a short period of time, reducing its ability to provide consistent application of its policies and procedures.

Finding No. 2: The Town's population has been increasing due to Town annexations, while at the same time the staff of the public works and police departments has been decreasing. Additionally, the administrative personnel appeared to be understaffed, had difficulties in using the accounting software, and had inadequate training which, in many instances, contributed toward improper account balances being reported in the accounting records.

Finding No. 3: Written policies and procedures necessary to assure the efficient and consistent conduct of accounting and business-related functions were not established in all cases. Additionally, the limited policies and procedures that the Town did have, were never formally adopted.

Finding No. 4: The Town did not adequately separate duties regarding disbursement processing, cash controls, payroll and personnel processing, water and sewer fee collections, mail receipts, and other collections.

Finding No. 5: The Town did not record all transactions in its accounting records in a timely manner.

Finding No. 6: The Town did not formally adopt its 2004-05 budget and did not consider the effects of beginning fund balances and net asset balances during the 2004-05 and 2005-06 budget process, contrary to Section 166.241, Florida Statutes.

Finding No. 7: The Town did not perform bank reconciliations for any of its 20 bank accounts during the entire 2004-05 fiscal year, and had not done so for the months subsequent to November 2005, as of August 3, 2006.

Finding No. 8: Checks recorded in the Town's accounting records did not always reflect the correct check number, were frequently issued out of sequence and, in several instances, were postdated.

Finding No. 9: Contrary to the requirements of Chapter 717, Florida Statutes, the Town had not reported stale-dated checks, or remitted the appropriate money, to the Florida Department of Financial Services for the past three years.

Finding No. 10: The Town did not have on file the agreements with the banks with which it conducts business that addressed transfers to and from Town bank accounts.

Finding No. 11: The Town had not updated its signature cards with the various financial institutions to remove former employees from check signing, or other authority.

Finding No. 12: The Town could have earned additional interest of approximately \$24,000, or 45 percent more, had it invested surplus funds with the State Board of Administration.

Finding No. 13: The Town had not established general ledger control accounts, or subsidiary records for all tangible personal property; did not mark all property as property of the Town; had not performed a physical inventory since prior to September 2003; and did not have titles to all vehicles it owned.

Finding No. 14: The Town Commission authorized the borrowing of \$1,261,000 without enacting an ordinance or resolution, as required by law.

Finding No. 15: The Town did not appropriately manage its long-term debt by seeking to obtain more favorable terms.

Finding No. 16: The Town advance-paid interest on a \$1,261,000 loan, and did not strictly adhere to the payment terms set forth in the loan document.

Finding No. 17: The Town could not demonstrate that it expended moneys received for local option and municipal fuel taxes in accordance with specific provisions in law.

Finding No. 18: The Town lacked adequate controls over receipting, recording, securing, and timely processing cash collections.

Finding No. 19: The Town did not reconcile the accounts receivable accounts to its subsidiary records, or enforce its collection procedures for past due accounts.

Finding No. 20: The Town did not amend its Resolution No. 2003-9 to officially set water rates at amounts currently being charged pursuant to the bond agreement.

Finding No. 21: The Town charged twice the amount allowed under Ordinance No. 267 for water reconnection fees, and did not charge reconnection fees to business customers.

Finding No. 22: The Town did not reconcile its water and sewer deposit liability accounts to the water and sewer deposit bank accounts, or maintain subsidiary records of customer deposits.

Finding No. 23: The Town did not implement or enforce all requirements of Ordinance No. 317 regarding garbage franchise fees.

Finding No. 24: The Town was inconsistent in its methodology used to record occupational licenses issued, did not use prenumbered license forms, and did not ensure that fictitious name registrations were on file for all licensees.

Finding No. 25: The Town did not use prenumbered forms for permits or plat review applications and was not able to demonstrate that all permit and review activity was accounted for.

Finding No. 26: The Town had no officially adopted position descriptions, minimum requirements or pay grade or range for its staff; and did not adequately document, verify, or maintain information about applicants or new hires.

Finding No. 27: Contrary to Section 409.2576, Florida Statutes, the Town did not report each new, or rehired, employee to the State Directory of New Hires.

Finding No. 28: The Town did not pay the Mayor and Commissioners as employees, pursuant to Section 3401 of the Internal Revenue Code, and Chapter 4 of Internal Revenue Service Publication 963.

Finding No. 29: It appears that the Town did not submit wage reporting Forms W-2 and W-3 for the 2004 calendar year to the Social Security Administration.

Finding No. 30: The Town had incomplete purchase orders; had purchase orders that predated the invoices; and paid numerous expenditures that lacked adequate supporting documentation or authorization. In addition, the Town did not solicit bids for one purchase in excess of \$1,000, contrary to Ordinance No. 90.

Finding No. 31: The Town paid for employee Christmas bonuses for which it did not clearly document that a public purpose was served or that the expenditures were legally authorized or benefited the Town.

Finding No. 32: The Town had not included the value of cellular telephone services that were not substantiated as business use in income reported for employees with cellular telephones to the Internal Revenue Service. In addition, the Town did not have policies and procedures for cellular telephone usage by employees; did not ensure that all telecommunication charges paid were authorized or served a public purpose; did not require employees to reimburse the Town for personal calls; and incurred late fees and interest charges for untimely payments to its service providers.

Finding No. 33: The Town paid taxes on telephone billings from which it was exempt.

Finding No. 34: The Town did not maintain copies of all cellular telephone agreements and, thus, did not ensure billing amounts were in accordance with the terms of the agreements.

Finding No. 35: The Town did not restrict access to the postage meter, and did not reconcile the usage logged to the amount remaining in the meter and the amount of postage drafted from the Town's bank account.

**Finding No. 36:** The Town did not have an adopted travel policy; did not require sufficient documentation in support of travel expenditures, and did not always adhere to the requirements of Chapter 112.061, Florida Statutes.

**Finding No. 37:** The Town did not comply with Section 218.391, Florida Statutes, and Ordinance No. 90 when acquiring certain professional services, did not always enter into written contracts for services, and did not properly monitor contracts for services to ensure contractors performed in accordance with terms of the contract.

**Finding No. 38:** The Town did not require the use of vehicle maintenance or usage logs.

**Finding No. 39:** The Town had no written policies and procedures for the assignment of vehicles on a 24-hour basis, and did not report personal usage to the Internal Revenue Service.

**Finding No. 40:** The Town did not comply with Section 100.361, Florida Statutes, governing the appointment of commission members during recall proceedings in 2002.

**Finding No. 41:** Contrary to the Town's personnel policy and Section 112.313(3), Florida Statutes, the Town contracted with an employee to provide cleaning services to the Town.

**Finding No. 42:** The Town did not timely transcribe, review, or approve all commission meeting minutes.

**Finding No. 43:** The Town held an emergency meeting but did not adhere to the provisions of the Florida Statutes regarding emergency meetings.

**Finding No. 44:** The Town did not properly maintain, preserve, or account for all of its resolutions and ordinances.

**Finding No. 45:** One commission member refrained from voting at a commission meeting, apparently contrary to Section 286.012, Florida Statutes.

**Finding No. 46:** The Town did not timely adopt or submit all of its comprehensive or small scale plan amendments, contrary to Section 163.3184(7)(a), Florida Statutes, and Department of Community Affairs Rule 9J-11.011(3), Florida Administrative Code.

This audit was conducted by Anita Marlowe, CPA, and supervised by Marilyn D. Rosetti, CPA. Please address inquiries regarding this report to James M. Dwyer, CPA, Audit Manager, via e-mail at [jimdwyer@aud.state.fl.us](mailto:jimdwyer@aud.state.fl.us) or by telephone at (850) 487-9031. This operational audit was conducted in accordance with applicable Generally Accepted Government Auditing Standards.

This report, as well as other audit reports prepared by the Auditor General, can be obtained on our Web site at <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.

---



---

## FINDINGS AND RECOMMENDATIONS

---

### General Management Controls

---



---

#### **Finding No. 1: Employee Turnover**

---

The Town had five employees responsible for maintaining the Town's financial and other records. These five employees consisted of the Clerk, the Deputy Clerk, the Finance Officer, the Water and Sewer Department Clerk, and an Administrative Assistant. However, the Town experienced a high turnover rate in these key positions. From October 2004 to July 2006, the Town had four Clerks, three Deputy Clerks, and four Finance Officers. Also, effective February 14, 2006, the only full-time Water and Sewer Department Clerk at that time resigned, the Deputy Clerk resigned effective April 28, 2006, the newly hired Administrative Assistant terminated her employment on May 12, 2006, and the newly hired Deputy Clerk terminated her employment on July 7, 2006. The part-time Administrative Assistant, who started work in August 2005, had been reassigned to the position of Deputy Clerk. The Water and Sewer Department Clerk and Deputy Clerk, who resigned on February 14 and April 28, 2006, respectively, were the only employees outside of the Police Department to have been employed by the Town for at least 5 years. As of July 2006, four employees in these key positions had been employed by the Town for less than four months.

Resignation letters by former employees discussed feelings of being underpaid, overworked, unappreciated, and stressed during their employment with the Town. During a special meeting held on January 6, 2005, the Clerk indicated that Town staff had been harassed, verbally attacked, and intimidated by citizens and Commissioners. He described specific incidents of personal attacks on employees and understaffing of Town Hall, the Public Works Department, and the Police Department. In a statement prepared by the Deputy Clerk and read to the Commission, the Deputy Clerk described perceived disrespectful treatment of Town staff by the Commission. At its January 25, 2005, meeting, the Commissioners voted 3-2 to give full-time employees a \$100 bonus. The Town's payroll records indicate that nine employees, excluding the Clerk, received the bonus. Of those nine employees, only four were still employed by the Town as of September 2006.

Employee turnover weakens the Town's control environment and ability to provide consistent application of its policies and procedures designed to provide effective internal control. The small staff assigned to maintain Town records, and significant employee turnover, may have contributed to the numerous instances of control deficiencies and noncompliance with applicable laws disclosed in this report.

---



---

**Recommendation: The Town should strive to provide a stable and effective working environment for employees in key positions to promote consistent application of its policies and procedures.**

---



---

#### **Finding No. 2: Staffing and Training**

---

The Town's population has steadily increased due to Town annexations. However, the Town's staff has not increased and may be insufficient to effectively administer the Town's operations.

- The Town's full-time police force had decreased since 1995 and was lower than the average statewide police staffing ratios. The Town's population increased from 1,648 in 1995 to 5,367 in 2000, and to 6,156 in 2005, while full-time police officers numbered eight in 1995, eight in 2000, and dropped to six in 2005. As a result, the Town's full-time police officers per-thousand-residents ratio was 1.49 in 1995 and 0.85 in 2004. These ratios are considerably below the statewide average ratio of full-time officers per



thousand residents as reported by the Florida Department of Law Enforcement, which was 2.52 for 1995 and 2.42 for 2004.

- Similar to police officers, Public Works Department employees had not increased proportionally to increases in population. Full-time Public Works Department employees decreased from seven in 1995 to four in 2005.
- During our audit, and as indicated by several findings within this report, we noted that the Town was behind in its record keeping responsibilities (see findings No. 5, Unrecorded Transactions; No. 7, Bank Reconciliations; No. 9, Stale-Dated Checks; No. 11, Bank Accounts Signature Cards; No. 13, Tangible Personal Property Records and Controls; No. 27, State Directory of New Hires; No. 42, Commission Minutes; No. 44, Resolutions and Ordinances; and No. 46, Comprehensive Plan Amendments). Although this may be due, in part, to excessive employee turnover as discussed in finding No. 1, it may also be due, in part, to insufficient administrative staff.

We also observed during our audit that Town staff had difficulties in using the accounting software due to a lack of proper understanding of the functions or capabilities of the software. In many instances this resulted in improper account balances and failure to utilize modules within the accounting system that were designed to track certain transactions, such as occupational licenses issued. Upon inquiry, Town staff indicated that training on the accounting software had not been provided.

During our audit period, the Town did not have a Town Manager or Administrator, and management of the Town's day-to-day operations was the responsibility of the Clerk. Our review of other municipalities with populations similar to the Town (i.e., populations between 3,000 and 6,000) indicated that 73 percent of those municipalities had managers or administrators in addition to clerks.

Failure to periodically adjust staffing levels to correspond with population changes, or provide adequate training to staff, could lead to lower levels of service provided to Town residents and possible failure to comply with regulatory requirements.

---

---

**Recommendation:** The Town should evaluate its staffing of the Police and Public Works Departments, as well as the administrative staff, to keep pace with rising population and increases in workload, and ensure that Town services are being provided as needed and Town records are maintained on a current basis. The Town should also consider adding a Town Manager or Administrator position that would be responsible for managing the day-to-day operations of the Town. Additionally, training should be provided to those employees responsible for recording transactions in the Town's accounting system.

---

---

### **Finding No. 3: Written Policies and Procedures**

Written policies and procedures, which clearly define the responsibilities of employees, are essential to provide both management and employees with guidelines regarding the efficient and consistent conduct of Town business and the effective safeguarding of Town assets. In addition, written policies and procedures, if properly designed, communicated to employees, and effectively placed into operation, provide management additional assurance that Town activities are conducted in accordance with applicable laws, ordinances, and other guidelines; and that Town financial records provide reliable information necessary for management oversight. Written policies and procedures also assist in the training of new employees.



The Town had written procedures regarding employee compensation, and had limited written policies and procedures for cash receipts and cash disbursements; however, these procedures had not been formally adopted, either by ordinance or resolution. Written policies and procedures were not available to document controls over budgets, journal entries, revenues, fixed assets, payroll processing, debt issuance, bank reconciliations and stale-dated checks, and grants administration. While ordinances and resolutions generally provide the authority for activities, they do not specify the positions that perform the work or the methodology to be used. Instances of noncompliance or inadequate management controls, which may have resulted, at least in part, from a lack of adequate written procedures, are discussed in subsequent findings.

---

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

---

<b>General Accounting Controls</b>
------------------------------------

---

**Finding No. 4: Separation of Duties**

---

Governmental organizations, to the extent possible with existing personnel, should separate duties so that no one employee has access to both physical assets and the related accounting records, or to all aspects of a transaction. Failure to adequately separate duties increases the possibility that errors or fraud could occur and not be promptly detected. Our review of the Town's controls disclosed inadequate separation of duties, as follows:

- ***Disbursement Processing and Cash Controls.*** The Finance Officer prepared the bank deposits, took the deposits to the bank, recorded the information in the accounting system; prepared and posted journal entries; and prepared checks. Although the checks were signed by two independent parties, the checks were returned to the Finance Officer for mailing.
- ***Payroll and Personnel Processing.*** The Finance Officer added new employees to the payroll system, had the ability to change pay rates for employees, prepared payroll, distributed payroll checks, maintained custody of unclaimed payroll checks, and reconciled the payroll bank statements to the accounting records without independent review.
- ***Water and Sewer Fee Collections.*** The Finance Officer, who was responsible for all accounting transactions, bank deposits, and bank reconciliations, also occasionally collected fees from customers in the Water and Sewer Department. We observed multiple employees, including the Code Enforcement Officer and the Police Dispatcher, collecting moneys and working from the same cash drawer without closing and balancing the drawer upon change in personnel. Should a cash drawer be short at the end of the day, and more than one employee used the drawer, responsibility for the shortage could not be fixed.
- ***Mail Receipts.*** Collections received through the mail were not recorded by the mail opener at the initial point of collection through the use of a mail log or other means prior to transfer to the Water and Sewer Department Clerk. Recording receipts at the initial point of collection establishes accountability and can be used to provide an independent verification that payments received in the mail were subsequently deposited to the Town's bank account.
- ***Transfer Documents.*** Collections were transferred between Town personnel without the use of transfer documents to evidence the transfer of responsibility. Cashiers counted their drawers and put

their collections and batch sheets in a vault, and the Finance Officer subsequently prepared the deposits. Signed transfer documentation should be prepared and retained to provide accountability for cash from the time of collection to the time of deposit.

