

ISLAMORADA, VILLAGE OF ISLANDS

Operational Audit



MAYOR AND COUNCIL MEMBERS

Islamorada, Village of Islands Mayor, and Council Members, who served from October 2009 through May 2011, are listed below:

Michael Reckwerdt, Mayor from 3-25-10,
Vice Mayor to 3-24-10

Ken Philipson, Council Member from 3-25-10
Vice Mayor from 3-24-11

Don Achenberg, Mayor to 3-24-10,
Vice Mayor from 3-25-10 to 3-23-11

Ted Blackburn, Council Member from 12-9-10

Dave Boerner, Council Member to 3-24-10

Jill Zima Borski, Council Member to 3-24-10

Deb Gillis, Council Member to 3-24-10

Robert Johnson, Council Member from 3-25-10
to 11-15-10 (seat vacant until 12-9-10)

Dave Purdo, Council Member from 3-25-10

The audit team leader was James H. Cole, CPA, and the project was supervised by David T. Ward, CPA. Please address inquiries regarding this report to Marilyn D. Rosetti, CPA, Audit Manager, by e-mail at marilynrosetti@aud.state.fl.us or by telephone at (850) 487-9031.

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ISLAMORADA, VILLAGE OF ISLANDS

SUMMARY

Our operational audit of Islamorada, Village of Islands (Village), disclosed the following:

WASTEWATER AND REUSE SYSTEMS

Finding No. 1: Although Florida law requires that local governments within the Florida Keys establish wastewater collection, transmission, and treatment facilities by December 31, 2015, the Village had only provided such facilities to 16 percent of the properties within its boundaries as of January 2012, and had no final plan in place to ensure that the remaining service areas would be provided wastewater services by the established deadline.

Finding No. 2: Due to multiple revisions in its plans for providing wastewater services, the Village forfeited approximately \$10 million in grant funding.

Finding No. 3: The Village contracted for the design and construction of a reclaimed water system to irrigate Founders Park which, according to Village records, was complete in June 2006 and could have been hooked up in December 2009; however, the reclaimed water system had not been hooked up or put to use as of February 2012.

Finding No. 4: Some newly constructed buildings were not billed for wastewater charges until 3 to 51 months after the buildings were connected to the Village's wastewater utility, and the Village had not requested the Florida Keys Aqueduct Authority to back-bill customers for unbilled amounts.

Finding No. 5: From December 2010 through July 2011, the Village was overcharged for wastewater bill processing.

PERMITS

Finding No. 6: The Village's building permitting process needed improvement. We noted unaccounted for permit numbers, open permits, unlocated property permit files, and unissued certificates of occupancy.

Finding No. 7: The Village's procedures for issuing permits for temporary storage units needed improvement. Our review disclosed that 7 of 15 temporary storage units were not properly permitted.

BUDGETARY CONTROLS

Finding No. 8: The estimated beginning net assets amount used for the Wastewater Utility Fund's 2009-10 fiscal year budget was overstated by \$1,660,243, and was not subsequently amended to the actual amount after the 2008-09 fiscal year audited financial statements were issued. Starting in January 2010, the Village Council members were not provided with budget-to-actual reports for the Wastewater Utility Fund.

CAPITAL ASSETS

Finding No. 9: The Village needed to enhance controls over tangible personal property. We noted untagged property items and lack of necessary information in the property records.

Finding No. 10: Numerous Village motor vehicles were not included in the property records.

CONTRACTUAL EXPENDITURES

Finding No. 11: The 2003 contract for solid waste collection, disposal, and recycling services was extended in 2008 without competitive bidding, and the cost of the services increased significantly.

Finding No. 12: The Village had not established procedures to document and reasonably allocate the cost of the Fire Chief's services provided pursuant to an interlocal agreement with the City of Marathon.

Additionally, the Village provided Fire Chief services to the City of Key Colony Beach at no charge by the Village and without an interlocal agreement.

RESTRICTED RESOURCES

Finding No. 13: The Village did not provide for separate accountability of restricted fuel tax revenues.

PROCUREMENT OF GOODS AND SERVICES

Finding No. 14: The Village Code did not require that justification of competitive bidding waivers be documented, and did not address all conditions under which such waivers would be appropriate.

Finding No. 15: The Village’s Auditor Selection Committee included the Village Finance Director, but did not include members of the Village Council, contrary to best practice advisories issued by the Government Finance Officers Association.

PERSONNEL AND PAYROLL

Finding No. 16: Contrary to the Village’s Employees Policies and Procedures, the Village Manager had not adopted a compensation plan listing the authorized positions for the Village and the minimum and maximum annual salary ranges.

BACKGROUND

Islamorada, Village of Islands (Village), is a string of subtropical islands eighteen miles long, consisting of four Keys: Plantation Key, Windley Key, Upper Matecumbe Key, and Lower Matecumbe Key. The Village was created pursuant to Chapter 97-348, Laws of Florida, as amended by Chapter 98-518, Laws of Florida. The Village operates under the Council-Manager form of government. The governing body of the Village consists of a five-member Village Council (Council), each of whom is elected for a two-year term. The Council determines policy, adopts local legislation, approves the Village’s budget, sets taxes and fees, and appoints the Village Manager, Village Attorney, and members of various boards and committees. The day-to-day operations of the Village are under the leadership of the Village Manager.

The Village provides a wide variety of services, including general government administration, building and code enforcement, planning and zoning, public safety (fire protection and emergency medical services), public works, parks and recreation (parks maintenance, recreational activities, cultural events, and related facilities), and solid waste collection. In addition, the Village operates a recreational marina, a wastewater utility, and a stormwater utility.

FINDINGS AND RECOMMENDATIONS

Wastewater and Reuse Systems

Finding No. 1: Wastewater Facilities Planning

Chapter 99-395, Laws of Florida, amended Sections 381.0065 and 381.0066, Florida Statutes, to require areas within the Florida Keys to meet certain advanced waste treatment concentrations. This law required local governments within the Florida Keys areas to establish wastewater collection, transmission, and treatment facilities by July 1, 2010. Subsequently, Chapter 2010-205, Laws of Florida, extended the July 1, 2010, deadline to December 31, 2015.

Since 1999, the Village has considered various plans to meet the State mandate to provide wastewater services to all incorporated areas within the Village. Such plans have changed frequently and range from (1) contracting to construct the necessary wastewater facilities to provide the services directly to (2) complete privatization of the provision of wastewater facilities and services. For example, listed below are some of the actions taken by the Village:

