AUDITOR GENERAL

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DAYTONA BEACH COMMUNITY REDEVELOPMENT AGENCY

Operational Audit

SUMMARY

The Auditor General is authorized by State law to perform independent audits of governmental entities in Florida. Pursuant to Section 11.45(2)(l), Florida Statutes, the Legislative Auditing Committee, at its March 5, 2007, meeting, directed us to conduct an audit of the Daytona Beach Community Redevelopment Agency (CRA). The summary of our findings for the period October 1, 2004, through March 31, 2007, and selected actions taken prior and subsequent thereto, is as follows:

Finding No. 1: We noted several expenditures that were either not authorized by Chapter 163, Part III, Florida Statutes, or not in accordance with CRA Plans.

Finding No. 2: CRA Plans were not in sufficient detail to provide for a determination that CRA expenditures were in accordance with the Plans.

Finding No. 3: Contrary to Section 163.356(3)(c), Florida Statutes, the City Commission did not designate a Chair and Vice Chair of the CRA Board.

Finding No. 4: Contrary to Section 286.011(1), Florida Statutes, the meetings of the CRA Board were not always noticed.

Finding No. 5: The minutes, for the jointly held City Commission and CRA Board meetings, did not indicate, for each official action taken, whether the action was by the City Commission or the CRA Board. Additionally, several minutes were not timely approved.

Finding No. 6: Although the CRA followed City policies and procedures, the CRA Board did not take formal action to adopt the City's policies and procedures for CRA use.

Finding No. 7: The CRA did not always use the appropriate property values to calculate tax increment revenues due from taxing authorities.

Finding No. 8: Tax increment revenue contributions by taxing authorities reported in the City's Comprehensive Annual Financial Report differed from the CRA's receipt records.

Finding No. 9: Amounts due to the CRA from Volusia County for late tax increment contributions were used to offset amounts due by the City to the County.

Finding No. 10: Tax increment revenues received by the CRA were not always timely deposited. Additionally, investment earnings on funds advanced to the City's capital project fund were not recorded to the credit of the CRA.

Finding No. 11: Salaries and benefits charged to the CRA trust fund were not always supported by time records or appropriately allocated.

Finding No. 12: CRA personnel records did not contain documentation that the educational background of a former redevelopment director was verified.

Finding No. 13: Contrary to City policy, severance pay was provided to the former redevelopment director.

Finding No. 14: Vehicle allowances and cellular telephone stipends were granted to employees without documentation justifying the amount of the benefits granted.

Finding No. 15: Disbursement processing procedures could be improved to ensure that purchases are properly approved, the goods or services are received, and invoices are paid only once to vendors.

Finding No. 16: Contributions to other entities were made without the use of written agreements specifying the purpose of the contributions and providing a mechanism whereby the CRA can monitor the use of the moneys. Additionally, CRA Board approval of the contributions was not always documented.

Finding No. 17: Real property was acquired without the use of appraisals or the purchase price exceeded the highest appraisal obtained. Additionally, CRA Board approval was not always documented for the purchase of the property.

Finding No. 18: Competitive selection procedures could be improved to provide for better recordkeeping. Additionally, the contractor utilized for one CRA project was obtained through another entity even though a bid was received by the City for the CRA project.

Finding No. 19: Amounts were billed and paid on contracts for services rendered prior to the date on which the notice to proceed was issued. Contracts did not always require sufficient documentation to be submitted by contractors to provide a basis for payment. Documentation to support one contract amendment and one change order providing for fee increases, and CRA Board approval thereof, could not be provided.

Finding No. 20: The City awarded a large contract to a developer, the only respondent to a request for qualifications and proposals (RFQP), notwithstanding the fact that the developer failed to provide key elements in its response to the RFQP.

Finding No. 21: The CRA's report of activities for the 2004-05 and 2005-06 fiscal years included only the required financial statements, but did not include nonfinancial information that may be of interest to taxing authorities.

Finding No. 22: The City's Internal Auditor reports to management responsible for the activities under review. Additionally, an internal audit of the CRA, issued March 20, 2007, had not been presented to the CRA Board as of July 31, 2007.

BACKGROUND

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 purpose of redeveloping slums and blighted areas that are injurious to the public health, safety, morals, or welfare of the residents of the State. 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. It requires the establishment of a redevelopment trust fund and restricts the use of those funds to redevelopment activities.

Pursuant to the Act, the City of Daytona Beach (City) requested that the Volusia 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 Commission adopted Resolution 81-415, dated December 16, 1981, creating the Daytona Beach Community Redevelopment Agency (CRA). This Resolution also provided for the City Commission to be the Community Redevelopment Agency.

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 the CRA 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.

The CRA has designated five areas within its boundaries; specifically, Main Street, Downtown, Ballough Road, Midtown (formerly Westside), and South Atlantic. Separate accounting of revenues and expenditures are maintained for each of the five CRA areas. A total of four separate CRA Plans were prepared as follows: (1) the Main Street Redevelopment Area Plan (last amended in 2000), (2) the Downtown-Ballough Road Redevelopment Area Plan (last amended in 2002), (3) the Midtown Redevelopment Area Plan (last amended in 2004), and (4) the South Atlantic Redevelopment Area Plan (created in 2001). Further, three advisory boards were established as follows: (1) for the Main Street and South Atlantic areas, (2) for the Downtown-Ballough Road areas, and (3) for the Midtown area.

Section 163.356(3)(c), Florida Statutes, authorizes a CRA to employ an executive director, technical experts, and other such agents and employees, permanent and temporary, as it requires. Although the CRA is a separate legal entity, the functions and activities of the

CRA are generally carried out by the Redevelopment Services Department of the City of Daytona Beach, which reports to the City Manager (see organizational chart as Appendix A). The positions of redevelopment director, redevelopment technician, two project managers, and an office specialist comprise the Redevelopment Services Department of the City and are fully funded by the CRA. Salaries of other City employees that perform CRA functions and activities on a less-than-full-time basis are prorated and partially paid from CRA funds. Although not formally adopted by the CRA Board, the CRA follows City policies and procedures (see finding No. 6).

FINDINGS AND RECOMMENDATIONS

Management of the CRA

Finding No. 1: Use of CRA Funds

Section 163.387(1)(a), Florida Statutes, requires funds allocated to, and deposited in, the CRA trust fund to be used to finance or refinance community redevelopment. "Redevelopment" is defined in Section 163.340(9), Florida Statutes, as undertakings, activities, or projects in a community redevelopment area for the elimination and prevention of the development or spread of slums and blight; or for the reduction or prevention of crime; or for the provision of affordable housing, and may include slum clearance and redevelopment in a community redevelopment area; or rehabilitation and revitalization of coastal resort and tourist areas that are deteriorating and economically distressed. Section 163.387(6), Florida Statutes, provides that moneys in the CRA trust fund may be expended for undertakings of the CRA as described in the CRA Plan, including, but not limited to:

- Administrative and overhead expenses necessary or incidental to the implementation of the CRA Plan.
- Expenses of redevelopment planning, surveys, and financial analysis.
- Acquisition costs of real property in the redevelopment area.
- Clearance and preparation costs of the redevelopment area for redevelopment and relocation of site occupants.
- Repayment of principal and interest or any redemption premium for any form of indebtedness.
- Expenses incidental to, or connected with, the issuance, sale, redemption, retirement or purchase of any form of indebtedness, including funding accounts provided for in related ordinances or resolutions authorizing the indebtedness.
- Costs for the development of affordable housing within the community redevelopment area.
- Costs for the development of community policing innovations.

Furthermore, Sections 163.370(3)(a) through (c), Florida Statutes, set forth the prohibited uses of CRA funds, which includes general government operating expenses unrelated to the planning and carrying out of a CRA plan.

Promotional Expenditures. During the audit period, the CRA expended moneys from the CRA trust fund for promotional expenses, such as payments to the promoters of Bike Weeks, Beach Street Barbeque Festival, Bill McCoy Rum Festival, Lalo Kaona Festival, Bayou Boil, and Martini Walk. Amounts expended on promotional activities during the audit period are shown in Table 1.

TABLE 1
CRA Expenditures for Promotional Activities

CRA Area	Amount
Main Street	$ 83,439
Downtown	285,317
Ballough Road	0
Midtown	1,445
South Atlantic	0
Total	**$307,201**

The South Atlantic and Downtown-Ballough Road CRA Plans specifically prohibit the use of tax increment revenues for promotional expenditures. Although related to objectives set forth in the Main Street CRA Plans, these promotional expenditures do not appear to qualify as "redevelopment" as defined in Section 163.340, Florida Statutes, or satisfy the purposes authorized by Section 163.387(6), Florida Statutes.

Police-Related Expenditures. As noted above, certain expenditures, including community policing innovations, are authorized if they are described in the CRA Plan. Although none of the CRA Plans contained community policing innovations, we noted expenditures for the purchase of police vehicles and operating expenses that were recorded in the Main Street and Downtown CRA area accounts. Police vehicles were acquired with CRA funds in October 2004 (five vehicles totaling $98,055) and March 2007 (four vehicles totaling $74,468). In response to our inquiry regarding the authority to purchase police vehicles with CRA funds, the Finance Director stated that the vehicles purchased in 2004 were intended for regular City patrols, but were charged to the Main Street CRA area account in error. The Finance Director also stated that five police vehicles (totaling $99,530) purchased with general fund moneys in 2002 had been used extensively in the redevelopment areas when they were placed in service during January and February 2004. The Finance Director further indicated that a cost adjustment would be made to both the CRA trust fund and the general fund for the differences in vehicle costs for the 2002 and 2004 purchases.