We recognize that the Town has limited personnel available, making it difficult to adequately separate some functions; however, inadequate separation of duties due to lack of available personnel can be mitigated through the implementation of compensating controls. For example, a compensating control for collections could include the preparation of a list of collections received in the mail prior to delivering the collections to the Water and Sewer Department Clerk, and a reconciliation of this list to amounts recorded in the accounting records and deposited in the bank. Additionally, someone independent of the employee processing the payroll should have the responsibility for adding new employees and recording or changing employee pay rates in the payroll system. Our audit disclosed that the Town had not implemented such compensating controls.

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

**Finding No. 5: Unrecorded Transactions**

The Town paid the Town Commissioners through its payroll system for the first eight months of calendar year 2005, when it decided to pay them through the accounts payable system (see further discussion in finding No. 28). To have a complete year of payments to the Town Commissioners recorded in the accounts payable system, the Town issued checks to each Commissioner for \$6,400 from the accounts payable system (representing eight months at \$800 per month). The checks were then endorsed by the Commission members and deposited in the Town’s general operating bank account. However, the deposits totaling \$32,000 (\$6,400 x 5 Commissioners), and corresponding reductions to payroll expense of \$32,000 were not recorded in the accounting records. As a result, cash in bank was understated and payroll expense was overstated by \$32,000, notwithstanding the payroll deductions and other entries associated with the payroll transactions.

We also noted instances in which the Town did not record State revenue sharing revenues to the accounting records. The State revenues in question were deposited directly into the Town’s bank account by the State. Upon inquiry, Town staff indicated that they were unsure of the type of revenues received; therefore, they did not know which revenue account in which to record the revenues and chose not to record the revenue. As of April 3, 2006, \$57,850 and \$12,389 of State revenues had not been recorded in the accounting records for the 2004-05 and 2005-06 fiscal years, respectively. Also, \$57,256 of State revenues received in the 2004-05 fiscal year were not recorded until the 2005-06 fiscal year.

**Recommendation:** The Town should ensure that all transactions are recorded in the accounting records, and the transactions are recorded timely.

**Budgetary Controls**

**Finding No. 6: Budget Preparation and Adoption**

Section 166.241(2), Florida Statutes, requires each municipality to adopt a budget each fiscal year by ordinance or resolution unless otherwise specified in the municipality’s charter. The law also requires that the amount available

from taxation and other sources, including amounts carried over from prior fiscal years, must equal the total appropriations for expenditures and reserves. Our review of budgets prepared by the Town for the 2004-05 and 2005-06 fiscal years disclosed the following:

- Contrary to law, a budget for the 2004-05 fiscal year was not formally adopted by the Commission. At its September 28, 2004, meeting, the Commission approved the second reading of Ordinance No. 345 relating to the budget, but failed to vote on the adoption of the ordinance. Without formal adoption, the budget was not established.
- For the 2004-05 and 2005-06 fiscal year budgets, the Town did not consider the effects of beginning fund balances and beginning net asset balances available from prior fiscal years. The prior fiscal year ending balances were not included in the budget, and budget amendments were not subsequently adopted to include the prior fiscal year ending balances. According to the Town’s 2003-04 fiscal year audited financial statements, the general fund reported a fund balance of \$843,835, the Water Fund reported a net assets balance of \$150,618, and the Sewer Fund reported a deficit net assets balance of (\$67,248) as of September 30, 2004. According to the Town’s 2004-05 fiscal year audited financial statements, the general fund reported a fund balance of \$1,351,246, the Water Fund reported a net assets balance of \$301,808, and the Sewer Fund reported a net assets balance of \$341,687. Failure to consider amounts available from the prior fiscal year diminishes the Town’s ability to appropriate increases or decreases in revenues or expenditures that may be needed for the fiscal year budgeted. If amounts carried over from prior fiscal years are significantly overestimated, the amount of revenue sources contemplated in the proposed budget may be increased beyond those amounts necessary to carry out planned expenditures and reserves. If amounts carried over from prior fiscal years are significantly underestimated, the amount of taxes or other revenue sources contemplated in the proposed budget may be insufficient to carry out planned expenditures or to establish reserves.

---

**Recommendation:** The Town should ensure that its annual budget is adopted by ordinance as required by Section 166.241(2), Florida Statutes. Additionally, the Town should consider all amounts carried over from prior fiscal years in the preparation of the budget, as required by Section 166.241(2), Florida Statutes.

---

<b>Cash in Bank</b>
---------------------

---

**Finding No. 7: Bank Reconciliations**

---

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

The Town had not reconciled any 2004-05 fiscal year bank statements to its accounting records for all 20 of its bank accounts as of September 30, 2005. Reconciliations for those bank accounts were completed in March 2006 by a certified public accountant (CPA) hired by the Town for that purpose. The September 30, 2005, cash in bank balances in the Town’s accounting records prior to the bank reconciliations totaled \$1,260,613, whereas the reconciled balances totaled \$1,445,443, a difference of \$184,830. Many journal entries were identified by the CPA

as necessary to accurately reflect cash in bank as of September 30, 2005, such as recording interest earnings and bank charges during the fiscal year. As of August 3, 2006, the Town had not recorded the journal entries relating to the 2004-05 fiscal year bank reconciliations and had not completed, or contracted to complete, bank reconciliations for periods subsequent to September 30, 2005, except for the months of October and November 2005.

The lack of timely bank reconciliations increases the risk that errors or fraud could occur without being promptly detected. Additionally, the failure to timely record transactions in the Town's accounting records reduces its ability to adequately determine cash availability for decision-making purposes.

---

**Recommendation:** The Town should enhance controls to provide for timely and accurate bank reconciliations. Additionally, the Town should ensure that all journal entries relating thereto are promptly prepared, reviewed, approved, and recorded in the accounting records.

---

#### **Finding No. 8: Check Writing Process**

The Town had 20 different bank accounts (including checking, money market, and certificates of deposit) at three financial institutions. The Town utilized preprinted checks for all of its checking accounts. Our review of the Town's check writing process disclosed the following:

- Checks recorded in the accounting records did not always reflect the correct check number.
- Checks issued from the Town's general operating account were sometimes issued out of sequence.
- Three checks, totaling \$1,545, were postdated. As a result, these checks cleared the bank prior to the issue date written on the check and could have been refused by the financial institution.

These situations inhibit timely and accurate reconciling of the Town's bank accounts and increase the risk that errors or fraud could occur and not be detected in a timely manner.

---

**Recommendation:** The Town should establish procedures to ensure that all checks are issued in both numerical and chronological order and are not postdated. The Town should also ensure that the check numbers are accurately recorded in the accounting records.

---

#### **Finding No. 9: Stale-Dated Checks**

Sections 717.113 and 717.115, Florida Statutes, state that all intangible property and unpaid wages, including wages on unrepresented payroll checks, that have not been claimed by the owner for more than one year after becoming payable are presumed unclaimed. Further, Sections 717.117 and 717.119, Florida Statutes, require that any person holding unclaimed property shall report such property to the Florida Department of Financial Services (FDFS) before May 1 of each year for the previous calendar year, and simultaneously deliver such property to the FDFS.

Our review of the Town's accounting records disclosed unclaimed payroll and expenditure checks and customer deposits totaling \$1,324, as follows:

- Two unclaimed employee payroll checks and one vendor check, totaling \$526, outstanding since 2002 should have been reported to the FDFS by May 1, 2004.
- Sixteen outstanding checks, mostly representing customer water and sewer deposit refunds, issued during the 2003 calendar year, totaling \$409, should have been reported to the FDFS by May 1, 2005.

- Ten outstanding checks, mostly representing customer water and sewer deposit refunds, issued during the 2004 calendar year, totaling \$389, should have been reported to the FDFS by May 1, 2006.

Contrary to the above-noted law, these unclaimed checks, which constitute unclaimed property as contemplated by Chapter 717, Florida Statutes, had not been reported or remitted to FDFS as of July 2006. Pursuant to Section 717.117(3), Florida Statutes, the Town may be subject to as much as \$500 in penalties for failing to timely report unclaimed property to FDFS.

---

**Recommendation:** The Town should take appropriate action to file the required reports and deliver any unclaimed property to FDFS. Additionally, the Town should enhance controls to ensure that stale-dated checks are timely reported and delivered to FDFS in future years.

---



---

**Finding No. 10: Transfer of Funds**

---

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

The Town made seven transfers, totaling \$395,503 within the same bank, moving moneys between one checking and three money market accounts on August 31, 2005, and September 2, 2005. However, the Town did not have an agreement on file with the bank related to transfers, and could not locate copies of letters signed by appropriate Town personnel indicating that the transfers were properly authorized. As such, moneys could have been moved for unauthorized purposes or to unauthorized accounts. Correspondence from the bank indicates that, absent an agreement, any authorized signors may make transfer requests (see additional discussion in finding No. 11).

Although our audit did not disclose any transfers made for unauthorized purposes, since the bank accounts were not accurately reconciled until some six months later, errors could have occurred and not have been detected in a timely manner.

---

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

---



---

**Finding No. 11: Bank Accounts Signature Cards**

---

The Town requires two signatures on all checks issued on its bank accounts, including any two of the following: the Mayor or other Commissioner, the Clerk, and the Deputy Clerk. We noted several instances in which only the Clerk and Deputy Clerk signed checks, including payroll checks. For example, of the 166 checks that cleared the bank in December 2004, 72 were signed only by the Clerk and Deputy Clerk, including 43 payroll checks.

We noted that the Town had not updated its signature cards with the various financial institutions with which it does business. As of March 2006, the signature cards on file indicated that two former Clerks were still authorized check signors. One of the two former Clerks resigned in June 2005, and the second Clerk's employment was terminated in November 2005. Failure to update bank signature cards increases the risk of errors or fraud occurring.

---



---

**Recommendation:** To ensure that the Town’s governing body is fully aware of all checks issued on Town bank accounts, the Town Commission should consider revising its check signing policy such that each check is signed by the Mayor or other Commissioner and one additional person. In addition, the Town should update signature cards for changes in approved signors in a timely manner.

---



---

<b>Investments</b>
--------------------

---



---

**Finding No. 12: Investment Earnings on Surplus Funds**

---



---

Section 218.415, Florida Statutes, governs the investment of surplus funds by local governmental entities and authorizes various types of investments including the Local Government Surplus Funds Trust Fund administered by the State Board of Administration (SBA), money market funds, interest-bearing time deposits, savings accounts, and direct obligations of the United States Treasury. As part of our audit, we determined that the Town complied with Section 218.415, Florida Statutes, regarding authorized investments.

The Town primarily invested surplus moneys in certificates of deposit and money market funds; however, the majority of surplus moneys was retained in the Town’s operating account, a pooled demand account which included moneys for the general fund, Water Fund, and Sewer Fund. Our review of interest earnings disclosed that during the period October 1, 2004, through December 31, 2005, the Town earned approximately \$53,000 in interest. Based upon information obtained from the Town’s monthly bank statements, and using the lowest daily balance held per account for each month, we estimated that the Town could have earned additional interest of approximately \$24,000, or 45 percent more, had it invested surplus funds with SBA.

---



---

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

---



---

<b>Fixed Assets</b>
---------------------

---



---

**Finding No. 13: Tangible Personal Property Records and Controls**

---



---

A system of accountability for an entity’s tangible personal property should include the establishment of general ledger control accounts and subsidiary records. Control accounts are summary accounts intended to provide a basis for reporting tangible personal property, and entries to control accounts should be posted contemporaneously with entries to the subsidiary records which establish accountability for each tangible personal property item.

According to the Town’s audited financial statements for the 2004-05 fiscal year, the Town reported tangible personal property, net of accumulated depreciation, of \$150,247 for governmental activities and \$127,617 for its business-type activities at September 30, 2005. Our review of the Town’s controls over tangible personal property disclosed the following:

- The Town had not established general ledger control accounts for its general fund, or subsidiary records for any of its classes of tangible personal property. The only records provided to us that demonstrated accountability for tangible personal property were records maintained by the certified public accounting firm that performed the Town’s annual audit; however, these records did not provide the level of accountability that should be included in subsidiary tangible personal property records, such as physical



location, manufacturer's serial numbers, and custodian name. Additionally, the listing included only classes of tangible personal property (vehicles, equipment) rather than individual property items.

- During a walk-through of the administrative building, police department, and public works facility, we observed that some, but not all, items of tangible personal property had tags attached which indicated a property number and the name of the Town. However, the Town did not mark all tangible personal property items as property of the Town, or establish a uniform property numbering system for identifying property items in the Town's records.
- The Town had not performed a physical inventory of its tangible personal property since sometime prior to September 30, 2003. Effective controls over tangible personal property include comparisons of detailed property records with existing assets at reasonable intervals, and appropriate action with respect to any differences. Similar deficiencies were also noted in the Town's annual financial audit report for the fiscal year ended September 30, 2004. In the Town's response to the auditor's management letter in the audit report regarding the inadequacy of a physical inventory of fixed assets, the Clerk responded that the manufacturer of the Town's accounting software sells a GASB-34 compliant program which would assist greatly in the inventory of the Town's fixed assets and that he would recommend to the Town Commission that the Town purchase this program at the beginning of the 2005-06 fiscal year. In response to our inquiry on March 14, 2006, the Deputy Clerk indicated that the Town had not purchased the program, and she did not recall the issue being discussed at a Commission meeting.
- Of 36 vehicles the Town owns according to its records, it could not locate titles for 18 (50 percent) of them, including 6 vehicles listed as out-of-service and 8 vehicles listed to be disposed of. In the event that a vehicle is stolen or the Town decides to sell a vehicle, it may be difficult to prove ownership or complete the sales transaction without the title.

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

---

**Recommendation:** The Town should establish general ledger control accounts and detailed subsidiary records to ensure the proper recording of all tangible personal property, including property classifications and descriptions, physical location, manufacturer's serial numbers, custodian, and acquisition and disposal information on each individual property item. The Town should annually perform a complete physical inventory of all tangible personal property and, once subsidiary property records are established, reconcile the results to the Town's property records. Finally, titles for all Town-owned vehicles should be located, or duplicates obtained, and filed in a secure centralized location.

---

### Long-Term Debt

Pursuant to Section 166.111, Florida Statutes, the governing body of every municipality may borrow money, contract loans, and issue bonds from time to time to finance the undertaking of any capital or other project and may pledge the funds, credit, property, and taxing power of the municipality for the payment of such debts and bonds. According to the GFOA's publication, *An Elected Official's Guide to Debt Issuance* (2001), an issuer may consider refunding existing debt for three primary reasons: to reduce interest costs, to restructure debt service, and to eliminate old debt covenants that may have become restrictive. Most refundings are performed to take advantage of current interest rates that are lower than those rates on outstanding debt. However, issuers must exercise care in evaluating refunding opportunities because even though current rates may be lower than those on the issuer's outstanding debt, it is possible that a refunding would generate little or no present value savings due

to the associated costs of the refunding issue. Regardless of the reason an issuer has for refunding, a cost-to-benefit analysis should be performed and must be weighed in making the decision.

