AUDITOR GENERAL

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CITY OF RIVIERA BEACH, FLORIDA

AND

RIVIERA BEACH COMMUNITY REDEVELOPMENT AGENCY

Operational Audit

For the Period October 1, 2004, Through November 30, 2005,

And Selected Actions Taken Prior and Subsequent Thereto

CITY OF RIVIERA BEACH, FLORIDA
AND
RIVIERA BEACH COMMUNITY REDEVELOPMENT AGENCY

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SUMMARY OF FINDINGS

The results of our operational audit of the City of Riviera Beach and the Riviera Beach Community Redevelopment Agency are as follows:

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Finding No. 2: The City's cash collection procedures could be improved.

Finding No. 3: The City had not established adequate controls over tangible personal property.

Finding No. 4: The City exceeded its budgets for the 2005 and 2006 Jazz and Blues Festival by $120,452 and $383,736, respectively, and had not remitted sales tax relating to the Festival to the Florida Department of Revenue.

Finding No. 5: The City did not invoice the tenant leasing space at the City Marina in accordance with the lease agreement. Additionally, reductions to the rental fees charged to the tenant for lunches charged at the tenant's restaurant, purchases at the tenant's ship's store, and various other items were not documented by invoices or receipts supporting the public purpose served.

Finding No. 6: The City did not have written policies and procedures regarding the authorization and documentation requirements for granting complimentary admissions to the City's Barracuda Bay Aquatic Complex. Complimentary admissions were granted during the school spring break week in 2005 based on a directive that indicated the Mayor agreed to pay the admission fees. However, as of April 2006, the Mayor had not paid and had disputed the amount due.

Finding No. 7: Procurement card transactions were not always authorized by City policy, approved by supervisory personnel, supported by receipts, documented as to the public purpose served, or within transaction limits set by City policy. Additionally, the City could not provide documentation that a refund was received for a purchased item returned, and bids were not always obtained when required by City Ordinance.

Finding No. 8: The City used outside law firms to alleviate the City Attorney's workload; however, it may have been more cost effective to hire an additional attorney. Also, payments to outside law firms for out-of-pocket expenses were not always supported by receipts, payment approvals were not always documented, and the City paid for the same services twice.

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Finding No. 12: Contrary to Section 112.313, Florida Statutes, the City contracted with a member of one of its advisory boards to provide grant coordination services.

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Finding No. 14: The CRA expended approximately $5.6 million dollars from October 2002 to November 2005 for various consulting and professional services without an agreement with a Master Developer and without accomplishing the projects outlined in the 2001 CRA Plan.

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Finding No. 17: The CRA did not have written policies and procedures for debt issuance providing for a determination as to the amount of financing needed, timing of the needed funds, or availability of financing options. The CRA issued bond anticipation notes without a detailed written plan indicating the purpose of the issuance and how the proceeds would be used. The proceeds of the bond anticipation notes were commingled with the CRA's tax increment funding and other revenues, and a majority of the funds were not used in accordance with the 2001 CRA Plan.

Finding No. 18: Expenditures of the CRA were not always supported by receipts or invoices to document that the transactions were valid, served a public purpose, and were in accordance with the CRA Plan. Payments for contractual services were not always supported by invoices detailing the services rendered, were not always in accordance with the written agreement, and one consultant was reimbursed twice for the same expenses.

Finding No. 19: CRA Board approval was not provided for some consulting services contracts and some contracts did not contain clearly defined deliverables or total contract costs. For one consulting firm, the CRA paid $849,042 in excess of the CRA Board-approved Work Order and the CRA could not provide documentation to evidence that the tasks outlined in the Work Order had been received. The CRA did not provide a cost/benefit analysis demonstrating that the outsourcing of functions performed by the firm was more cost effective than using CRA employees. In resolving disputed claims from one consultant through the legal process, the CRA spent $150,077 more than the disputed amounts.

Finding No. 20: The CRA leased more office space than it required, although some space was subleased to one of the CRA's consultants. In total, the CRA paid $84,235 for office space not utilized or subleased from May 2001 to May 2006. The agreement for the subleased space extended beyond the lease period between the CRA and the landlord and, as of October 2, 2006, the sublessee owed the CRA $32,180 in sublease payments. In addition, the CRA did not provide documentation of sales tax collected or remitted for the sublease payments.

Finding No. 21: The former CRA Executive Director was employed without the benefit of a written agreement clearly documenting the terms and conditions of his employment. Further, the CRA did not provide documentation of CRA Board approval of his compensation for part of the period of his employment. Finally, the CRA treated his compensation as though he were an independent contractor rather than an employee, possibly contrary to the Internal Revenue Code.

Finding No. 22: The CRA's written agreement with its financial institution did not include restrictions as to where funds in CRA bank accounts could be transferred. Also, the CRA provided for only a single-control procedure in which fund transfers could be made and approved by the same individual.

Finding No. 23: The CRA did not implement all recommendations made by the Financial Review Advisory Committee in its December 2004 report.

Finding No. 24: The CRA did not require the Executive Director to maintain a vehicle log for the CRA-provided vehicle assigned to him to demonstrate the vehicle usage served primarily a public purpose and to document and calculate the amount of taxable income that should be subjected to employment taxes and reported to the Internal Revenue Service.

Finding No. 25: The CRA's report of activities for the 2003-04 fiscal year consisted only of its audited financial statements and did not include a description of activities, contrary to law.

This audit was conducted by Ilene R. Gayle, 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 or by telephone at (850) 487-9031.

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FINDINGS AND RECOMMENDATIONS

CITY OF RIVIERA BEACH

General Management Controls

Finding No. 1: Written Policies and Procedures

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

Our review of City operations disclosed that, except for procurement policies and procedures, the City did not have written policies and procedures formally adopted by the City Council for its accounting and other business-related functions. Rather, City department heads established and maintained written operating policies and procedures. A comprehensive operating policies and procedures manual would provide additional controls to clearly define responsibilities of each department and would help to identify and resolve any overlapping functions or inconsistencies between departments. These policies and procedures should be made available to all staff and be periodically updated.

In addition, the City had not established policies and procedures to set reasonable limitations as to the type, purpose, and amount of promotional activities to ensure that expenses were incurred only for those activities that benefit the City. The City had been relying on the budget process to limit expenditures relating to promotional activities. During the 2004-05 fiscal year, the City spent $86,887 on such activities as luncheons, gift cards, food, jackets for Council members, and other miscellaneous items. Without limitations on these activities, there is an increased risk that City funds will be used for personal items without timely detection.

Recommendation: The City Council should adopt comprehensive written operating policies and procedures and ensure that such policies and procedures address promotional activities as well as the instances of noncompliance and management control deficiencies discussed in this report.

Finding No. 2: Cash Collection Controls

The City maintains various cash collection points. During the audit period, we reviewed collection procedures for the following departments: Building and Inspections, Parks and Recreation, and Occupational License, as well as the Jazz Festival event. Collections for these collection points during the 2004-05 fiscal year were $11,426,121, $110,757, $466,237, and $315,751, respectively. Our review of collections at these locations disclosed the following:

Building and Inspection Department. Mail receipts were not recorded by the mail opener prior to transfer to the cashier, transfers of collections were not documented by signed transfer forms, and reconciliations of fees collected to permits issued were not performed.

Parks and Recreation Department. Deposits of collections were not reconciled to daily receipts logs by individuals that were not responsible for collecting the fees. Collections received in the mail were not recorded by the mail opener prior to transfer to the cashier, and transfers were not documented by transfer forms.

Jazz Festival. A Ticket Accountability Form was used to document the number of tickets provided to a seller, the number of tickets sold, amounts collected, and tickets returned. Collections were not verified by individuals independent of ticket sales, and tickets sold and issued were not reconciled to amounts collected and unsold tickets returned. For the nine Jazz Festival ticket sales tested, we noted that the Ticket Accountability Form was either not available or was not properly completed and signed. In addition, we were unable to reconcile a ticket number to the receipt number for four ticket sales. The lack of accountability over tickets increases the risk that collections may be misappropriated and not be detected in a timely manner.

Occupational Licenses Department. Access to collections should be limited and fixed to one person from the time of receipt to deposit to provide accountability should a loss occur. We noted that two employees had access to, and processed transactions from, the same cash register drawer.

Without adequate monitoring procedures over collection activities, the City cannot be assured that all moneys collected have been properly recorded and deposited in the City's accounts.

Recommendation: The City should implement procedures for documenting receipts received by mail and transferred among employees; reconcile deposit amounts to daily receipts logs and tickets sold; account for all tickets issued; and provide separate cash drawers or close-out procedures, by employee, for instances in which more than one employee uses the same cash drawer.

Fixed Assets

Finding No. 3: Tangible Personal Property

City-owned furniture, fixtures, and equipment (tangible personal property) totaled $8,763,239 according to the City's property records as of February 15, 2006. To ensure proper accountability and safeguarding of tangible personal property, the City should maintain an adequate record of each property item. Our test of 30 tangible personal property acquisitions and 10 disposals disclosed the following:

- ***Physical Inventory***. Effective internal control dictates that a complete physical inventory of tangible personal property shall be taken periodically (e.g., annually) and such inventory should be taken by an individual other than the custodian of the property. We noted that for the 2004-05 fiscal year, the Finance Department sent out requests to each department to verify the accuracy of the department's property records and notify the Finance Department of any necessary additions or deletions. However, there was no documentation to support that a physical inventory was conducted or to identify employees that conducted the physical inventory.

- ***Property Tags***. During the audit period, the City purchased 26 items, costing $575,417, which were not tagged or marked as property of the City. In addition, we noted that 8 computers, valued at $18,051, had been donated to the City's library were not properly tagged.

- ***Property Records***. The City's tangible personal property records were not timely updated for 13 purchases, totaling $164,423, or for 10 property items, totaling $135,647, that the City had disposed of. The purchases were made between April 18, 2005, and September 29, 2005, and were not included on the property records at January 19, 2006. Subsequent to our inquiry, 12 items were recorded in the

property records as of February 15, 2006. The 10 items were disposed of prior to or during the 2004-05 fiscal year; however, they were not removed from the property records until March 2006 (six months after the fiscal year end).

- ***Reconciliation of Property Records***. The City had not reconciled the subsidiary property records to the control accounts at fiscal year end for the 2003-04 and 2004-05 fiscal years and we noted differences between the subsidiary property records and the control accounts. For example, equipment totaled $15,716,783 in the subsidiary property records, and $9,073,929 in the control accounts as of September 30, 2005, a difference of $6,642,854. The property subsidiary records included items with a cost of $1,000 or more; however, for financial reporting purposes, only items with a cost of $10,000 or more were capitalized. The City only reconciled the physical inventory of items costing $10,000 or more to the property records. While the differences we noted were due, in part, to the fact that items costing less than $10,000 were not recorded in the accounting records, this may not explain all differences noted.

- ***Property Disposals***. Although requested, the City did not provide documentation evidencing the proper disposition of three property items valued at $14,221. Forms used by the City to document the authority and reason for the disposals lacked information such as when and how the item was disposed, who was responsible for the disposal, and who witnessed the disposal. In addition, no policies and procedures were in place requiring Council approval for property disposals. Department heads were responsible for approving disposals; notifying the Risk Manager of lost, stolen, or damaged property; and notifying the Finance Department of all disposals or transfers of property.