- In November 2002, the Council adopted Resolution 02-12-78, creating a public wastewater and reclaimed water utility to be operated within the Village boundaries.
- In September 2003, the Village entered into a \$6 million design-build contract for the construction of a wastewater treatment facility and collection system to primarily service North Plantation Key (NPK)¹.
- In May 2005, the Village entered into a \$10.7 million design-build contract for the design and construction of Phase II of the NPK project, which primarily served the remainder of NPK. The design-builder indicated the project was substantially complete in December 2009. Including change orders, the total paid to the design-builder for Phases I and II through December 2011 was \$20.2 million.
- In November 2005, the Village adopted a Wastewater Master Plan, which included a centralized wastewater treatment system for the Village and identified eight service areas.
- During 2007, a Village resident sued the Village and the wastewater system design-builder alleging that after the resident's dwelling was hooked up in 2006 to the sewer system, the dwelling experienced sewer backups that eventually rendered the dwelling uninhabitable. The resident's claims were eventually resolved in accord with a settlement agreement but the litigation continues to resolve cross-claims that had been filed between the Village and the design-builder. The Village, in its cross-claims, alleged that the design-builder breached their agreement by designing and installing a defective sewer system, in particular in areas of NPK, that experienced operational problems associated with vacuum pressure in the system, extended run times, and pump shut down, which resulted in sewage backing up into the homes of Village residents. The Village and design-builder entered into a Settlement Agreement in 2008 resolving claims relating to the construction and payment for the wastewater system; however, the Village seeks rescission of the Agreement on grounds of mutual mistake, unilateral mistake, or because the Village was induced to enter the Agreement based upon false statements by the design-builder as to the severity of defects in the wastewater system and correction of the defects. The litigation between the Village and the design-builder is ongoing.
- In March 2009, the Council began discussing the possibility of using the Key Largo Wastewater Treatment District (KLWTD) wastewater treatment plant to treat its wastewater. Discussions have been on-going since then, but the Village and KLWTD have been unable to reach an agreement.
- In April 2009, the Village awarded a design project contract for the collection system in the Middle Plantation Key area. As of June 2011, 60 percent of the design had been completed by the contractor.
- In September 2009, the Village passed Resolution 09-09-78 to levy a special assessment on the remaining service area to provide funding to provide wastewater service to that area. However, since it was considering privatizing the wastewater activities, the Village decided in June 2010 to repeal the September 2009 special assessment and refunded the amounts that had been paid.
- An Evaluation Committee was appointed to evaluate responses to a wastewater request for qualifications (RFQ). In December 2010, the Village Council approved an RFQ for a Design/Build/Operate/Finance (DBOF) process of its wastewater system and five firms were deemed qualified by the Evaluation Committee.
- In June 2011, the Village issued a Request for Proposal (RFP) for a DBOF process of its wastewater system requiring responses for two alternatives. Under Alternative 1, the Village would continue to pursue an agreement for wastewater treatment by KLWTD. If such an agreement is reached, the respondents would be required to submit a proposal to design and construct a system to collect and transfer the Village's wastewater to the KLWTD plant. Under this alternative, the Village would either continue to utilize the NPK wastewater treatment plant and provide for reclaimed water to Founders Park (see additional discussion in finding No. 3) or decommission the existing NPK wastewater treatment plant and convey NPK flow to KLWTD. Alternative 2 required the winning firm to design and construct a Village-wide wastewater collection and treatment system located within the Village. This proposal included the continued use and operation of the NPK wastewater treatment plant.

¹ For purposes of providing wastewater services to Plantation Key, the Village identified three separate areas: North Plantation Key, Middle Plantation Key, and South Plantation Key.

- In October 2011, the Council appointed the members of a second Evaluation Committee to evaluate responses to the wastewater RFP.
- In December 2011, the Village accepted the Evaluation Committee's ranking of firms that responded to the RFP and authorized the Village Manager to enter into contract negotiations with the highest ranked firm.

As of January 2012, despite spending millions on planning and contracts, the Village had established wastewater facilities that serve only NPK, or only approximately 16 percent of the Village's service area. NPK service facilities were constructed in two phases and the time period from execution of the contracts to project completion was over six years. Further, even the most recent RFP issued includes two completely different options and, thus, the Village still had not, as of January 2012, settled on the direction it planned to go. Additionally, with one of the alternatives the Village is considering, part of the work already accomplished would be scrapped (the NPK wastewater treatment plant and reclaimed water system). With less than four years remaining and 84 percent of the Village yet to be provided wastewater services as required by law, and considering it has been unable to do so in the more than 12 years since the State mandate was enacted, it is not apparent how the Council will be able to meet the State-mandated deadline of December 31, 2015.

Recommendation: The Village should expedite its efforts to provide for a final plan to complete the provision of wastewater services within the Village boundaries to meet the State mandated deadline. In doing so, the Village should determine the cost-effectiveness of abandoning facilities it has already constructed and paid for.

Finding No. 2: Grants for Wastewater Facilities Funding

In August 2006, the Village was awarded grant funding in the amount of \$3,801,017 by the United States Environmental Protection Agency (EPA) to fund a demonstration project entitled "Centralized Management of Decentralized Wastewater Treatment." An October 2008 Council Communication letter indicated that the service area was to be Lower Matecumbe Key and the project would utilize onsite, decentralized treatment technologies designed to achieve high levels of wastewater treatment. After accepting the grant award, the Village changed the project scope in October 2009 to a low-pressure sewer system that would direct wastewater to a treatment facility site. According to Village personnel and a report by an engineering consultant, the change occurred because of a desire to minimize the location of collection and treatment equipment on private property. Because of this change, the project no longer qualified for the EPA grant funding and in October 2009, the Council approved returning the entire \$3,801,017 grant to EPA. As the Village had already expended \$152,046 of the grant funds on allowable costs, the EPA did not require the return of those funds. Thus, the Village declined to utilize \$3,648,971 in grant funding.

The Village is a member of the Florida Keys Water Quality Improvements Program (FKWQIP) along with other municipalities in the Florida Keys, the United States Army Corps of Engineers (ACOE), and the South Florida Water Management District. FKWQIP is a Federal program administered by ACOE to provide technical and financial assistance for planning, engineering, and construction of wastewater and stormwater treatment improvement projects to Monroe County municipalities, including the Village. In September 2006, FKWQIP completed its final Program Management Plan that identified \$100 million of approved priority wastewater projects in the Florida Keys. The plan included a distribution formula for the projects allocating \$29,560,000 to the Village.

In August 2008, the Village entered into a grant agreement with the United States Department of the Army for technical and financial assistance under FKWQIP. The original agreement was to provide \$1,000,000 of the \$29,560,000 FKWQIP allocation to the Village's NPK wastewater project as identified by FKWQIP. A February

2010 agreement amendment revised the project to provide \$7,950,000 of FKWQIP funds for wastewater projects outside of NPK, including the construction of two regional wastewater treatment plant facilities and five collection service areas for the Middle and South Plantation Keys, Windley Key, and Upper and Lower Matecumbe Keys. The revised agreement indicated that \$6,352,000 of the \$7,950,000 was funding from the American Recovery and Reinvestment Act of 2009 (ARRA) and required the Village to obligate or spend the funds by September 30, 2010. An ACOE report showed that the Village had only obligated or spent \$106,224 of ARRA funds by the September 30, 2010, deadline; thus, the Village lost the immediate use of the remaining \$6,245,776 of ARRA funding awarded under the grant.

As of February 6, 2012, the Village had received \$1,560,426 of the \$29,560,000 FKWQIP allocation for wastewater projects. Also, of the Village's allocation, ACOE identified \$1,268,806 that was designated for ACOE's own projected expenses. ACOE indicated that the unused portion of the original allocation, totaling \$26.7 million², will not be available to the Village until the United States Congress appropriates the funds, if at all.