On March 15, 2002, the Town borrowed \$1,261,000 from a Florida for-profit corporation to repay the remaining principal balance of \$799,991 on a line-of-credit that had an interest rate of 5.55 percent, and a maturity date of October 24, 2002. Terms of the refinancing were interest-only for the first five years with an initial interest rate of 5.5 percent, adjustable annually, with a floor of 5.5 percent and a ceiling of 6.75 percent. Principal payments of \$50,000 will be due each January 1 and July 1, commencing on July 1, 2007, and ending on October 1, 2019. Our review of the Town's actions concerning this loan is discussed in finding Nos. 14 through 16.

---

---

**Finding No. 14: Loan Approval**

---

---

Section 166.111, Florida Statutes, indicates that every municipality may borrow money and issue bonds as defined in Section 166.101, Florida Statutes. Section 166.101, Florida Statutes, defines the term "bond" as mortgage certificates, or other obligations or evidences of indebtedness of any type or character. Section 166.121, Florida Statutes, provides that debt issued shall be authorized by resolution or ordinance of the governing body. The Town Commission approved the loan in the amount of \$1,261,000 on March 12, 2002, and approved execution of the final agreement on March 14, 2002. However, the Commission did not authorize the loan by ordinance or resolution.

---

---

**Recommendation:** To comply with Section 166.121, Florida Statutes, the Town Commission should approve the borrowing of funds, or "bonds" as defined in Section 166.101, Florida Statutes, through the enactment of an ordinance or adoption of a resolution.

---

---

---

---

**Finding No. 15: Debt Management**

---

---

Our review of the Town's debt management decisions disclosed that such decisions may have resulted in the Town incurring unnecessary financing costs in connection with the Town's \$1,261,000 loan, as well as unnecessary borrowing, as follows:

- Although requested, no documentation was provided to indicate how the Town determined that \$1,261,000 was an appropriate amount to borrow. According to minutes of the March 12, 2002, Commission meeting during which the loan was discussed, loan proceeds were to be used for paying off the line-of-credit of approximately \$800,000; amounts owed to Town Commissioners for back compensation, totaling \$51,717; and paying "other current liabilities." These "other current liabilities" were not listed and it was not apparent for what purposes the proceeds, excluding the pay-off of the line-of-credit and payments owed to Commissioners, would be utilized. The use of the loan proceeds were not separately identified in the Town's accounting records. According to our inquiry with Town staff, and review of official minutes and bank statements, it appears that the loan proceeds were used as follows:

Pay off Line-of-Credit:	Principal	\$ 799,991
	Interest	2,343
	Recording Fees	297
Closing Costs:	Lender's Attorney Fees	3,050
	Commissioners' Back Payments	51,717
Balance	Commingled with General Fund operating account moneys	<u>403,602</u>
<b>Total</b>		<b><u>\$1,261,000</u></b>

Of the \$403,602 loan proceeds balance, \$288,465 was initially invested in a money market account and certificates of deposit. On January 30, 2003, a total of \$73,100 was withdrawn from the money market account. Town staff indicated that these moneys were used to purchase a tractor costing \$69,396. We analyzed the amount of interest paid and interest earned on loan proceeds invested, and noted that the interest paid on the invested proceeds exceeded the amount of interest earned on the invested proceeds from loan issuance through December 31, 2005, by \$33,917. It was not apparent, of record, why the Town borrowed more funds than it needed, or why it did not promptly pay off a portion of the principal balance due on the loan, rather than investing at much lower interest rates than the interest rate paid on the loan.

- Good business practices suggest that multiple lenders be solicited in an effort to obtain the best possible terms for loans. Although requested, documentation was not provided to show that multiple lenders were consulted prior to approving the loan agreement on March 14, 2002. Insofar as the original loan was not due until October 24, 2002, and the interest rate on the original loan was virtually the same as the new loan, the Town appears to have had ample time to pursue other financing alternatives.
- The loan agreement executed in March 2002 contained a provision that the lender would be afforded an opportunity to match more favorable terms offered the Town by a third party during the loan term. On or before June 28, 2004, the Town received more favorable financing terms from a bank to refinance the loan at a fixed rate of 4.5 percent for a term of 12 years. Although the Town presented the offer to the lender, the Town did not indicate a date by which the lender was to exercise its option to match the terms. No action was taken to refinance the loan with either the lender or the bank by the bank's offer expiration date of July 30, 2004. The Town received another offer from the bank on October 7, 2004, for refinancing the loan at a fixed rate of 4.75 percent for a term of 12 years, with the term of the offer from the bank expiring on November 10, 2004. Although undated correspondence from the Town indicated that this second offer from the bank was communicated to the lender, nothing of record indicates that the Town either (1) compelled the lender to exercise its right of first refusal under the same written terms and conditions as committed to by the bank or (2) refinanced the loan with the bank by the November 10, 2004, expiration date. The Town, by not timely refinancing the original loan with the lender or the bank, failed to lower the interest cost on the loan.

---

**Recommendation:** For future borrowings, the Town should prepare analyses to determine the amount of financing needed, the timing of the needed funds, and the available financing options. The Town should strive to obtain the most favorable financing terms available. Further, the Town should consider utilizing the moneys invested in money market accounts and certificates of deposit, and any other available moneys, to reduce the principal amount owed on the loan and seek to obtain more favorable terms for the loan.

---

**Finding No. 16: Interest Payments**

Our review of the debt service payments on the \$1,261,000 loan disclosed the following:

- Payments of principal are due and payable semiannually, on each January 1 and July 1, in the amount of \$50,000, commencing July 1, 2007. Unless paid in advance, the entire remaining principal balance is due and payable, in full, on October 1, 2019. Payments of interest on the outstanding principal balance are due and payable monthly, on the first day of each month, commencing April 1, 2002. Our review of interest payments disclosed that the first payment on this loan, due April 1, 2002, should have been for 16 days of interest (the number of days from the date of closing on March 15 through March 31), at the initial rate of 5.5 percent on the principal balance of \$1,261,000 for a total of \$3,082. However, the Town did not make this payment.
- The Town did not timely pay its March 2005 interest payment (44 days late), thereby incurring a 5 percent late payment penalty in the amount of \$270. However, the Town did not pay the penalty.
- For three consecutive payments, on November 2, 30, and December 29, 2005, the Clerk instructed the Finance Officer to make double interest payments (effectively, the November 1 through April 1 payments). The Town made the next payment on March 8 (effectively, the May 1 payment). Since the Town was paying interest only, any extra payments were not applied to the principal balance. Rather, they represented advanced interest payments.
- Contrary to the terms of the loan agreement, beginning with the December 2, 2004, payment, the Town began paying a fixed \$5,780 per month of interest regardless of the number of days in the month. In response to our inquiry, Town staff stated that the Clerk’s instructions to do so had started with the first payment. However, our review disclosed that the fixed payments did not begin until over 30 months into the payback period, and resulted in underpayments of approximately \$1,158 of interest from December 2, 2004, through March 8, 2006.

As of March 1, 2006, total interest that should have been paid by the Town was \$278,576; however, the Town made interest payments totaling \$286,085, or \$7,509 in excess of what was owed.

**Recommendation:** The Town should ensure that payments required to be paid on outstanding interest-only obligations are made on time, but not in advance. Also, the Town should ensure that future payments are made according to the loan agreement. The Town should refrain from advance payment of debt unless there is a benefit to be gained.

**Restricted Resources**

**Finding No. 17: Accountability for Restricted Resources**

Separate accounting for restricted revenues and other financing sources through the use of separate special revenue funds would facilitate the Town’s ability to control the use of restricted moneys and demonstrate in its public records that such moneys were used for authorized purposes. Pursuant to Sections 336.025 and 206.605, Florida Statutes, the Town received local option and municipal fuel taxes that may be used only for specific transportation expenditures as defined in these Sections of law.

During the audit period, the Town received a total of \$101,690 for local option and municipal fuel taxes which are restricted for specific purposes. In response to our inquiry, we were advised that the Town uses these funds for

transportation, transportation facilities, road and street rights of way, and reconstruction of roads, or road and street maintenance. Although the Town expended \$190,959 of general fund resources in expenditure accounts classified as “Road & Street Facilities,” approximately \$90,618 was expended for salaries and associated benefits and payroll taxes of Public Works Department employees. According to the Public Works Director, one-third of the salaries, benefits, and payroll taxes of the employees were charged to “Road & Street Facilities” account, with the remaining two-thirds charged to the Water and Sewer Funds. However, since the Town did not maintain work logs, work orders, or other documentation establishing the amount of employee effort spent on individual activities, the Town was unable to demonstrate that the portion of salaries, benefits, and payroll taxes charged to the “Road & Street Facilities” account were attributable to activities specified law.

---

**Recommendation:** The Town should establish procedures to document the employee time worked, such as work logs or other time records, on activities for which funds received pursuant to Sections 336.025(1)(b)3. and 206.605(2), Florida Statutes, can be used.

---

<b>Revenues and Cash Receipts</b>
-----------------------------------

The majority of Town revenues are from water and sewer charges; utility, franchise, telecommunications and local option taxes; and State revenue-sharing. The Town also receives revenue from other sources such as occupational license fees, permit and plat review fees, and various other miscellaneous sources. According to the Town’s audited financial statements, the Town reported approximately \$3 million in revenue from all sources for the fiscal year ended September 30, 2005.

---

**Finding No. 18: Cash Collections**

---

Collections of various taxes, fees, and charges were generally received at the Town Hall. All collections were delivered to the Finance Department prior to deposit. Town management was responsible for establishing adequate controls that provide reasonable assurance that cash collections are safeguarded against loss from unauthorized use or disposition. Our review of the cash collections disclosed the following:

- ***Manual Receipts.*** The Town’s accounting system assigned a unique sequential receipt number to each batch deposit and each transaction within the deposit. However, open batches (i.e., batches that were not fully processed) in the system at the end of the month created account balance errors when Town staff attempted to generate month-end reports. To avoid this situation, the Town used manual receipts that were not prenumbered on the last day of the month for cash receipts received after the batches were closed out in the afternoon. There was no reconciliation performed between the manual receipts issued, the receipts recorded in the system, and the amount deposited. Because the manual receipts were not prenumbered, they lacked unique sequential identifying numbers, such as those normally assigned by the accounting system. Therefore, it was not possible to determine that moneys for all receipts issued were deposited and recorded in the accounting system, increasing the risk that missing funds could go undetected. Prenumbered receipts that are issued in duplicate provide a means for documenting amounts collected by employees and for fixing responsibility for such amounts to determine whether amounts collected are subsequently recorded to the accounting records and deposited.
- ***Accounting System Access.*** Full-time employees were assigned unique user names and passwords to access the accounting system. Each module within the accounting system was assigned a specific user name and password, and employees were assigned user names and passwords for each module they

needed to use. However, the part-time Administrative Assistant did not have her own user name and password. Rather, she accessed the system using the Deputy Clerk's user name and password. Also, the Water Department Clerk's password was known by the Deputy Clerk and was being used by the Deputy Clerk after the Water Department Clerk resigned in February, 2006. Without adequate assignment and safeguarding of user names and passwords, employees could obtain access to unauthorized portions of the accounting system.

- ***Voided Receipts.*** Employees functioning as cashiers were able to void receipts and reverse charges such as late fees, reconnect fees, and actual billings with no supervisory review. As a result, cashiers could potentially collect cash, void the receipt entry in the accounting system, and keep the cash. Our test of ten cash receipt batches, comprised of 553 individual transactions, including 25 voided transactions, disclosed no improper transactions. However, absent a supervisory review of voided transactions, the Town has no assurance that cashiers are not voiding receipts and keeping the cash.
- ***Security.*** Cash collections were kept in a vault for which the Water and Sewer Department Clerk, the Administrative Assistant, the former Finance Officers, the former Clerks, and the former Deputy Clerks knew the combination to the vault lock. The combination to the vault had not been changed in recent years, despite extensive turnover of Town personnel (see discussion in finding No. 1). Additionally, the vault was left unlocked during the business day.
- ***Receipts Processing.*** Cash receipts were recorded in the accounting system in batches. The Town's practice was to close batches (i.e., totaled as a group for deposit and recording in the accounting system) at 2 p.m. daily. Our test of 31 batches disclosed that for 20 batches, the batch was open for more than two business days. Leaving batches open for extended periods of time decreases accountability of daily receipts (i.e., multiple days of receipts are combined in a single batch) and increases the amount of time between collection and deposit. For 26 batches, five or more business days elapsed between the date the batch was opened and the date the receipts were deposited in the bank, resulting in a lapse of 5 to 17 business days between initial collection and deposit in the bank. Within these deposits, we noted 24 instances in which more than two business days between the date the batches were closed and the date the receipts were deposited in the bank, resulting in a lapse of 3 to 12 business days between the batch close date and the deposit date.

---

---

**Recommendation:** Since the Town has an automated receipting system, the elimination of manual receipts should be considered. If it is not possible to eliminate manual receipts, the Town should use prenumbered receipts, in duplicate, to document cash collections and ensure that proper amounts are recorded to the accounting records and deposited. Management should document its review of voided transactions and determine the reason for the voids. The Town should also assign new user names and passwords to access the Town's accounting system, and such user names and passwords should be adequately safeguarded. The Town should also limit the employees who can access cash collections awaiting deposit, and change the vault combination and keys to the collection storage area when employees with access leave the Town's employment. Also, the vault should be locked at all times. Finally, the Town should ensure that batches are closed on a daily basis and receipts are promptly deposited thereafter.

---

---



---



---

**Finding No. 19: Utility Receivables Reconciliations and Collections**


---



---

The Town maintains accounts receivable subsidiary records for its water and sewer operations that show customer billings, payment receipts, and balances. Our review of the Town's accounts receivable records disclosed the following:

- The accounts receivable balances in the general ledger were not reconciled to the subsidiary records. The general ledger reported a negative combined water and sewer accounts receivable balance of \$41,647 at September 30, 2005, whereas the subsidiary records indicated a positive combined water and sewer accounts receivable balance of \$134,080, a difference of \$175,727.
- A consultant, hired by the Town to assist in accounting matters during September 2005 through February 14, 2006 (see further discussion in finding No. 37), inappropriately instructed Town personnel to record reversing journal entries from the 2003-04 fiscal year in the 2004-05 accounting records, thereby reducing the accounts receivable balance by \$67,887 in the Water Fund, and \$107,772 in the Sewer Fund. These journal entries accounted for much of the differences noted above.
- The Town's records indicated that 90-day past due accounts as of December 31, 2005, totaled \$24,550. Although the Town did not have a written policy in place to follow up on past due balances, Town personnel stated that the Town's procedure was to mail statements with unpaid balances for three months, or until returned by the post office as undeliverable. After that, accounts were to be turned over to a collection agency that the Town contracted with on March 8, 2005. However, our review indicated that the Town was not following this procedure. Of the \$24,550 of past due accounts, at December 31, 2005, only \$1,547 had been referred to the collection agency as of March 13, 2006.

---



---

**Recommendation:** The Town should periodically reconcile the accounts receivable accounts to its subsidiary records to ensure that account balances are adequately supported and accurately reported. Also, the Town should enforce its procedures for following up on past due balances.

---



---



---



---

**Finding No. 20: Water Usage Rates**


---



---

Town Ordinance No. 206 states that water rates may be reduced or increased by resolution. The Town last established water rates by Resolution No. 2003-9, adopted on September 23, 2003, as follows: \$7.90 for the first 3,000 gallons, \$2.30 for each 1,000 gallons of use over 3,000 gallons.