- ***Use of Property***. We noted that the City's Police Department received a donation of $9,330 from the American Heart Association to purchase four cardiac science Automated External Defibrillators (AEDs) and train forty people in November 2004. The AEDs were ordered in February 2005 and paid for in April 2005. According to Resolution No. 2-05, adopted January 5, 2005, the AEDs were to be deployed in the Police Department's patrol vehicles upon completion of the training. According to the City's records, a total of 114 City employees received AED training in September 2005; however, only one of these employees worked in the Police Department. Further, as of March 2006, this equipment was in storage and had not been placed in patrol cars to be put into use as intended by the donor.

- ***Accountability for Property***. Procedures to account for football equipment used in the City's youth football league during the 2005 season were not adequate to ensure that equipment was promptly returned to the City at the end of the season. Coaches were asked to complete a form to sign equipment out and in for their teams. We requested the completed forms for the 2005 football season and, in response, the City provided one form from a coach that signed to receive 50 uniforms, but only returned 2 uniforms. In addition, when we requested to inspect the equipment in March 2006, City personnel indicated that they were still in the process of retrieving equipment from the 2005 season, which ended in December 2005. As a result, we were unable to verify that the City was in possession of all of the equipment.

The deficiencies noted above increase the possibility that errors or loss of property could occur and not be detected in a timely manner.

Recommendation: The City should implement procedures to ensure that the tangible personal property records are timely updated, properly reconciled to the accounting records, and documentation is retained to evidence the conduct of the annual physical inventory, including the persons that conducted the inventory, and the authority, date, and method of disposition of disposed items. The City should also ensure that all tangible personal property is marked as City property with an identifying number. Further, the City should ensure that items purchased are put to use promptly upon receipt. Finally, the City should ensure that City-owned football equipment is promptly returned at the end of each season.

Revenues

The City's audited financial statements for the 2004-05 fiscal year reported operating revenues from all sources, excluding the City of Riviera Beach Utility Special District and Riviera Beach Community Redevelopment Agency, of approximately $57,338,958. City revenues included taxes (approximately $31,205,899), licenses and permits (approximately $3,020,691), and charges for services (approximately $11,459,651). The City also received revenue from other sources such as State and local grants, State revenue-sharing, fines and forfeitures, investment earnings, and various other miscellaneous sources.

Finding No. 4: Jazz and Blues Festival

Since 2001, the City has held an annual Jazz and Blues Festival event. The 2005 and 2006 events were held at a municipal beach and tickets were sold to the public to attend the event. Revenues were also generated by corporate and private sponsorships, vendor and concession fees, souvenir sales, and parking fees. These revenues were used to offset the cost of the event, and the City was responsible for providing funds necessary to eliminate deficits resulting from the event. Expenditures for the event included: event salaries and overtime; professional entertainment; security; travel; stage, sound and lighting support; advertising and marketing; and operating supplies. Our review of transactions related to the event disclosed the following:

- According to the City's records for the 2005 event, revenues totaled $315,751 while expenditures totaled $436,203, resulting in expenditures exceeding revenues by $120,452. For the 2006 event, according to City staff, revenues totaled $287,503 and expenditures totaled $1,055,988 for the 2006 event, resulting in expenditures exceeding revenues by $768,485. Although the funding source was not indicated in the 2005 Council-approved event budget, the 2006 Council-approved event budget indicated that anticipated revenues from ticket and vendor sales, parking fees, and sponsorships were projected to cover the budgeted expenditures. The City funded the deficits for the 2005 and 2006 events from its general fund; however, continued use of general fund resources to subsidize this event could adversely impact moneys earmarked for other expenditures or unreserved fund balance in the general fund.

- The City Council approved budgets of $415,000 and $660,000 for the 2005 and 2006 events, respectively. However, actual expenditures exceeded budgeted expenditures by $21,203 and $395,988 for the 2005 and 2006 events, respectively. The majority of the overexpenditures for the 2006 event were for the professional services – entertainment category which was budgeted for $225,000 and for which $608,736 was expended, resulting in an overexpenditure of $383,736.

- We noted that the City had not remitted sales tax to the Florida Department of Revenue (FDOR) relating to the ticket sales, parking fees, vendor fees, and souvenir sales for the past five years. Upon audit inquiry, the City calculated and remitted the sales tax and interest, totaling $28,460, owed relating

to event collections. The FDOR waived the $12,250 in penalties due to the City's voluntary payment of the previously unremitted sales tax.

Recommendation: The City should enhance procedures to ensure that revenue estimates are reasonable, event expenditures do not exceed amounts budgeted, and sales tax is remitted on all applicable collections.

Finding No. 5: Marina Rental Collections

The City operated a marina on the Atlantic Intracoastal Waterway. The marina provided facilities for boat dockage, fuel, a ship's store, and a restaurant, which were operated by either the City or private entities. The City Council adopted Resolution No. 186-03, on September 3, 2003, authorizing the Mayor and City Clerk to execute an agreement with a vendor to operate the restaurant facility at the City's marina. The lease agreement, dated September 3, 2003, and expired on December 31, 2004, required rental payments of $2,500 plus utility fees of $500, for a total monthly payment of $3,000, with a provision that the tenant could rent boat slips in addition to the two free slips included in the lease. On December 15, 2004, a new 36-month lease was executed whereby the monthly rental was increased to $2,550, beginning January 2005, with an escalation clause providing for annual increases in rent beginning January 2006. The agreement also provided that the tenant would pay $800 monthly for utilities and that the tenant could rent boat slips at $600 per month in addition to the one free slip included in the lease. Our review of the City's records disclosed the following:

- According to monthly invoices, the tenant chose to lease one boat slip in addition to the slips included in the lease. Therefore, for the 2005 calendar year, lease payments of $3,950 ($2,550 base rent + $800 utilities + $600 slip fees) were due to the City. However, the City invoiced the tenant for only $2,500 for base rent during the 2005 calendar year. Beginning January 2006, the base rent was scheduled to be increased by the greater of two percent or the consumer price index. As the consumer price index was less than two percent, the base rent should have been charged at $2,601. However, the City increased the base rent to $2,637 for the 2006 calendar year. Although requested, the City did not provide documentation to support the basis of the base rent charged. For the period January 2005 through August 2006, the City billed the tenant a total of $78,312 for base rent, utilities, and slip fees, whereas the total that should have been billed according to the lease agreement was $79,408, a difference of $1,096. For that period, the City overcharged for base rent by $391, and undercharged for utilities and slip fees by $366 and $1,121, respectively.

- From January 2004 through June 2004, the City reduced rental fees charged to the tenant by a total of $1,042 for lunches charged at the tenant's restaurant. In response to our inquiry regarding purpose of the reduction in fees charged the lessee, the Marina Director stated that "…I believe most were lunch meetings hosted by the City for planning and implementing the City's Carnival and Jazz 2004 celebration." However, we were not provided documentation of the individuals who attended these meetings, the descriptions and costs of the items provided, or the public purpose served. In addition, our review of the lease agreement did not disclose any provisions for a reduction in the monthly payment for the cost of providing food and beverage for City business functions held at the restaurant.

- From April through September 2005, the City reduced rental fees charged to the tenant by a total of $5,999 as follows: $2,972 for "ship store charges," $586 for "cleaning service," $250 for "13th Southside Cleanup," $100 for "Newcomb Bathrooms," and $2,090 for invoices received from the tenant.

Although requested, we were not provided with documentation to support these reductions or the public purpose served. According to the lease agreement, the ship store's operations include sale of canned foods, limited boating maintenance and repair supplies, boating and water sports supplies and equipment, tobacco products, toiletries, laundry supplies, fishing supplies, ice, wearing apparel, sunglasses, suntan lotions, and may include alcoholic beverages. It is not apparent why charges to the ship store would be relevant to City operations and the City did not provide explanations for the charges.

Recommendation: The City should establish procedures to ensure that invoices to the tenant are in accordance with the lease agreement. Further, invoices for charges to the tenant's operations should be separately paid, provided the charges are supported by documentation of the public purpose served.

Finding No. 6: Barracuda Bay Aquatic Complex Admission Fees

The City provided recreation and leisure activities to the public through the Parks and Recreation Department (PRD). The PRD was responsible for maintaining and operating the City's parks, beaches, recreation and community centers, including the Barracuda Bay Aquatic Complex (BBAC). Fees for the various programs and services offered at these locations were established by the City Council.

On July 2, 2003, the City Council adopted an admission fee of three dollars for the BBAC. On March 22, 2005, the PRD received a directive from the City Manager's Office, communicating the Mayor's request to allow free admissions to the BBAC through the school spring break, scheduled for March 22, 2005, through March 27, 2005, and indicating that the Mayor had agreed to pay the admissions during that period. The PRD followed this directive, recorded admissions for the period March 23 through March 27, 2005, and delivered a letter, dated April 7, 2005, to the City Manager with an invoice in the amount of $5,559 prepared for the Mayor. Subsequently, the City Manager's Office issued a letter, dated April 26, 2005, to the Mayor requesting payment of the invoice. A memorandum from the City Attorney, dated August 18, 2005, stated that the Mayor "requested additional information as to the calculation of the invoice amount, disputing the tallying of the sum of the invoice." As of April 2006, this issue was not resolved. Although we requested, we were not provided a response from the Mayor regarding this issue.

Recommendation: The City should establish written policies and procedures regarding the authorization and documentation required to support the issuance of complimentary admissions to City facilities, events, and activities. In addition, the Mayor, Parks and Recreation Director, City Manager, and City Attorney should resolve the dispute over the amount owed the City by the Mayor. Once the dispute is resolved, the Mayor should promptly reimburse the City for the agreed-upon amount.

Procurement of Goods and Services

Authority for City officials to expend moneys is set forth in various provisions of general or special law and in ordinances enacted by the City Council. Expenditures of public funds must be shown to be authorized by applicable law or ordinance; reasonable in the circumstances and necessary to the accomplishment of authorized purposes of the governmental unit; and in pursuit of a public, rather than a private, purpose. These limitations require City officials seeking to expend public funds to identify the authority relied upon for the contemplated expenditure and to adequately describe how the expenditure will further an authorized public purpose (see Attorney General Opinion No. 068-12).

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

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

Finding No. 7: Disbursements Processing

City Procurement Cards

During the 2004-05 fiscal year, the City provided bank-issued credit cards, or procurement cards (p-cards), to 42 employees. To provide guidance on the use of the p-cards, the City Council adopted Policy and Procedure Manual Number FP99-1, City of Riviera Beach Purchasing Card Manual. On January 4, 2006, the City Council adopted Resolution No. 5-06, repealing Policy and Procedure Manual Number FP99-1 and implementing Policy and Procedures Number PUR 05-02, City of Riviera Beach Procurement Credit Card Policies and Procedures Manual. For our audit procedures, Policy and Procedure Manual Number FP99-1 (Manual) was in effect.

According to the City's accounting records, 47 payments, totaling $235,707, were issued to the bank for p-card transactions during the audit period. The charges were for travel, food, equipment purchases, postal fees, and miscellaneous supplies, among others. Our test of 83 p-card purchases, totaling $31,273, disclosed the following:

- ***Unauthorized Purchases***. The Manual includes a listing of prohibited purchases such as gasoline (except for approved travel related to City business), auto repairs, food, and personal items. We noted 40 charges, totaling $7,305, for items that were included on this listing of prohibited items. Contrary to the Manual, the City had not requested reimbursements from the cardholders for the unauthorized purchases.

- ***Lack of Support for Public Purpose***. Fifty-six p-card charges, totaling $20,559, which included $7,926 for airfare, train fare, car rentals, gasoline, and lodging for which no travel vouchers or receipts were provided; $3,430 to restaurants and food supermarkets; $2,093 for repairs to a 1992 Lexus SC400 which was not listed on the City's property records as City-owned; $2,060 for gift cards to be used for raffles and prizes; $1,559 for various electronics (e.g., radios, digital cameras, musical instruments, personal digital assistant [or PDA]); $1,127 for clothing and alterations for the Mayor and City Council; $778 for supplies; $720 for sports equipment, primarily baseball equipment; $430 for oil changes; and $436 in other charges. Upon audit inquiry, we were provided explanations for many of these purchases; however, no documentation was provided to support the explanations and to establish the public purpose of the charges.