During the 2004-05 fiscal year, $295,861 was paid for police operating expenditures from the Main Street CRA area account; and for the period October 1, 2006, through March 31, 2007, police operating expenditures of approximately $170,380 and $211,954 were paid from the Downtown and the Main Street CRA area accounts, respectively.

Absent the CRA's Plan including community policing innovations, and the need for the vehicles to implement those innovations, the vehicle purchases and the police-related operating expenditures do not appear to be authorized pursuant to Section 163.387(6), Florida Statutes.

Other Questioned Expenditures. The CRA expended $97,693 for lobbying services, $82,909 for electric bills for street lights, $3,208 for food and beverages; $2,217 for general operating expenses (dues, board member tours, City employee training); and other expenditures totaling $3,178 that the CRA was unable to justify as appropriate uses of CRA funds. These expenditures do not appear to qualify as "redevelopment" as defined in Section 163.340(9), Florida Statutes, or satisfy the purposes authorized by Section 163.387(6), Florida Statutes. Further, general government operating expenses unrelated to the planning and carrying out of a CRA plan are specifically prohibited by Section 163.370(3)(c), Florida Statutes. Various other expenditures we reviewed that did not appear to be either for purposes of redevelopment or included in the CRA Plans are discussed in subsequent findings (see finding Nos. 9, 11, and 16).

Recommendation: The CRA should request reimbursement from the City for CRA funds that were either not authorized by Chapter 163, Part III, Florida Statutes, or not in accordance with CRA Plans. In addition, procedures should be adopted to ensure that CRA trust fund expenditures are authorized pursuant to Chapter 163, Part III, Florida Statutes, and CRA Plans.

Follow-up to Management Response

In his response, the Redevelopment Director stated that it is the CRA's understanding that CRA fund expenditures discussed in the finding were budgeted and used for CRA purposes in accordance with State law and local plans and that applicable statutes provide that CRAs make expenditures to further the goals of adopted redevelopment plans. He also stated that it is the CRA's understanding that the use of redevelopment funds for promotional expenditures are allowable if they are consistent with the policies of a CRA plan and quoted policies from the Downtown/Ballough Road CRA plan that "encourage" or "support" development, promotion, and improvements in the redevelopment area.

Local governments that have not been afforded home rule powers, such as community redevelopment agencies, possess only those powers specifically granted in law. Therefore, the CRA must demonstrate specific authority in law to incur expenditures.

The Redevelopment Director has not identified any specific legal authority for promotional expenditures from funds restricted to redevelopment. While we agree that CRA expenditures are required to be in accordance with redevelopment plans, such expenditures are limited to redevelopment activities (as defined by law), and general government operating expenses unrelated to planning and carrying out redevelopment plans are specifically prohibited by law. Therefore, the CRA could not legitimize the use of CRA moneys for promotional expenditures through inclusion of such expenditures in its CRA plan or in its budget.

Finding No. 2: Contents of CRA Plans

Section 163.362, Florida Statutes, provides requirements for the contents of community redevelopment plans (CRA plans). However, the requirements regarding the contents of CRA plans vary widely depending on when a CRA approved and adopted its CRA Plan. Pursuant to Chapter 84-356, Laws of Florida, CRAs created after June 25, 1984, are required to provide detailed CRA plans, including the projects that will be undertaken, the financing of those projects, and time frames. Since the Daytona Beach CRA was created in 1981, and had an approved and adopted CRA plan as of June 25, 1984, it is not required to provide the level of detail required of newer CRAs. The Daytona Beach CRA Plans present varying degrees of specificity as to what projects will be accomplished in the CRA redevelopment effort within a designated area. Most contain some general objectives that are vague regarding the method of accomplishment and very few specific projects with long range accomplishment dates (e.g., within the next 10 years).

In response to several of our inquiries regarding the statutory authority or inclusion in the CRA Plans for various expenditures, the CRA indicated that it was not required by the Community Redevelopment Act to be specific in its CRA Plans as to the projects it will undertake or how CRA moneys will be spent. The CRA stated that the Act "confers upon the City broad authority to take various actions that 'are necessary or convenient' to carry out the Act's objectives."

In response to our request for the reference in the CRA Plans providing for community policing innovations to support expenditures for the acquisition of police cars and operating expenses (see discussion in finding No. 1), the Redevelopment Director indicated that the Main Street CRA Plan contains an objective for "the stimulation and attraction of private investment in the redevelopment area" and that "the Plan identifies the high incidence of personal and property crimes, drugs, and prostitution as factors that discourage private investment." The Redevelopment Director also indicated similar justifications regarding the Downtown-Ballough Road CRA Plan.

While the Act does not require the specificity of project details for those CRAs created before 1984, the CRA is bound by Section 163.387(6), Florida Statutes, which requires any expenditures from the CRA trust fund to be in accordance with that which is described in the CRA Plans. Therefore, CRA Plans should describe in sufficient detail the intended projects and expenditures. As a result of insufficient descriptions in the CRA Plans regarding the specific projects contemplated to accomplish redevelopment in the CRA areas, we determined that several expenditures did not appear to be authorized in the CRA Plans, as noted in finding No. 1.

Recommendation: The CRA should revise its CRA Plans to include sufficient detail to demonstrate that expenditures of CRA funds are in accordance with Section 163.387(6), Florida Statutes. Such details would also serve to provide additional information to the taxing authorities required to contribute to the CRA and the public as to the intentions of the CRA and how it will accomplish its redevelopment objectives.

Finding No. 3: Appointment of CRA Chair and Vice Chair

Section 163.356(3)(c), Florida Statutes, provides that the governing body of the municipality shall designate a CRA Chair and Vice Chair from among the commissioners. In Attorney General Opinion No. 91-49, the Florida Attorney General stated, "I find no provision in Part III, Chapter 163, F.S., which authorizes or otherwise empowers the automatic assumption of the chairmanship by the mayor." The opinion further provided "that the city commission must designate the

chairman and vice chairman… regardless of whether the commission has designated itself as the community redevelopment agency."

Although requested, we were not provided documentation of the CRA Chair and Vice Chair designations being made pursuant to Section 163.356(3)(c), Florida Statutes, for the period October 1, 2004, through March 31, 2007.

Recommendation: The City Commission should designate the CRA Chair and Vice Chair as required by Section 163.356(3)(c), Florida Statutes, and document such designation in the meeting minutes of the governing board.

Finding No. 4: Public Notice of Meetings

Pursuant to Section 286.011(1), Florida Statutes, all meetings of any agency or authority of any county, municipal corporation, or political subdivision, at which official acts are to be taken are declared to be public meetings open to the public at all times, and no resolution, rule, or formal action shall be considered binding except as taken or made at such meeting. The board or commission must provide reasonable notice of all such meetings. Additionally, Section 163.357(1)(a), Florida Statutes, provides that the governing body may, at the time of adoption of a resolution under Section 163.355, Florida Statutes, or at any time thereafter by adoption of a resolution, declare itself to be an agency, in which case all the rights, powers, duties, privileges, and immunities vested by this part in an agency will be vested in the governing body of the county or municipality, subject to all responsibilities and liabilities imposed or incurred. Section 163.357(1)(b), Florida Statutes, further states that the members of the governing body shall be members of the agency, but such members constitute the head of a legal entity, separate, distinct, and independent from the governing body of the county or municipality.

As the City Commission has declared itself to be the governing body of the CRA pursuant to Section 163.357, Florida Statutes, the meetings during which actions related to the CRA were to be taken were required to be publicly noticed. As further discussed in finding No. 5, generally a single meeting is held for both City and CRA business. Our review of the City/CRA meeting minutes disclosed that during 56 of 60 meetings held during the period October 1, 2004, through March 31, 2007, CRA business was discussed. Our review of the public notices for 21 of these meetings revealed 20 instances where CRA actions were taken, but the meeting notice only indicated that the meeting was of the City Commission and, as a result, the meeting of the CRA Board was not noticed.

Recommendation: The City Commission meetings that will include CRA business discussions should be properly noticed as both City Commission and CRA Board meetings, or the CRA Board meetings should be separately noticed and held.

Finding No. 5: CRA Board Meeting Minutes

Section 286.011, Florida Statutes, provides that the minutes of a meeting of any board or commission of any authority of any county, municipal corporation, or political subdivision shall be promptly recorded, and such records shall be open to public inspection.

Our review of the minutes of the City Commission meetings disclosed that on most occasions a single meeting served as meetings of both the City Commission and the CRA Board, and only one set of minutes comprising all actions for both entities was prepared and labeled as minutes of the City Commission. Our review of the minutes of the meetings held jointly by the City and the CRA disclosed the following:

- The minutes did not indicate, for each official action taken, whether the action was by the City Commission or the CRA Board. Although both entities are governed by the same individuals, identifying which governing body took action may be critical in determining compliance with law as there are some actions that can be taken by a municipality, but not by a CRA, and vice versa. For example, as noted by the Attorney General in Opinion No. 2001-30, a CRA is authorized to loan moneys to a private business for start-up costs

within the CRA area, whereas a municipality would not be authorized to make such a loan directly to a private business.

- Several minutes that included CRA business were not timely approved. Pursuant to Article IV, Section 7 of the City Charter, the City Commission must meet at least twice each month. While Section 286.011(2), Florida Statutes, does not specify a time period in which minutes should be approved, for our purposes, we considered approval of transcribed minutes within 30 days to be prompt. Our review disclosed that between October 1, 2004, and March 31, 2007, 43 of 56 jointly held meeting minutes that were approved of record were not timely approved by the City Commission or CRA Board. All of the untimely approvals noted occurred prior to January 2007. The untimely approvals ranged from 35 to 477 days after the meeting date.