The provision of wastewater services within the Village boundaries is very costly. Various cost estimates were developed by consultants since 2002 depending on the plan being considered. For example, a consultant's September 2009 report indicated that the cost (excludes debt issuance costs) for constructing collection and treatment/transmission facilities would total \$133,675,500 for the remaining areas to be provided wastewater services. In its multiple revisions to its plans over the years, the Village lost the use of grant funding to partially fund its wastewater system. By forfeiting grant funds totaling \$9,894,747, the Village will have to either obtain other grant funding, borrow additional funds, increase the amount of wastewater assessments on Village property owners, or some combination of these options.

Recommendation: In developing a plan to meet the State mandate, the Village should adequately plan the entire wastewater project anticipating all of the planning, design, construction, operating and financing needs and the required and available resources to fund the entire project. Once the plan is finalized, the Village should seek available grant funding to help finance the project. Additionally, the Council should consider all known factors, including grant funding requirements, when considering modifications to the project plan. The Council should also develop adequate policies and procedures to ensure that all required milestones are met to ensure that grant funding acquired in the future is not lost.

Finding No. 3: Reclaimed Water System

On September 12, 2003, the Village entered into a design-build agreement for (a) the design and construction of Phase I of the Plantation Key Colony/North Plantation Key Wastewater Treatment and Collection Systems Project and (b) the design and construction of a Reclaimed Water system (system) to irrigate Founders Park if the Council exercised its option to include the system as part of the project. In February 2004, the Council exercised this option and issued a change order, totaling \$1,196,000, for design and construction of the system.

The contracted engineer declared the system substantially complete in June 2006, but because of concerns of salt infiltration into the system and insufficient water flow, in July 2007, the Council approved a delay in using the system until it was operating properly. In a July 24, 2008, Council meeting, the Village Manager indicated that the system had passed testing and once Phase II of the project was complete, there would be enough flow to operate the system for Founders Park. A December 4, 2009, letter from the project design-build company declared Phase II of the wastewater project complete. However, as of February 2012, the Village had not hooked up the system for use for

² The \$6.2 million in forfeited ARRA grant funds are included in the Village's unused portion of the FKWQIP allocation.

Founders Park. In response to our inquiry, Village personnel indicated that in April 2010, the Council directed that wastewater be privatized and, therefore, providing reclaimed water to Founders Park was included in the DBOF request for proposals. As noted in finding No. 1, the Village is considering an alternative to decommission the NPK wastewater treatment plant, which may result in not using the reclaimed water system.

As of February 2012, the Village had expended \$1,162,740 to acquire the system, excluding debt service costs associated with debt issued to pay for the system, and an engineering consultant's report estimated that it would cost approximately \$25,000 to complete the hook up of the system. Additionally, because the Village had not hooked up the system for use for Founders Park, it used water services provided by the Florida Keys Aqueduct Authority (FKAA) for irrigating Founders Park, and paid approximately \$4,200 monthly in water charges since January 2010.

Considering that the Council decided to move forward with acquisition of the system and, except for the hook-up, the system was complete and should have had adequate flow for use, and the Village was incurring costs for water charges to FKAA that it otherwise would not have to pay, it was not apparent, of record, why the Village was not utilizing the system for irrigating Founders Park.

Recommendation: The Village should complete the hook-up of the system and use the system as intended for irrigating Founders Park, or document of record why the Village should not complete the hook-up and use of the system.

Finding No. 4: Wastewater Customer Billings

Article I, Section 62-1, of the Village Municipal Code (Code) requires property owners to connect to the Village's wastewater utility system within 30 days of the date that the owner is notified that the system is available for connection. Owners automatically become customers of the wastewater system on the 31st day after notification, and are subject to the Village's wastewater rate tariffs, regardless of whether the owner has actually connected to the system. Additionally, for new construction, the Code requires lot owners to connect to the Village's wastewater system as a condition of obtaining a building permit. The Code indicates the lot owner becomes a customer of the Village's wastewater system upon connection of the owner's plumbing system to the water utility system.

The Village receives its water supply from FKAA. Pursuant to an agreement between the Village and FKAA, FKAA bills the Village's wastewater customers monthly for wastewater services based on water usage on behalf of the Village. The agreement states that the Village is to periodically notify FKAA of additional wastewater customers, including properties that were constructed after the wastewater system was made available to a Village area.

We reviewed wastewater connections for 26 buildings constructed since the Village completed the wastewater system for NPK. Our review disclosed that 24 (92 percent) of the reviewed buildings were not billed for wastewater charges until 3 to 51 months after the buildings were connected to the Village's wastewater utility and the Village had not directed FKAA to back-bill customers for the unbilled months. In response to our inquiry, Village personnel stated that they believed that all connected customers were being billed for wastewater by FKAA, as the Village had sent separate notices to FKAA for each phase and sub-phase of the NPK wastewater system that went online. However, since the 24 properties were constructed after the NPK wastewater system went online, the Village was required to separately notify FKAA of new customers within the wastewater area pursuant to the agreement.

Subsequent to our inquiry, the Village directed FKAA to back-bill one customer and indicated that it plans to back-bill the remaining customers for unbilled amounts. Additionally, the Village indicated that procedures were

developed in August 2011 to ensure that FKAA is properly notified of new construction customers that are subject to wastewater usage charges.

Recommendation: The Village should ensure that all developed properties within NPK, and subsequent areas that receive wastewater services, are billed for wastewater services in accordance with the Village Municipal Code. In addition, the Village should determine the amounts that existing wastewater customers were not billed and seek to collect those funds.

Finding No. 5: Charges for Wastewater Billing Services

As discussed in finding No. 4, FKAA billed wastewater customers monthly on behalf of the Village based on the customer’s actual water usage. For these billing services, FKAA charged the Village \$1.07 monthly for each wastewater bill processed. During our review of FKAA invoices, we noted significant increases in the number of accounts from December 2010 through July 2011, as shown in Table 1.

Table 1

Month	Number of Accounts Billed	Amount Billed to Village
October - 2010	1,042	\$ 1,114.94
November- 2010	1,049	1,122.43
December - 2010	1,131	1,210.17
January - 2011	1,141	1,220.87
February - 2011	1,139	1,218.73
March - 2011	1,155	1,235.85
April - 2011	1,198	1,281.86
May - 2011	1,178	1,260.46
June - 2011	1,242	1,328.94
July - 2011	1,249	1,336.43

Source: FKAA Report

Subsequent to our inquiry, the Village learned from FKAA that it had overcharged the Village due to a programming error in counting the number of wastewater bills processed each month. FKAA recalculated the charges using a revised count of bills processed through September 2011 and credited the Village \$929 for the overcharges.

Recommendation: The Village should periodically review the number of wastewater accounts for which they are charged and ensure that any overcharges are promptly credited.

Permits

Finding No. 6: Building Permits

A building permit application must be completed by the property owner, licensed contractor, or an agent of the contractor and submitted to the Village for new construction, repairs, or renovations to existing structures, fences, signage, and various other types of work. The Building Department Permit Clerk reviewed applications for completeness, recorded required information in the Village’s building planning system (BPS), and created a physical permit application file. The permit application files were stored by property identification (usually the address) and typically contained the permit application, plans or drawings, pricing worksheets, and correspondence. The building

permit application was assigned a system-generated permit number and a required permit deposit was remitted to the Finance Department. As part of the permit processing procedure, the Building Official finalized all plan reviews, verified permit fees assessed, and approved the issuance of a permit card. The permit card was to be posted on the jobsite and remain posted until all final inspections were approved and a certificate of occupancy or a certificate of completion was issued. The property owner or contractor was responsible for requesting any necessary inspections as the work progressed. When the inspections were completed, they were recorded in BPS by the Plans Examiner-Inspectors or Building Official, and the Building Services Coordinator (Coordinator) or Permit Clerk closed the permit in BPS.