- ***Lack of Supervisory Approval***. The Manual requires cardholders to submit transaction receipts and a completed reconciliation report to the department head for approval. We noted 37 instances where the department head was both the cardholder and the approver. Therefore, no supervisory approval was obtained for these purchases. Neither the Manual nor Policy and Procedures Number PUR 05-02 addresses supervisory approval of department head p-card charges.

- ***Sales Tax not Excluded***. Although the City is exempt from paying State sales tax, we noted 15 purchases that included sales tax, totaling $190.

- ***Lack of Supporting Receipts***. Forty-four charges tested were not supported by detailed receipts. Of these charges, 17 were not supported by either a receipt or a completed "Missing Receipt Form" to document the item(s) purchased, amount(s), and signature of the cardholder. Additionally, 4 charges were supported by a summary receipt which only provided the total amount charged. "Missing Receipt Forms," prepared and signed by the cardholder, were the only support available for the remaining 23 charges; however, the forms did not include item descriptions or costs (including sales tax, shipping, etc.) that were included in the total.

- ***Transaction Limits Exceeded***. Our test disclosed 12 charges that exceeded the $749 transaction limit. These transactions ranged from $838 to $3,879, and represented charges for lodging for a City Council retreat, crime analyst equipment, gift cards, a digital video disc (DVD) player, Rapids Water Park admission (a privately owned park in West Palm Beach), car rentals, Miami Dolphins Tickets, grocery store purchases, and auto repairs.

The City Manager, in a prepared memorandum dated September 16, 2005, addressed to a Council member, stated that there were instances of unauthorized purchases with City-issued p-cards. The memorandum further stated that various unauthorized purchases, totaling $1,011, had been reimbursed to the City; however, we were provided evidence of reimbursements to the City totaling only $316.

Other Purchasing Transactions

- The City offered a program in the Fall of 2004 to provide interested residents the opportunity to attend Miami Dolphin's Football games for $60, which included transportation, a meal, and the ticket to the game. Miami Dolphins tickets were purchased by the Parks and Recreation Department Director at a total cost of $6,016 for 3 games, 47 tickets each game. Although requested, we were not provided documentation to support the revenues collected for this program, the number of actual participants, or transportation and meal costs. As such, the public purpose served by these expenditures was not established in the City's records.

- The Parks and Recreation Department Director purchased a projection television for "Dive In Movie" events at Barracuda Bay Aquatic Center. After it was determined that the projection television was not suitable for its intended purpose, arrangements were made with the vendor to exchange the projection television for a big screen television. Our review of the payment documentation indicated that the big screen television was $99 less than the projection television. Although requested, we were not provided documentation that the City received the appropriate refund relating to this exchange.

- During the August 5, 2005, Council meeting, Resolution No. 133-05 was adopted, authorizing the purchase of youth football equipment for $83,000. In August 2005, the City purchased $78,400 of football equipment, without obtaining bids. City Ordinance No. 2412 requires competitive bids be obtained for purchases exceeding $10,000. Upon inquiry, City personnel indicated that time was a factor and City purchasing policies allow for exemptions from the bid process as otherwise approved in public session by City Council. However, the City was aware since January 2005 that it would be administering the program. Therefore, it is not apparent why there would have been a time factor issue.

Recommendation: Procedures should be strengthened to ensure that procurement card transactions are in accordance with the written policies and procedures, such as retention of detailed invoices, adequate supervisory approval of all transactions, preparation and submission of documentation for lost or missing receipts, documentation of public purpose served, and timely reimbursement by cardholders when transactions were unauthorized. Procedures should also be strengthened to identify, and take corrective actions with respect to, those cardholders who consistently violate the City's established procurement card policies. The City should also ensure that refunds due on exchanges are collected and deposited into City bank accounts. Finally, for purchases exceeding $10,000, the City should obtain competitive bids as required by City Ordinance No. 2412.

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 agreements 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. 8: Payments for Outside Legal Services

During the audit period, expenses incurred for outside legal services totaled $216,067, excluding services relating to the Utility District. Such expenses included legal services for various cases that required special expertise or, due to workload, were necessary to assist the City Attorney. Although requested, we were not provided a response from the City Attorney regarding to what extent outside legal services were utilized for alleviating her workload.

We were provided written agreements with three law firms that document the purpose, hourly rates, terms, and conditions of the engagements. Terms of the agreements for all three firms provided that: law firm photocopies would be reimbursed at a rate of ten cents per page; the use of couriers or express mail required prior approval from the City Attorney; any travel, per diem, mileage, or meal expenses, which may be reimbursable, must be approved in advance by the City Attorney and paid in accordance with Section 112.061, Florida Statutes; and the City required copies of paid receipts, invoices, or other documentation acceptable to the City's Finance Department to support reimbursement requests.

Our review of five payments made to three law firms disclosed the following:

- Although the agreements required invoices to specify the number of photocopies for which reimbursement is sought, two firms did not provide this information for $453 of invoiced and paid photocopy reimbursements. In response to our inquiry, the City Attorney stated that as long as the amount invoiced is divisible by ten cents and the amount of copies appears reasonable, the invoice is approved for payment.
- Payment documentation maintained in the Finance Department's files did not always contain copies of paid receipts for reimbursable expenditures. Upon inquiry, the City Attorney indicated that if she has

knowledge of the case she does not always request the supporting documentation prior to approving payment, which is contrary to the written agreements. Subsequent to our inquiry, the City Attorney contacted the appropriate firms regarding the reimbursable items on the five invoices reviewed and provided us with the requested documentation.

- We noted two reimbursements for courier services for $23 and $31, respectively, included on two invoices received from a law firm. Although requested, we were not provided documentation of the City Attorney's approval prior to the use of these services, as required by the written agreement. In response, the City Attorney stated that many times these approvals are obtained via telephone or electronic mail and documentation is not maintained. Additionally, the City Attorney stated approval is also based on her first-hand knowledge of the cost and services to be provided.

- Our review of invoices disclosed two separate invoices from one law firm that covered the same services and dates. In response to our inquiry, City staff stated that an incorrect hourly rate was discovered when reviewing the first invoice and the law firm issued a second invoice to replace the first invoice. However, the City paid both invoices, resulting in an overpayment of $5,864.

Recommendation: Since the City uses outside legal services to alleviate the City Attorney's workload, the City should evaluate the extent to which this is necessary and consider whether it would be more cost effective to hire a second attorney. The City should enhance procedures relating to outside legal services to ensure prior approval is obtained for courier services billed, detailed invoices and supporting documentation are in accordance with written agreements prior to approval of invoices for payment, and to assure the City does not pay a firm for the same services twice. Finally, the City should seek reimbursement from the law firm regarding the overpayment.

Finding No. 9: Wells Recreation Center Repairs

Section 3-101 of City Ordinance No. 2412 requires all contracts exceeding $10,000, with certain exceptions, to be awarded by competitive sealed bids or as otherwise approved in public session by City Council. The Ordinance further requires public notice of the invitation to bid, the date of the public opening of bids, and bid evaluation and acceptance criteria. Section 3-106 of the Ordinance provides for the City Manager or designee to make, or authorize others to make, emergency purchases when there exists a threat to public health, welfare or safety, provided that such emergency procurements shall be made with such competition as is practicable under the circumstances and a written determination of the basis for the emergency is included in the contract file.

The City's Parks and Recreation Department maintains and operates the Wells Recreations Center (Center), which houses a gymnasium and a weight and fitness room. As a result of Hurricanes Frances and Jeanne that occurred on September 5, 2004, and September 26, 2004, respectively, the Center suffered damage to the gymnasium floor. The City's Risk Manager obtained two proposals to replace the gymnasium floor, dated November 4, 2004, and November 30, 2004, in the amounts of $202,675 and $119,965, respectively. The $119,965 proposal was selected by the Risk Manager to replace the floor, and was signed December 16, 2004.

During the floor replacement project, it was discovered that the new flooring was buckling due to window leaks. The flooring project was halted, and a window replacement contractor was sought. On October 19, 2005, the City Council adopted Resolution No. 185-05, authorizing window replacement agreements for the Center with two contracts in the amounts of $24,000 and $25,468. On October 24, 2005, Hurricane Wilma caused roof and floor damage to the Center. A proposal in the amount of $86,252 for roof repairs was approved by the City's Risk Manager on December 2, 2005. It is not apparent, of record, whether the roof repair proposal was

presented to the City Council for approval. A proposal, dated February 7, 2006, in the amount of $76,575, was received from the original floor replacement contractor. The proposal was signed by the City Risk Manager on February 8, 2006.

Although requested, we were not provided an explanation as to why the City did not follow competitive sealed bid procedures as outlined in Section 3-101 of City Ordinance 2412. Additionally, it was not apparent why the proposals accepted by City staff for the repairs to the floor and roof were not approved, of record, by the City Council. In response to our inquiry regarding the procurement of the window and flooring repairs, City staff indicated that the purchases were emergency purchases under Section 3-106 of City Ordinance No. 2412. However, the basis for the emergency was not included in the contract file. Based on the dates on which the Center sustained damage and the City approved proposals (39 and 81 days after the damage to the floor and roof occurred), it appears the City had sufficient time to utilize the competitive bidding process for all of the repairs.

Recommendation: The City should review its emergency purchasing procedures used during a declared state of emergency to ensure that purchases are necessary and prudent in order to protect City property and to prevent any further damage. Once the declared state of emergency is no longer in effect, the City should resume its normal purchasing procedures.

Follow-up to Management Response

In his response, the City Manager indicated that the City was unable to get representative bids for many construction jobs. However, we found no evidence that the City had attempted to obtain bids to replace the roof. Further, the City Manager stated that the window replacement project was contracted after a review of quotes, as allowed by Sections 3-101 and 3-106 of the City's Code of Ordinances. The point of our finding is that the City did not document the basis for foregoing the bid process and it appeared to have ample time to procure the window replacement through competitive bids.

Finding No. 10: Solid Waste and Recycling Services Contract

On September 17, 1997, the City executed an agreement with a contractor to provide solid waste and recycling services to its citizens for the period September 17, 1997, to September 30, 2000. On August 2, 2000, the term of the contract was extended through September 30, 2005. On October 5, 2005, Resolution No. 177-05 was adopted by the City Council, authorizing the City Manager to extend the agreement for an additional six-month period, ending March 31, 2006. On July 5, 2006, the City Council authorized City staff to negotiate with the same contractor and schedule a workshop. As a result, the City's solid waste and recycling services have been operating without an executed agreement since March 31, 2006. Further, according to City staff, the City has not competitively bid these services since 1993.

Recommendation: The City Council should, prior to executing a new contract for these services, use a competitive selection process to select the contractor for solid waste and recycling services.

Finding No. 11: Youth Football Program

As a matter of good business practice, partnership or collaboration arrangements between two organizations should be evidenced by written agreements embodying all provisions and conditions of such arrangements. The use of a formal written contract protects the interests of the City, identifies the responsibilities of both parties, defines the services to be performed by each party, and provides a basis for payment if applicable.