Recommendation: For jointly held meetings of the City Commission and the CRA Board, a clear distinction should be made in the meeting minutes as to which governing body is taking action. Also, the CRA should ensure that all meeting minutes are transcribed, reviewed, corrected if necessary, and approved by the CRA Board in a timely manner.

Finding No. 6: Policies and Procedures

As stated in the Background, CRA functions and activities were conducted by City employees following City policies and procedures. However, the CRA Board did not take formal action to adopt the City's policies and procedures for the CRA. Since the CRA is a separate legal entity, the CRA Board should either formally adopt the City's policies and procedures or adopt other unique policies and procedures.

Recommendation: The CRA Board should formally adopt policies and procedures for the CRA.

Revenues and Cash Receipts

Finding No. 7: Tax Increment Funding

Pursuant to Section 163.387(1)(a), Florida Statutes, the annual tax increment funding contribution to be paid to the CRA trust fund by the taxing authorities is equal to, with certain exceptions, 95 percent of the difference between: (1) ad valorem taxes levied each year by each taxing authority, exclusive of any amount from any debt service millage, on taxable real property contained within the geographic boundaries of a community redevelopment area, and (2) the ad valorem taxes which would have been produced by the rate upon which the tax is levied each year by or for each taxing authority, exclusive of any debt service millage, upon the total assessed value of the taxable real property in the community redevelopment area prior to the creation of the CRA.

The CRA calculates and invoices each taxing authority for the annual tax increment funding. However, during the audit period, the tax increment contribution to be received from the Downtown Development Authority (DDA) was incorrectly calculated, as noted below:

For the 2004 tax year (2004-05 fiscal year), the CRA used the preliminary property value of $97,461,075, which, according to the Finance Director's response to our inquiry, was obtained via telephone from the County Property Appraiser's Office, and no documentation was received from the Property Appraiser to support the amount. The final assessed value of real property reported by the Property Appraiser for the DDA totaled $98,700,210, resulting in a tax increment underpayment of $1,722 from the DDA.

The calculation for the 2006 tax year (2006-07 fiscal year) was performed using a property value totaling $171,452,572, which included personal property, rather than the real property value of $122,229,136. As a result, the DDA contributed an additional $46,762 to the CRA trust fund. Subsequently, the CRA made a transfer during the 2006-07 fiscal year to the DDA, which included a refund of the overpayment (see finding No. 16).

Recommendation: The CRA should implement procedures to ensure the correct real property values are used in determining the tax increment funding.

Follow-up to Management Response

In his response, the Redevelopment Director indicated that the instances of errors in calculating tax increment revenues were addressed immediately after the clerical error was discovered. However, other than the transfer of funds discussed in finding No. 16, he did not provide documentation to support the correction of the errors. The Redevelopment Director did, however, indicate that procedures have been implemented to ensure that correct real property values are used in the future.

Finding No. 8: Reporting Taxing Authority Contributions

The City reports the CRA trust fund as a special revenue fund in its Comprehensive Annual Financial Report (CAFR). The CAFR issued for the fiscal year ending September 30, 2006, included a schedule of the tax increment funding contributions to the CRA trust fund made by each taxing authority. However, a comparison of the CRA receipt records from each taxing authority with the tax increment funding contributions reported in the City's CAFR disclosed differences as shown in Table 2:

TABLE 2
Tax Increment Funding Contributions
For the Fiscal Year Ended September 30, 2006

Taxing Authority	Amount per CRA Receipt Records	Amount per City's CAFR	Difference
City of Daytona Beach	$4,279,200	$4,464,509	$185,309
Volusia County	3,383,631	3,338,562	(45,069)
East Volusia Mosquito Control	151,945	149,923	(2,022)
Volusia Echo	127,685	125,982	(1,703)
Volusia Forever	109,490	-0-	(109,490)
Ponce DeLeon Inlet & Port District	57,459	56,691	(768)
Halifax Hospital Medical Center	1,915,262	1,889,750	(25,512)
Daytona Beach Downtown Development Authority	58,010	57,262	(748)
Total	**$10,082,682**	**$10,082,679**	**$ 3**

Although requested, we were not provided an explanation as to the differences in the amounts received by the CRA and the amounts reported for each taxing authority in the City's CAFR.

Recommendation: The CRA should consult with City staff to ensure that the amounts received from the taxing authorities are correctly reported in the City's CAFR.

Finding No. 9: Late Tax Increment Payments

As noted in our report No. 2006-186, finding No. 1, tax increment funding received by the CRA from Volusia County (County) for the 2003 tax year was received eight days late, and the CRA had not assessed the additional five percent ($104,525) and interest ($4,720), totaling

$109,245, as required under Section 163.387, Florida Statutes (2003).

In response to our audit, in June 2006, the CRA submitted an invoice to the County for the additional five percent ($104,525), but not the interest. The County remitted a check in the amount of $907 for lost interest that the County contended the CRA would have earned had the payment been received by January 1. The CRA indicated it could not accept the County's $907 check as a settlement for the additional five percent and interest. Subsequent correspondence between the CRA and the County resulted in an agreement that the additional five percent and interest assessed to the County would offset the costs, totaling $125,000, that the County was owed by the City for events (Bike Weeks, Black College Reunion, Cheerleading Competitions, among others) held during the 2005-06 and 2006-07 fiscal years, at the County-owned Ocean Center, which is located within the Main Street CRA area. However, Section 163.370(3)(c), Florida Statutes, prohibits the use of tax increment revenues to pay for general government operating expenses unrelated to the planning and carrying out of the CRA Plan. Accordingly, the agreement between the CRA and the County, whereby the additional five percent and interest to be deposited to the CRA trust fund were used to offset the City's operating expenses for the use of the County-owned facility, is not authorized by law.

Recommendation: The City should reimburse the CRA trust fund for the amount of the additional five percent and interest totaling $109,245.

Follow-up to Management Response

In his response, the Redevelopment Director indicated that the County provided services to the CRA in the amount of $125,429.88. However, he did not provide supporting documentation for the services provided to the CRA. As noted in our finding, the amounts used to offset tax increment revenues were for City events, not CRA services.

Finding No. 10: Investment of CRA Funds

Our review of the annual tax increment funding contributions received from the taxing authorities disclosed that the 2005 tax year contribution received from the Halifax Hospital Medical Center, totaling $1,915,262, was held by the City for 12 days prior to deposit. CRA records indicated the payment was received on December 16, 2005, and processed by the Central Cashier on December 23, 2005, but the check was not deposited into the bank account until December 28, 2005. The untimely deposit of receipts increases the risk of loss or misappropriation of CRA assets and a loss of interest earnings. Based upon the State Board of Administration's Local Government Surplus Funds Trust Fund interest rate of 4.19 percent paid in December 2005, this untimely deposit resulted in lost interest earnings of approximately $2,600.

Additionally, CRA funds were transferred to the City's capital projects fund during the 2002-03 and 2003-04 fiscal years in the amount of $600,000 each fiscal year. In response to our inquiry regarding the uses of the $1,200,000, City personnel stated that the funds were advanced for CRA projects. During the 2003-04, 2004-05, 2005-06, and 2006-07 fiscal years, approximately $1,006,704 was expended on the Main Street streetscape project. However, during that time, interest earnings on the advanced funds was not recorded in the capital projects fund or otherwise identified as moneys to be used for CRA projects. Had the advanced funds been invested with the State Board of Administration's Local Government Surplus Funds Trust Fund, interest earnings would have been approximately $79,500.

Recommendation: The CRA should strengthen its receipt depositing procedures to ensure that deposits are made timely to reduce the risk of loss and maximize interest earnings. Also, the CRA should either submit an invoice to the City for the interest earnings on funds held in the City's capital projects fund or ensure that interest earned on these funds are credited to the capital projects fund and used only on CRA projects.

Payroll and Personnel Administration

Finding No. 11: CRA Salary Expenses

The positions of redevelopment director, redevelopment technician, two project managers, and an office

specialist, that comprise the Redevelopment Services Department, were paid by the CRA trust fund. During the 2004-05 and 2005-06 fiscal years, the salary expenses for these positions were allocated to each of the redevelopment area accounts based upon a predetermined percentage. Also during this period, certain City personnel, including code enforcement officers, Development Services personnel, police officers (2004-05 fiscal year), City Attorney personnel, and Public Works employees had all or part of their salary expenses charged to the CRA trust fund without records documenting the time spent on CRA or City activities. Consequently, the CRA could not document that all salary expenses charged to the CRA trust fund were related to CRA activities.

The City changed its policy for the 2006-07 fiscal year whereby the Redevelopment Services Department employee salaries were charged to the Downtown CRA area, and other City personnel were required to document the time spent on CRA activities. However, three Public Works positions and up to five code enforcement officers were paid $57,978 and $152,310, respectively, in salary expenses that were funded with CRA trust fund moneys, and records were not maintained to document the actual time worked on CRA or City activities. Additionally, various police officer salary expenses, totaling $373,261, were funded with CRA trust fund moneys from the Downtown and Main Street CRA area accounts (see further discussion in finding No. 1). We were informed by code enforcement officers that their assigned enforcement areas are larger than the specific redevelopment area included in their assigned area. While their work involves City and CRA activities, their entire salary expenses were paid with the CRA trust fund moneys. Records maintained by the code enforcement officers adequately document the locations of their activities, and, if utilized effectively, could provide the basis for the allocation of their salaries. We also noted that during the 2006-07 fiscal year, the Finance Department personnel charged time to the CRA, resulting in salaries totaling $36,368 being charged to the CRA trust fund through March 31, 2007; however, records were not maintained to document the CRA activity involved.