The Florida Building Code requires that a certificate of occupancy be obtained for all occupied structures. A certificate of occupancy can only be issued upon verification that the structure meets all code requirements. Requests for certificates of occupancy were made by the property owner or contractor to the Coordinator. The Coordinator verified with the Finance Department that all required fees were paid and the Building Official reviewed the property file and electronic records to verify that all required final inspections were completed. After both verifications, the Building Official directed the Coordinator to prepare the certificate of occupancy for the Building Official to sign and issue.

As discussed below, the permitting process could be improved.

Unaccounted for Permit Numbers. BPS system-generated permit numbers were assigned in sequential order. We obtained a list of BPS system-generated permit numbers assigned from January 2008 to July 2011 and noted that 137 permit numbers were missing from the sequence. We reviewed ten of these missing numbers and determined that seven of the permits had been issued in error and had no activity. For the other three missing permit numbers, no record was found and, although requested, Village personnel could not provide an explanation for the missing numbers. The Village had no procedure in place to reconcile permits issued to fees collected and deposited. Such a reconciliation would not only identify permits for which the fees collected have not been verified and permit cards issued, but also those that should be voided in the system due to inactivity or are due for inspection or renewal as discussed below.

Open Permits. Although the Village had a procedure to close out permits after completion of final inspections, we noted that of 46 permits selected for review, 36 (78 percent) were not shown as “closed” in BPS. Subsequent to our inquiry, Village personnel indicated that program changes have been implemented so that when final inspections are completed and recorded in the system, the permit is also closed. However, this results in closing the permits in the system prior to issuance of a certificate of occupancy or full completion, which prohibits the Village from tracking the permit to full completion of all requirements and collection of all applicable fees (see additional discussion below).

Certificates of Occupancy. Our test of 50 homes constructed in NPK after 2005 disclosed that all of the homes had been recognized as improved properties on the Monroe County Property Appraiser’s Web site. However, for 3 of the 50 houses, which were completed between 2006 and 2010, the Village had not issued a certificate of occupancy. Village personnel indicated that for two of the houses, the certificates of occupancy were pending due to unsatisfied affordable housing documentation requirements (a housing designation whereby the occupants are generally subject to household income limitations). According to Village personnel, the necessary documentation was subsequently received for one of these houses and a certificate of occupancy was issued in December 2011. For the third home, a certificate of occupancy had not been issued because the final inspections had not been completed and, therefore, the permits had expired.

Subsequent to our inquiry, the Village determined that the property owner connected to the wastewater system in January 2010 and the Village requested FKAA to back-bill the residence from January 2010 forward for wastewater charges. Thus, while the house was built in 2009 and connected to the wastewater system in January 2010, the final inspections were not performed until August 2011, and the certificate of occupancy was not issued until September 2011.

Additionally, as the certificates of occupancy were not issued for these three houses, applicable wastewater assessments were not charged or paid timely. As shown in Table 2, the wastewater assessments totaling \$19,837 for the three houses were not paid until 2011, two of them subsequent to our inquiry.

Table 2

House #	Dwelling Type	Year Building Permitted	Year Built per Monroe County Property Appraiser's Office	Final Inspections	Certificate of Occupancy Issued	Wastewater Assessment	Month Paid
1	Affordable (1)	2004	2006	Sept 2006	Pending	\$ 6,888	July 2011
2	Affordable	2009	2010	Jan 2010	Dec 2011	6,017	Dec 2011
3	Market Rate	2006	2009	Aug 2011	Sept 2011	<u>6,932</u>	Sept 2011
Total						<u>\$ 19,837</u>	
Note (1): The building permit was issued before Affordable Housing was instituted in July 2007. The owner subsequently applied for the designation.							

Source: Village Records and Monroe County Property Appraiser's Web site

As noted above, the final inspections for the Affordable Housing units were performed substantially before the certificates of occupancy were issued. Regarding the Market Rate unit, building permits are initially valid for 180 days and are automatically extended as work is inspected and approved by 180 day increments. Permits expiring due to inactivity must be renewed, including fees, to complete the project and to qualify for a certificate of occupancy. In these instances, the Village did not ensure that all required certificates had been obtained, and thus complied with all Florida Building Code requirements, and that all applicable fees had been paid prior to potential occupancy of the buildings.

By not periodically accounting for all building permit numbers, the Village has limited assurance that the progress of all permitting activities is tracked to ensure that all permitting fees have been billed and collected, that building code compliance is monitored, and that expired permits are identified.

Recommendation: The Village should develop procedures to periodically account for all permit numbers. Such procedures should provide assurance that the completion status for newly constructed structures is properly accounted for, all applicable fees (permit and wastewater assessments, if applicable) have been collected, and certificates of occupancy or completion are issued in accordance with the Florida Building Code.

Finding No. 7: Temporary Storage Unit Permits

Individuals or businesses with temporary storage units must have a permit. Village Ordinance No. 05-20 provides that temporary storage units may be permitted for 30 consecutive days, with the possibility of an extension for up to three times for a total of 120 days. The Ordinance also provides for temporary storage units that were already in place as of June 2005, and meeting certain criteria, to be grandfathered in and granted an annual permit after initial

registration. Attachment A to the Ordinance is an inventory of temporary storage units eligible for the annual permits.

Our review of 15 temporary storage units physically observed within Village boundaries disclosed that 7 (47 percent) were not properly permitted. Four of the temporary storage units were subject to the 30-day permit requirement but the owners had not acquired the permits. Three other temporary storage units were listed on Ordinance’s Attachment A and appear to have been eligible for the annual permits; however, the owners had not acquired the required permits. The Village had no procedures in place to monitor new or grandfathered temporary storage units.

Recommendation: The Village should develop procedures for Building Inspectors to be alert for new temporary storage units as part of their inspection duties and monitor those temporary storage units that were permitted or were grandfathered pursuant to Ordinance No. 05-20.

Budgetary Controls

Finding No. 8: Budget Preparation and Reporting

Section 166.241(2), Florida Statutes, states that the amount available from taxation and other sources, including amounts carried over from prior fiscal years, must equal the total appropriations for expenditures and reserves. Contrary to this law, the Village, in preparing its 2009-10 and 2010-11 fiscal year budgets for the Wastewater Utility Fund, did not accurately estimate available net assets from the prior years, or adjust the amounts used to actual when those amounts were known.

For the 2009-10 fiscal year budget, the Village used an estimated unrestricted beginning net assets amount of \$1,488,045. However, when the Village’s Comprehensive Annual Financial Report (CAFR) for the 2008-09 fiscal year was published in April 2010, the actual Wastewater Utility Fund unrestricted net assets balance was a deficit \$172,198. Thus, the beginning unrestricted net assets budget amount for the Wastewater Utility Fund was overstated by \$1,660,243. For the 2010-11 fiscal year budget, the Village Wastewater Utility Fund beginning unrestricted net assets budget amount was reported as a \$23,930 deficit. However, the actual ending unrestricted net assets balance per the 2009-10 fiscal year CAFR was a deficit of \$356,011, or \$332,081 larger. Subsequent to our inquiry, the Village amended the Wastewater Utility Fund 2010-11 beginning unrestricted net assets budget amount to agree with the amount reported in the 2009-10 fiscal year CAFR.