The City entered into a partnership with the Riviera Beach Youth Football League (League) to run the City's youth football program for the 2003 season; however, this arrangement was not documented in a written

agreement. On May 19, 2004, the City Council authorized, by Resolution No. 91-04, the Mayor and City Clerk to execute an agreement with League for two years. A written agreement, with an expiration date of December 30, 2005, was executed and signed by both parties. The agreement identified certain responsibilities and duties of both parties regarding maintenance and use of the fields, insurance coverage for the players, transportation, staffing, utilities, and concessions. However, the agreement did not address responsibility for football equipment.

Our review of the contractual arrangement and other City activities related to the youth football program disclosed the following:

- From the 2001 through 2003 fiscal years, the City expended $37,758 on youth football equipment. In response to our inquiry, the City Manager indicated that both the City and a League representative had purchased equipment utilized by the League, and the City allowed the League to use City football equipment; however, the City could not provide documentation to evidence the transfer of responsibility for the equipment from the City to the League. According to City staff, at the end of the 2004 football season, the City allowed the League representative to take the equipment to be refurbished, which was done at the end of each season, but no equipment was returned to the City.
- The City Council agreed, during its January 5, 2005, meeting, to terminate the agreement with the League; however, the Notice of Termination letter was dated June 14, 2005, five months after the City Council approved the termination. Section 23 of the agreement provided for termination after the City had given written notice to the League and a reasonable cure period had expired or the League has ceased to make an ongoing bona fide best effort to remedy the breach or defaults. However, the termination letter did not provide for the required cure period.

Recommendation: The City should enhance procedures to ensure that any future collaboration agreements are evidenced by a written agreement that encompasses all significant duties and responsibilities of both parties, including equipment; provide accountability for the City's assets; and any transfer of responsibility over these assets be documented by use of a transfer document. Procedures should also be enhanced to ensure that the City complies with the terms of the contract with regard to termination.

Other Matters

Finding No. 12: Conflict of Interest

Section 112.313(3), Florida Statutes, states that no public officer or employee of a political subdivision acting in a private capacity shall rent, lease or sell any realty, goods, or services to the officer's or employee's own political subdivision or any agency thereof. Section 112.313(1), Florida Statutes, defines a public officer to include any person elected or appointed to hold office in any agency, including any person serving on an advisory body.

On July 16, 2003, the City Council adopted Resolution No. 158-03, establishing and appointing members to a Prevention Policy Board (PPB) to develop a delinquency prevention plan for the City. Our audit disclosed that the City contracted with one of the appointed members to provide services as a Coordinator under a Federal grant, entitled Targeted Community Action Planning, received through the Florida Department of Juvenile Justice. This individual was also the President and Chairman of the Riviera Beach Community Coalition, Inc. (RBCC), registered with the Florida Secretary of State as a nonprofit entity. The Coordinator's contractual duties included attending meetings of both the RBCC and the PPB, for which the Coordinator was paid from grant

funds. Additionally, contract payments to the Coordinator were approved by a City employee who was also a member of the RBCC and PPB. These relationships represent a conflict of interest under Section 112.313, Florida Statutes, since a member of an advisory board entered into a contractual relationship with the City. Additionally, our review of the City's records disclosed payments to the Coordinator totaling $29,934 for the period October 1, 2004, to December 31, 2005. These payments exceeded the contracted amount by $3,142.

Recommendation: The City should implement procedures to ensure future purchases of services are not made from vendors who are appointed by the City Council to serve on an advisory board. In addition, controls should be enhanced to ensure payments to contractors do not exceed the contract amount.

Finding No. 13: Financial Assistance to the Riviera Beach Community Redevelopment Agency

Section 218.64, Florida Statutes, states that municipalities shall expend their portions of the local government half-cent sales tax only for municipality-wide programs or for municipality-wide property tax or municipal utility tax relief. The law also allows municipalities to pledge half-cent sales tax revenues to pay principal and interest on any capital project.

On July 5, 2006, the City pledged franchise fees, along with a portion of half-cent sales tax revenues and tax increment funding, for repayment of a bond issue that was obtained to pay the Riviera Beach Community Redevelopment Agency's (CRA) bond anticipation notes totaling $7,010,000. Based on our review of the CRA's records, the proceeds of the bond anticipation notes were primarily expended on contractual services and other expenses not related to a capital project (see further discussion in finding No. 17). The City's pledging of the tax increment revenues source was pursuant to an interlocal agreement between the City and the CRA. However, the pledging of half-cent sales tax revenues for repayment of a debt of the CRA is contrary to Section 218.64, Florida Statutes, since it did not represent the payment of principal and interest on a capital project or payment for a municipality-wide program.

Recommendation: The City should ensure that half-cent sales tax revenues are used only for purposes authorized by Section 218.64, Florida Statutes.

Follow-up to Management Response

In his response, the City Manager indicated that the City's expectation was and is that the bond anticipation notes were issued in anticipation of a capital project and that the fact that proceeds of the notes were spent on preliminary expenditures for consultants, engineers, and planners and not on bricks and mortar does not alter their characterization as "capital" or for a "capital project." However, as noted in finding Nos. 14, 17, and 18, a majority of the bond anticipation notes proceeds were not expended on projects in accordance with the CRA plan. In addition, most of the payments to the consultants were unsupported by deliverables or were clearly not expended for a capital project such as payments for real estate appraisals for which no land was purchased.

RIVIERA BEACH COMMUNITY REDEVELOPMENT AGENCY (CRA)

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

Pursuant to the Act, the City requested that the Palm Beach County Board of County Commissioners (County) delegate to the City the right and authority to exercise the power to create a community redevelopment agency. Upon County approval, the City of Riviera Beach City Council adopted Resolution No. 130-84, dated August 7, 1984, creating the Riviera Beach Community Redevelopment Agency (CRA). Based upon the information provided by the City to the Florida Department of Community Affairs, the CRA was designated a dependent special district.

The Act requires the establishment of a CRA Plan and requires approval of the Plan by the CRA's governing body and each taxing authority. Funding for CRAs is accomplished through tax increment revenues provided by each taxing authority, and expenditures of the CRA must be made in accordance with the approved CRA Plan. In response to our request for the CRA's current Plan, we were provided with the Inlet Harbor City of Riviera Beach Redevelopment Plan, Modification 2001 (2001 Plan).

General Management Controls

Finding No. 14: Management of the CRA

Section 3.4 of the 2001 Plan describes the implementation program for the 2001 Plan. This Section indicates that the implementation program should focus primarily on the Phases 1 and 1A activities, which cover the first three and one-half years of the 2001 Plan (according to Table 3 of the 2001 Plan, from April 2002 through September 2005). Section 3.4.2 (Description of Phase 1 Implementation Activities), item J, indicates that the CRA "shall prepare documents for all first phase public improvements, including program and design" for: (1) relocating US-1 from Skypass Bridge to Blue Heron, (2) 13th Street from Dixie to Broadway (monitoring and design guidelines for Port Engineers) and Blue Heron beautification program from the bridge to the beach and the Singer Island "Gateway," (3) infrastructure and relocation of the roads within the "Working Waterfront" District, (4) realignment of Lakeshore Drive to accommodate a parcel, (5) road configuration changes along the East of Dixie District to prepare for relocation resource development, (6) first phase park system including "Beach Village Park," "Lakefront" linear park, new Bicentennial park, and "Harbor Village East" neighborhood recreation park, and (7) dry boat storage building and the new Riviera Beach Marina. Although requested, the CRA Executive Director did not provide documents prepared for the above projects.

Table 4 of the 2001 Plan, which was reproduced and included in this report as Appendix A, lists sources of funds as land sales, tax increment bond proceeds, parking bond proceeds, developer recaptures, lease income from the conference center, grants, and funds for operations and management. Uses of funds for Phases 1 and 1A were listed as land acquisition, demolition and land preparation, infrastructure (utilities, street lights, sidewalks, landscape, etc.), public projects, a conference center, marina projects, low-interest loans and grants to existing owners, relocation costs, and engineering design, planning, and permits. It also includes finance costs; developer

incentives; implementation planning and permitting; CRA operations, marketing, and start-up costs; and program, and implementation and construction management costs. We requested an itemization, including costs, and related documentation for all items in the 2001 Plan that the CRA has accomplished. In his verbal October 2006 response, the Executive Director stated that accomplishment of these projects is contingent on executing an agreement with a Master Developer.

Pursuant to Section 3.1.1.3 A. of the 2001 Plan, the CRA planned to contract with a developer, committing the developer to purchase or lease prescribed developable parcels and provide the minimum development cost requirements within prescribed time tables. According to the Request for Qualifications, the Master Developer would be responsible for working in concert with the CRA to ensure that the overall development of the project is consistent with the 2001 Plan and responsive to the goals and objectives of the City, the CRA, and the citizens of Riviera Beach. According to the CRA's records, the process for selecting a Master Developer began December 16, 2004; however, as of November 15, 2006, the CRA had not executed an agreement with a Master Developer.

During the period December 2001 through November 2005, the CRA paid $5,612,891 for various professional services, including $48,577 for financial advisory services, $54,244 for real estate counseling services, $1,693,087 for real estate appraisal services, $1,609,042 for program and construction management services, and $2,207,943 for other professional services, including preparation of the 2001 Plan, design, and analyses work. Our review of CRA actions regarding these expenditures is as follows:

- Upon inquiry, the CRA Executive Director indicated that the real estate appraisal firm had appraised, or obtained appraisals, for 412 properties and reviewed appraisals for 411 properties during the term of the agreement, September 2002 through August 2003. Although requested, we were not provided with documentation to indicate the number of properties purchased by the CRA for which appraisals were obtained or reviewed by the firm. Appraisals should only be obtained for properties the CRA intends to purchase within a short time period. If too much time elapses, new appraisals would likely be necessary due to changing market and economic conditions. Further, if it is the CRA's intention that the Master Developer acquire the properties, real estate appraisal services should not have been acquired prior to execution of an agreement with a Master Developer. Consequently, it does not appear that the majority of moneys expended for real estate appraisal services has been spent prudently.

- Although requested, the CRA Executive Director could not provide documentation to demonstrate that the moneys paid for program and construction management services were in accordance with the 2001 Plan. The contract for program and construction management services provided a broad description of services that may be required and stated that services to be provided will vary depending on the nature and type of project as well as the project's phase. The CRA did not provide documentation to evidence receipt of the deliverables for which the CRA paid the firm. If the CRA's intended projects require the acquisition of land, and the land will be acquired by the Master Developer, execution of an agreement with the Master Developer should precede acquisition of program management services.

The CRA did not own most of the land on which the proposed CRA projects are to be located. As noted above, the CRA planned for the Master Developer to acquire the land for development in accordance with the 2001 Plan. However, if the Master Developer is unable to acquire the designated land, it appears that the CRA would have used eminent domain to acquire the land. Section 1.1.5 of the 2001 Plan states, in pertinent part, that the City Council has chosen to delegate to the CRA the power to acquire property deemed necessary for community

redevelopment, including the use of eminent domain. However, on May 4, 2006, the Florida Legislature passed the eminent domain bill (House Bill No. 1567) which prohibits governments from using eminent domain to acquire private land for economic development purposes.

As a result of the Legislature's action discussed above, the City Council called an emergency meeting on May 10, 2006, to approve an agreement between the City, the CRA, and the Master Developer whereby the parties agreed to negotiate the terms of a definitive agreement within 30 days. On May 11, 2006, the Governor signed the eminent domain bill, enacting Chapter 2006-11, Laws of Florida, to create Sections 73.013 and 73.014, Florida Statutes. Due to the CRA's delay in executing an agreement with a Master Developer, the use of eminent domain may no longer be a means to acquire properties necessary for the projects contained within the 2001 Plan.

The CRA expended millions of dollars for various consulting and professional services without an agreement with a Master Developer and without accomplishing the projects outlined in its 2001 Plan. Further, in light of the recent legislation, the 2001 Plan may no longer be feasible.