Pursuant to a Water Revenue Bond agreement (bond agreement) with the United States Department of Agriculture (USDA), dated July 13, 2000, the Town had agreed to establish rates as follows: \$12.00 for the first 3,000 gallons, \$2.80 for the next 2,000 gallons, and \$2.70 per thousand over 5,000 gallons. On October 23, 2003, the USDA sent a letter to the Town indicating that, based on a review of the Town's 2002 audit, it appeared that the Town was not charging the water rates it agreed to in the bond agreement. It further stated that the Town should take immediate steps to charge the rates as stated in the agreement. As a result of this USDA correspondence, the Town increased its rates to be in compliance with the USDA bond agreement; however, the Town did not amend the existing resolution, or adopt a new resolution, setting forth the appropriate rates that it began charging customers effective with the November 2003 billing cycle.

---



---

**Recommendation:** The Town should amend Resolution No. 2003-9 to officially set water rates at the amounts being charged pursuant to the bond agreement.

---



---

---



---

**Finding No. 21: Water Service Discontinuance and Reconnection**


---



---

Section 9.4 of Ordinance No. 267 states that if any monthly bill for water and sewer service remains unpaid on and after 10 days from the date the bill is rendered, a penalty of 10 percent shall be assessed. It further states that bills that remain due and unpaid for a period of 20 days from the date of the bill shall have service discontinued and shall not be reconnected until all past due charges, including penalties, have been paid, together with a reconnection charge of \$10. Our review of water and sewer billings disclosed the following:

- ***Residential Accounts.*** During the audit period, the Town collected \$18,340 of water reconnection fees assessed at \$20 each, rather than \$10 as specified in Ordinance No. 267. Had the Town assessed the reconnection fees in accordance with Ordinance No. 267, it would have collected only \$9,170.
- ***Business Accounts.*** One business customer's water service was not discontinued and subjected to a reconnection fee, despite the fact that the account was in arrears from October 2004 until May 2005, and again from September 2005 through January 20, 2006. In response to our inquiry, Town staff indicated that businesses that did not pay their bills by one month after the due date were given a door placard notifying them that water service would be discontinued. If payment was not made the following business day, water service was discontinued. Town staff also indicated that it was the Town's practice to exempt businesses from the reconnection fee, and that businesses were marked as exempt in the utility billing system from reconnection fees. However, the Town had not adopted another ordinance authorizing a delay in discontinuance of water service, or an exemption to reconnection fees for business customers. Consequently, the Town was not assessing and collecting the appropriate amounts pursuant to Ordinance No. 267.

---



---

**Recommendation: The Town should charge established reconnection fees and enforce service discontinuance after the 20-day period for all customers or amend the provisions of Ordinance No. 267.**

---



---



---



---

**Finding No. 22: Water and Sewer Deposits**


---



---

Upon opening a new account, customers must remit deposits of \$50 for water service and \$100 for sewer service. The Town maintains separate bank accounts for the water and sewer deposits and records these deposits as both cash and a liability (because the Town will ultimately refund the deposits) in its accounting records. Our review of the Town's administration of customer deposits disclosed the following:

- The Town did not maintain subsidiary records of customer deposits that identified the individual customers by name and account number. Such detail is necessary to support the amount reported in the water and sewer liability accounts and to identify the accounts and amounts for which the money is held.
- During the audit period, the water and sewer deposit liability accounts were not reconciled to the water or sewer deposit bank accounts, and our review disclosed significant differences between amounts recorded in the Town's accounting records as cash in bank for the deposit bank accounts and the corresponding liability accounts. Specifically, as of September 30, 2005, the account balance for the water deposit bank account was \$106,750, while the balance in the water deposit liability account was \$74,705, a difference of \$32,045. Similarly, the sewer deposit bank account had a balance of \$105,262 at September 30, 2005, whereas the sewer deposit liability account was \$104,620, a difference of \$642. While some of the differences may be attributable to interest earned in the deposit bank accounts, interest earned on these accounts did not account for the total differences noted.

- \$500 of sewer deposits and \$250 of water deposits were deposited into the operating bank account, rather than in the sewer and water deposit bank accounts, respectively. Without properly depositing amounts in the appropriate deposit bank accounts, the Town could be spending money that belongs to its customers.

Without periodic reconciliations, the Town has no assurance that the water and sewer deposit bank accounts and the water and sewer deposit liability accounts are properly reported.

---

---

**Recommendation:** The Town should reconcile the water and sewer deposit liability accounts to the water and sewer deposit bank accounts on a regular basis. Additionally, the Town should establish subsidiary records to support its deposit accounts and periodically reconcile these records to the customer deposit liability accounts to ensure that the liability is adequately supported.

---

---

---

---

**Finding No. 23: Garbage Franchise Fees**

---

---

On August 27, 2002, the Town adopted Ordinance No. 317, which establishes conduct of business in the Town regarding trash and garbage removal. The Ordinance requires, among other things, that any business wishing to collect trash or garbage within the corporate limits of the Town shall obtain a permit requiring approval by the Town Commission; maintain liability insurance at specified limits; charge rates subject to prior approval of the Commission; provide to the Town, by the 10<sup>th</sup> of the following month of the permit holder's regular billing period, the names and addresses of its customers within the Town, the days of service, and the rates charged; and, make all business records available for inspection and audit by the Town, or a person designated on behalf of the Town to conduct such inspection or audit.

During the audit period, the Town received franchise fees for garbage collections from five different businesses. Based on inquiry and review of Town records, we noted the following:

- There were no permits on file and no permits were approved by the Commission for the garbage collection providers that paid franchise fees to the Town.
- The Town did not have documentation that four of the five garbage collection providers had the required liability insurance policy in effect.
- Collection rates were not approved by the Commission for any of the garbage collection providers that paid franchise fees to the Town.
- The Town did not receive the listing of customers for the months of September 2004 and January 2005 through December 2005 from one of the five garbage collection providers.
- The customer listings for another of the five garbage collection providers did not provide the number of days of service or the rate charged.
- Another garbage collection provider submitted one payment and one customer listing for the period March 1, 2004, through September 30, 2005. The Town recently requested (on February 28, 2006) information in order to review the fees collected by this provider.
- The Town had not audited the records of any of the garbage collection providers since Ordinance No. 317 was approved in August 2002.

Without implementing and enforcing all conditions of the Town's Ordinance, the Town may not be receiving the correct amount of franchise fees, and the Town cannot regulate the amount of fees charged by the garbage collection providers.

---

---

**Recommendation: The Town should implement and enforce all provisions of Ordinance No. 317.**

---

---

---

---

**Finding No. 24: Occupational License Fees**

---

---

During the audit period, the Town reported revenues of \$22,350 for occupational licenses. Our test of occupational licenses issued disclosed the following:

- The Town's accounting system includes a Business License module designed to record occupational licenses issued. We found that no transactions were recorded to the Business License module since July 6, 2005. In response to our inquiry, Town staff indicated that after July 6, 2005, the Town began recording the occupational license receipts in the Finance module because "they could no longer use the Business License module." However, in reviewing the occupational license receipts in the Finance module, we noted that this module was used throughout the audit period, indicating both modules were used to record occupational licenses. The amounts recorded in both modules were generally in agreement; however, several batches from the Finance module could not be traced to the general ledger because the dates and batch numbers were not indicated in the receipts detail. Further, we noted various misclassifications, such as salary overpayments and copy charges that were recorded as occupational licenses, and some occupational license revenues recorded as other income. Late fees on occupational licenses were recorded as occupational license revenues, whereas refunds issued for late fees were recorded in other income, misstating both accounts.
- The Town did not have a consistent methodology for assigning occupational license numbers in the accounting system. Some businesses were assigned the previous year's license number, while others were assigned a number at random. We noted two instances where the same occupational license number was assigned to two different businesses in the same year. Effective internal control over issuing licenses includes licenses being issued on prenumbered forms so that each license has a unique number and reconciliations can be performed between number of licenses issued and the occupational license revenues recorded.
- One of 11 selected businesses had not renewed its occupational license for the 2005-06 fiscal year. Although requested, we were not provided with a listing of businesses that were sent renewal notices in the 2004-05 and 2005-06 fiscal years.
- The Town's records indicated that 309 occupational licenses were issued for the 2004-05 fiscal year. Based on the occupational license fee of \$50, revenues for the 2004-05 fiscal year should have totaled \$15,450; however, the Town reported only \$13,850. As discussed above, given that occupational license fees were recorded in various modules, miscoded as other income, and could have been for license renewals in the subsequent fiscal year, it was not practicable for us to determine whether all revenues for occupational licenses issued for the 2004-05 fiscal year were collected, deposited, and recorded.
- Businesses frequently do business under fictitious names (i.e., the business uses a name that excludes the owner's full name). Section 205.023, Florida Statutes, requires that applicants for local occupational licenses present either a copy of the applicant's fictitious name registration, or a signed written statement

that the applicant is exempt from the Fictitious Name Act. The Town did not require that new applicants provide fictitious name registration documentation until May 2005 when the Town changed its occupational license application. Of the 20 new occupational license applicants we reviewed, we found that 10 had provided the required documentation, 5 had no fictitious name documentation, but were issued licenses prior to May 1, 2005, when the Town did not require such information, and 5 had no fictitious name registration even though they were issued licenses after May 1, 2005, when the Town began requiring proof of fictitious name registration.

---

**Recommendation:** The Town should resolve the issues with the Business License module, then use this module to process occupational licenses. The Town should review its accounting records and correct any misclassifications. Additionally, the Town should use prenumbered occupational license forms so that accountability for issued licenses can be established, and reconciliations should be performed of the licenses issued to amounts collected, recorded, and deposited. Also, the Town should implement procedures to ensure that new applicants have complied with Fictitious Name Act requirements prior to issuing local occupational licenses.

---



---

**Finding No. 25: Permit and Plat Review Fees**

---

In May 2005, pursuant to Resolution No. 2005-08, the Town began charging review fees for development projects, and permit fees for driveways, tree removal, land clearing, signs, and parking lot construction. In September 2005, the Commission revised its fee structure through adoption of Resolution No. 2005-13. During the audit period, the Town collected \$16,600 for plat review applications and \$2,300 for permit applications.

Prenumbered application forms were not used for either the plat review applications or the permits. While the Town maintains a spreadsheet of fees collected for permits and plat review applications, without the use of prenumbered forms, the Town lacks assurance that all permit and plat review activity is accounted for. Prenumbered forms provide a means for documenting amounts collected, fixing responsibility for such amounts, and determining whether amounts collected are subsequently recorded in the accounting records and deposited.

---

**Recommendation:** The Town should use prenumbered forms for plat review applications and permits so that accountability may be established and reconciliations may be performed between plat review applications and permits to amounts collected, recorded, and deposited. In addition, the Town should ensure that an accounting for prenumbered forms is performed by individuals who are not responsible for application approval, and who do not have access to fees collected.

---

<b>Personnel and Payroll</b>
------------------------------

---

**Finding No. 26: Hiring Practices**

---

During the audit period, the Town had approximately 18 full-time employees. The Town's personnel procedures had not been formally adopted, and there were no officially adopted job descriptions or minimum requirements for all positions. Although the Town adopted a schedule of pay grades and pay rates, it had not assigned specific pay grades or ranges to each position.

Our test of 11 newly hired employees indicated that the Town did not adequately document or verify all information about employees' qualifications, experience, pay rates, and other information that should be included in the employees' personnel files. Of 11 employee files tested, we noted the following:

- Two did not contain an employment application.

- Eleven did not indicate the starting salary. Nine of these employees' personnel files also did not include the official hiring date.
- Five did not contain documentation of verification that the employee met requirements of the position, or documentation that the Town verified previous employment, education, or references. Since these five positions lacked position descriptions, we reviewed the newspaper employment advertisements and compared any education or experience requirements listed therein to personnel file verification of those requirements, and it did not appear that the preferred qualifications were met.

Effective control over the hiring of new employees includes adoption of position descriptions that specify minimum education and experience requirements, verification of employment history and educational experience prior to offering employment, and maintenance of personnel files that include completed applications, letters of reference, college transcripts (if applicable), and other appropriate documentation evidencing authorized personnel actions. Absent such verification, the Town may hire individuals that do not have the required skills to adequately perform their duties.

---

**Recommendation:** The Town should adopt position descriptions and minimum requirements for all positions and set a standard pay grade or range for each position. Additionally, the Town should implement procedures to ensure that all prospective employees submit an employment application, develop a form to document employee appointment and starting salary, and properly verify and document employee qualification for the positions.

---



---

**Finding No. 27: State Directory of New Hires**

---

Section 409.2576, Florida Statutes, created the State Directory of New Hires and requires all employers to report each new or rehired employee to the State Directory of New Hires within 20 days of the hire date of the employee or, in the case of employers that report new hire information electronically or by magnetic tape, by two monthly transmissions. The Florida Department of Revenue operates the State Directory of New Hires and has contracted with a private organization to compile new hire reports for the purpose of locating parents responsible for financial support and to provide a database to be used to decrease welfare and employment fraud.

Contrary to Section 409.2576, Florida Statutes, from October 2004 to April 2006, the Town hired 18 employees, none of whom were reported to the State Directory of New Hires.

---

**Recommendation:** The Town should ensure that all new hires are reported to the State Directory of New Hires within the reporting timeframe set by law.

---



---

**Finding No. 28: Commission Compensation**

---

Chapter 27447, Laws of Florida (1951), created the charter for the Town. Chapter 57-1214, Laws of Florida, amended Section 4 of the charter to provide for compensation of each elected officer, which must be authorized by ordinance. The Town subsequently adopted and amended numerous ordinances setting the compensation, most recently Ordinance No. 325, effective March 25, 2003, setting the Mayor and other Commissioners pay at \$800 per month.

A determination as to whether an individual is an employee or an independent contractor is important to properly report compensation to an individual. Certain laws apply when an individual serves in the role of an employee rather than an independent contractor. For example, compensation to independent contractors is not subject to



withholding for employment taxes, whereas compensation to employees is subject to withholding for employment taxes, such as Federal Insurance Contributions Act (FICA) and Medicare taxes.

Pursuant to Section 3401 of the Internal Revenue Code, “the term employee includes an officer, employee, or elected official of the United States, a State, or any political subdivision thereof.” Further, the Internal Revenue Service (IRS), in Chapter 4 of its Federal-State Reference Guide (IRS Publication 963), has indicated that because an elected official is responsible to the public and usually can be removed by the public or a superior, the elected official does not have the freedom from supervision that is characteristic of an independent contractor. As such, the Mayor and other Commission members would be considered employees and be subject to required withholding and payment of FICA and Medicare employment taxes.

Although requested, we were not provided documentation to support the treatment of payments to Commissioners during the 2004 calendar year, due to misplaced or lost records (see further discussion in finding No. 29). For the 2005 calendar year, the Mayor and other Commissioners were treated as independent contractors and, consequently, no employment taxes were withheld or paid, and Forms 1099-MISC were issued at the end of the year. Pursuant to Section 3509 of the Internal Revenue Code, if any employer fails to deduct and withhold FICA taxes with respect to any employee by reason of treating such employee as not being an employee, the employer is liable for the taxes. As a result of classifying the Mayor and other Commissioners as independent contractors, the Town may be liable for unpaid employment taxes. Also, for two of the Commissioners, travel reimbursements which should not have been reported as compensation were reported on the Forms 1099-MISC in the amounts of \$347 and \$1,151, respectively.

---

**Recommendation:** The Town should pay the Mayor and other Commissioners as employees rather than independent contractors. Additionally, the Town should contact the IRS to determine what corrective action, if any, should be taken regarding unpaid employment taxes.