From October through December 2009, the Council was provided monthly and quarterly reports showing budget-to-actual comparisons for the General Fund, special revenue funds, and the enterprise funds, including the Wastewater Utility Fund. Starting in January 2010, while the Council was provided monthly budget-to-actual reports for the other funds, it was not provided budget-to-actual reports for the Wastewater Utility Fund. Instead, it was only provided reports showing the actual activity in the Wastewater Utility Fund.

As the Wastewater Utility has been experiencing significant challenges over the past several years, the Council members may not have had all relevant financial information to plan and make the best decisions regarding the Wastewater Utility operations.

Recommendation: To aid the Council in planning its financial operations and making the most informed decisions, the Finance Department should enhance its procedures to propose amendments to the estimated beginning net assets balances as relevant information is available. The Council should require the Finance Department to provide periodic budget-to-actual reports for all Village funds.

Capital Assets

Finding No. 9: Capital Assets Records

To ensure proper accountability and safeguarding of tangible personal property, the Village should maintain an adequate record of each property item. Our audit disclosed that controls over tangible personal property could be enhanced, as discussed below.

Items Not Tagged. Of the 35 property items selected from the property records or by physical inspection, 29 (83 percent) were not properly tagged as property of the Village. In response to our inquiry, Village personnel indicated that physically tagging assets began in September 2010 and included tagging all assets purchased during the 2009-10 fiscal year. Village personnel also indicated that they plan on tagging items placed into service before October 1, 2009. By not properly tagging all items and identifying them as Village property, the Village may be limited in its ability to provide adequate accountability for its property.

Several Property Items Recorded as One in the Property Records. Of 25 items selected from the property records, 3 (12 percent) were comprised of several items. For example, one item listed as Furniture and Equipment and valued at \$13,999 consisted of several items, including air tanks, three generators, and tanker electronics and graphics. Thus, for the 3 items, the property records did not always disclose all of the information necessary to properly identify and establish adequate accountability for individual property items. If property items are not separately identified in the Village’s property records, such items may not be appropriately identified as missing during the annual physical inventories.

Individually Recorded Assets That Should be Combined in the Property Records. The Village’s property records described 30 individual capital asset items, totaling \$2,497,647 in capitalized costs of the Wastewater System, as “Professional Fees – Phase I.” These items were categorized as either Land or Infrastructure as shown in Table 3.

Table 3

Category	No. of Items	Capitalized Value	Years Life Expectancy
Land	4	\$ 35,335	Note (1)
Infrastructure	4	167,531	10
Infrastructure	4	459,945	20
Infrastructure	7	307,243	25
Infrastructure	4	873,406	30
Infrastructure	<u>7</u>	<u>654,187</u>	40
Totals	<u>30</u>	<u>\$ 2,497,647</u>	

Note (1): Village records did not indicate the life expectancy.

Source: Village Records

All 30 individual assets were recorded with an October 1, 2006, service date. While it may be proper to capitalize professional fees, such as engineering, design, or legal fees, as a part of the cost of a capital asset, these costs are usually combined into the total cost of the individual capital asset, such as the total cost of a particular building, a particular land parcel, or sewer lines for a particular year. Village records did not indicate which capital asset(s) the professional fees related to. Finance Department personnel indicated that they were researching the Wastewater Utility Fund activity to determine which capital assets the fees related to.

By not combining these costs into the total cost of a capital asset, the total cost, net value, or depreciation cost of the asset may not be properly used in analyses and decision making. Also, in these circumstances, if the Village disposes of capital assets, all of the asset's costs may not be appropriately removed from the property records, and the fund's assets would be overstated. Considering the possibility of the Village contracting with Key Largo Wastewater Treatment District to treat its wastewater (as discussed in finding No. 1), some of the Village's current wastewater assets may not be useful in future years, necessitating a write-off of selected assets and resulting in gain or loss to the Village's Wastewater Utility Fund.

Recommendation: The Village should place numbered tags on all appropriate property items identifying them as Village property and provide separate identification of each item in the property records. The Village should also combine item costs, where appropriate, to properly determine an item's total value or cost.

Finding No. 10: Out of Service Motor Vehicles

While inspecting the Village Administration building grounds, we noted a number of Village motor vehicles that did not appear in the property records. Of 16 physically observed motor vehicles, 9 did not appear in the Village's property records. Village personnel identified these as out-of-service vehicles and indicated that several of the vehicles were donated or turned over to the Village by the Monroe County Sheriff's Office and had not been capitalized because they were typically near the end of their useful lives when donated. However, by not recording all vehicles in the property records, the Village is not accounting for all of its capital assets and increasing the risk of the vehicles being misappropriated. Village personnel stated that they intend to record all the vehicles in the property records.

Recommendation: To properly account for all Village property, the Village should record all donated property meeting the Village's capitalization policy into the property records at the estimated market value at the time of donation.

Contractual Expenditures

Finding No. 11: Solid Waste Contractual Services

In July 2003, the Council awarded a contract for solid waste collection, disposal, and recycling services from October 1, 2003, to September 30, 2008. The contract provided for the contractor to be paid monthly at set rates for residential and commercial accounts, with some commercial rates dependent upon the size of solid waste picked up (e.g., by the cubic yard) and some activities dependent upon the frequency of event (e.g., hazardous waste). The contract could be extended for an additional five years; however, the renewal had to be agreed upon at least 90 days prior to the end of the initial term, which would allow the Village time to arrive at a mutually agreed upon contract or subject the acquisition of these services to a competitive selection process before the contract expires. Pursuant to the contract, a renewal was required to be agreed upon no later than July 2, 2008.

While commercial customers were billed directly for solid waste collection, disposal, and recycling services by the contractor, Village residents were billed through an assessment on the annual property tax bill. Although the assessments were based on annual estimates of all residential solid waste-related costs of the Village, the amount paid to the contractor constituted a majority of the Village's estimated costs.

On September 11, 2008, the Council voted to increase the annual assessment per dwelling unit to \$350.90 and to renew the contract for an additional five years through September 30, 2013. The annual residential assessments charged for solid waste collection, disposal, and recycling services for the last five years are shown in Table 4.

Table 4

Starting Date	Resolution No.	Annual Estimated Cost	Annual Assessment per Dwelling Unit	Assessment Percentage Change from Prior Year
October 1, 2007	07-09-48	\$ 1,191,586	\$ 295.02	
October 1, 2008	08-09-67	1,464,945	350.90	18.9
October 1, 2009	09-08-66	1,405,143	336.40	(4.1)
October 1, 2010	10-08-52	1,408,495	347.55	3.3
October 1, 2011	11-08-54	1,576,814	377.68	8.7

Source: Village Records

Village records did not evidence an attempt to competitively select these services. In response to our inquiry, the Village Manager indicated that the former Village Manager met with the contractor on June 23, 2008, and the contractor provided a renewal proposal to the Village on July 9, 2008. The proposal indicated significant increases in residential and commercial rates.