Recommendation: In consultation with the City, the CRA Board should re-evaluate the goals and objectives of the CRA and the 2001 Plan. In doing so, the CRA should assess the effect of the recent legislation on the projects, and take appropriate action, including amendment of the 2001 Plan as necessary. In the meantime, the CRA should not expend additional moneys for program and construction management, real estate appraisal, or other professional services.

Finding No. 15: Written Policies and Procedures

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

Our review of CRA operations disclosed that the CRA did not have written policies and procedures formally adopted by the CRA Board for its accounting and other business-related functions. Rather, the CRA administrative staff established and maintained written operating policies and procedures. These policies and procedures should be made available to all staff and be periodically updated.

Recommendation: The CRA Board should adopt comprehensive written operating policies and procedures and ensure that such policies and procedures address the instances of noncompliance and management control deficiencies discussed in this report.

Budgetary Controls

Finding No. 16: Budget Preparation and Monitoring

Section 189.418(3), Florida Statutes, states that the governing body of each special district shall adopt a budget by resolution each fiscal year. The Section also states that the total amount available from taxation and other sources, including amounts carried over from prior fiscal years, must equal the total appropriations for

expenditures and reserves; that the adopted budget must regulate expenditures of the special district; and it is unlawful for any officer of a special district to expend or contract for expenditures in any fiscal year except in pursuance of budgeted appropriations. Section 189.418(4), Florida Statutes, requires budgets of a dependent special district to be presented in accordance with generally accepted accounting principles, contained within the general budget of the local governing authority, and be clearly stated as the budget of the dependent special district. Our review of the CRA's budgets for the 2004-05 and 2005-06 fiscal years disclosed the following:

- ***Budget Preparation***. The CRA Board adopted the 2005-06 fiscal year budget by Resolution 2005-09 on September 14, 2005. The 2005-06 fiscal year budget did not include an appropriation for the repayment of $7,010,000 in bond anticipation notes (BANs) that were due in July 2006, or a revenue source from which the BANs would be repaid. By not including all known obligations and revenue sources, the budget is not in compliance with Section 189.418(3), Florida Statutes, and is not useful as a financial management tool.

- ***Budget Overexpenditures***. The 2004-05 fiscal year budget adopted by the CRA Board by Resolution 2004-14, and amended by Resolution 2005-04, established the legal level of budgetary control at the category level. We compared the 2004-05 fiscal year final budgeted expenditures with the actual expenditures and noted the following categories were overexpended: consultant services by $215,368, debt service by $56,540, and other expenses by $25,524.

- ***Basis of Budget-to-Actual Comparisons***. The CRA's procedures provided for CRA staff to prepare monthly comparisons of budgeted to actual expenditures for presentation to the CRA Board. However, this comparison was prepared using the cash basis of accounting, rather than the accrual basis of accounting required for budgeting and reporting purposes. Therefore, overexpenditures resulting from the accrual of obligations of the CRA were not always apparent.

In response to our request for explanations as to the causes for the overexpenditures, the CRA Executive Director stated that due to ongoing litigation with the appraisal consultant, unexpected invoices from the firm were received after year-end.

Recommendation: CRA management should, pursuant to Section 189.418, Florida Statutes, ensure that all future budgets include all known obligations and corresponding revenue sources. In addition, the CRA should revise its procedures to perform a monthly budget-to-actual expenditures comparison on the accrual basis, and amend the budget as necessary.

Long-Term Debt

Finding No. 17: Debt Management and Capital Project Financing

Pursuant to Section 163.385(1)(b), Florida Statutes, the CRA may issue bond anticipation notes and may renew such notes from time to time; however, the maximum maturity of any such note, including renewals thereof, may not exceed five years from the date of issue of the original note. Our audit included a review of various loans or financing arrangements outstanding during the audit period.

On March 6, 2002, the CRA Board adopted Resolution No. 2002-4 authorizing the issuance of a $5,010,000 bond anticipation note (BAN) to finance and pay for "the 2002 projects," with a maturity date of March 25, 2005. The projects were described as "certain capital projects contemplated by the Community Redevelopment Plan and all incidental and necessary costs relating thereto." On August 20, 2003, the CRA Board adopted

Resolution No 2003-5 authorizing the issuance of a $2,000,000 BAN to pay and finance projects, with a maturity date of March 25, 2005. Again, projects were described as "certain capital projects contemplated by the Community Redevelopment Plan and to pay all incidental and necessary costs related thereto." In Section 3.1.1.3 B. of the Riviera Beach Community Redevelopment Plan, Modification 2001 (the 2001 Plan), BANs would be issued to finance necessary front-end capital costs including acquisition of additional land, necessary demolition and relocation expenses involved in land clearance, the construction of Phase I public improvements, and the operating costs of the CRA for a one-year period.

Because the BAN proceeds were commingled with the CRA's tax increment funding revenues and other sources, we were unable to determine the specific uses of these moneys. In response to our requests as to how the CRA expended the BAN proceeds totaling $7,010,000, the CRA Executive Director provided the following:

BAN Year	Consultant Payments	Operating Costs	Real Estate Appraisal Services	Land Acquisitions	Total
2002	$3,646,398	$86,729	$345,663	$110,000	$ 4,188,790
2003	$1,417,286				$1,417,286
Total	**$5,063,684**	**$86,729**	**$345,663**	**$110,000**	**$5,606,076**

Although the CRA Executive Director did not disclose the use of the remaining $1.4 million in BAN proceeds acquired by the CRA, our review of CRA expenditures noted no additional land purchases, demolition and relocation expenditures, or expenditures for construction of public improvements. Therefore, it appears that the remaining BAN proceeds were used for CRA operating expenses and additional consultant payments. Thus, the majority of the BAN proceeds acquired by the CRA were not used in accordance with the 2001 Plan.

Our review of the CRA's debt management disclosed the following:

- ***Policies and Procedures***. The CRA did not have formal written policies and procedures in place for its debt management function. Policies and procedures should cover documentation of the CRA's financing needs, in the short-term as well as in the long-term, including specific projects and costs; identification of financing options, including the costs of each option; consideration of the sources of funds to repay the debt; and monitoring the needs of the CRA and ensuring that the CRA is on track to repay the debt.

- ***Financing Needs and Monitoring***. In response to our request for the detailed written plan containing the purpose of the issuance of the BAN's and how the proceeds were to be used, the CRA Executive Director advised us that the CRA's 2001 Plan was the written plan. However, the Financial Analysis included in the 2001 Plan addressed the funding of Phase 1 (three-year period beginning with the 2001-02 fiscal year). The 2001 Plan's anticipated funding for Phase 1 included $46.5 million from land sales, $39.4 million from BAN's, $17.8 million from grants, and $3 million from parking bonds. Phase 1a funding was an additional $52.6 million from land sales; $55 million from BAN's; $16.7 million of "developer recapture;" $8.3 million from convention center rentals; $6.6 million from grants; and $1 million from management fees. The 2001 Plan did not disclose the specific costs and projects intended to be paid from the BANs, although as stated above, it appeared that the BAN proceeds were generally not used in accordance with the 2001 Plan. Without a detailed plan for each debt issuance, the CRA

cannot be assured that the funds were used as planned and cannot monitor that the projects are progressing as planned.

On March 24, 2005, and again on June 23, 2005, the BANs were renewed, with payment due July 5, 2006. On July 5, 2006, the City obtained financing to repay the BANs, pledging franchise fees, half-cent sales tax revenues, and tax increment funding to be received by the CRA (see further discussion in finding No. 13). The pledging of tax increment funding was authorized through an interlocal agreement between the City and CRA.

Recommendation: Prior to issuing future debt, the CRA should implement written debt management procedures, including procedures to prepare analyses identifying specific projects to determine: (1) the amount of financing needed for each specific project; (2) the timing of the needed funds; and (3) the available financing options, including an evaluation of the feasibility of required repayments. The CRA should demonstrate that debt proceeds are utilized in accordance with the CRA Plan. Finally, the CRA should retain documentation of the analyses and monitor the progress of the projects in order to ensure that it maintains the ability to repay debt that has been issued.

Procurement of Goods and Services

Authority for CRA officials to expend moneys is set forth in various provisions of general or special law and in resolutions enacted by the CRA Board. Expenditures of public funds must be shown to be authorized by applicable law or ordinance; reasonable in the circumstances and necessary to the accomplishment of authorized purposes of the governmental unit; and in pursuit of a public, rather than a private, purpose. These limitations require CRA officials seeking to expend public funds to identify the authority relied upon for the contemplated expenditure and to adequately describe how the expenditure will further an authorized public purpose (see Attorney General Opinion No. 068-12).

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

Finding No. 18: Disbursements Processing

Section 163.387(6), Florida Statutes, states that moneys in the community redevelopment trust fund (CRA Trust Fund) may be expended from time to time for undertakings of a community redevelopment agency which are directly related to financing or refinancing of redevelopment in a community redevelopment area pursuant to an approved community redevelopment plan. Section II of the 2001 Plan describes the planned CRA redevelopment projects. We reviewed various CRA expenditures made between October 2001 and November 2005 to ensure that they were properly authorized, supported, and related to the projects described in the 2001 Plan. Our review disclosed the following:

- Payments totaling $372,601 were made for contractual services ($3,060), for subcontractors ($317,700), and reimbursable expenses ($51,841) without invoices, receipts, or other supporting documentation to evidence that the costs were incurred in accordance with the 2001 Plan projects. Additionally, payments totaling $1,273,919 were made to one consultant without detailed billings indicating the level of staff that

performed the services, the number of hours of work performed, or the rate(s) at which the CRA was billed.

- The CRA contracted with a real estate appraisal services consultant, under which the consultant was to be compensated based upon the hourly rates for staff positions identified in the contract documents. We noted four instances in which the consultant was paid a total of $69,233, including $15,503 for an Executive Administrative Assistant and $53,730 for an Information Technology Coordinator, neither of which were staff positions identified in the contract documents. These payments were based upon hourly rates of $50.54 and $91.65, respectively.

- Expenditures totaling $4,335 were made for items such as flowers, food, and restaurant charges during the period October 2004 through November 2005. It is not apparent from available documentation that these payments served a public purpose or complied with the 2001 Plan or Section 163.387, Florida Statutes.

- A consultant was reimbursed twice for the same expenses due to the submission of duplicate payment requests, resulting in an overpayment $4,015.

- Although requested, the CRA did not provide receipts for 15 credit card transactions totaling $922. The charges were made on the CRA's gas and procurement cards during the period October 2004 through November 2005. Without receipts, it was not possible to determine whether these transactions were valid and complied with the 2001 Plan.

Recommendation: The CRA should implement procedures to ensure that contractual expenditures are properly supported and in accordance with the contract provisions, the 2001 Plan, and Section 163.387(6), Florida Statutes. The CRA should also seek reimbursements of the overpayments, and obtain documentation for the unsupported payments noted above. Prior to expending additional CRA moneys for consulting and real estate appraisal services, the CRA should re-evaluate its needs for these services and ensure that they comply with the 2001 Plan, or the amended Plan as discussed in finding No. 14. Finally, the CRA should document the public purpose for all expenditures and ensure that such expenditures comply with the 2001 Plan and Section 163.387, Florida Statutes. Such documentation should be present in the CRA's records prior to payment.