---



---

#### **Finding No. 29: Payroll Reporting**

---

On June 30, 2006, the Town received a “Second Request” from the Social Security Administration (SSA) requesting payroll information for the 2004 tax year. The “Employer Questionnaire” stated that the SSA did not have a record of processing the Town’s Forms W-2 and W-3 for the 2004 wages reported to the Internal Revenue Service in the amount of \$260,531.

In response to our request for a copy of the 2004 Forms W-2 for the Commissioners, the current Finance Officer (hired in May 2006) indicated that she has been unable to locate Forms W-2 and W-3 for the 2004 calendar year.

---

**Recommendation:** The Town should ensure that all payroll reporting forms are timely and accurately reported to both the Internal Revenue Service and the Social Security Administration, and appropriate copies maintained in the Town’s records.

---

**Procurement of Goods and Services**

---

#### **Finding No. 30: Disbursement Processing**

---

The Town is responsible for establishing controls that provide assurance that the process of acquiring goods or services is effectively and consistently administered. Our test of 60 expenditure items totaling \$119,121, disclosed deficiencies in the Town’s disbursement processing and recording procedures that may limit the Town’s ability to

ensure that goods and services are received in the quantity and quality contemplated by management's authorization. Specifically, we noted the following:

- Five instances in which purchase orders were incomplete, in that authorizing signatures and dates, and signatures by the receiver of goods or services were missing.
- Thirteen instances in which invoices predated purchase orders, ranging from 1 day to 31 days. Good business practices suggest that purchase orders be generated and approved prior to ordering goods and services to ensure that proper authorization is obtained.
- Twenty-six instances in which the expenditure was not supported by one or more of the following: purchase order, receiving report or other evidence that the goods or services were received, or invoice. Consequently, we could not determine in all cases that the goods were purchased pursuant to management authorization, properly invoiced, and received.
- Nine instances in which the purchase order was marked paid, rather than the invoice itself. Without marking the invoice itself as paid, duplicate payments could occur.

Ordinance No. 90 provides that the Town shall solicit bids for purchases and expenditures in excess of \$1,000 by advertising for bids in a newspaper of general circulation in Bay County. Such advertisement shall be published one time at least seven days prior to the deadline for accepting bids, and the Town shall accept the lowest and best bid. We reviewed eight purchases of goods costing more than \$1,000. Although requested, we were not provided documentation evidencing that bids were obtained for one purchase of signs in the amount of \$1,355. The payment was supported by a single quote.

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

---

**Recommendation:** The Town should ensure that purchase orders are properly authorized, completed, and issued prior to incurring obligations for payment. Subsequent to receipt of the goods or services, the receiving portion of the purchase order should be signed and dated to indicate that the goods or services were received, and were in good working order. In addition, the Town should require that each purchase be supported by a vendor invoice, that the invoices be reviewed prior to payment and initialed and dated by the approving individual, and that all invoices be canceled (i.e., stamped as paid) after payment and properly maintained in the vendor files. Finally, the Town should ensure that purchases are competitively selected in accordance with good business practices and Ordinance No. 90.

---

### **Finding No. 31: Unauthorized Expenditures**

Expenditures of public funds must, to qualify as authorized expenditures, be shown to be authorized by applicable law or ordinance; reasonable in the circumstances and necessary to the accomplishment of authorized purposes of the governmental unit; and in pursuit of a public, rather than a private, purpose. Documentation of an expenditure in sufficient detail to establish the authorized public purpose served, and how that particular expenditure serves to further the identified public purpose, should be present for payment of funds.

The Attorney General has indicated on numerous occasions that documentation of an expenditure must be in sufficient detail to demonstrate to the post-auditor and the public the authorized public purpose served by such expenditure. Our audit disclosed expenditures for which the Town's records did not clearly demonstrate the authorized public purpose served. The Town paid a total of \$8,575 to employees as Christmas bonuses in 2003,

2004, and 2005, as follows: 2003, 15 employees were paid a total of \$2,924; 2004, 16 employees were paid a total of \$3,249; and 2005, 14 employees were paid a total of \$2,402. The Town Commission did not, of record, approve the payment of Christmas bonuses for 2003 and 2004. The Town's response to our memo requesting an explanation as to the public purpose served by the payment of Christmas bonuses to the Town's employees stated that "career incentive pay or other pay such as bonuses are intended to be just and equitable incentives . . . ." The Town's procedures indicate that career incentive pay and other incentive pay plans shall be paid as provided for by State law and ordinance as adopted by the Commission. However, the Town did not adopt an ordinance for these bonuses and we are unaware of any such specific authority in law regarding expenditure of Town moneys for Christmas bonuses.

---

**Recommendation:** The Town should clearly document in its public records that expenditures serve an authorized public purpose, are reasonable, and necessarily benefit the Town, and the specific legal authority.

---

### Communication Expenditures

Town management is responsible for establishing adequate controls that provide reasonable assurance that long-distance and cellular telephone calls serve an authorized public purpose. During the audit period, telephone expenditures totaled \$10,615, and cellular telephone expenditures over the same period totaled \$6,954, for a total of \$17,569 of communication expenditures. Our review disclosed deficiencies regarding communication expenditures, as discussed below.

#### Finding No. 32: Cellular Telephone Policy

The Town did not have policies regarding whether employees were authorized to use Town-assigned cellular telephones for personal use or procedures which provided for persons independent of those placing calls to review cellular telephone billings to ensure that the calls served a public purpose. In our review of selected cellular telephone billings, we noted that many calls made appeared to be personal based on the dates and times of the calls. Consequently, personal calls were not identified on the billings, and employees were not required to pay for personal calls, even if they exceeded the monthly minutes allowed by the cellular telephone plan. Absent such policies and procedures, the Town could be paying for cellular telephone services that do not serve a public purpose.

Pursuant to United States Treasury Regulations, Section 1.274-5T(e), an employee may not exclude from gross income any amount of the value of property listed in Section 280F(d)(4) of the Internal Revenue Code (IRC), unless the employee substantiates the amount of the exclusion in accordance with the requirements of Section 274(d) IRC, and United States Treasury Regulations, Section 1.274-5T(e). Because cellular telephones are listed property, their use is subject to the substantiation requirements of the United States Treasury Regulations, Section 1.274-5T(b)(6), which require employees to submit records to the Town to establish the amount, date, place, and business purpose for each business use. Because Town policies did not require such records, and the Town did not have procedures to review call records to ascertain personal use, the Town should have included expenses paid for each employee assigned a cellular telephone in the employee's income reported to the Internal Revenue Service (IRS). Our review disclosed that the Town had not included the value of these services in the income reported for these employees.

---

**Recommendation:** Unless the Town Commission establishes a policy to treat all cellular telephone charges as employee fringe benefits, the Town Commission should establish and implement policies and procedures to document the business use of cellular telephones and to require reviews of cellular telephone bills. In the absence of implementation of these policies and procedures, the Town should report appropriate amounts as income to the IRS in accordance with Federal requirements. In connection with the development of policies and procedures, and any corrective actions, the Town should confer with the IRS.

---



---

**Finding No. 33: Telecommunication Taxes**

---

The Town was billed for taxes on telephone billings from which it was exempt. Customers of vendors that provide telephone services are normally subject to specified Federal, State, and local sales and excise taxes; however, governmental entities are exempt from certain Federal, State, and local taxes. Pursuant to Internal Revenue Code Section 4253(i), the Town was exempt from certain Federal taxes on telephone services. Similarly, the Town was exempt from State sales taxes on telephone bills pursuant to Section 212.08(6), Florida Statutes, and was exempt from the public services taxes imposed by municipalities pursuant to Section 166.231(5), Florida Statutes. Since the Town did not notify its telephone service provider that it was exempt from the taxes, it inappropriately incurred \$181 of taxes on telephone services during the audit period. However, the Town did not incur any taxes on its cellular telephone billings.

---

**Recommendation:** The Town should notify its telecommunications providers of the Town's tax exempt status to ensure that future taxes are not billed to the Town. Additionally, the Town should seek credit for any taxes previously paid on invoices.

---



---

**Finding No. 34: Contracts with Cellular Telephone Service Provider**

---

The Town issued eight cellular telephones to staff members and paid a total of \$6,954 for services. Of that amount, \$6,762 was paid for six cellular telephones for which the Town did not provide us with the agreements with the cellular telephone service provider, although requested. The Town did provide us with copies of the agreements for the other two cellular telephones, which the Town acquired in September 2005. Absent the six service agreements, the Town could be liable for additional charges they are not aware of should it decide to cancel any agreements with the service provider. Additionally, without periodic comparisons of amounts billed by cellular telephone service providers to copies of the agreements, the Town could not ensure it was not incurring costs in excess of those specified in the agreements.

---

**Recommendation:** The Town should maintain copies of all agreements for the life of the agreement and, accordingly, should obtain copies of the missing six cell phone agreements. The Town should review cellular telephone invoices to ensure that amounts billed are consistent with terms of the agreements.

---



---

**Finding No. 35: Postage Meter Usage**

---

The Town maintained a postage meter in Town Hall. The postage meter was used to mail correspondence, vendor payments, annual water quality reports, and other items. Monthly water and sewer billings were sent by bulk mail and were not run through the postage meter. The postage meter service provider automatically drafts the payment for the postage from the Town's bank account.

The Town requires postage used from the postage machine to be logged; however, there was no comparison between the postage balance according to the machine to the amount that should be in the machine based upon the usage log and the amount of postage added. During the audit period, the postage meter service provider drafted \$1,600 from the Town's bank account for postage. However, according to the Town's postage usage logs for the same period, the Town used only \$1,264 in postage, a difference of \$336.

Because the postage meter usage log is not reviewed and reconciled to postage fees drafted from the Town's bank account, there is no assurance that the amount of postage fees is appropriate. Consequently, the Town could be expending moneys for postage that does not serve a public purpose.

---

**Recommendation:** The Town should restrict access to the postage meter such that one individual is responsible for applying postage and preparing the usage log. An individual independent of the individual responsible for applying the postage should reconcile the usage log to the postage balances in the postage machine and amounts drafted from the Town's bank account.

---

### Travel Expenses

Section 112.061, Florida Statutes, governs per diem and travel expenses of municipalities, including provisions establishing uniform rates (including the amounts of reimbursement that travelers may claim) and specific documentation requirements for the payment or reimbursement of travel expenses incurred by public officers, employees, and authorized persons in connection with official business.

A municipality that provides any per diem and travel expense policy pursuant to Section 166.021(10)(b), Florida Statutes, shall be deemed to be exempt from all provisions of Section 112.061, Florida Statutes. Any municipality that does not provide a per diem and travel expense policy remains subject to all provisions of Section 112.061, Florida Statutes. During our audit period, there were no ordinances in effect relating to travel expenses, nor had the Town adopted any travel policies and procedures. Therefore, the provisions of Section 112.061, Florida Statutes, applied to the Town.

Pursuant to Section 112.061(3)(b), Florida Statutes, travel expenses of Town officials and employees are limited to those expenses necessarily incurred by them in the performance of an authorized public and Town purpose, and must be within the limitations prescribed by that Section. Section 112.061(6), Florida Statutes, provides for meal allowances in amounts that depend on the length of time of travel. For short or day trips, referred to as Class C travel, where the traveler is not away from his or her official headquarters overnight, meal allowances are dependent upon the times of departure from and return to official headquarters. During the audit period, for overnight travel (referred to as either Class A or Class B travel), travelers were allowed either \$50 per day, including meals and lodging or, if actual expenses exceed \$50, actual lodging expenses plus meal allowances in accordance with Class A and B requirements (i.e., subject to departure and arrival times).

### Finding No. 36: Travel Reimbursements – Travel Vouchers

Travel expenditures for the audit period totaled \$3,958. Our test of ten travel-related vouchers, totaling \$3,370 (or 85 percent of total travel-related expenditures), disclosed the following:

- Four instances in which payments for meal allowances at the rate of \$20 per day, for a total amount of \$260, were not approved by the Clerk or other appropriate authority prior to payment. Also, it was not apparent why a \$20 per day meal allowance was paid rather than the \$21 per day authorized by law.

- In one of the four instances discussed above, the traveler did not sign the voucher; therefore, there was no certification by the traveler that the expenses were actually incurred by the traveler, necessary in the performance of official duties, and materially true and correct.
- In one other instance, the traveler did not indicate the purpose of the trip; therefore, the Town could not demonstrate how the expense served a public purpose, and thereby benefited the Town.
- Four travel vouchers did not indicate the time of departure or return. As a result, we could not determine the appropriate meal allowances for the travelers.
- Payment for one item in the amount of \$41 for mileage was not supported by documentation. Without supporting documentation, the Town could not demonstrate how the expense served a public purpose (i.e., how the expense benefited the Town).
- Payments for an annual conference held in Orlando, August 17 through 20, 2005, attended by three Commissioners, for registration fees, lodging, mileage, meals, and hotel parking, totaled \$3,070. We noted the following:
  - Contrary to Section 112.061, Florida Statutes, one reimbursement for \$347 was paid absent a travel voucher. Rather, the reimbursement was paid based upon the travel voucher submitted by another Commissioner for the same amount who attended the same conference. The travel voucher was not signed by the traveler; therefore, there was no certification by the traveler that the expenses were actually incurred by the traveler, necessary in the performance of official duties, and materially true and correct.
  - Contrary to Section 112.061(11)(a) and (b), Florida Statutes, a copy of the conference agenda, itemizing registration fees and any meals or lodging included in the registration fee, was not attached to the travel vouchers used as the basis of payment for two Commissioners. Hotel and conference registrations were paid through the Town's purchasing card system, and the charges were not included on the travelers' reimbursement requests. Consequently, the travel reimbursement requests did not represent all costs related to the travel event, and the requests lacked statements from the travelers certifying that the expenses not listed on the voucher requests were actually incurred as necessary traveling expenses in performing official duties. Although requested, the conference agenda was not provided for our review; however, we were provided with limited information as to registration costs and meals provided.
  - We obtained information as to registration costs and meals provided from the conference sponsor and noted that two attendees were overpaid a total of \$60 for meals, since the registration information showed that breakfast was provided daily and that lunch and dinner was provided for one day of the conference.
  - The hotel billing for one of the attendees reflected charges for parking in the amount of \$25; however, the traveler was also reimbursed for that amount on her travel voucher.

Adequate documentation for travel expenditures should include certifications from travelers and explanations evidencing the necessary and authorized public purpose served by the travel and sufficient details of the travel to permit a determination that reimbursements were made in accordance with applicable laws.



---

**Recommendation:** Each traveler should be required to prepare and sign a travel expense voucher form certifying that the travel expenses were actually incurred for official Town business. The travel voucher should include explanations evidencing the necessary and authorized public purpose served by the travel, as well as sufficient details to determine that reimbursements were made in accordance with applicable laws. The Town's travel vouchers should include all costs directly related to the trip being reimbursed. Finally, travel reimbursement vouchers should include times of departure and return to support payment of meal allowances, and such allowances should be reduced when meals are included in registration fees.

---

### Contractual Services

Controls should be established that provide assurance that the process of acquiring contractual services is effectively and consistently administered. As a matter of good business practice, procurement of services should be done using a competitive selection process to provide an effective means of equitably procuring the best quality services at the lowest possible cost. In addition, contractual arrangements for services should be evidenced by written contracts embodying all provisions and conditions of the procurement of such services. The use of a formal written contract protects the interests, and identifies the responsibilities, of both parties; defines the services to be performed; and provides a basis for payment. Further, to ensure that contractors comply with applicable terms and conditions of the contract and that the contractor's performance is effective in accomplishing the objectives established in the contract, effective monitoring procedures should be established.