Furthermore, during the 2005-06 fiscal year, CRA funds in the amount of $171,871 were transferred to the City's general fund. In response to our inquiry, the Finance Director provided a memorandum from the Cultural Services Administrator stating that the funds were used to pay for additional City staff positions that had been approved by City management. The memorandum further stated that these positions were responsible for CRA activities at the Oceanfront Bandshell, Peabody Auditorium, and Beach Street locations. However, the memorandum did not provide the extent to which the positions were working on CRA, as opposed to City, activities.

Recommendation: Procedures should be implemented to ensure that actual time spent by employees on CRA activities is supported by documentation, such as timesheets, and that such documentation supports salaries and benefits paid by the CRA trust fund.

Follow-up to Management Response

In his response, the Redevelopment Director indicated that the City concurred with the recommendation provided in the previous audit of the CRA and implemented a process where only actual time spent is charged to the CRA funds. Although a process was implemented to require time records that document the amounts charged to the CRA for employee salaries and benefits, as noted in our finding, such records were not always maintained and did not always represent actual time spent on CRA activities (e.g., code enforcement officers).

Finding No. 12: Qualification of New Hires

Section 70-28(a) of the City's Code of Ordinances states that all applicants for classified or exempt positions must submit a completed application form and proof of meeting the qualifications specified for the position classification. In addition, Section 70-61 of the City's Code of Ordinances provides for the City Manager to approve, maintain, and modify, as appropriate, a position classification plan for all positions of employment in the City, and have job descriptions for each position, which include, but are not limited to, required knowledge, skills and abilities and required training and experience.

Our test of four new hires for the positions of redevelopment director, project manager, and office specialist within the Redevelopment Services Department disclosed that the personnel records did not contain documentation that the educational background of a former redevelopment director, hired on March 21, 2005, was verified. Absent such verification of a job candidate's educational background, the CRA would be unable to determine whether the candidate had the educational qualifications required for the position sought.

Recommendation: CRA procedures should be developed and implemented to verify potential employees' educational background prior to offering employment. Also, documentation of the verification process should be maintained.

Finding No. 13: Severance Pay

Section 70-122(e) of the City's Code of Ordinances provides that an exempt employee whose employment is terminated without cause by the City Commission or City Manager shall receive severance pay in an amount equal to one month of the employee's salary at the time of termination for each year of service, up to a maximum amount equal to 60 work days of salary.

The former redevelopment director submitted a letter of resignation with an effective date of April 28, 2006. Since this was a resignation, and not a termination, the former redevelopment director was not eligible for severance pay pursuant to City policy. However, the former redevelopment director remained on the CRA payroll through the July 22, 2006, pay period. As a result, the former redevelopment director was paid, or received benefits, from the CRA trust fund totaling $28,433, for the following:

- Salary for 60 days totaling $25,690, which included 58 days of administrative time ($24,850) and 2 holidays ($840) that occurred after the termination date.
- Vehicle allowances and cellular telephone stipends, totaling $1,300 and $237, respectively, for the pay periods May 6, 2006, through July 22, 2006.
- Group life insurance premiums totaling $16.
- Personal leave payout of $840 due to the accruing of additional hours per month for three months after the April 2006 termination date.
- Employee appreciation payment (one day's leave granted to employees on their employment anniversary date) of $350 was paid during the June 26, 2006, pay period. The City's policy requires the employee to use the employee appreciation day as leave on the anniversary date of the employee's hiring, with certain exceptions. The policy also requires that the leave be taken prior to the fiscal year end. However, the policy does not indicate that the employee may be paid in lieu of using it as leave.

We also requested documentation for any additional employer-paid benefits during the severance period, such as health and dental insurance and retirement contributions. The Human Resources Director indicated that the exact amounts could not be confirmed.

In response to our inquiry regarding the authority to pay these amounts to the former redevelopment director and our request for the CRA Board minutes approving these payments, we were provided a copy of Section 70-122 of the Employee Manual, which reiterates the City's Code of Ordinances. We were not provided the CRA meeting minutes authorizing these payments.

Recommendation: CRA procedures should be strengthened to ensure that severance pay is granted and calculated in accordance with the City's Code of Ordinances and CRA policy in effect at the time. Also, the CRA should seek repayment of the excess funds from the former redevelopment director.

Follow-up to Management Response

In his response, the Redevelopment Director stated that the payment of the severance pay is in accordance with personnel practices. However, the Redevelopment Director did not indicate how the payment of severance pay to an employee who resigns is in accordance with a City policy that allows for severance pay only when employment is terminated without cause.

Finding No. 14: Fringe Benefits

Prior to the 2006-07 fiscal year, employee salaries and benefits that were partially allocated to the CRA trust fund were allocated based on percentage of work, which was not documented by time records. Beginning in the 2006-07 fiscal year, salaries were allocated to the CRA trust fund based on actual time recorded as CRA activities, but benefits were not allocated to the CRA trust fund. For employees fully funded by the CRA, both salaries and benefits were charged to the CRA trust fund.

Vehicle Allowances. City Management Policy No. 18 provides guidance on the use of City-owned vehicles and for employees receiving a weekly vehicle allowance. City Management Policy No. 18, Section C.4., states, "Employees who use their private vehicles every day in the pursuit of their official duties may be paid a flat rate car allowance. Final approval must be obtained from the City Manager."

Our review of expenditures disclosed that vehicle allowances totaling $46,060 were paid to 24 employees from the CRA trust fund. Although requested, we were not provided documentation to support the basis for the amount of vehicle allowances paid to the employees. In response to our request for documentation, we were provided a copy of the policy noted above, and the Finance Director stated that "the auto allowances are approved via the City Commission during the annual budget and are under the purview of the City Manager."

Cellular Telephone Stipends. City Management Policy No. 70, provides the granting to an employee a weekly cellular telephone stipend, based upon the determination by the director of the employee's department that the employee's productivity and efficiency can benefit from its use. The Policy further states that the Department Director, at least once a year, shall confirm that the employees receiving a cellular telephone stipend are maintaining acceptable service and the employees' cellular telephone numbers must be provided to their supervisors.

Our review of expenditures disclosed that cellular telephone stipends totaling $2,679 had been paid to 13 employees from the CRA trust fund. In response to our request for documentation establishing the stipend amount for eight employees receiving weekly stipends ranging from $1.56 to $18.23, the Finance Director provided a copy of the above-noted policy and stated "the cell phone stipends are approved via the City Commission during the annual budget and are under the purview of the City Manager." Absent documentation of management review of the employee's business and personal use of their cellular telephone, the CRA cannot ensure that the cellular telephone stipend is a necessary and reasonable expense for conducting CRA business.

Since CRA trust fund moneys are restricted to specified uses, any fringe benefits charged to the CRA trust fund must be documented by records supporting the amount charged as being a reasonable expense for conducting CRA business. Examples include an employee's certification and documentation of the average weekly miles driven or average cellular telephone minutes expended for CRA business purposes.

Recommendation: The CRA should adopt a policy that ensures that vehicle allowances and cellular telephone stipends paid from the CRA trust fund are based upon reasonable documentation supporting the business use for CRA purposes.

Follow-up to Management Response

In his response, the Redevelopment Director stated that the City already has a standard management policy for vehicle allowances and telephone stipends. However, the point of our finding is that vehicle allowances should be supported by documentation that justifies the amount of the allowance granted and the amount allocated to the CRA, and cellular telephone stipends should be supported by documentation that justifies the business use and the amount allocated to the CRA.

Procurement of Goods and Services

Finding No. 15: Disbursements Processing

Our test of 28 CRA trust fund expenditures disclosed the following in the CRA's disbursement processing procedures that may limit the CRA's ability to ensure that goods and services are received in the quantity and quality contemplated by management's authorization:

- In five instances, for purchases ranging from $153 to $2,997, a requisition was not prepared or had not been properly approved prior to the ordering of the goods and services. Requisitions were required for all purchases except procurement card purchases (up to $300) or for "field order" purchases (up to $100) and none of the five instances were procurement card or field order purchases below the established limits. Of these five instances, one involved the requestor approving the requisition to initiate the purchase order and, in the other four instances, a requisition had not been prepared, therefore, a purchase order was not issued. We also noted two instances, involving purchases totaling $1,565 for light fixtures and $7,910 for landscape maintenance services, in which a purchase order was issued after the invoice date for the goods and services. Purchase orders serve to document management's authorization to acquire goods and services, and the specifications and prices of goods and services ordered, provide a basis for controlling the use of appropriated resources through encumbrances, and authorize vendors to provide goods and services to the ordering agency.
- In 21 instances, supporting documentation for payments to vendors lacked a signature and date evidencing that goods and services were received, inspected, and approved by an appropriate employee. While City procedures required the department receiving the goods or services to record the receiving information in the purchasing system, a record of this information was not maintained. Signatures from appropriate personnel are necessary to ensure that the goods and services ordered have been received and are in good order. Dates that goods or services were received are also necessary for a proper reporting of accounts payable in the financial statements and may be needed to evidence compliance with the Florida Prompt Payment Act (Chapter 218, Part VII, Florida Statutes), which establishes procedures and time limits for processing and paying invoices submitted by vendors to local governmental entities.
- For all 28 expenditures tested, invoices supporting payments were not properly canceled or stamped as paid after payment. Failure to cancel invoices increases the risk of duplicate payments.