Contractual Services

Finding No. 19: Consultant Contracts

The CRA is responsible for establishing controls to provide assurance that the process of contracting for services is effectively and consistently administered. Such controls should include execution of written contracts with clearly defined deliverables; Board approval of all contracts, amendments and work orders; monitoring of contract payments to ensure they are in accordance with contract terms; and contract provisions requiring the contractor to provide invoices in a detail sufficient for proper pre-audit and post audit. Our review of five consultant contracts for real estate counseling, real estate acquisition and property management, financial advisory, program and construction management, and other professional services, including preparation of the 2001 Plan and design and analyses services, disclosed the following:

- ***Board Approval***. Although requested, we were not provided documentation evidencing CRA Board approval for a financial advisory services contract or an amended professional services contract. In

addition, a real estate counseling firm was paid $36,904 for services provided from July 2005 through November 2005 under terms that had been discussed during various Board minutes, but not approved.

- ***Contract Deliverables***. Three contracts did not include clearly defined deliverables. The contract for financial advisory services stated that services would be provided on an "as needed and requested basis." The contract for program and construction management services provided a broad description of services that may be required and stated that services to be provided will vary depending on the nature and type of project as well as the project's phase. The contract for real estate appraisal services included a broad description of real estate acquisition, property management, and related services. Although requested, the CRA did not provide documentation of the specific services that were requested of these firms. We were provided with an Authorization to Proceed, relating to the real estate contract which requests the firm to immediately begin the appraisal acquisition and relocation on all specified parcels; however, the authorization was initiated by another consultant and there was no evidence that it was approved by the CRA Board. Payments to these three consultants from October 2002 through November 2005 totaled $3,350,706.

- ***Total Contract Price***. We noted that the total contract costs were not specified in three of the contractual arrangements; however, the hourly rates to be charged for the various services were included. Amounts paid to these service providers totaled $48,577, $54,244, and $2,207,941, for financial advisory, real estate counseling, and other professional services, respectively, for the period December 2001 through November 2005.

- ***Payments to Program and Construction Management Firm***. The program and construction management agreement provides that payments for Work Order #1 shall be payable based upon a percentage of the work completed for each work task or authorization on a monthly basis. However, the invoices were based on staff hours rather than percentage of work completed. Payments to the firm for the period January 2003 through November 2005 totaled $1,609,042, which exceeded the original Work Order #1 amount of $760,000 by $849,042. Although requested, we were not provided with documentation of Board approval for additional work orders or documentation to evidence that the tasks outlined in Work Order #1 were received by the CRA. The CRA paid this firm for accounting and administrative assistant services, as noted below, which may have been more cost effective if these services had been provided by staff employees of the CRA.

Position	Dates	Billing Rate	Total Paid by CRA for Services
Accountant	December 2002-May 2004	$97.00/hour	$270,145
Administrative Assistant	November 2002-May 2004	$52.00/hour	$129,272

Although requested, the CRA did not provide a cost/benefit analysis regarding the outsourcing of functions performed by the firm's employees. Using the payment information above, the CRA was paying the accountant and administrative assistant at an estimated annual rate of $201,760 and $108,160, respectively.

- ***Resolution of Disputed Payments***. The CRA's audit report for the fiscal year ended September 30, 2004, reported $509,499 in disputed payables with its real estate appraisal services consultant. In November 2004, the CRA settled this claim for $425,000. Legal and financial advisory fees associated with the settlement totaled $234,576, resulting in CRA expenditures for the settlement and its related costs of $659,576, which exceeded the disputed payables by $150,077.

Recommendation: Contracts for services should not be acquired until the CRA determines, through a cost/benefit analysis or other means, that it is more cost-effective to contract for the services rather than have staff perform the functions. The CRA should enhance procedures to ensure that documentation is retained to evidence that all contracts: have been reviewed and approved by the Board; are in writing and contain provisions which clearly define the specific duties and responsibilities of both parties, including clearly defined deliverables; clearly indicate the total contract price; and include provisions requiring the contractor to provide invoices in a detail that is sufficient for proper pre-audit and post audit. The CRA should also enhance procedures for monitoring invoices to ensure the reasonableness of amounts invoiced and provide for a cost/benefit analysis when resolving disputes to ensure the most cost effective action is taken.

Finding No. 20: Sublease to Consultant

On April 11, 2001, the Board approved a lease of 6,307 square feet of office space for a term of May 2001 to May 2006 at a cost ranging from $13.75 to $ 16.09 per square foot. However, the CRA only required 3,739 square feet. Although requested, we were not provided with an explanation as to why the CRA leased excess office space beginning in May 2001. As of October 6, 2006, the CRA had been paying its landlord for the same space as was leased in the May 2001 lease agreement, and had not executed a new lease agreement. As discussed below, the CRA subleased 2,043 square feet to a consultant beginning January 1, 2003. The remaining 525 square feet of leased space (6,307 leased – 3,739 used by CRA – 2,043 subleased) was not utilized by the CRA or subleased during the lease period. In total, the CRA paid $84,235 during the period May 2001 through May 2006 for space that was neither utilized by the CRA nor subleased to another party.

On January 1, 2003, the CRA entered into a sublease agreement with its program and construction management consultant (consultant) to lease 2,043 square feet of the office space. The sublease term was from January 1, 2003, through December 31, 2007, with monthly rental payments ranging from $18.00 to $21.06 per square foot over the lease term, payable on the first day of each month. In connection with this agreement, we noted the following:

- As of April 3, 2006, the CRA had not received $83,142 in monthly sublease payments (January 2005 through April 2006) from the consultant. In response to our inquiry related to the uncollected sublease payments, the CRA Executive Director stated that the CRA and the consultant "remain in discussion relative to a contingent liability going back to the 2003-04 fiscal year. Payments of the sub lease are a part of these ongoing discussions." We were subsequently provided documentation that the consultant made payments totaling $71,644. As of October 2, 2006, the consultant owed the CRA $32,180 in sublease payments.
- Although requested, we were not provided documentation of sales tax collected for the sublease rental payments and remittance to the Florida Department of Revenue.
- The sublease with the consultant had a termination date of December 31, 2007, or 19 months after the CRA's lease with the landlord that was scheduled to expire on May 30, 2006. Although requested, we

were not provided documentation of the landlord's authorization for the CRA to sublease office space to a sublessee, or to sublease beyond the CRA lease expiration date for the same office space.

Recommendation: The CRA should avoid entering into agreements to lease more space than it needs. In addition, for any instances in which the CRA subleases space, the CRA should ensure that the term of the sublease does not extend beyond the date on which the CRA's lease expires and the CRA should collect and remit sales tax on the sublease. The CRA should also continue to pursue collection of sublease payments owed by the consultant. Finally, the CRA should calculate the sales tax due on the subleased space since January 1, 2003, and promptly remit such amounts to the Florida Department of Revenue, along with any penalties and interest due for late filing.

Finding No. 21: Former Executive Director's Employment

The former CRA Executive Director was offered the position of Interim Executive Director for the period April 18, 2000, through October 31, 2000, pursuant to an offer letter dated April 26, 2000, from the then CRA Chair. The letter indicated the monthly salary would be $6,500 and the position was classified as an independent contractor. A letter dated May 9, 2002, extended the employment period from April 1, 2002, through March 31, 2003, for compensation of $150,000, and bonuses of $30,000 (payable immediately) and $20,000 (payable March 31, 2003). The letter stated the terms had been approved at the CRA Board's May 8, 2002, meeting. The former CRA Executive Director remained in the position beyond March 31, 2003, until he resigned, effective August 13, 2003. Our review of the CRA's records relating to the former Executive Director's employment disclosed the following:

- ***Lack of CRA Board Approval and Written Compensation Agreement***. Although requested, we were not provided documentation of the CRA Board approval, or copies of written agreements with the former CRA Executive Director clearly documenting the agreed-upon terms and conditions of his employment, including, but not limited to, benefits, responsibilities, and termination clauses.

- ***Compensation Dispute***. Although requested, we were not provided documentation of the CRA Board approval of the continued employment or the approved rate of pay from November 1, 2000, through March 31, 2002, and after March 31, 2003. For the period April 2003 through August 2003, the former Executive Director was paid at a per annum rate of $200,000, or $16,667 per month, and included a full month's compensation for August, although his resignation was effective August 13, 2003. Based upon our review of the October 13, 2004, CRA Board meeting minutes, the Mayor indicated that the former CRA Executive Director "was employed for 6 months after the expiration of his agreement and the Board did not address an agreement and/or roll over his agreement; and his rate of compensation was unclear."

- ***Independent Contractor Status***. Pursuant to Section 3121(d)(1) of the Internal Revenue Code, employee status, for purposes of Federal Insurance Contributions Act (FICA) employment taxes, must be determined under the common law rules applicable in determining the employer-employee relationship. In Revenue Ruling 87-41, 1987-1 C.B. 296, the Internal Revenue Service identified twenty factors to assist in determining whether an individual is an employee under common law rules. Generally, the relationship of employer and employee exists when the person or person for whom the services are performed have the right to control and direct the individual who performs the services. Factors to be considered when determining whether an employer/employee relationship exists include: (1) whether the services must be provided by the individual personally and the employer has the right to

require compliance with instructions about when, where, and how the individual is to work; (2) whether the work performed is frequently recurring although at irregular intervals; (3) whether the employer has the right to set work hours of the individual; (4) whether the work is performed on the employer's premises, especially if the work can be performed elsewhere; and (5) whether the employer/individual has the right to discharge/terminate the relationship without incurring liability.

The former Executive Director's duties included managing day-to-day CRA operations, budgeting, financial control, supervision, public relations, personnel recruitment, administration of professional services contracts, and liaison responsibilities with City, State, and Federal governments. He worked at the direction of the CRA Board and was required to provide the services personally and the services were provided on the CRA premises. Therefore, it is likely that he should have been classified as an employee rather than an independent contractor. However, the CRA treated his compensation as though he were an independent contractor. For the 2003 calendar year, Form 1099-MISC was used to report the total amount paid of $140,833 to the former Executive Director. Although requested, we were not provided the Form 1099s prepared and issued to the former Executive Director prior to 2003. As a result of classifying the former Executive Director as an independent contractor, the CRA may be liable for unpaid employment taxes.

Recommendation: The CRA should ensure that all future compensation agreements are pursuant to a Board-approved written contract. Procedures should be enhanced to ensure that payments are made in accordance with the written compensation agreement and documentation is retained to evidence amounts paid. In addition, the CRA should contact the Internal Revenue Service to determine what corrective actions, if any, should be taken regarding the amounts reported for the former Executive Director. In the future, the CRA should determine whether individuals are employees or independent contractors and individuals determined to be employees should be treated as employees and appropriate taxes should be withheld and paid on their compensation, in accordance with the Internal Revenue Code.

Finding No. 22: Transfer of Funds

Good control over transfers of CRA 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 changes in locations where funds can be transferred.

The CRA's written agreement with its financial institution did not include restrictions as to where the funds may be transferred. We also noted that the CRA did not use the dual-control security procedure, under which fund transfers and system security administration activities that are initiated by one user must be approved by another user before funds are released, as recommended to them by their financial institution. Rather, the CRA opted for the single-control procedure in which fund transfers may be initiated and approved by the same individual. Transfers to and from the CRA's general checking account totaled $1,492,000 and $450,000, respectively, during the 2004-05 fiscal year. Absent the dual control security procedures and written banking agreement specifying authorized destination accounts, there is an increased risk that unauthorized transfers could occur without timely detection.

Recommendation: The CRA should amend its agreement with its financial institution to specify the locations and accounts where funds can be transferred. The CRA should reconsider using the dual-control security procedures and revise the agreement with the financial institution accordingly.