### Finding No. 37: Awarding of Contracts for Services

On June 16, 1975, the Commission adopted Ordinance No. 90, which provides that bids be advertised on all purchases exceeding \$1,000. Our review of the Town's procurement of various types of contractual services disclosed the following instances of noncompliance with applicable State laws, Town ordinances, or good business practices:

#### Auditing Services

Section 218.391, Florida Statutes, provides procedures to be used by the Town to select the auditor to conduct the annual financial audit. The Town did not demonstrate, of record, that it followed the auditor selection procedures established by Section 218.391, Florida Statutes, for selection of its auditor for the 2005-06 fiscal year audit. The Town did not establish an audit committee, establish factors to evaluate audit firms, or publicly announce requests for proposals. Rather, on November 8, 2005, the Commission approved the engagement letter from the independent certified public accounting firm (CPA firm) it had previously used to provide auditing services for the 2004-05 fiscal year.

The engagement letter with the CPA firm for the 2004-05 fiscal year financial audit provided for fees to be charged at standard hourly rates, varying according to the degree of responsibility involved and the experience level of the personnel assigned to the audit, plus out-of-pocket expenses, except that the gross fee would not exceed \$26,000. However, the contract did not specify the standard hourly rates for the different experience levels of staff that would be involved with the audit and the invoices submitted for payment did not indicate the level of experience of the staff that performed various services, the hours worked by each staff member, or the rates charged for each staff member. Consequently, it was not apparent how the Town was assured that it was billed in accordance with contract terms. The Town also paid the CPA firm during the audit period for nonaudit services without the benefit of a written contract. The invoices for these services also did not indicate the level of

experience of the staff that performed various services, the hours worked by each staff member, or the rates charged for each staff member.

### **Cleaning Services**

The Town acquired cleaning services for the Town Hall and Public Safety buildings from one of its employees, the Water and Sewer Department Clerk, without entering into a written contract defining the services to be provided and the rates to be paid (see further discussion in finding No. 41). During the audit period, the Town paid a total of \$4,950 for cleaning services to this employee. In obtaining these services, the Town did not comply with advertisement and bid requirements prescribed by Ordinance No. 90 regarding the purchase of various goods or services costing more than \$1,000.

### **Engineering Services**

The Town's contract with an engineering firm stipulated that the Town was to be billed at established hourly rates based upon job titles of the engineering staff performing the work. However, the invoices did not list the number of hours worked, the hourly rates charged, or the job titles of the engineering staff performing the work. Consequently, it was not apparent how Town staff verified that the bill was in accordance with rates established by the contract.

### **Management Assistance and Bank Reconciliations**

Contrary to Ordinance No. 90, the Town hired a consultant for management assistance, accounting, and bank reconciliation services, and paid a total of \$5,789 without utilizing a competitive selection process or a written contract describing the services to be provided and the rates to be charged. Upon inquiry, the Deputy Clerk indicated that a proposal for services at an estimated cost of \$4,500, prepared by the consultant, was approved on November 22, 2005; however, as noted above, the minutes for the November 22, 2005, meeting had not been transcribed as of April 2006, so we were unable to verify this assertion. The consultant also invoiced the Town, and the Town paid, a total of \$570 for inventory and bank reconciliation services that were not included on the proposal.

The consultant's proposal included various recommendations for services to be performed, totaling \$4,500, including: (1) preparing a written detailed job description for five positions for \$1,250; (2) providing a more detailed policies and procedures manual for \$1,500; (3) assisting in the creation of a filing system and organizing and moving necessary files for \$1,500; and (4) establishing payroll files and a checklist for payroll procedures for \$250. The consultant only charged \$3,250 of the \$4,500 proposal because she did not complete the task related to job descriptions, which she proposed to perform at a cost of \$1,250. According to Town staff, the Town received a more detailed policies and procedures manual, a new filing system, and established payroll files. However, as noted in finding No. 3, we found that the Town did not have policies and procedures for several business functions.

The Town paid the consultant a total of \$2,539 for consulting and accounting work to help prepare for the annual audit (\$969); time on inventory (\$50); and reconciling bank statements and the cash accounts (\$1,520). In February 2006, we reviewed a bank reconciliation prepared by the consultant and determined that it was inaccurate. Additionally, we noted that some journal entries prepared by the consultant were inappropriate. The consultant, in a memorandum dated February 14, 2006, to the Commissioners, informed the Commission that she had not been able to determine the problem with the cash on hand account and stated that she had been advised by the Deputy Clerk to turn in all information on the account and submit a final invoice. On February 16,

2006, the Town paid for bank account reconciliations on the consultant’s final invoice, even though the consultant indicated that she would be unable to complete the reconciliations. In total, the Town paid the consultant \$1,520 for services that the consultant was unable to perform.

Subsequent to the departure of the consultant, the Town hired a certified public accountant (CPA) to reconcile the bank account statements to the accounting records. Again, the Town did not utilize a competitive selection process; no official action, of record, was taken by the Commission to authorize these services; and no written contract was prepared setting forth the nature of the services and associated costs of those services. On March 16, 2006, after the completion of services performed by the CPA, the Town paid the CPA \$5,545 for the services performed, billed at \$100 per hour for 55.45 hours.

---

**Recommendation:** The Town should comply with the auditor selection procedures of Section 218.391, Florida Statutes, and competitive bid requirements of Ordinance No. 90, when acquiring professional services. The Town should also ensure that written contracts are utilized and executed, describing the services to be performed and rates to be charged, prior to the performance of the services. Prior to making future payments for contractual services, the Town should ensure that deliverables are received. Finally, the Town should recover an appropriate amount from the consultant for bank account reconciliations that were not completed.

---

**Utilization of Resources**

The Town owned 36 vehicles and leased 4 vehicles, including police cars, trucks, a fire truck, and a dump truck. Our review of the assignment, usage and maintenance of vehicles is discussed below.

**Finding No. 38: Vehicle Maintenance**

Implementing a vehicle maintenance program, which includes preparing vehicle maintenance logs that identify preventative maintenance services and repairs, and dates such services were performed, provides vehicle cost information regarding the operating efficiency of the vehicle. Preventative maintenance is necessary to help minimize vehicle repair or replacement costs.

During the audit period, the Town did not maintain detailed maintenance records for any vehicles. A fuel sheet that showed mileage and amount of fuel used was maintained for only Public Works Department vehicles.

---

**Recommendation:** The Town should implement procedures requiring preparation of vehicle maintenance logs for Town vehicles and requiring periodic supervisory review of those logs.

---

**Finding No. 39: Vehicle Taxable Fringe Benefit**

The Town had not adopted a written policy governing the assignment of vehicles to employees on a full-time (24-hour) basis. Town records disclosed that five police officers and the Public Works Director were assigned Town-owned vehicles on a full-time basis. United States Treasury Regulation 1.61-21(a)(3) provides that an employee’s gross income includes the fair market value of provision of any fringe benefits not specifically excluded from gross income by another provision of the Internal Revenue Code. The personal use of an employer-provided vehicle is a fringe benefit that must be included in the employee’s gross income as compensation for services, unless otherwise excluded. However, the value of the Public Works Director’s personal usage of his assigned vehicle, for example, mileage commuting to and from work, should have been reported as taxable income to the Internal Revenue Service. Additionally, although the Internal Revenue Service provides an exemption for clearly marked police vehicles, as qualified non-personal use vehicles, the exemption is predicated on establishment of a

policy requiring police officers to use the vehicle to commute because he or she is on call, and any personal use of the vehicle (other than commuting) outside the limit of the police officer’s arrest powers is prohibited. The Town did not have a policy for police officers, did not maintain usage logs that document personal use mileage, and did not include the value of personal use of these vehicles in employees’ gross compensation reported to the Internal Revenue Service.

---

**Recommendation:** The Town should adopt written policies and procedures regarding the assignment of vehicles on a 24-hour basis, and the Town should maintain vehicle usage logs documenting personal use mileage, and begin reporting the value of such usage to the Internal Revenue Service. In addition, the Town should contact the Internal Revenue Service to determine what corrective actions, if any, should be taken regarding the unreported value of personal use of vehicles assigned on a full-time basis.

---

<b>Other Matters</b>
----------------------

---

**Finding No. 40: Appointment of Mayor**

---

Prior to September 6, 2001, a recall petition was filed against certain members of the Town Commission in accordance with Section 100.361, Florida Statutes. The statute states, “No person . . . resigning after a petition has been filed against him or her, shall be eligible to be appointed to the governing body within a period of 2 years after the date of such recall or resignation.” Contrary to this law, on February 12, 2002, one of the commissioners under recall, resigned from his position as commissioner and was reappointed (in the same meeting) by the Commission to the position of Mayor-Commissioner. As noted in a letter of April 9, 2002, from the Director of the Division of Elections, Florida Department of State, when the Commissioner resigned, he was “unable to fill any seat on the governing board for a period of two years.” Additionally, by Executive Order 02-112, the Commissioner was suspended from the office of Mayor for the Town of Cedar Grove on April 9, 2002. The Executive Order further indicates that at all times material hereto, the individual was the Mayor or a Commissioner of the Town.

---

**Recommendation:** In the future, the Town should comply with Section 100.361, Florida Statutes, governing the appointment of commission members in the event of a recall election in process for any sitting member(s) of the Town Commission.

---



---

**Finding No. 41: Conflict of Interest**

---

The Town paid its Water and Sewer Department Clerk, an employee, to provide cleaning services for a fee of \$330 per month. This employee was paid a total of \$4,950 for cleaning services during the audit period. Although this employee terminated employment with the Town in February 2006, the employee’s providing of services to the Town was a violation of Section I, Outside Employment, paragraph C, of the Town’s Personnel Policy, which provides that employees may not sell any service or merchandise to the Town. Additionally, this arrangement may have been a violation of Section 112.313(3), Florida Statutes, which provides that employees, acting in a private capacity, may not rent, lease, or sell an realty, goods, or services to the employee’s own agency unless one of the exemptions provided for by Section 112.313(12), Florida Statutes, was applicable. Although requested, we were not provided with documentation demonstrating the existence of one of the exemptions provided for by Section 112.313(12), Florida Statutes.

---

**Recommendation:** In the future, the Town should refrain from contracting for services with its employees as required by the Town's Personnel Policy. In addition, the Town should provide training for Commissioners on ethics laws to avoid future situations that could result in conflicts of interest.

---



---

**Finding No. 42: Commission Minutes**

---

Pursuant to Section 286.011(2), Florida Statutes, the minutes of Commission meetings are required to be promptly recorded and open to public inspection. To ensure that minutes accurately reflect all action and proceedings of the Commission, the minutes of each meeting should be reviewed, corrected if necessary, and approved at a subsequent Commission meeting, signed by the appropriate Town official(s) and bound in the minutes book. Section 286.011(2), Florida Statutes, does not specify a time period within which minutes should be approved. For our purposes, we considered approval of transcribed minutes within 35 days to be prompt.

During the audit period, the Commission generally held two regular meetings per month and occasional special meetings and workshops. We reviewed meeting agenda packets, Commission meeting logs, and transcribed minutes, and determined that 60 Commission meetings were held during our audit period. Our review of the Town's minutes disclosed the following:

- For 13 (22 percent) meetings, held from October 23, 2004, through November 22, 2005, the minutes of the meeting tapes had not been transcribed as of April 13, 2006. We were advised by the Deputy Clerk that the Town was in the process of transcribing the minutes, but that due to a small staff, staff turnover, and length of time it takes to transcribe minutes, the transcribing had not been completed. Additionally, we were told that two sets of minutes had been prepared, but were not approved, and therefore not filed in the minutes book.
- For 6 (10 percent) meetings, minutes were not signed by the appropriate Town official.
- For 11 (18 percent) meetings, minutes were not timely approved, ranging from 49 to 269 days after the meeting was held.
- For 34 (57 percent) meetings, held between October 2004 and May 2005, the Town was not able to provide proof of notice of the meeting.

---

**Recommendation:** All meeting minutes should be promptly transcribed and presented to the Commission for review, corrections noted if necessary, and timely approved. All approved minutes should be signed by the Mayor or Mayor Pro Tem and attested to by the Clerk. All minutes should then be promptly placed in the official books of minutes, and all related Town records should be retained and maintained in such a manner as to be easily located by the Town Commission and Town staff.

---



---

**Finding No. 43: Emergency Meeting**

---

On January 6, 2005, the Clerk called an "emergency" meeting because of alleged harassment of the employees and concerns that they would all quit. Although requested, we were not provided a copy of the Notice of Meeting. As a result, we could not determine if the Notice listed the meeting as "emergency" or "special," or when it was actually published. The agenda listed the meeting as "emergency meeting." According to the meeting minutes, whether the meeting qualified as an emergency meeting and was advertised and noticed properly was discussed among the Commissioners at the meeting. In addition to the employee morale issue, other issues were discussed at the meeting, including disaster planning, growth policies, future revenue options, and sewer pipe expansion. These topics did not appear to meet the emergency criteria set forth in Sections 120.525(3), 120.525(3)(b), and

120.525(3)(c), Florida Statutes, which provide that "If an agency finds that an immediate danger to the public health, safety, or welfare required immediate action, the agency may hold an emergency public meeting and give notice of such meeting by any procedure that is fair under the circumstances and necessary to protect the public interest, if: (b) the agency takes only that action necessary to protect the public interest under the emergency procedure, and (c) the agency publishes in writing at the time of, or prior to, its action the specific facts and reasons for finding an immediate danger to the public health, safety, or welfare and its reasons for concluding that the procedure used is fair under the circumstances. The agency findings of immediate danger, necessity, and procedural fairness shall be judicially reviewable."

The January 6, 2005, agenda lists the issues to be addressed at the meeting as: (1) discussion of the Clerk and Town employee positions, and (2) future growth of the Town, thereby demonstrating that the Town did not strictly adhere to the provisions of the Florida Statutes in conducting this emergency meeting.

---

**Recommendation: The Town should adhere to provisions of the Florida Statutes, as referenced above, with respect to calling and conducting emergency meetings.**

---



---

#### **Finding No. 44: Resolutions and Ordinances**

---

Pursuant to Chapter 119, Florida Statutes, the Town is required to maintain public records that are, with some exceptions, to be open for public inspection. Our review of the Town's books of ordinances and resolutions disclosed the following:

- There was no index to the Resolution Books, Volumes 3 or 4, or a master index of all resolutions. There was also no index to Volume 6 of the Ordinance Books, which covered ordinances starting with No. 323, dated February 11, 2003, through the latest adopted ordinance. During our audit, the Deputy Clerk prepared a master index of all ordinances.
- There was an unsigned copy of Resolution No. 2005-12 in the Resolution Books. Upon inquiry, we were told by the Deputy Clerk that she had been unable to find the signed copy.
- There was no consistency in the assignment of numbers for resolutions, which could create difficulty for Town Commissioners, Town staff, and members of the public in locating any and all resolutions the Town may have adopted since the Town's creation. For example, there is a sequence gap between Resolution No. 99-6 and Resolution No. 99-97. Consequently, Resolution Nos. 99-7 through 99-96 may be missing or may not exist.
- There was a book entitled "Resolutions extra copies" that contained some originally executed resolutions. Upon review, we noted that documents in this book did not appear to be "extra copies," but additional resolutions that were apparently not placed in the proper chronological order with the books of original resolutions.
- Several ordinances listed on the indexes were missing from the applicable volumes.
- Various ordinances were not placed in the correct numerical order, or even in the correct volume, and Ordinances 8-A and 45-A were not listed on either the original or master index.
- For Ordinance No. 1, there was no paragraph stating the ordinance was passed, giving the date of passage, showing the Clerk's attestation, or date of approval.