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

Recommendation: The CRA should ensure that requisitions and purchase orders are used to document the approval of purchases prior to incurring an obligation for payment. Additionally, the CRA should ensure that expenditure documentation includes evidence that goods and services were received and approved by authorized personnel, that a proper pre-audit of supporting documentation is conducted prior to payment, and that invoices are canceled when paid.

Contractual Services

Finding No. 16: Contributions to Other Entities

Our review disclosed instances in which the CRA paid moneys to other entities without the benefit of a written agreement detailing the purposes of the remittances, the benefit provided to the CRA, and provisions providing a mechanism whereby the CRA could monitor the use of those moneys. Specifically, we noted the following:

Downtown Development Authority. The City created the Downtown Development Authority (DDA) pursuant to Section 5, Sub-part E of the City Charter for Daytona Beach. The DDA is a taxing authority for tax increment funding purposes for the CRA, as noted in finding No. 7.

According to the CRA's records, payments from the Downtown CRA area account were made to the DDA and recorded as "Payment to Component Unit" for the 2004-05, 2005-06, and 2006-07 fiscal years in the amounts of $52,653, $58,010, and $126,445, respectively. In response to our request for documentation evidencing the purposes for the transfers and the CRA Board approval for these transfers, the Finance Director

stated that the City Commission approved the transfers by adopting the budget. Another response from the Finance Director indicated that a portion of the transfer to the DDA made during the 2006-07 fiscal year was attributed to the excess DDA tax increment funding contribution made for the 2006 tax year (see finding No. 7). We were not, however, provided documentation of the proposed uses of the remaining funds or an agreement between the CRA and the DDA. Absent such documentation, the CRA has not established that the funds were used in accordance with the CRA Plan or authorized statutory uses.

Nonprofit Entity. According to Attorney General Opinion No. 79-56, the Supreme Court has held that a governmental entity may use a nonprofit corporation as a medium to accomplish a public purpose provided that certain conditions are met. First, there must be a clearly identified and concrete public purpose as the primary objective and a reasonable expectation that such purpose will be substantially and effectively accomplished. Also, the governmental entity must retain sufficient control over the use of the public funds by the nonprofit corporation to assure accomplishment of the public purpose.

Our review disclosed payments totaling $50,000 to a cemetery (a nonprofit entity) without clearly identifying the public purpose as the primary objective, or exercising the necessary control to ensure that the moneys contributed benefited the CRA. Although requested, we were not provided a written agreement describing the purposes for which the moneys were contributed or a mechanism whereby the CRA was assured that the moneys were expended by the nonprofit as intended. According to minutes of a CRA advisory board meeting, the cemetery requested funds to pay for repairs and renovation of its grounds. However, procedures were not performed by the CRA to determine the ultimate use of those moneys.

Recommendation: The CRA should utilize written agreements, including appropriate monitoring provisions, to document the authorized uses of CRA moneys transferred to other governmental and nonprofit entities, and conduct periodic reviews of the entities' records to ensure moneys were used as agreed.

Finding No. 17: Property Acquisitions

In August, September, and October 2003, five parcels of real property were purchased for $5,133,000 and a City-owned vacant lot for use in the Boardwalk Mixed-use CRA project (see further discussion in finding No. 20). Although the properties were titled in the City's name, the properties were purchased with CRA moneys.

In connection with these purchases, we noted the following:

- For one parcel purchased, the highest appraised value was $1,160,000; however, the purchase price included the $1,160,000 plus a vacant lot, which the closing statement indicated was worth $400,000. Neither the City nor the CRA acquired an appraisal for the vacant property. For another parcel, the purchase price exceeded the highest appraised value by a total of $171,000. The parcel was appraised at $490,000 and purchased for $661,000. Although requested, we were not provided justification for the acquisition price that exceeded the appraised values.
- In addition to purchasing parcels of real property, leasehold interests associated with two of the parcels were purchased for $425,000 and $377,000. A leasehold value of $225,000 was determined by one of the appraisal firms for the leasehold interest purchased for $425,000. No leasehold value was obtained for the leasehold interest purchased for $377,000. Although requested, we were not provided with an explanation or justification as to why more was paid than the amount valued for the first parcel or why an appraised value was not obtained for the second parcel.
- Section 30-81 of the City's Code of Ordinances requires all expenditures exceeding $25,000, including expenditures for real property, to be

authorized and directed by resolution of the City Commission, and the contract approved by the City Manager and the City Commission. Although requested, we were not provided with documentation evidencing the City Commission's or CRA Board's approval for the purchase of four of the parcels.

Good business practices suggest that appraisals be obtained for any real estate transactions and that the justifications for any purchases that exceed appraised values be documented. Furthermore, review and approval by the CRA Board prior to expenditure of CRA moneys is essential in ensuring that the CRA Board's intentions are met, and approval by the City Commission is required by the City's Code of Ordinances.

Recommendation: The CRA should implement procedures to ensure that appraisals are obtained prior to purchasing property, justifications for paying more than appraised values are documented, and CRA Board and City Commission approval is obtained prior to the purchase of property.

Finding No. 18: Competitive Selection Procedures

Our review disclosed several instances in which the CRA did not always follow good business practices or comply with applicable regulations when procuring contracts for CRA projects, as noted below.

- The CRA did not maintain date and time stamped bid envelopes as part of its standard operating procedures. As such, the CRA could not demonstrate that the bids considered, and the bid awarded, were received by the bid closing date.
- The CRA did not maintain documentation signed by those individuals in attendance at bid openings as part of its standard operating procedures. A record of witnesses for the bid opening could help demonstrate fair and open competition in the procurement process.
- The City advertised for construction manager/general contracting services for the Ora Park CRA project. Although one bid, in the amount of $710,463, was received for the project, the CRA utilized another contractor through a "piggyback" contract from the City of Ormond Beach, a nearby municipality, costing the CRA $884,196. As a result, the CRA paid $173,733 more by using the piggy-back contract rather than accepting the bid received. Section 30-84 of the City's Code of Ordinances requires that a statement of the specific reasons for placing the contract elsewhere be prepared and signed by the City Manager. Although requested, we were not provided documentation evidencing the specific reasons for awarding the contract to a contractor other than the bidder for the Ora Park project.

Recommendation: The CRA should develop and implement procedures to maintain adequate records of the date and time bids are received and the witnesses to bid openings. The CRA should also develop procedures to comply with the City's Code of Ordinances and document the reasons for awarding contracts to other than the low bidder.

Finding No. 19: Contractual Services

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 contracts with clearly defined deliverables, Board approval of all amendments, monitoring of contract payments to ensure they are in accordance with contract terms, and contract provisions requiring the contractor to provide invoices in detail sufficient for proper pre-audit and post audit. Our review of 12 City contracts entered on behalf of the CRA disclosed the following:

- ***Contract Monitoring.*** The purchase orders for the Ora Park and Ocean Park CRA projects clearly stated that no work was to be done until written authorization had been received from the City Engineer. The written Notices to Proceed were dated March 26, 2007, and April 2, 2007, for the Ora Park and Ocean Park projects, respectively. However, the Ora Park and Ocean Park projects were billed $115,709 and $262,645, respectively, as of March 15, 2007, and payments totaling $340,518

were made 25 and 33 days, respectively, prior to the Notices to Proceed. As a result, services were provided and paid for prior to written authorization from the City Engineer.

- ***Contract Payment Documentation.*** Some contracts did not require sufficient documentation from contractors to justify the basis for payment. One contract for lobbying services required a monthly retainer payable in advance of services rendered. The contractor was paid approximately $97,693 during the period February 2004 through April 2006. The contractor's invoices consisted of the following descriptions: "Professional Staff Services" and "Out of Pocket Expenses" and no receipts were attached for the out-of-pocket expenses. In response to our inquiry, City personnel requested that the consulting firm provide copies of the receipts, which were provided to us on June 27, 2007. Absent review of these receipts prior to payment, the CRA could not determine that these expenses were incurred on behalf of the CRA.

  Another contract, for legal and professional services involved in real estate acquisitions, was silent as to the required documentation to be submitted when requesting payment. While the contract provided for various functions to be performed, the invoices only provided for total hours worked, job classification of the contractor's employee, and amount. Actual descriptions of the services and dates performed were not provided. Absent detailed contractual terms and invoices, the CRA cannot determine whether the services rendered were in accordance with the contract terms or that the services were for CRA business.

- ***Contract Amendments and Change Orders.*** Our review disclosed that the contract for legal and professional services relating to land acquisitions had been amended resulting in a fee increase from the original contract price of $50,075 to $80,075; however, the CRA could not provide a contract amendment detailing the amended terms, dates, and the services to be rendered. Absent appropriate documentation, the CRA has not demonstrated the justification for the increased fees.

  We also noted one contract change order in connection with a contract for design-build services for site improvement at the Jackie Robinson Ballpark, which provided for a fee increase of $30,050 with a contract completion extension date from January 27, 2005, to April 9, 2005, that was approved during the November 23, 2005, City Commission meeting. As such, the approval was granted 228 days after the extended completion date.

Recommendation: CRA procedures should be strengthened for contractual services to ensure that invoices provide sufficient detail of the services provided, that services are not rendered until properly authorized, documentation for reimbursable expenses are properly submitted with the payment request, and contract amendments and change orders are documented through written contract amendments, and made part of the CRA's official records.