Considering the significant increase in the estimated annual costs, including the rates under the proposed renewal contract, and given that the Village had sufficient time to subject the acquisition of these services to competitive selection prior to the contract’s expiration, it was not apparent, of record, why the Village did not use a competitive selection process in awarding the contract.

Recommendation: The Village should develop policies and procedures to ensure, for contracts with renewal provisions, that a competitive selection process is used in determining whether renewing a contract is in the Village’s best interest.

Finding No. 12: Fire Chief Interlocal Agreement

The Village and the City of Marathon (City) entered into an interlocal agreement on September 23, 2008, for the shared services of the Village’s Fire Chief. The agreement requires the City to reimburse the Village for 50 percent of all compensation, transportation, equipment, and travel costs of the Fire Chief. The Village and City extended the agreement on October 1, 2009, and again on October 1, 2010, for one year extensions.

Section 4.1 of the agreement states “The Village Manager and City Manager shall agree upon a mutually acceptable schedule for Fire Chief, with approximately fifty percent (50%) of the Fire Chief’s time afforded to the Village and fifty percent (50%) of the Fire Chief’s time afforded to the City.” However, there was no provision in the agreement for documentation to be maintained of the services rendered by the Fire Chief, and the related transportation, equipment, and travel costs applicable to the Village and City, respectively. Thus, no mechanism was in place to ensure that each party to the contract received 50 percent of service for 50 percent of the cost.

Since the initial September 2008 agreement through June 2011, the Village identified total costs under the agreement of \$464,270, of which the City paid the Village \$232,135 (50 percent). Although requested, the Village provided no documentation, such as time logs or other records, supporting the 50 percent cost allocation. Further, since October 2008, the Fire Chief has also provided services to the City of Key Colony Beach (KCB) even though there is no interlocal agreement between the Village and KCB, and KCB did not pay the Village for these services.

We compared the 2009 populations, number of households, and number of emergency calls for the Village, City, and KCB. The comparison showed that the Village made up 39, 40, and 45 percent of the total population, households, and emergency calls, respectively, for the three municipalities combined. Although this comparison may not be indicative of the services provided by the Fire Chief, the Village may have paid more than its share for the Fire Chief's services.

The Village's interlocal agreement with the City of Marathon for the shared services of the Fire Chief, whereby the Village's Fire Chief also served the City of Marathon and KCB, was terminated effective October 1, 2011.

Recommendation: Should the Village enter into similar arrangements to share employees, it should establish procedures to document and reasonably allocate the cost of services and ensure that any such arrangements are documented by a written agreement.

Restricted Resources

Finding No. 13: Use of Transportation Fund Revenues

From October 2009 through May 2011, the Village received \$760,354 from four fuel tax revenue types: (1) the 1st Local Option Fuel Tax; (2) the 2nd Local Option Fuel Tax; (3) the State Revenue Sharing – Municipal Fuel; and (4) the Monroe County Interlocal Agreement – Supplemental Gas Tax. The four fuel taxes comprised most of the Village's Transportation Fund revenues and the use of each of these fuel tax revenues was restricted for various purposes, as discussed below.

The 1st Local Option Fuel Tax was established by Sections 206.41(1)(e), 206.87(1)(c), and 336.025, Florida Statutes, and the Village received \$466,292 of these fuel tax revenues during the period October 2009 through May 2011, which may be used for transportation expenditures as defined in Section 336.025(7), Florida Statutes, as follows:

- Public transportation operations and maintenance.
- Roadway and right-of-way maintenance and equipment and structures used primarily for the storage and maintenance of such equipment.
- Roadway and right-of-way drainage.
- Street lighting.
- Traffic signs, traffic engineering, signalization, and pavement markings.
- Bridge maintenance and operation.
- Debt service and current expenditures for transportation capital projects in the foregoing program areas, including construction or reconstruction of roads and sidewalks.

The Statute further provides that these fuel tax revenues may not be used for operational expenses of any infrastructure.

The 2nd Local Option Fuel Tax was established by Sections 206.41(1)(e) and 336.025, Florida Statutes, and the Village received \$141,568 of these fuel tax revenues during the period March 2010 through May 2011. According to Section 336.025(1)(b)3., Florida Statutes, these fuel tax revenues may be used only for transportation expenditures needed to meet the requirements of the capital improvements element of an adopted comprehensive plan or for expenditures needed to meet immediate local transportation problems. The routine maintenance of roads is not considered an authorized expenditure.

The State Revenue Sharing Program – Municipal Fuel was established by Sections 206.605(1), 206.879(1), 212.20(6), and 218.20-.26, Florida Statutes. The Village received \$119,140 of these fuel tax revenues during the period October 2009 through May 2011, which may be used only for the purchase of transportation facilities and road and street rights-of-way; construction, reconstruction, and maintenance of roads, streets, bicycle paths, and pedestrian pathways; adjustment of city-owned utilities as required by road and street construction; and construction, reconstruction, transportation-related public safety activities, maintenance, and operation of transportation facilities.

The Monroe County Interlocal Agreement (Agreement) was agreed upon on June 22, 2009, and provides for Monroe County to compensate the Village for the loss of Constitutional Gas Tax revenues. According to the Monroe County Clerk’s Office, the amounts paid to the Village came from the 9th Cent Local Option Gas Tax that the County imposes. The 9th Cent Local Option Gas Tax revenues, according to Section 336.021(1)(a), Florida Statutes, may be used only for transportation expenditures as defined above for the 1st Local Option Gas Tax. The Village received \$33,354 pursuant to the Agreement during the period October 2009 through March 2011.

As noted above, some authorized uses of these revenues may apply for all or some of the fuel taxes; however, some uses authorized for certain fuel taxes may not be authorized for other fuel taxes. The Village is responsible for establishing adequate controls that provide reasonable assurance that expenditures of these fuel tax revenues are expended only for purposes specified by law and the Agreement. Because the restrictions as to the use of the fuel taxes vary for each type, the Village must maintain separate accountability for the fuel taxes by establishing a separate fund to account for each fuel tax revenue type, or by using separate general ledger codes or other means. Separate accountability for each fuel tax is necessary so that Village management can plan and monitor the use of fuel tax revenue in a manner consistent with the restrictions associated with each fuel tax revenue type.

The Village did not utilize separate funds, general ledger codes, or other means to separately account for these fuel tax revenue types. Although our test of Transportation Fund expenditures did not disclose any unauthorized uses of these fuel tax revenues, without separate accountability for each fuel tax revenue type, there is an increased risk that such revenues may not be used for authorized purposes.

Recommendation: **The Village should establish separate accountability for each fuel tax revenue type.**

Procurement of Goods and Services

Finding No. 14: Competitive Bidding

Competitive procurement procedures are intended to provide for the identification and selection of vendors resulting in procurement of goods and services that are fair, competitive, and reasonable. Effective procurement procedures serve to increase public confidence in the procurement process and avoid the appearance of favoritism in the selection of vendors. Article IV, Division 2 – Purchasing, of the Village Code establishes the Village’s requirements for purchasing or contracting for goods and services. Village Code Section 2-327 establishes the competitive bidding thresholds, and subsection (C)(4) requires that purchases or contracts for goods or services estimated to exceed \$25,000 are subject to competitive bidding.