Deficiencies in official Town records, such as those indicated above, could limit the Town officials', employees', and the public's ability to review official Town documents.

---

**Recommendation:** The Town should ensure that numbers assigned to resolutions and ordinances are done in a consistent and logical manner to provide an adequate method of tracking and accounting for all Town records. The Town should ensure that public records are maintained and preserved in their original form and available for public inspection as required by Chapter 119, Florida Statutes.

---



---

**Finding No. 45: Commissioner Abstaining from Voting**

---

Section 286.012, Florida Statutes, sets forth the voting requirements at meetings of governmental bodies. The statute provides, in part, that no member of any municipal governmental board who is present at any meeting of any such body at which an official decision, ruling, or other official act is to be taken or adopted may abstain from voting in regard to any such decision, ruling or act; except when there is, or appears to be, a possible conflict of interest pursuant to Sections 112.311, 112.313, or 112.3143, Florida Statutes.

At a regular meeting of the Town Commission on May 10, 2005, a Commissioner abstained from voting on all official actions taken by the Town, after another Commissioner asked him to renounce his Commissionership. The Commissioner making the request alleged that the annexation of the other Commissioner's home, (which took place at the Commission meeting of March 26, 2002, over three years earlier), and the corresponding annexation ordinance (Ordinance No. 310), were not legal because the sitting Mayor at the time was not authorized to hold the office of Mayor because he was under recall and, therefore, the Commissioner did not qualify to sit on the Commission (see finding No. 40). The annexation of the Commissioner's property some three years earlier does not appear to constitute a conflict of interest as defined in Sections 112.311, 112.313, or 112.3143, Florida Statutes, for any of the issues voted on at this meeting; consequently, the Commissioner should have exercised his duty to vote on all official actions taken by the Commission, as required by Section 286.012, Florida Statutes. At this meeting a total of 14 different issues were voted on, and all motions carried by either a 4-0 vote or 3-1 vote. While the Commissioner's abstentions did not affect the outcome of the motions in these circumstances, his legal authority for abstaining is not apparent.

---

**Recommendation:** The Town's Commissioners should comply with Section 286.012, Florida Statutes, voting requirements, and no Commissioner should abstain from voting unless it is clearly demonstrated that he or she is required to abstain due to a conflict of interest as outlined under the provisions of Sections 112.311, 112.313, or 112.3143, Florida Statutes.

---



---

**Finding No. 46: Comprehensive Plan Amendments**

---

The process for adoption of local comprehensive plan amendments is outlined in Section 163.3184, Florida Statutes, and Florida Department of Community Affairs (DCA) Rule 9J-11.011, Florida Administrative Code. DCA Rule Section 9J-11.011(3), Florida Administrative Code, states that the local government has 60 calendar days to adopt, adopt with changes, or not adopt the proposed amendment after receipt of the objections, recommendations and comments (ORC) report from DCA pursuant to Section 163.3184(7)(a), Florida Statutes. Further, DCA Rule 9J-11.011(5), Florida Administrative Code, states that the local government shall submit, within ten working days after adoption, three copies of all comprehensive plan and plan amendment materials, including graphic and textual materials and support documents, directly to DCA, Division of Community Planning, Plan Processing Team, and one copy directly to the appropriate agencies listed in DCA Rule 9J-

11.009(6), Florida Administrative Code. Our review of the Town's comprehensive plan amendments disclosed the following:

- On June 14, 2005, the Town adopted Ordinance No. 364, titled "Town of Cedar Grove Comprehensive Plan Amendment 05-L2" involving a land use change for an 82.18-acre parcel of land. The Ordinance states that DCA issued an ORC report on June 4, 2004, and that the comprehensive plan amendment had been revised. However, on March 7, 2006, DCA advised us that, while the Town did propose an amendment (DCA amendment No. 05-2), DCA found it to be incomplete on February 23, 2005, and sent the Town a letter requesting additional information on March 8, 2005. DCA further advised us on March 7, 2006, that no additional information had been received from the Town. Consequently, DCA had not performed a compliance review and had not issued a final order determining the adopted amendment to be in compliance.
- On February 22, 2005, the Town adopted Ordinance No. 348, amending its comprehensive plan. DCA issued its ORC report on June 4, 2004; however, the Town did not adopt the comprehensive plan amendment until February 22, 2005, which was 263 days after the date on the ORC. Consequently, the Town was 203 days late in adopting the Ordinance. The amendment was subsequently found in compliance by DCA on April 14, 2005.
- The Town began the process for another large scale comprehensive plan amendment (DCA No. 06-1). DCA issued its ORC report on December 30, 2005; however, as of March 9, 2006, the Town had not adopted, adopted with changes, or decided not to adopt the amendment. Therefore, the Town exceeded the 60-day requirement to act pursuant to Section 163.3184(7)(a), Florida Statutes. The Town indicated that it is in the process of revising the amendment before final adoption.
- The Town did not timely submit a small-scale comprehensive plan amendment, defined as an amendment limited to 10 acres or less, to DCA. DCA Rule 9J-11.015, Florida Administrative Code, states that the adopted small-scale amendment shall be sent directly to DCA, Division of Community Planning, Plan Processing Team, within ten working days of adoption. The Town adopted Ordinance No. 350, a small-scale comprehensive plan amendment, on April 12, 2005; however, as of March 13, 2006 (335 days later), the Town had not submitted the adopted amendment to DCA as required by aforesaid rules. Subsequent to our inquiry, the Town faxed the Ordinance to DCA, as confirmed by a March 14, 2006, conversation with a representative from DCA, who indicated that the Town was now in compliance.

---

---

**The Town should adopt all comprehensive plan amendments within 60 days, as required by Section 163.3184(7)(a), Florida Statutes, and DCA Rule 9J-11.011(3), Florida Administrative Code, and submit them to DCA. Additionally, the Town should submit all adopted small-scale comprehensive plan amendments to DCA within 10 working days, as required by DCA Rule 9J-11.**

---

---

---

---

**SCOPE**

---

---

The Auditor General is authorized by State law to perform independent audits of governmental entities in Florida. Pursuant to Section 11.45(2)(a), Florida Statutes, the Legislative Auditing Committee, at its October 17, 2005, meeting, directed us to conduct an audit of the Town of Cedar Grove.

The scope of this audit included transactions during the period October 1, 2004, through December 31, 2005, and selected transactions taken prior and subsequent thereto, related to allegations concerning the Town's comprehensive plan, land use plan, annexations, \$1.2 million loan, procedures for recording meeting minutes, and numerous issues related the quantity and quality of financial information for the Town.

Our audit did not extend to an examination of the Town's financial statements. The Town's financial statements for the fiscal year ended September 30, 2005, were audited by a certified public accounting firm, and the audit report is required to be filed as a public record with the Town.

---

---

**OBJECTIVES**

---

---

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

- Document our understanding of the Town's management controls relevant to the areas identified by specific allegations. Our purpose in obtaining an understanding of management controls and making judgments with regard thereto was to determine the nature, timing, and extent of substantive audit tests and procedures to be performed.
- Evaluate management's performance in administering its assigned responsibilities in accordance with applicable laws, ordinances, bond covenants, and other guidelines.
- Determine the extent to which the Town's management controls promoted and encouraged the achievement of management's objectives in the categories of compliance with controlling laws, ordinances, and other guidelines; the economic and efficient operation of the Town; the reliability of financial records and reports; and the safeguarding of assets.

---

---

**METHODOLOGY**

---

---

The methodology used to develop the findings in this report included the examination of pertinent records of the Town in connection with the application of procedures required by applicable Generally Accepted Government Auditing Standards.

---

---

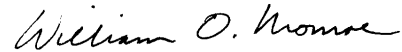
**AUTHORITY**

---

---

Pursuant to the provisions of Section 11.45(2)(l), Florida Statutes, I have directed that this report be prepared to present the results of our operational audit of the Town of Cedar Grove, Florida, for the period October 1, 2004, through December 31, 2005, and selected actions taken prior and subsequent thereto.

Respectfully submitted,



William O. Monroe, CPA  
Auditor General

---

---

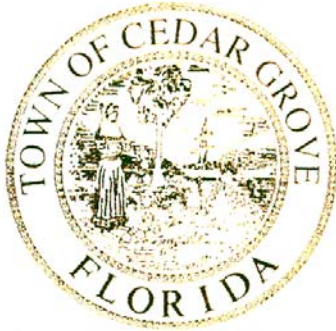
**MANAGEMENT RESPONSE**

---

---

The Mayor's response to our findings and recommendations is included in this report as Appendix A.

APPENDIX A – MANAGEMENT RESPONSE



**TOWN OF CEDAR GROVE**

Bay County, Florida

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

Dear Sir:

Pursuant to Section 11.45(4)(d), Florida Statutes, please find enclosed the responses of the Town of Cedar Grove to the list of preliminary and tentative audit findings and recommendations of your office.

Finding No. 1: The Town experienced a high turnover rate of key administrative employees in a short period of time, reducing its ability to provide consistent application of its policies and procedures. THE TOWN HOPES TO HAVE STABILIZED ITS ADMINISTRATIVE EMPLOYEE SITUATION BY INCREASING THE PAY TO ATTRACT QUALITY EMPLOYEES WHO ARE WILLING TO STAY ON A LONG-TERM BASIS. THE POLICIES ON HIRING ARE BEING REVISITED TO FACILITATE A STREAMLINED PROCESS TO ASSIST IN MAKING QUALITY HIRING DECISIONS.

Finding No. 2: The Town’s population has been increasing due to Town annexations, while at the same time the staff of the public works and police departments has been decreasing. Additionally, the

administrative personnel appeared to be understaffed, had difficulties in using the accounting software, and had inadequate training which, in many instances, contributed toward improper account balances being reported in the accounting records.

THE TOWN HAS BEEN INCREASING ITS EMPLOYEE WORK-FORCE WITHIN ITS BUDGET CONSTRAINTS. THE TOWN HOPES TO BE ABLE TO HIRE ADDITIONAL EMPLOYEES IF FUNDS ARE AVAILABLE.

Finding No. 3: Written policies and procedures necessary to assure the efficient and consistent conduct of accounting and business-related functions were not established in all cases. Additionally, the limited policies and procedures that the Town did have, were never formally adopted.

THE TOWN IS WORKING ON REVISIONS TO THE EXISTING POLICIES AND ANTICIPATES ADOPTING A COMPLETE POLICY MANUAL IN THE NEAR FUTURE THAT WILL ASSURE THE EFFICIENT AND CONSISTENT CONDUCT OF ACCOUNTING AND BUSINESS-RELATED FUNCTIONS OF THE TOWN.

Finding No. 4: The Town did not adequately separate duties regarding disbursement processing, cash controls, payroll and personnel processing, water and sewer fee collections, mail receipts, and other collections.

THE TOWN IS IN THE PROCESS OF FORMALIZING JOB DESCRIPTIONS THAT WILL IDENTIFY THE DUTIES OF EACH EMPLOYEE. THAT PROCESS WILL RESULT IN A REVIEW AND SEPARATION OF THE DUTIES OF PERSONNEL HANDLING FUNDS TO THE EXTENT POSSIBLE GIVEN THE LIMITED NUMBER OF ADMINISTRATIVE PERSONNEL.



Finding No. 5: The Town did not record all transactions in its accounting records in a timely manner.

THE TOWN WILL RECORD ALL TRANSACTIONS IN ITS ACCOUNTING RECORDS IN A TIMELY MANNER IN THE FUTURE AND WILL WORK TO PREPARE WRITTEN PROCEDURES TO CLARIFY THIS REQUIREMENT.

Finding No. 6: The Town did not formally adopt its 2004-05 budget and did not consider the effects of beginning fund balances and net asset balances during the 2004-05 and 2005-06 budget process, contrary to Section 166.241, Florida Statutes.

THE TOWN WILL AMEND THE 2005-06 BUDGET TO REFLECT THE BEGINNING FUND BALANCES AND NET ASSET BALANCES. THE 2004-2005 BUDGET CANNOT BE AMENDED AT THIS LATE DATE. IN THE FUTURE, THE TOWN WILL ALSO ADHERE TO SECTION 166.241 OF THE FLORIDA STATUTES.

Finding No. 7: The Town did not perform bank reconciliations for any of its 20 bank accounts during the entire 2004-05 fiscal year, and had not done so for the months subsequent to November 2005, as of August 3, 2006.

BANK RECONCILIATIONS FOR THE TOWN FOR THE TIME IN QUESTION HAVE NOW BEEN PERFORMED. THE TOWN WILL PERFORM FUTURE BANK RECONCILIATIONS FOR ALL BANK ACCOUNTS IN A TIMELY MANNER.

Finding No. 8: Checks recorded in the Town's accounting records did not always reflect the correct check number, were frequently issued out of sequence and, in several instance, were postdated.

THE TOWN WILL UTILIZED SEQUENTIAL NUMBERING OF ITS CHECKS. SHOULD CHECKS BE PRINTED OUT OF SEQUENCE IN ERROR, THOSE CHECKS WILL BE VOIDED AND REPRINTED CORRECTLY. POST-DATED CHECKS WILL NOT BE USED.

Finding No. 9: Contrary to the requirements of Chapter 717, Florida Statutes, the Town had not reported stale-dated checks, or remitted the appropriate money, to the Florida Department of Financial Services for the past three years.

THE TOWN WILL REPORT STALE-DATED CHECKS TO THE FLORIDA DEPARTMENT OF FINANCIAL SERVICES IN A TIMELY MANNER IN ACCORDANCE WITH CHAPTER 717 OF THE FLORIDA STATUTES.

Finding No. 10: The Town did not have on file the agreements with the banks with which it conducts business that addressed transfers to and from Town bank accounts.

THE TOWN WILL REQUEST COPIES OF ALL EXISTING BANKS AGREEMENTS ADDRESSING TRANSFERS TO AND FROM TOWN BANK ACCOUNTS. TO THE EXTENT THAT SUCH AN AGREEMENT DOES NOT EXIST, THE TOWN WILL REQUEST THAT THE BANK PREPARE AND DELIVER SUCH AN AGREEMENT TO THE TOWN FOR SIGNATURE WITHIN THE NEXT 30 DAYS.

Finding No. 11: The Town had not updated its signature cards with the various financial institutions to remove former employees from check signing, or other authority.

THE TOWN WILL UPDATE ITS SIGNATURE CARDS WITH ALL FINANCIAL INSTITUTIONS TO REMOVE FORMER EMPLOYEES FROM CHECK SIGNING OR OTHER AUTHORITY WITHIN THE NEXT 30 DAYS.

Finding No. 12: The Town could have earned additional interest of approximately \$24,000, or 45 percent more, had it invested surplus funds with the State Board of Administration.

THE TOWN WILL REVIEW ITS POLICIES CONCERNING INVESTMENTS OF SURPLUS FUNDS AND ATTEMPT TO MAXIMIZE INTEREST ON ITS INVESTED FUNDS WHICH MAY INCLUDE INVESTING SURPLUS FUNDS WITH THE STATE BOARD OF ADMINISTRATION.

Finding No. 13: The Town had not established general ledger control accounts, or subsidiary records for all tangible personal property; did not mark all property as property of the Town; had not performed a physical inventory since prior to September 2003; and did not have titles to all vehicles it owned.