Finding No. 20: Boardwalk Mixed-use Project

On March 15, 2002, the City issued a request for qualifications and proposals (RFQP) on behalf of the CRA for a proposed Boardwalk Mixed-use project within the Main Street CRA area. According to the RFQP, the scope of the project included a four-star hotel with restaurants, lounges, meeting rooms, and on-site parking; a themed entertainment area integrating the Boardwalk, Main Street Pier, Oceanfront Park, and the Bandshell; public amenities and open space, including pedestrian scale lighting, benches, receptacles, restrooms, plazas and water features, such as fountains, pools, and ponds.

In response to the RFQP, five prospective developers submitted letters of interest. At the pre-bid conference, representatives from 11 companies were present. However, City records indicated that only one proposal was received for the project by the June 28, 2002, deadline and that proposal did not contain all requested information in the City's RFQP. The City and CRA subsequently approved a memorandum of understanding, dated November 14, 2002, with the respondent, providing for a negotiated development

agreement by 90 days after the memorandum. The developer requested and was granted two extensions. Subsequently, a development agreement was executed on June 9, 2003.

The RFQP required the proposal to contain the respondent's financial capability, including a statement of financial condition to demonstrate the respondent's ability to fund all project costs and a proposed financial plan, including anticipated sources of financing for the entire project. The responding developer did not furnish sufficient information to demonstrate the ability to fund all project costs and did not include a proposed financial plan.

In November 2002, the City hired a consultant to review the developer's proposal. The consultant recommended that the City fully evaluate and independently reach a conclusion on the project's overall financial viability, including the amount of debt and equity the developer would need to execute the project in total and by phase; obtain and review additional documentation regarding the developer's financial capabilities, preferably audited financial statements; and obtain documentation from the developer relating to its major financing transactions over the past five years to demonstrate its ability to raise third-party financing. Although requested, we were not provided evidence that the recommendations made by the consultant were followed by the City or CRA, including verification of the developer's financial capabilities. We were provided a letter prepared by the developer's certified public accountants which stated that they "are not involved in the determination of their [the developer's] credit worthiness."

Based on the single response to the RFQP, the cost of the Boardwalk project will be approximately $150 million. Given that the project involved many varied components, which would have required a substantial dedication of resources for a single developer, and the fact that the one respondent failed to include key information to ensure the project's viability, the City may have had more success in attracting additional developers by re-bidding the project or separating the project into smaller components and bidding them individually.

The Boardwalk Mixed-use project was not the only CRA project for which only one bid was received. As discussed in finding No. 18, the City only received one bid for the Ora Park project. The contractor utilized on the Ora Park project, which was acquired through a piggyback contract with the City of Ormond Beach, was also used for another CRA project, costing $3.5 million, because the City received no bids for that project.

Since the lack of responses, or limited responses, may suggest a systemic problem, contact with potential firms to determine the reasons why there is no interest in responding to the City's requests for proposals may provide valuable information to City officials in resolving those issues. In response to our inquiry, City staff stated that potential contractors had not been contacted.

Recommendation: The CRA should ensure that all required documents are submitted with future RFQPs prior to consideration of awarding contracts. In the event that a sufficient number of responses are not received for future redevelopment projects, the City or CRA should consider contacting potential respondents to ascertain the reasons why there was little interest, re-bid the project, and consider the benefits of separating larger projects with varied components into smaller projects.

Other

Finding No. 21: Report of Activities

Section 163.356(3)(c), Florida Statutes, requires each CRA to file with its governing body, on or before March 31 of each year, a report of its activities for the preceding fiscal year, which report shall include a complete set of financial statements setting forth its assets, liabilities, income and operating expenses as of the end of such fiscal year. In addition, the law requires the CRA, at the time of filing the report, to 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 (CRA).

In response to our request for the report of activities for the 2004-05 and 2005-06 fiscal years, we were provided the City's Comprehensive Annual Financial Reports (CAFR), which included the financial statements of the CRA. In addition, the CAFR for the 2005-06 fiscal year provided tax increment funding amounts received from each taxing authority (see finding No. 8). However, as noted in our report No. 2006-186, finding No. 8, while Section 163.356(3)(c), Florida Statutes, requires the report of activities to include the financial statements of the CRA, it does not appear that the Legislature intended this report to be comprised of only the financial statements of the CRA since the annual financial audit is required pursuant to Section 163.387(8), Florida Statutes. The term "activities" is not defined in the law; however, in order to provide information that would be useful to the taxing authorities that provide tax increment funding to the CRA in evaluating the benefits derived from their financing activities, the CRA should consider including nonfinancial information, such as progress on specific CRA projects and future activities planned, in its report of activities.

Recommendation: The CRA should consult with its taxing authorities regarding the nonfinancial information that should be included in the report of activities.

Finding No. 22: City Internal Auditor

Good internal control dictates that proper monitoring of an organization's operations is enhanced when the individual performing internal audits is not supervised by, and does not report to, management responsible for the activities under review. The Institute of Internal Auditors has developed various practice standards, including Attribute Standard 1110, which states that the chief audit executive should report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The Standard also states that the internal audit activity should be free from interference in determining the scope of internal auditing, performing work, and communicating results.

As indicated on the City's organizational chart (see Appendix A), the City's Internal Auditor reports to the Finance Director. The Internal Auditor's annual activity plan and audit reports were also submitted to the Finance Director for review and approval. The reports were also reviewed by the City Manager.

In response to our request for any reports on internal audits conducted by the Internal Auditor regarding the CRA or the Redevelopment Services Department, we were provided a Redevelopment Department Operational Review Audit Report, dated March 20, 2007, which cited 11 findings and recommendations, several similar to finding Nos. 1, 6, 11, and 16 noted in this report. Two of the findings related to lack of supporting documentation in the Finance Department's files for CRA expenditures. As of July 31, 2007, 133 days after the internal audit report date, the report had not been presented to the City Commission or CRA Board, or its results discussed during a public meeting.

Recommendation: The City should reorganize the internal audit function so that the Internal Auditor is supervised by, and reports directly to, the City Commission or to an audit committee, comprised of members of the City Commission.

OBJECTIVES

Our objectives for the scope of this audit were to:

- Document our understanding of the 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 CRA's management controls promoted and encouraged the achievement of management's objectives in the categories of compliance with controlling laws,

ordinances, and other guidelines; the economic and efficient operation of the CRA; 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)(l), Florida Statutes, the Legislative Auditing Committee, at its March 5, 2007, meeting, directed us to conduct an audit of the Daytona Beach Community Redevelopment Agency (CRA).

The scope of this audit included transactions during the period October 1, 2004, through March 31, 2007, and selected transactions taken prior and subsequent thereto, related to allegations concerning the CRA's operations to determine whether such transactions were executed, both in manner and substance, in accordance with the governing provisions of laws, ordinances, bond covenants, and other guidelines.

METHODOLOGY

The methodology used to develop the findings in this report included the examination of pertinent records of 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 Daytona Beach Community Redevelopment Agency for the period October 1, 2004, through March 31, 2007, and selected actions taken prior and subsequent thereto.

David W. Martin, CPA
Auditor General

MANAGEMENT RESPONSE

In a letter dated November 8, 2007, the Redevelopment Director provided responses to our preliminary and tentative findings. This letter is included in this report as Appendix B.

This audit was conducted by Keith A. Wolfe, CPA. Please address inquiries regarding this report to Marilyn D. Rosetti, CPA, Audit Manager, via e-mail at marilynrosetti@aud.state.fl.us or by telephone at (850) 487-9031.

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

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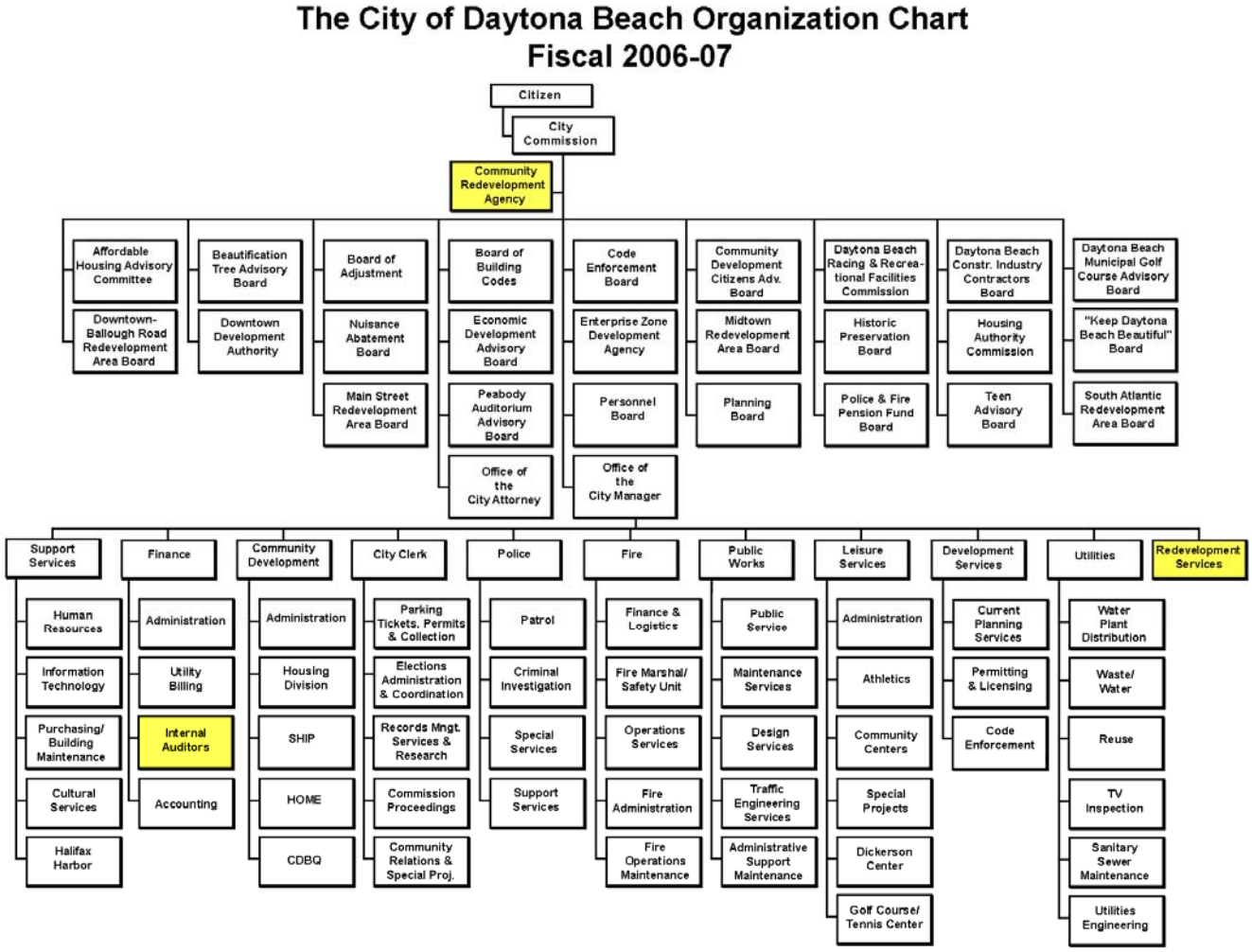
APPENDIX A
ORGANIZATIONAL CHART