Village Code Section 2-328 describes situations where competitive bidding may be waived, including but not limited to, use of an existing State or Federal contract or use of another municipality’s or political subdivision’s contract when such contact was awarded by a competitive bidding process. However, Village Code Section 2-328(1) also provides

that the Council may waive competitive bidding requirements at its discretion, and does not require that justification for such waivers be documented.

Our audit tests disclosed that competitive bidding waivers for purchases of goods or services were generally for reasons authorized by Village Code Section 2-328 regarding the use of another listed entity's contract that was awarded by a competitive bidding process. Additionally, none of the waivers tested were granted solely on Council's discretion. However, including a requirement for documenting justification for competitive bidding waivers by Council would strengthen the Village's purchasing policy for promoting fair and open competition for the procurement of public goods and services.

Recommendation: The Council should amend Village Code Section 2-328 to require that justification of competitive bidding waivers be documented.

Finding No. 15: Auditor Selection Committee

Section 218.391, Florida Statutes, provides that each local government, prior to entering into a written contract for audit services, must use auditor selection procedures when selecting an auditor to conduct the annual financial audit. The law requires local governments to select an audit committee, assigns certain responsibilities to the audit committee in evaluating and recommending an auditor for the annual financial audit, and specifies certain provisions that must be included in the written contract for audit services.

In its 2006 *Audit Committees – An Elected Official's Guide (Guide)* publication, the Government Finance Officers Association (GFOA) recommends that all members of the audit committee be members of the governing body because, among other reasons, one of the core responsibilities of the legislative branch of government is to oversee the executive branch (including financial management) and a core responsibility cannot be delegated. To ensure the committee's independence and effectiveness, GFOA states that no governing body member who exercises managerial responsibilities that fall within the scope of the audit should serve as a member of the audit committee.

In May 2009, the Council passed Resolution 09-05-33 establishing an Auditor Selection Committee (Committee) to assist the Council in selecting an auditor to conduct the Village's annual financial audit. The Resolution directed that the Committee be comprised of the Deputy Village Manager, the Finance Director, and the Executive Assistant to the Village Manager, with the Finance Director serving as chair. The Senior Accounting Assistant was appointed as an alternate member should a member of the Committee be unable to serve.

Village records evidenced compliance with Section 218.391, Florida Statutes, regarding selection of an auditor to conduct the 2008-09 fiscal year financial audit in that the Committee established factors to evaluate the services, publicly announced requests for proposals, provided interested firms with information on how the proposals were to be evaluated, evaluated the proposals, and recommended three firms to the Council. Notwithstanding these actions, the Village did not follow GFOA recommendations in that the Council members (governing body) were not part of the Auditor Selection Committee and the Finance Director (a member of management) was a member.

GFOA's *Guide* points out that one of the key duties of an audit committee is to provide a forum in which the independent auditors can candidly discuss audit-related matters with members of the governing body apart from management. Because the Village's governing body delegated its responsibilities regarding the Committee to upper management, there was less oversight over financial management and the Committee's credibility was reduced.

Recommendation: The Council should revise the membership of its Auditor Selection Committee to ensure that the Committee is independent of management.

Personnel and Payroll

Finding No. 16: Employee Compensation Plan

Section 1.3 of the Village’s Employees Policies and Procedures Manual (Manual) requires the Village Manager to periodically adopt a compensation plan. The pay plan and associated salary structure must contain salaries for all Village positions, and the Village Manager or his/her designee is responsible for implementing and managing the compensation plan. The Village Manager may, in the Village’s best interest, authorize a salary higher than the starting amount designated in the compensation plan based on experience.

We requested the Village’s compensation plan and were provided the Village’s departmental Operating Budget, Account Justification Form, which lists proposed job positions along with the proposed budgeted salaries for the fiscal year. The Manual indicates that the compensation plan is to be a salary structure designating a starting amount. Typically, a compensation plan lists all of the established positions for an entity and the minimum and maximum annual salary range. However, the Account Justification Form merely indicated the proposed salary for each position in a department and does not include a starting amount or a range of salaries. Without having a proper compensation plan in place, the Village is not assured of adequate guidance for hiring, merit raises, and promotional decisions. Additionally, having such a plan would help in budgeting vacant positions during the budget preparation process.

Recommendation: The Village Manager should establish a proper compensation plan that delineates minimum and maximum salaries.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida’s citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations. The Legislative Auditing Committee was presented with a certified petition signed by over 20 percent of the Village electors requesting that the Auditor General conduct an audit of the Village. Pursuant to Section 11.45(5)(a), Florida Statutes, the Legislative Auditing Committee, at its March 28, 2011, meeting, directed us to conduct the audit.

We conducted this operational audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of this operational audit were to: (1) obtain an understanding and make overall judgments as to whether the Village’s internal controls relevant to the areas examined during our audit promoted and encouraged compliance with applicable laws, ordinances, contracts, grant agreements, and bond covenants; the economic and efficient operation of the Village; the reliability of records and reports; and the safeguarding of assets; and (2) evaluate management’s performance in these areas.

The scope of this operational audit is described in Exhibit A. Our audit included examinations of various records and transactions from October 2009 through May 2011 and selected actions taken prior and subsequent thereto. Our audit included consideration of allegations concerning the Village’s wastewater system assessments, public records retention, budgeting, capital assets, payroll and personnel, contractual agreements, and the use of various fees.

Our audit methodology included obtaining an understanding of the internal controls by interviewing Village personnel and, as appropriate, performing a walk-through of relevant internal controls through observation and examination of supporting documentation and records. Additional audit procedures applied to determine that internal controls were working as designed, and to determine the Village’s compliance with the above-noted audit objectives, are described in Exhibit A. Specific information describing the work conducted to address the audit objectives is also included in the individual findings.

Our audit did not extend to an examination of the Village’s financial statements. The Village’s financial statements for the fiscal year ended September 30, 2010, were audited by a certified public accounting firm, and the audit report is on file with the Village.

AUTHORITY

Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.



David W. Martin, CPA
Auditor General

MANAGEMENT’S RESPONSE

Management’s response is included as Exhibit B.