THE TOWN IS IN THE PROCESS OF CONDUCTING A COMPLETE INVENTORY OF ALL PROPERTY OF THE TOWN. THE TOWN WILL BE OBTAINING DECALS FOR MARKING ALL TANGIBLE PROPERTY AS PROPERTY OF THE TOWN. THE TOWN IS WORKING WITH THE DEPARTMENT OF MOTOR VEHICLES TO OBTAIN DUPLICATE TITLE FOR VEHICLES IN THE TOWN'S POSSESSION THAT DO NOT HAVE TITLES. THE TOWN WILL ALSO ESTABLISH GENERAL LEDGER CONTROL ACCOUNTS AND SUBSIDIARY RECORDS.

Finding No. 14: The Town Commission authorized the borrowing of \$1,261,000 without enacting an ordinance or resolution, as required by law.

THE TOWN WILL ENACT AN ORDINANCE OR RESOLUTION AS REQUIRED BY LAW FOR ALL FUTURE LOANS.

Finding No. 15: The Town did not appropriately manage its long-term debt by seeking to obtain more favorable terms.

THE TOWN WILL EVALUATE ITS EXISTING LONG-TERM DEBT ON A REGULAR BASIS AND ATTEMPT TO OBTAIN MORE FAVORABLE TERMS BASED ON THE THEN-EXISTING MARKET CONDITIONS.

Finding No. 16: The Town advance-paid interest on a \$1,261,000 loan, and did not strictly adhere to the payment terms set forth in the loan document.

THE TOWN WILL REVIEW THE PAYMENT HISTORY FOR THE \$1,261,000 LOAN FOR COMPLIANCE WITH THE TERMS OF THE LOAN. TO THE EXTENT POSSIBLE, THE TOWN WILL CLASSIFY ANY PAYMENTS IN EXCESS OF THE REQUIRED INTEREST PAYMENTS AS PREPAYMENTS OF PRINCIPAL. IN THE FUTURE, THE TOWN WILL EVALUATE THE AVAILABILITY OF FUNDS AND THE POTENTIAL FOR PREPAYMENT OF PRINCIPAL.

Finding No. 17: The Town could not demonstrate that it expended moneys received for local option and municipal fuel taxes in accordance with specific provisions in law.

THE TOWN WILL ESTABLISH GUIDELINES FOR ENSURING THAT LOCAL OPTION AND MUNICIPAL FUEL TAXES ARE SPENT IN COMPLIANCE WITH SPECIFIC PROVISIONS OF THE LAW.

Finding No. 18: The Town lacked adequate controls over receipting, recording, securing, and timely processing cash collections.

THE TOWN WILL ESTABLISH POLICIES FOR THE PROPER PROCESSING OF CASH COLLECTIONS. CURRENTLY, BATCHES ARE CLOSED DAILY FOR EACH TERMINAL AND STORED IN A BINDER SEQUENTIALLY. DEPOSITS ARE COMPILED PER BATCH AND THE CANCELLED DEPOSIT SLIPS ARE ATTACHED TO EACH BATCH. ANY OVERAGES OR SHORTAGES ARE RECORDED ON THE BATCH PAPERWORK AND JOURNAL VOUCHER NUMBERS ARE RECORDED.

Finding No. 19: The Town did not reconcile the accounts receivable accounts to its subsidiary records, or enforce its collection procedures for past due accounts.

THE TOWN IS IN THE PROCESS OF RECONCILING ITS ACCOUNTS RECEIVABLE AS A PART OF FURTHER TRAINING ON ITS COMPUTER SOFTWARE. THE TOWN WILL REVIEW AND IMPLEMENT ITS COLLECTION PROCEDURE FOR PAST DUE ACCOUNTS.

Finding No. 20: The Town did not amend its Resolution No. 2003-9 to officially set water rates at amounts currently being charged pursuant to the bond agreement.

THE TOWN WILL AMEND RESOLUTION NO. 2003-09 TO OFFICIALLY SET WATER RATES AT AMOUNTS CURRENTLY BEING CHARGED PURSUANT TO THE BOND AGREEMENT.

Finding No. 21: The Town charged twice the amount allowed under Ordinance No. 267 for water reconnection fees, and did not charge reconnection fees to business customers.

THE TOWN WILL REVIEW ORDINANCE NO. 267 AND ITS CURRENT FEE SCHEDULE AND IF APPROPRIATE, AMEND THE ORDINANCE.

Finding No. 22: The Town did not reconcile its water and sewer deposit liability accounts to the water and sewer deposit bank accounts, or maintain subsidiary records of customer deposits.

THE TOWN WILL RECONCILE ITS WATER AND SEWER DEPOSIT LIABILITY ACCOUNTS TO THE WATER AND SEWER DEPOSIT BANK ACCOUNTS AND MAINTAIN SUBSIDIARY RECORDS OF CUSTOMER DEPOSITS.

Finding No. 23: The Town did not implement or enforce all requirements of Ordinance No. 317 regarding garbage franchise fees.

THE TOWN IS REVIEWING ORDINANCE NO. 317 TO DETERMINE THE APPROPRIATE GARBAGE FRANCHISE FEES TO BE CHARGED. ONCE THE FEES ARE FINALLY DETERMINED, THE REQUIREMENTS OF DETERMINING AND COLLECTING THE APPROPRIATE FEES WILL BE IMPLEMENTED.

Finding No. 24: The Town was inconsistent in its methodology used to record occupational licenses issued, did not use prenumbered license forms, and did not ensure that fictitious name registrations were

on file for all licensees.

IN THE FUTURE, THE TOWN WILL USE CONSISTENT METHODOLOGY ON ISSUING OCCUPATIONAL LICENSES, FIRST DETERMINING IF THE NAME OF THE BUSINESS IS A FICITIOUS NAME AND IF SO, THEN REQUIRING A REGISTRATION FORM.

Finding No. 25: The Town did not use prenumbered forms for permits or plat review applications and was not able to demonstrate that all permit and review activity was accounted for.

THE TOWN IS IN THE PROCESS OF HIRING A PLANNER TO ADDRESS DEVELOPMENT TO BE RESPONSIBLE FOR THE PROPER DOCUMENTAION OF AND ACCOUNTING FOR DEVELOPMENT PERMITS. THE TOWN WILL INVESTIGATE THE USE OF SPECIFIC FORMS FOR ISSUING PERMITS.

Finding No. 26: The Town had no officially adopted position descriptions, minimum requirements or pay grade or range for its staff; and did not adequately document, verify, or maintain information about applicants or new hires.

THE TOWN COMMISSION IS CONDUCTING WORKSHOPS/MEETINGS TO ADDRESS POSITION DESCRIPTIONS. THE TOWN IS IN THE PROCESS OF ESTABLISHING A POLICY REQUIRING ALL PROSPECTIVE JOB APPLICANTS TO UNDERGO BACKGROUND INVESTIGATIONS PRIOR TO HIRE. THE TOWN ALSO ESTABLISH MINIMUM REQUIREMENTS, PAY GRADES AND RANGES.

Finding No. 27: Contrary to Section 409.2576, Florida Statutes, the Town did not report each new, or rehired, employee to the State Directory of New Hires.

ALL NEW HIRES ARE NOW REPORTED IN A TIMELY MANNER FOLLOWING THEIR START DATE VIA THE FLORIDA NEW HIRE REPORTING CENTER WEBSITE.



Finding No. 28: The Town did not pay the Mayor and Commissioners as employees, pursuant to Section 3401 of the Internal Revenue Code, and Chapter 4 of Internal Revenue Service Publication 963.

THE MAYOR AND COMMISSIONERS ARE NOW BEING PAID AS EMPLOYEES. THE TOWN IS INVESTIGATING ITS RESPONSIBILITIES FOR PROPER TAX REPORTING ON PREVIOUS PAYMENTS.

Finding No. 29: It appears that the Town did not submit wage reporting Forms W-2 and W-3 for the 2004 calendar year to the Social Security Administration.

W-2S AND W-3 FORMS FOR 2004 WILL BE RECONSTRUCTED/REPRINTED AND SUBMITTED TO THE SOCIAL SECURITY ADMINISTRATION.

Finding No. 30: The Town had incomplete purchase orders; had purchase orders that predated the invoices; and paid numerous expenditures that lacked adequate supporting documentation or authorization. In addition, the Town did not solicit bids for one purchase in excess of \$1,000, contrary to Ordinance No. 90.

PURCHASE ORDERS ARE NOW ISSUED THROUGH THE ENCUMBRANCE SYSTEM IN THE FINANCIAL SOFTWARE WITH THE NUMBERS BEING GENERATED SEQUENTIALLY BY THE SYSTEM. APPROVAL FOR EACH PURCHASE ORDERS IS OBTAINED FROM THE TOWN CLERK OR TOWN COMMISSION. ORDINANCE NO. 90 HAS BEEN AMENDED TO RAISE THE PURCHASING LIMIT WITHOUT BIDS TO \$10,000.

Finding No. 31: The Town paid for employee Christmas bonuses for which it did not clearly document that a public purpose was served or that the expenditures were legally authorized or benefited the Town.

WHILE THE AUTHORIZATION FOR AND BENEFIT TO THE TOWN OF CHRISTMAS BONUSES MAY NOT HAVE BEEN EXPLICITLY ESTABLISHED, SUCH BONUSES WERE AUTHORIZED AND DID BENEFIT THE TOWN BY KEEPING THE MORALE OF THE TOWN'S EMPLOYEES HIGH. IN THE FUTURE, CHRISTMAS BONUSES SHOULD BE DONE BY MOTION AT A COMMISSION MEETING WITH A RECITATION CONCERNING THE BENEFIT TO THE TOWN.

Finding No. 32: The Town had not included the value of cellular telephone services that were not substantiated as business use in income reported for employees with cellular telephones to the Internal Revenue Service. In addition, the Town did not have policies and procedures for cellular telephone usage by employees; did not ensure that all telecommunication charges paid were authorized or served a public purpose; did not require employees to reimburse the Town for personal calls; and incurred late fees and interest charges for untimely payments to its service providers.

THE TOWN WILL ESTABLISH A POLICY CONCERNING THE USE OF CELLULAR TELEPHONES AND REQUIRING ALL PERSONAL USE OF A TOWN FURNISHED CELLULAR PHONE TO BE DOCUMENTED IN A LOG MAINTAINED BY THE EMPLOYEE. THE LOGS WILL BE REVIEWED PERIODICALLY AND ANY PERSONAL USE MUST BE REIMBURSED TO THE TOWN BY THE APPROPRIATE EMPLOYEE. FUTURE PAYMENTS OF CELLULAR PHONE BILLS WILL BE MADE TO AVOID ANY INTEREST CHARGES.

Finding No. 33: The Town paid taxes on telephone billings from which it was exempt.

BELLSOUTH HAS BEEN CONTACTED AND AN EXEMPTION CERTIFICATE WILL BE SUPPLIED.

Finding No. 34: The Town did not maintain copies of all cellular telephone agreements and, thus, did not ensure billing amounts were in accordance with the terms of the agreements.

THE TOWN HAS REQUESTED COPIES OF ALL CELLULAR TELEPHONE AGREEMENTS AND WILL ENSURE BILLING AMOUNTS ARE IN ACCORDANCE WITH THE TERMS OF THOSE AGREEMENTS.

Finding No. 35: The Town did not restrict access to the postage meter, and did not reconcile the usage logged to the amount remaining in the meter and the amount of postage drafted from the Town's bank account.

THE TOWN IS IN THE PROCESS OF OBTAINING A POSTAGE METER WITH RESTRICTED USER ACCESS AND ACCOUNTING FOR UP TO 10 DEPARTMENTS TO ENABLE MORE ACCURATE RECONCILIATION WITH THE POSTAGE METER LOG.

Finding No. 36: The Town did not have an adopted travel policy; did not require sufficient documentation in support of travel expenditures, and did not always adhere to the requirements of Chapter 112.061, Florida Statutes.

THE TOWN WILL ADOPT A TRAVEL POLICY, REQUIRE DOCUMENTATION OF TRAVEL EXPENDITURES AND ADHERE TO SECTION 112.061 OF THE FLORIDA STATUTES.

Finding No. 37: The Town did not comply with Section 218.391, Florida Statutes, and Ordinance No. 90 when acquiring certain professional services, did not always enter into written contracts for services, and did not properly monitor contracts for services to ensure contractors performed in accordance with terms of the contract.

THE TOWN RECENTLY WENT THROUGH THE AUDITOR SELECTION PROCEDURES OF SECTION 218.391 OF THE FLORIDA STATUTES IN SELECTING A NEW AUDITOR. THE TOWN WILL AGREE UPON A CONTRACT TO BE SIGNED BY THE MAYOR.

Finding No. 38: The Town did not require the use of vehicle maintenance or usage logs.

THE TOWN WILL REQUIRE MAINTENANCE OR USAGE LOGS FOR ALL VEHICLES.

Finding No. 39: The Town had no written policies and procedures for the assignment of vehicles on a 24 hour basis, and did not report personal usage to the Internal Revenue Service.

THE TOWN IS REVIEWING ITS POLICY FOR THE ASSIGNMENT OF VEHICLES ON A 24 BASIS. THE TOWN IS EVALUATING WHAT IS REQUIRED TO REPORT PREVIOUS PERSONAL USAGE OF TOWN VEHICLES.

Finding No. 40: The Town did not comply with Section 100.361, Florida Statutes, governing the appointment of commission members during recall proceedings in 2002.

THE TOWN WILL COMPLY WITH SECTION 100.361 OF THE FLORIDA STATUTES IN THE FUTURE.

Finding No. 41: Contrary to the Town's personnel policy and Section 112.313(3), Florida Statutes, the Town contracted with an employee to provide cleaning services to the Town.

THE TOWN WILL ADHERE TO ITS PERSONNEL POLICY AND SECTION 112.313(3), FLORIDA STATUTES. THE TOWN WILL NOT CONTRACT WITH AN EMPLOYEE TO PROVIDE CLEANING SERVICES TO THE TOWN.

Finding No. 42: The Town did not timely transcribe, review, or approve all commission meeting minutes.

THE TOWN HAS ASSIGNED STAFF TO TIMELY TRANSCRIBE ALL COMMISSION MEETING MINUTES. UPON TRANSCRIPTION, THE

COMMISSION WILL REVIEW AND APPROVE ALL COMMISSION MEETING MINUTES.

Finding No. 43: The Town held an emergency meeting but did not adhere to the provisions of the Florida Statutes regarding emergency meetings.

THE TOWN WILL ADHERE TO THE PROVISIONS OF THE FLORIDA STATUTES WHEN HOLDING EMERGENCY MEETINGS.

Finding No. 44: The Town did not properly maintain, preserve, or account for all of its resolutions and ordinances.

THE TOWN WILL MAINTAIN, PRESERVE, AND ACCOUNT FOR ALL FUTURE RESOLUTIONS AND ORDINANCES. ALTHOUGH NOT REQUIRED FOR EVERY ORDINANCE, ALL ORDINANCES WILL BE RECORDED IN THE PUBLIC RECORDS OF BAY COUNTY, FLORIDA.

Finding No. 45: One commission member refrained from voting at a commission meeting, apparently contrary to Section 286.012, Florida Statutes.

THE TOWN WILL ADHERE TO THE PROVISIONS OF SECTION 286.012 OF THE FLORIDA STATUTES.



Finding No. 46: The Town did not timely adopt or submit all of its comprehensive or small scale plan amendments, contrary to Section 163.3184(7)(a), Florida Statutes, and Department of Community Affairs Rule 9J-11.011(3), Florida Administrative Code.

THE TOWN WILL ADHERE TO THE PROVISIONS OF SECTION 163.3184(7)(A) OF THE FLORIDA STATUTES.

If you have any questions, please do not hesitate to contact me.

Sincerely,



Nathan Lisenby, Mayor