APPENDIX B
MANAGEMENT RESPONSE

THE CITY OF DAYTONA BEACH

Department of Development and Administrative Services
REDEVELOPMENT DIVISION
POST OFFICE BOX 2451
DAYTONA BEACH, FLORIDA 32115-2451
PHONE 9386) 671-8180
Fax (386) 671-8187

November 8, 2007

DELIVERED VIA FEDERAL EXPRESS

Mr. David W. Martin, CPA
Auditor General
STATE OF FLORIDA
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

RE: Daytona Beach Community Redevelopment Agency, for the period October 1, 2004, through March 31, 2007, and selected actions taken prior and subsequent thereto.

Dear Mr. Martin,

Pursuant to Section 11.45(4)(d), Florida Statutes, we hereby submit the enclosed written statement of explanation concerning all of the 22 preliminary findings you provided to our office, including our actual or proposed corrective actions.

We appreciate the opportunity to address the findings of this audit and we will work vigilantly to improve the procedures and policies of the Daytona Beach Community Redevelopment Agency in the best interest of our redevelopment areas and the City of Daytona Beach. Please feel free to contact us about any concerns or questions you may have regarding this matter.

Sincerely,

Reed A. Berger, AICP
Redevelopment Director

c. Daytona Beach Community Redevelopment Agency Board
Mr. James Chisholm, City Manager
Mr. Ricardo Kisner, Chief Finance Officer
Ms. Cheryl Harrison-Lee, Chief Administrative Officer

Statement of Explanation Regarding 22 Preliminary Findings

Submitted to the State of Florida Auditor General's Office on November 8, 2007

Prepared by Reed Berger, Redevelopment Director, City of Daytona Beach
on behalf of the Daytona Beach Community Redevelopment Agency

Finding No. 1: **We noted several expenditures that were either not authorized by Chapter 163, Part III, Florida Statutes, or not in accordance with CRA Plans.**

Overall, it is our understanding that CRA fund expenditures identified by the Auditor General as *"not authorized by Chapter 163, Part III, Florida Statutes, or not in accordance with CRA Plans"* were budgeted and used for CRA purposes in accordance with State law and local plans. We note that applicable Statutes governing use of CRA funds (Chapter 163, Part III "Community Redevelopment Act of 1969") provides that the CRA make expenditures that further the goals of the adopted Redevelopment Plans. To that end the CRA relies upon the adopted Redevelopment Plan and annual approved budget for the concurrence and authority to make expenditures that further the goals of the Plan. We also note that the use of CRA funds intended to carry out the goals of a Redevelopment Plan, including expenditures for operating expenses related to the planning and carrying out of a CRA plan are allowable expenses in the absence of statutory language setting forth specific prohibitions to the contrary.

An important principle applied to CRA fund expenditures is that the CRA monies not be a substitute for traditional general fund expenditures, but rather be used for "enhanced" or extraordinary operating expenses and capital projects necessary to carry out the goals of the CRA Redevelopment Plan. To that end the CRA underwrites the costs to build and maintain streetscape beautification, parks, and other public amenities together with additional support services and equipment necessary to operate and maintain the improvements. We believe Section 163.370(2), Florida Statutes supports expenditures of CRA funds including the promotion of special events, increased and concentrated police and code enforcement, and other costs directly associated with public improvements increased maintenance funded by the CRA ***"necessary or convenient to carry out and effectuate the purposes and provisions"*** of redevelopment.

Promotional Expenditures - The Auditor General states that the Downtown/Ballough Road Redevelopment Plan prohibits the use of CRA funds related to project financing. The report does not state that this prohibition applies only in the context of a CRA policy regarding the financing of **"private services and commissions"**. This effect of the

prohibition is that, the CRA should not use CRA funds to assist a developer with marketing a project financed with CRA funds. In contrast, the Redevelopment Plan contains the following Policies encouraging promotional expenditures.

Policy 5.4.4 Encourage the development of an Arts, Culture and Recreation District that takes advantage of Downtown/Ballough Road's unique riverfront setting in order to create a differentiated experience that improves the areas competitiveness as a visitor destination.
Policy 5.4.5 Support efforts to update Downtown/Ballough Road Marketing strategies in order to improve the coordination and cross promotion of all existing/planned cultural and special event attractions.
Policy 5.4.6 Support the coordinated development, promotion, and sustained operation of existing and proposed cultural and educational uses including but not limited to: The Jackie Robinson Stadium and Museum; the Lively Arts Performance Center; and the Manatee Island Environmental Learning Center.
Policy 5.4.7 Support current efforts to brand and strengthen Downtown / Ballough Road's position as a specialty dining/retail district with a special emphasis on food, entertainment and special events anchoring the experience.

Therefore it is our understanding that use of redevelopment funds for promotional expenditures are allowable if they are consistent with the policies of the CRA Redevelopment Plan. The direct and indirect investment into certain areas resulting from such activity is just one of many accepted methods Florida communities use to revitalize their redevelopment areas.

Police-Related Expenditures.
We concur with the State Auditor's concern that more specific information would be helpful to demonstrate how funding of additional vehicles, equipment and allocation of police officers in the CRA districts contributes to the reduction of crime and is applicable to "**innovative community policing**". To that end the CRA intends to draft an updated community policing program that accurately reflects the successful strategies employed by the new Police Chief. It is important to note that the expenditures from CRA funds for Police operations were intended to be used for support over and above funds allocated from the General Fund. The additional expenditures for these services in the respective CRAs is necessary to address the concentration of crime that contributes to the disinvestment in the CRA and discourages new investment. The reallocation of police resources to address crime within the CRA districts has proven to be effective in the last year and additional documentation will be provided to demonstrate the value of the expenditures for these additional services.

PROPOSED CRA ACTION

The CRA will request reimbursement from the City for CRA funds that it finds were either not authorized by Chapter 163, Part III, Florida Statutes, or not in accordance with CRA Plans. In addition, the CRA will establish procedures as soon as practical during the current fiscal year to ensure that CRA trust fund expenditures are authorized pursuant to Chapter 163, Part III, Florida Statutes, and CRA Plans. The proposed actions referenced under Finding No.2 are also intended to address this Finding

Finding No. 2: **CRA Plans were not in sufficient detail to provide for a determination that CRA expenditures were in accordance with the Plans.**

PROPOSED CRA ACTION

The CRA intends to develop a more detailed Strategic Implementation Plan over the next fiscal year designed to clarify and update the specific actions required to carry out the goals of the Plan. Development of the Strategic Plan will include opportunities for residents, businesses, property owners and their respective Advisory Boards in each CRA district to identify issues and opportunities to carry out the Plan. Through this public review process the CRA may determine that one or more of its Redevelopment Plans should be updated.

Finding No. 3: **Contrary to Section 163.356(3)(c), Florida Statutes, the City Commission did not designate a Chair and Vice Chair of the CRA Board.**

Finding No. 3 is based on the Auditor General's understanding that Section 163.356, Florida Statutes applies where a governing body declares itself to be the community redevelopment agency as authorized in Section 163.357, Florida Statutes. It has been the City's understanding that Section 163.356 does not apply where, as in Daytona Beach, the governing body declares itself to be the community redevelopment agency.

PROPOSED CRA ACTION

The City Commission will be requested to designate the CRA Chair and Vice Chair as required by Section 163.356(3)(c), Florida Statutes, and document such designation in the meeting minutes of the governing board as early as the December 5, 2007 Commission Meeting.

Finding No. 4: **Contrary to Section 286.011(1), Florida Statutes, the meetings of the CRA Board were not always noticed.**

PROPOSED CRA ACTION

The City Commission meetings that will include CRA business discussions will be properly noticed as both City Commission and CRA Board meetings as early as the December 5, 2007 Commission Meeting.