Other Matters

Finding No. 23: Financial Review Advisory Committee Report Implementation

At a CRA special meeting on August 25, 2004, the CRA Board created a Financial Review Advisory Committee (FRAC) to provide financial advice to the Board. Each Board member made one appointment to the FRAC. The FRAC prepared a report, dated December 20, 2004, which contained findings and recommendations for the improvement of CRA activities. Our review of the FRAC report disclosed that, for the most part, the FRAC recommendations were implemented, except as follows:

- ***Timetable and Goals.*** The FRAC reported that the CRA had no reliable "phase in" plan or time table for development and no annual goals, priorities, or benchmarks. It recommended that annual goals for project commencement should be based on priorities with flexibility to accommodate unexpected projects with budgets set on approved projects rather than the entire acreage within the CRA. In response to our inquiry related to the implementation status of this recommendation, the Executive Director stated that in keeping with the FRAC recommendation, limited goals were established and adhered to; including extension of the BANs repayment, selection of a master developer, and pursuit of closure on the Ocean Mall Redevelopment Project. However, as noted in finding No. 14, the CRA did not have an agreement with the selected Master Developer as of November 15, 2006, the City refinanced the BANs in July 2006, and the CRA selected a developer for the Ocean Mall Redevelopment Project; however, an agreement has not been executed with the developer because there are pending issues regarding the lease term of the property.

- ***Staffing Levels.*** The FRAC suggested that CRA staffing levels be reviewed by the Executive Director, who should then report to the Board as to the justification for each position and, based on the identification of core skills needed on a consistent basis, the use of consultants for specialty needs only. Although requested, the CRA did not provide evidence of its review of staffing levels as recommended by the FRAC. In response to our inquiry related to the implementation of this recommendation, the Executive Director stated that the "utilization of existing staff and consultants is consistent with the utilization of resources in the most efficient and effective manner given the status of the redevelopment effort. Upon execution of the respective Development and Disposition Agreements and the schedules attended there to, a clear picture of staffing needs will emerge. This will include a delineation of responsibilities and needed resources by the CRA, the City of Riviera Beach, and the respected developers. While in the current negotiating posture, any addition to staff resources would be premature." As noted in finding No. 14, the CRA had not executed the selected Master Developer as of November 15, 2006.

- ***Accounting System.*** The FRAC reported that the accounting system in place was inadequate and that some expenses were not recorded. The FRAC recommended that all outstanding consultant claims be analyzed by CRA staff with a recommendation for resolution made by the Executive Director to the Board. In response to our inquiry related to the implementation of this recommendation, the Executive Director stated that "Since the issuance of the FRAC's recommendations, more detailed monthly financial reports have been provided to the CRA Board. Needed budget adjustments have been requested and approved and unanticipated expenditures (lawsuit settlements) have been accommodated through loan agreements with the City of Riviera Beach. As to the outstanding consultant claims

(contingent liabilities) the Executive Director is in fact engaged in analyzing those outstanding claims against the commitment of the Master Developer selected to provide the revenue necessary to extinguish the same." As noted in finding No. 16, the CRA did not budget for repayment of the BANs in its 2005-06 fiscal year budget and the CRA's 2004-05 fiscal year budget was overexpended in certain categories. As of April 2006, the CRA had outstanding consulting claims totaling $1,656,630.

- ***Require Master Developer to Repay CRA Obligations.*** The FRAC recommended that if a Master Developer is engaged, the CRA should hold the Master Developer responsible for providing the required funds to repay the outstanding BANs, as part of his successful bid to attain this position. The requirement to finance the CRA obligations was not written as part of the Request for Proposals, but according to CRA personnel, this requirement was discussed during the interviews with the Master Developer candidates. The CRA approved the Master Developer selection on September 14, 2005, and began negotiations in October 2005. As noted in finding Nos. 15 and 18, respectively, as of November 15, 2006, the CRA had not executed an agreement with a Master Developer and, on July 5, 2006, the City issued bonds to repay the outstanding BANs.

Recommendation: CRA management should enhance its efforts to implement the recommendations of the FRAC.

Finding No. 24: Vehicle Usage Logs

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

The CRA's employment contract with the Executive Director specifies that he is to be provided with a vehicle to perform his job duties. However, CRA procedures do not require that a vehicle usage log be maintained to demonstrate the vehicle usage served primarily a public purpose and is used only incidentally for the employee's personal benefit. Properly maintained vehicle usage logs also provide a means to justify the necessity of the vehicle, justify fuel costs charged, and to document and calculate the amount of taxable income that should be subjected to employment taxes and reported to the Internal Revenue Service (IRS).

Recommendation: The CRA Board should require the Executive Director to maintain a detailed vehicle usage log. The usage log should demonstrate that the vehicle was used primarily for a public purpose and only incidentally benefited the employee personally, and should be used to determine the value of personal use to be included on the employee's Form W-2, Wage and Tax Statement, when applicable. The vehicle usage log would also be useful in determining the reasonableness of gas purchases charged to the CRA.

Finding No. 25: Report of Activities

Section 163.356(3)(c), Florida Statutes, requires the CRA to file with the governing body, on or before March 31 of each year, a report of activities for the preceding fiscal year, which report shall include a complete financial statement setting forth its assets, liabilities, income, and operating expenses as of the end of such fiscal year. At the time of filing the report, the agency shall publish in a newspaper of general circulation in the community a notice to the effect that such a report has been filed with the county or municipality and that the report is

available for inspection during business hours in the office of the clerk of the city or county commission and in the office of the agency. In response to our request for a copy of the report of activities for the 2003-04 fiscal year, the CRA Executive Director provided a copy of the CRA's audited financial statements. While the audited financial report provides valuable information, the annual report of activities should include more than financial statements.

Recommendation: CRA management should consult with the City regarding the nonfinancial information that should be included in the report of activities, such as progress on CRA projects and future activities planned.

OBJECTIVES

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

- Document our understanding of the City's and CRA'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 City's and CRA's management controls promoted and encouraged the achievement of management's objectives in the categories of compliance with controlling laws, ordinances, bond covenants, and other guidelines; the economic and efficient operation of the City; the reliability of financial records and reports; and the safeguarding of assets.

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 City of Riviera Beach (City) and the Riviera Beach Community Redevelopment Agency (CRA).

The scope of this audit included transactions during the period October 1, 2004, through November 30, 2005, and selected transactions taken prior and subsequent thereto, related to allegations concerning the City's (excluding the City of Riviera Beach Utility Special District, a separate legal entity and component unit of the City) and CRA's operations to determine whether such transactions were executed, both in manner and substance, in accordance with governing provisions of laws, ordinances, bond covenants, and other guidelines.

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

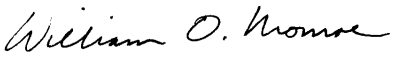
METHODOLOGY

The methodology used to develop the findings in this report included the examination of pertinent records of the City and the CRA 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 City of Riviera Beach, Florida, and the Riviera Beach Community Development Agency for the period October 1, 2004, through November 30, 2005, and selected actions taken prior and subsequent thereto.

Respectfully submitted,



William O. Monroe, CPA
Auditor General

MANAGEMENT RESPONSE

The City Manager's and the Riviera Beach Community Redevelopment Agency (CRA) Executive Director's responses to our findings and recommendations are included in this report as Appendix B.

APPENDIX A
CRA 2001 PLAN, TABLE 4

Table 4

RIVIERA BEACH CRA FINANCIAL ANALYSIS
USES AND SOURCES OF FUNDS (In present $)
PHASE 1 & 1A SUMMARY (3 1/2 Year Period)

	PHASE 1 COST 3 YEARS	PHASE 1A COST 3 YEARS
I. USES OF FUNDS		
A. Land Acquisition (Reference: Volume II [ARD] and Appendix Section V)	37,110,800	26,580,300
B. Demolition/Land Preparation (Reference: Volume II [ARD])	732,000	504,000
C. Infrastructure, Road Construction/Upgrade, Utilities, Street Lighting, Sidewalks, Landscape, etc. (Reference: Appendix Section III)	23,618,800	22,072,100
D. Public Projects (Reference: Appendix Section IV)	8,602,100	13,824,700
E. Conference Center (Estimate)	-	6,489,000
F. Marine Projects (Reference: Appendix Section IV)	-	10,384,200
G. Low Interest Rate Loans, Grants to Existing Owners (Allowance)	1,000,000	1,000,000
H. Relocation Costs (Reference: Volume II [ARD] and Appendix Section IV and VII)	7,179,100	4,648,600
I. Engineering/Design/Planning/Permits (Reference: Appendix Section IV)	5,850,300	7,638,700
Sub-Total	**84,093,100**	**93,141,600**
Contingency @ 10%	8,409,300	9,314,200
SUB-TOTAL USES OF FUNDS	**92,502,400**	**102,455,800**
J. Finance Cost (Net of Arbitrage)	5,011,700	6,993,800
K. Developer Incentives (Allowance)	1,000,000	2,500,000
L. Implementation Planning and Permitting (Cultural Resource Assessment, Environmental Planning & Permitting and Rectified Aerial Digital Photography Allowance)	1,266,500	257,300
M. CRA Operations, Marketing & Start-up Costs (10 Yr Allowance)	1,990,000	1,640,000
N. Program, Implementation & Construction Management (10 Yr. Allowance at 5.5%)	7,385,000	7,185,000
TOTAL USES OF FUNDS	**109,155,600**	**121,031,900**
II. SOURCES OF FUNDS		
A. Land Sales (Reference: Appendix Section II)	46,542,800	52,619,300
B. Tax Increment Bond (BAN) Sales Proceeds (Reference: Appendix Section III)	39,408,000	54,993,700
C. Parking Bond Proceeds (maximum supportable) (Reference: Appendix Section III)	3,108,200	-
D. Developer Recapture for Infrastructure, Marine Projects and Special Features (Reference: Appendix Section IV)	-	16,713,000
E. Conference Center (Lease Income Bond Estimate)	-	8,364,300
F. Grants (70% Identified at this Time)	17,860,000	6,590,000
G. Funds for Operations and Management (Offsets from Excess Coverage)	600,000	1,000,000
TOTAL SOURCES OF FUNDS	**107,519,000**	**140,280,300**
EXCESS / (DEFICIT)	**(1,636,600)**	**19,248,400**

APPENDIX B
MANAGEMENT RESPONSE

CITY OF RIVIERA BEACH

600 WEST BLUE HERON BLVD. • RIVIERA BEACH, FLORIDA 33404
(561) 845-4010 FAX (561) 840-3353

OFFICE OF
CITY MANAGER

December 21, 2006

Via Facsimile and
U.S. Postal Service

Marilyn D. Rosetti, CPA
Audit Supervisor
Local Government Audits
State of Florida Auditor General
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32399-1450

Dear Ms. Rosetti:

Attached is the City of Riviera Beach's response to the Auditor General's Preliminary and Tentative Audit Findings. We look forward to providing any additional information you may require.

If you have any questions, please do not hesitate to contact Interim Finance Director Jeffrey Williams at (561)845-4040.

Sincerely,

William E. Wilkins
City Manager

Floyd Johnson, Executive Director
Community Redevelopment Agency

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Attachment: Response to Preliminary
& Tentative Audit Findings

Finding No. 1: Except for procurement policies and procedures, the City did not have written policies and procedures formally adopted by the City Council for its accounting and other business-related functions.

Ans: The City's current policies and procedures are under the review of the City Manager. This allows for more flexible and rapidly adaptable management. Management does recognize that the current paper-based system is obsolete and is considering a move to an electronic policies and procedure system to allow easier changes, as well as more rapid and effective utilization by City personnel.

Finding No. 2: The City's cash collection procedures could be improved.