Finding No. 5: **The minutes, for the jointly held City Commission and CRA Board meetings, did not indicate, for each official action taken, whether the action was by the City Commission or the CRA Board. Additionally, several minutes were not timely approved.**

The current administration has consistently provided meeting minutes in a timely manner regarding the business of the CRA. While we believe the CRA is in compliance with the requirements to provide minutes for the CRA, the City will consider ways to improve the minutes so that they more clearly identify actions and business conducted by the CRA.

PROPOSED CRA ACTION

For jointly held meetings of the City Commission and the CRA Board, a clear distinction will be made in the meeting minutes as to which governing body is taking action as early as the December 5, 2007 Commission Meeting. Also, the CRA will continue to ensure that all meeting minutes are transcribed, reviewed, corrected if necessary, and approved by the CRA Board in a timely manner.

Finding No. 6: **Although the CRA followed City policies and procedures, the CRA Board did not take formal action to adopt the City's policies and procedures for CRA use.**

It has been the City's understanding that Section 163.356, Florida Statutes, does not apply where, as in Daytona Beach, the governing body declares itself to be the community redevelopment agency.

PROPOSED CRA ACTION

The CRA Board intends to formally adopt the policies and procedures of the City as early as the December 5, 2007 Commission Meeting.

Finding No. 7: **The CRA did not always use the appropriate property values to calculate tax increment revenues due from taxing authorities.**

Although the few instances of errors in calculating TIF revenues based on use of the correct property values were addressed immediately after the clerical error were discovered, staff has taken steps to put procedures in place to reduce the probability of these errors in the future.

PROPOSED CRA ACTION

The CRA has implemented procedures to ensure the correct real property values are used in determining the tax increment funding.

Finding No. 8: **Tax increment revenue contributions by taxing authorities reported in the City's Comprehensive Annual Financial Report differed from the CRA's receipt records.**

PROPOSED CRA ACTION

City staff will ensure that the amounts received from the taxing authorities are correctly reported in the City's Comprehensive Annual Financial Report (CAFR). The Finance Department has established procedures to ensure CRA funds are properly accounted for and reported accurately in the City's CAFR.

Finding No. 9: **Amounts due to the CRA from Volusia County for late tax increment contributions were used to offset amounts due by the City to the County.**

The City acknowledges that Volusia County did not pay the City the tax increment payment to the CRA timely and did request payment in the amount of $109,245.00 for the required late fee and associated accrued interest. Volusia County also acknowledged that the required payment was late and agreed with the amount owing. During the audit period, the County provided services to the CRA in the amount of $125,429.88. Rather than both entities issuing manual checks to each other, the City and County agreed to offset the late tax payment of $109,245.00 with the services provided by the County. The difference of $16,184.88 between the late payment amount of $109,245.00 and the value of services provided by the County of $125,429.88 became an in-kind contribution. As a result, the CRA has already received more than the benefit of $109,245; therefore, no further adjustments or action are required to be made on behalf of the City or CRA.

PROPOSED CRA ACTION

The City has implemented procedures to ensure that amounts due to/from an entity are not offset against each other in the future.

Finding No. 10: **Tax increment revenues received by the CRA were not always timely deposited. Additionally, investment earnings on funds advanced to the City's capital project fund were not recorded to the credit of the CRA.**

PROPOSED CRA ACTION

Understanding that there was an instance over the holiday season when a deposit was delayed until after the New Year, the City has implemented procedures to ensure that deposits are made in a timely manner. Also, the CRA will submit an invoice to the City for the interest earnings on funds held in the City's capital projects fund to ensure that interest earned on these funds are credited to the capital projects fund and used only on CRA projects

Finding No. 11: Salaries and benefits charged to the CRA trust fund were not always supported by time records or appropriately allocated.

PROPOSED CRA ACTION
The City concurred with this recommendation that was provided in the previous audit of the CRA funds and in fiscal year 2006-07 implemented a process where actual time spent is charged to the CRA funds.

Finding No. 12: CRA personnel records did not contain documentation that the educational background of a former redevelopment director was verified.

The City already has procedures in place to verify the educational background of CRA personnel.

PROPOSED CRA ACTION
No additional action is required.

Finding No. 13: Contrary to City policy, severance pay was provided to the former redevelopment director.

The payment of the severance pay is in accordance with personnel practices.

PROPOSED CRA ACTION
No additional action is required.

Finding No. 14: Vehicle allowance and cellular telephone stipends were granted to employees without documentation supporting the justification for the amount of the benefits granted.

The City already has standard management policy for vehicle allowance and telephone stipends.

PROPOSED CRA ACTION
No additional action is required.

Finding No. 15: Disbursement processing procedures could be improved to ensure that purchases are properly approved, the goods or services are received, and invoices are paid only once to vendors.

PROPOSED CRA ACTION
Changes will be implemented in the City's purchasing process to ensure that all requisitions are approve, and goods and services properly received by the City including the receiving report, if applicable. In addition, the City will "cancel" all original invoices.

Finding No. 16: Contributions to other entities were made without the use of written agreements specifying the purpose of the contributions and providing a mechanism whereby the CRA can monitor the use of the moneys. Additionally, CRA Board approval of the contributions was not always documented.

PROPOSED CRA ACTION
The CRA will utilize written agreements, including appropriate monitoring provisions, to document the authorized uses of CRA moneys transferred to other governmental and nonprofit entities, and conduct periodic reviews of the entities' records to ensure moneys were used as agreed.

Finding No. 17: Real property was acquired without the use of appraisals or the purchase price exceeded the highest appraisal obtained. Additionally, CRA Board approval was not always documented for the purchase of the property.

By Resolution Nos. 02-247, 02-520 and 03-69, the City entered into a $6 million dollar State of Florida FTC grant ("State grant"), to purchase properties and develop Ocean Park at the foot of the Main Street Pier. This grant imposed terms and conditions on the use of the proceeds that included the method of negotiating the purchase of private property. The City was prohibited from using eminent domain and after obtaining appraisals, had to negotiate the best deal possible with the property owners in accordance with the requirements of the State grant. Given the grant conditions imposed under these circumstances, the purchases of most properties exceeded the appraisals. A City-owned lot was also exchanged in the negotiating process. These resolutions regarding the State grant further support prior correspondence from staff to the State Auditor and we believe that the CRA followed the terms and conditions of the purchase imposed by the State grant.

PROPOSED CRA ACTION
The CRA intends to implement procedures to ensure that appraisals are obtained prior to purchasing property, justifications for paying more than appraised values are documented, and CRA Board and City Commission approval is obtained prior to the purchase of property.

Finding No. 18: Competitive selection procedures could be improved to provide for better recordkeeping. Additionally, the contractor utilized for one CRA project was obtained through another entity even though a bid was received by the City for the CRA project.

PROPOSED CRA ACTION
The City will date and time stamp envelopes and other packaging for proposals received from prospective vendors and maintain bid attendance

sheets. The CRA will adopt these revised City of Daytona Beach procurement procedures and practices.

Finding No. 19: **Amounts were billed and paid on contracts for services rendered prior to the date on which the notice to proceed was issued. Contracts did not always require sufficient documentation to be submitted by contractors to provide a basis for payment. Documentation to support one contract amendment and one change order providing for fee increases, and CRA Board approval thereof, could not be provided.**

The CRA has legislative authority to authorize ratification of practices and approvals necessary to expedite the purpose of the service provided.

PROPOSED CRA ACTION

The CRA will review its procedures for contractual services including but not limited to the following issues: invoices provide sufficient detail of the services provided, that services are not rendered until properly authorized, documentation for reimbursable expenses are properly submitted with the payment request, and contract amendments and change orders are documented through written contract amendments, and made part of the CRA's official records.

Finding No. 20: **The City awarded a large contract to a developer, the only respondent to a request for qualifications and proposals (RFQP), notwithstanding the fact that the developer failed to provide key elements in its response to the RFQP.**

In the case cited by the State Auditor regarding the Boardwalk Hotel Project the CRA made several unsuccessful attempts beginning in the late 1980's until it received three (3) qualified responses and after a lengthy public process of review voted to reject all three responses and then later accept one response as documented by the attached resolutions. In other words, the CRA acted appropriately in its exhaustive effort to seek developers from across the nation to undertake a complicated and risky venture given the state of the real estate market and other economic factors at the time the RFP was issued.

PROPOSED CRA ACTION

The CRA will continue to ensure that all required documents are submitted with future RFPQs, per its current practice, prior to consideration of awarding contracts. In the event that a sufficient number of responses are not received for future redevelopment projects, the CRA will consider its options to re-issue an RFQP or take other actions it deems are appropriate and legal.

Finding No. 21: The CRA's report of activities for the 2004-05 and 2005-06 fiscal years included only the required financial statements, but did not include nonfinancial information that may be of interest to taxing authorities.

While not required by Statutes, the City believes in open and transparent government. To that end the City produces a Quarterly Capital Project reports in addition to holding neighborhood meetings and monthly CRA Advisory Board meetings to share information with the public utilizing the latest forms of media technology to post information.

PROPOSED CRA ACTION

The CRA will provide non-financial information to taxing authorities as a part of its report of activities.

Finding No. 22: The City's Internal Auditor reports to management responsible for the activities under review. Additionally, an internal audit of the CRA, issued March 20, 2007, had not been presented to the CRA Board as of July 31, 2007.

PROPOSED CRA ACTION

The City has taken steps to change the job description of the internal auditor position to reflect the intended purpose as approved in the fiscal 2007-08 budget.