Ans: The City is continually improving its cash receipting controls, based on priorities determined by the amount of cash collected and the risk of loss. The City's financial accounting software has several levels of receipting programs. Management is expanding the use of the most sophisticated program and anticipates that Parks and Recreation and Occupational Licenses will begin using this in fiscal year '07. This program allows assignment of virtual cash drawers to each individual cashier. Ticket accounting has improved each year as the volume of Jazz ticket sales has increased.

Finding No. 3: The City had not established adequate controls over tangible personal property.

Ans: Fixed asset accounting has improved annually since the implementation of American Data Group's (ADG's) fixed asset software. Training classes, together with electronic documentation have been, and will continue to be, offered to all departments. City management will continue to improve the control of fixed assets.

Finding No. 4: The City exceeded its budgets for the 2005 and 2006 Jazz and Blues Festival by $120,452 and $383,736, respectively, and had not remitted sales tax relating to the Festival to the Florida Department of Revenue.

Ans: The City has reviewed all revenues with the Department of Revenue to ensure that sales tax is calculated per their expectations. The City will consider additional controls on revenue estimates and expenditures.

Finding No. 5: The City did not invoice the tenant leasing space at the City Marina in accordance with the lease agreement. Additionally, reductions to the rental fees charged to the tenant for lunches charged at the tenant's restaurant, purchases at the tenant's ship's store, and various other items were not documented by invoices or receipts supporting the public purpose served.

Ans: The City inadvertently invoiced the tenant an additional 5% at the time of a rate increase. In light of this, the City will initiate an 'internal audit' function at an efficient level, and will also continue the financial management training that the Finance Department has expanded with training classes and electronically transmittable documentation.

Finding No. 6: The City did not have written policies and procedures regarding the authorization and documentation requirements for granting complimentary admissions to the City's Barracuda Bay Aquatic Complex. Complimentary admissions were granted during the school spring break week in 2005 based on a directive that indicated the Mayor agreed to pay the admission fees. However, as of April 2006, the Mayor had not paid and had disputed the amount due.

Ans: The City will review and revise, if necessary, its policy on complimentary and reduced fees for City facilities. After an analysis of the cost benefit of legal action against the Mayor to collect a debt of less than $6,000, the City will pursue less expensive methods of dispute resolution and debt collection.

Finding No. 7: Procurement card transactions were not always authorized by City policy, approved by supervisory personnel, supported by receipts, documented as to the public purpose served, or within transaction limits set by City policy. Additionally, the City could not provide documentation that a refund was received for a purchased item returned, and bids were not always obtained when required by City Ordinance.

Ans: The City agrees with this finding and has revised the purchasing and spending guidelines to allow more of the types of expenditures that are consistent with the efficient and effective use of credit cards, and has also increased the enforcement of the existing requirements for receipts, refunds, and statements of public purpose.

Finding No. 8: The City used outside law firms to alleviate the City Attorney's workload; however, it may have been more cost effective to hire an additional attorney. Also, payments to outside law firms for out-of-pocket expenses were not always supported by receipts, payment approvals were not always documented, and the City paid for the same services twice.

Ans: The City has filled the vacant position of Assistant City Attorney but will continue to engage outside attorneys where it is determined that the area of expertise and the cost is effective and efficient. Management has increased its level of training as discussed in the response to Item 5.

Finding No. 9: Contrary to City Ordinance No. 2412, the City did not competitively bid for certain repairs to the Wells Recreation Center.

Ans: After the series of hurricanes struck Palm Beach County in '04-05, the City was unable to get representative bids for many construction jobs, however, the City did get three quotes to replace the roof of this facility. Since new flooring was in place and the City believed that floor could be saved, the commencement of the project was ordered. At that time, it still took eight (8) weeks to receive the materials for the project. The window replacement project was similarly contracted after a review of quotes, as allowed by section 3-101 & 106 of the City of Riviera Beach Code of Ordinances.

Finding No. 10: The City did not competitively select contractors for solid waste and recycling services since 1993.

Ans: These services were negotiated in 1997 and in 2000 and again on October 4, 2006. The contract will be re-bid in 2010. The City negotiated the amounts of the rate increases charged for trash collection and for the 14 years preceding 2006 the rates were less than the 1993 rates.

Finding No. 11: The City entered into a partnership with the Riviera Beach Youth Football League to run the City's youth football program without the use of a written agreement that encompassed all significant duties and responsibilities of both parties. In addition, the City did not provide for the required cure period in terminating the agreement with the League.

Ans: The use and effectiveness of the City's fixed asset tracking system continues to expand and training classes have been provided to all City departments.

Finding No. 12: Contrary to Section 112.313, Florida Statutes, the City contracted with a member of one of its advisory boards to provide grant coordination services.

Ans: Management will be aware of this type of conflict of interest in the future and will clarify this situation with local groups using City and/or grant funds.

Finding No. 13: Contrary to Section 218.64, Florida Statutes, the City pledged a portion of half-cent sales tax revenues for the repayment of a bond issue obtained to pay the Riviera Beach Community Redevelopment Agency's (CRA) bond anticipation notes.

Ans: The City's expectation was and is that the bond anticipation notes were issued in anticipation of a capital project, namely the International Harbor Redevelopment project and the public projects contemplated thereby. The fact that proceeds of the notes were spent on preliminary expenditures for consultants, engineers and planners and not on bricks and mortar does not alter their characterization as "capital" or for a "capital project" any more than expenditures for engineers for a city jail become "non-capital." In any case, the City anticipates that TIF revenues will be used to repay the bond issue. The current TIF represents a 400% debt service coverage ratio, and the CRA is required by the refunding documents to pay to the City, funds to cover the debt service amounts.

Finding No. 14: The CRA expended approximately $5.6 million dollars from October 2002 to November 2005 for various consulting and professional services without an agreement with a Master Developer and without accomplishing the projects outlined in the 2001 CRA Plan.

Ans: The CRA has reduced the amount of expenditures on appraisal services and construction management services. Certain projects are currently in the negotiation process and are incurring expenditures for professional services. As negotiations with the Master Developer Select continue, the impact of the change in the eminent domain laws will be assessed and the plan may be changed.

Finding No. 15: The CRA did not have written policies and procedures formally adopted by the CRA Board for its accounting and other business-related functions.

Ans: The CRA has adopted certain policies and procedures of the City and continues to refine its operations to allow the most effective control of resources with the small staff available.

Finding No. 16: The CRA's budget for the 2005-06 fiscal year did not include a revenue source or an appropriation for the repayment of $7,010,000 in bond' anticipation notes that were due in July 2006. Additionally, we noted overexpenditures in the CRA's 2004-05 fiscal year budget and only cash basis budget-to-actual comparisons were provided to the CRA Board.

Ans: The CRA has begun utilizing the services of City Finance Department staff to a larger extent. This will help to improve the level of financial expertise available on a day-to-day basis which can insure that budget and management accounting and financial reporting is improved.

Finding No. 17: The CRA did not have written policies and procedures for debt issuance providing for a determination as to the amount of financing needed, timing of the needed funds, or availability of financing options. The CRA issued bond anticipation notes without a detailed written plan indicating the purpose of the issuance and how the proceeds would be used. The proceeds of the bond anticipation notes were commingled with the CRA's tax increment funding and other revenues, and a majority of the funds were not used in accordance with the 2001 CRA Plan.

Ans: The CRA recognizes the need for planning on a small project, short-term basis and is making the required adjustments to its methodology, in light of the efforts of State and Local governments to negate its effectiveness with statutory amendments.

Finding No. 18: Expenditures of the CRA were not always supported by receipts or invoices to document that the transactions were valid, served a public purpose, and were in accordance with the CRA Plan. Payments for contractual services were not always supported by invoices detailing the services rendered, were not always in accordance with the written agreement, and one consultant was reimbursed twice for the same expenses.

Ans: Faced with significant restrictions on its ability to effectuate economic development imposed in 2006, the CRA is considering the extent to which its 2001 Plan must be modified. The use of consultants is being monitored more aggressively by the current executive director.

Finding No. 19: CRA Board approval was not provided for some consulting services contracts and some contracts did not contain clearly defined deliverables or total contract costs. For one consulting firm, the CRA paid $849,042 in excess of the CRA Board-approved Work Order and the CRA could not provide documentation to evidence that the tasks outlined in the Work Order had been received. The CRA did not provide a cost/benefit analysis demonstrating that the outsourcing of functions performed by the firm was more cost effective than using CRA employees. In resolving disputed claims from one consultant through the legal process, the CRA spent $150,077 more than the disputed amounts.

Ans: Management will insure that more completely defined contracts are recommended and that the specified services are more clearly defined. The need for cost/benefit analyses are clearly demonstrated by the examples provided.

Finding No. 20: The CRA leased more office space than it required, although some space was subleased to one of the CRA's consultants. In total, the CRA paid $84,235 for office space not utilized or subleased from May 2001 to May 2006. The agreement for the subleased space extended beyond the lease period between the CRA and the landlord and, as of October 2, 2006, the sublessee owed the CRA $32,180 in sublease payments. In addition, the CRA did not provide documentation of sales tax collected or remitted for the sublease payments.

Ans: The CRA will review its office lease and determine what adjustments can be made to reduce the amount of excess space being rented. The amount due from the consultant will be subject to collection efforts in conjunction with the resolution of the disputed payables to that same consultant. The tax consequences of the sales taxes due on the rental of office space will be resolved with the Florida Department of Revenue.

Finding No. 21: The former CRA Executive Director was employed without the benefit of a written agreement clearly documenting the terms and conditions of his employment. Further, the CRA did not provide documentation of CRA Board approval of his compensation for part of the period of his employment. Finally, the CRA treated his compensation as though he were an independent contractor rather than an employee, possibly contrary to the Internal Revenue Code.

Ans: The current CRA Director has a written contract approved by the Board. The CRA management will take what ever steps are required to resolve any possible problems with the Internal Revenue Service and is comfortable that current operations do not encourage these types of problems.

Finding No. 22: The CRA's written agreement with its financial institution did not include restrictions as to where funds in CRA bank accounts could be transferred. Also, the CRA provided for only a single-control procedure in which fund transfers could be made and approved by the same individual.

Ans: Management will review the banking agreements and improve the control of transfers and will consider instituting dual-controls for certain transactions.

Finding No. 23: The CRA did not implement all recommendations made by the Financial Review Advisory Committee in its December 2004 report.

Ans: CRA Management will enhance its efforts to implement the recommendations of the FRAC. However, the implementation of the requirement that the Master Developer repay the CRA's BAN debt is highly unlikely given the reduction in the CRA's ability to offer rights to accelerate development to the Master Developer. When the debts were assumed, the CRA and/or City had the right of eminent domain as well as additional traffic trip exemptions to offer a developer as inducements to bid for the designation of Master Developer. Without those rights, the designation of Master Developer is worth very little and the debts will probably be bourn by the taxpayers of the City.

Finding No. 24: The CRA did not require the Executive Director to maintain a vehicle log for the CRA provided vehicle assigned to him to demonstrate the vehicle usage served primarily a public purpose and to document and calculate the amount of taxable income that should be subjected to employment taxes and reported to the Internal Revenue Service.

Ans: The CRA will begin maintaining a detailed, contemporaneous, written vehicle usage log to demonstrate the public purpose for usage, to determine tax consequences, and to reconcile fuel purchases for the CRA vehicle.

Finding No. 25: The CRA's report of activities for the 2003-04 fiscal year consisted only of its audited financial statements and did not include a description of activities, contrary to law.

Ans: CRA Management will consult with the City and include additional nonfinancial information in the report of activities filed with the Clerk and noticed as to its availability to the public. The report will include descriptions of the progress on CRA projects and plans for future activities.