EXHIBIT A
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Public records retention and destruction policies.	Determined whether the Village’s records retention and destruction policies complied with Florida law and Department of State requirements. Determined whether the Village only destroyed public records as permitted by law and Village policy.
Written policies and procedures.	Determined whether Village had written policies and procedures in place for major Village functions.
Budgets.	Determined whether the Village, in adopting and amending the budget, complied with Section 166.241, Florida Statutes, and Village policies and procedures.
Budgeted expenditures.	Determined whether Wastewater Utility Fund expenditures were limited to approved budget amounts.
Budget reports.	Reviewed budget reports to determine whether budget-to-actual comparisons were provided to the Council in a timely manner.
Tangible personal property records.	Reviewed Village tangible personal property policies and procedures, and records, for adequacy. Tested property items to determine whether the Village’s property records accurately described property items. Examined property records for motor vehicles physically observed on Village property.
Tangible personal property additions.	Determined whether purchased furniture and Fire Department equipment obtained through a grant were properly included in the property records.
Tangible personal property disposals.	Tested property disposals for compliance with ordinances or resolutions and Village policies.
Motor vehicle usage and auto allowances.	Determined whether the assignment and use of motor vehicles by, and payment of auto allowance to, employees was authorized by Village ordinance/resolution or policies adopted by the Council. Examined Village procedures and records to determine whether appropriate steps were taken to identify and report the amount of taxable fringe benefits attributable to personal use of employer provided motor vehicles.
Wastewater assessments.	Reviewed the assessment methodology for North Plantation Key (NPK) and tested properties to determine whether they were properly charged wastewater assessments. Evaluated the Village’s practices for timely recalculating NPK wastewater assessments based on actual costs and debt issued.
Changes in wastewater assessment methodologies.	Determined whether adjustments were made to all parties assessed for changes in assessment methodologies.
Accounting for wastewater assessments revenue and expenditures.	Determined whether revenues and expenditures are accounted for separately among the assessment areas.
Assessment refunds.	Determined for each assessment area when and how much the property owners were assessed, whether any assessments were refunded, and whether such refunds should have included interest.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Uses of wastewater grant revenues or debt proceeds.	Tested disbursements of grant revenues received or debt proceeds for wastewater projects to determine whether the uses of those funds were allowable per the grant or loan agreements or bond covenants.
Wastewater hook-ups.	Determined, on a test basis, compliance with any ordinances requiring property owners to hook up to wastewater system, establishing timing requirements, and providing penalties for failure to hook up.
Correction of wastewater problems.	Examined Village actions and plans to determine if the wastewater system problems were timely addressed.
Reclaimed water system.	Examined the reclaimed water system to determine its approval, costs (including debt service), and whether it was timely and adequately completed.
Employee compensation.	For selected employees, determined whether their pay was in accordance with approved salaries, established pay ranges, and contracts.
Overtime and additional pay.	Examined payroll records to determine whether overtime and additional pay were supported and appropriate.
Terminal pay.	Determined whether the former Village Manager's terminal pay was in accordance with his employment contract.
Severance pay.	Evaluated the appropriateness of severance pay provisions in the current Village Manager's contract.
Fire Chief interlocal agreement.	Obtained copies of the interlocal agreements between the Village, Marathon, and Key Colony Beach for the Village's Fire Chief to determine the reasonableness of the allocation of costs and whether amounts billed to the other entities were supported and reasonable.
Fire Chief time and effort records.	Determined whether time records were maintained to evidence services provided by the Fire Chief.
Fire Chief travel costs.	Examined the Fire Chief's travel costs reimbursed by the other community for reasonableness and adequacy.
Procurement of goods and services.	Reviewed the Village's ordinances/resolutions and policies and procedures regarding procurement of goods and services, and tested payments for compliance with bid requirements and good business practices.
Solid waste contract.	Determined whether the Village's solid waste contract had been properly bid out or renewed.
Auditor selection.	Evaluated the make-up of the auditor selection committee and determined compliance with Section 218.391, Florida Statutes, and best practices regarding selection of auditors used to conduct the 2009-10 fiscal year audit.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Affordable Housing Fund transfers.	Determined appropriateness of transfers from the Affordable Housing Fund.
Building fees.	Tested permits issued to determine whether the appropriate fees were assessed and collected.
Use of building fees.	Examined building fees disbursements to determine whether they were used in accordance with Section 553.80(7), Florida Statutes. Also, determined reasonableness of building fees collected in excess of related expenditures.
Property improvements.	Reviewed local property improvements or additions to determine whether they were properly permitted.
Use of fuel tax revenues.	Determined whether the Village separately accounted for fuel tax revenues. Tested expenditures of fuel tax revenues for compliance with Sections 206.41, 206.605, and 336.025, Florida Statutes.

EXHIBIT B
MANAGEMENT'S RESPONSE



*Islamorada,
Village of Islands*

March 26, 2012

VIA EMAIL
flaudgen_audrpt_lg@aud.state.fl.us

David W. Martin
Auditor General
State of Florida
401 Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32399-1450

Dear Mr. Martin:

In response to the preliminary and tentative findings provided by your office, enclosed is a report from Islamorada, Village of Islands containing the written statements of explanation concerning all of the findings and the corrective actions proposed. As requested, the report is being provided as a converted PDF.

I appreciate the time that you and your staff have spent and the attention to detail demonstrated during the audit process.

If you require anything additional at this time, please do not hesitate to contact me through the Village Manager's Office at 305-664-6411.

Sincerely,

Michael Reckwerdt

Michael Reckwerdt
Mayor

Enclosure

cc: Village Council
Edward Koconis, Village Manager
Nina Boniske, Village Attorney
David Ward, Audit Supervisor
Marilyn Rosetti, Audit Manager
Jim Cole, Audit Team Leader

86800 Overseas Highway, Islamorada, FL 33036
Office 305-664-6400 • FAX 305-664-6464 • www.islamorada.fl.us

Islamorada, Village of Islands * Statements of Explanation Concerning Findings****WASTEWATER AND REUSE SYSTEMS**

Finding No. 1: Although Florida law requires that local governments within the Florida Keys establish wastewater collection, transmission, and treatment facilities by December 31, 2015, the Village had only provided such facilities to 16 percent of the properties within its boundaries as of December 2011, and had no final plan in place to ensure that the remaining service areas would be provided wastewater services by the established deadline.

Recommendation: The Village should expedite its efforts to provide for a final plan to complete the provision of wastewater services within the Village boundaries to meet the State mandated deadline. In doing so, the Village should determine the cost-effectiveness of abandoning facilities it has already constructed and paid for.

Statement of Explanation to Finding No. 1: Florida Administrative Commission Rule No. 28-19.310 (the Rule) adopted by the Governor and Cabinet sitting as the Florida Administration Commission contains work program requirements to plan for delivery of wastewater services to the remaining service areas and the development of a construction schedule. On January 18, 2012, the Florida Administration Commission found that the Village had made substantial progress toward accomplishing the strategies of the annual work program requirements of the Rule. The Village's plan to ensure that the remaining service areas will be provided wastewater services by December 31, 2015 is to enter into a contract with the firm selected to design-build-operate the wastewater system following the Request for Proposal procedure completed by the Village in December 2011. The construction schedule submitted by the selected firm provides for system completion in accordance with the state mandated deadline and the Rule.

To update the information provided in the Finding, the design collection system for the Middle Plantation Key area was 100 percent complete by July 2011.

Through the design-build-operate process, the Village is currently determining the cost-effectiveness of abandoning facilities it has already constructed and paid for. This includes either the construction of facilities in Islamorada or transmission of wastewater to the Key Largo Wastewater Treatment Plant. The determination will be made part of the final plan to complete the provision wastewater services within the Village boundaries to meet the state mandated deadline.

Finding No. 2: Due to multiple revisions in its plans for providing wastewater services, the Village forfeited approximately \$10 million in grant funding.

Recommendation: In developing a plan to meet the State mandate, the Village should adequately plan the entire wastewater project anticipating all of the planning, design, construction, operating and financing needs and the required and available resources to fund the entire project. Once the plan is finalized, the Village should seek available grant funding to help finance the project. Additionally, the Council should consider all known factors, including grant funding requirements, when considering modifications to the project plan. The Council should also develop adequate policies and procedures to ensure that all required milestones are met to ensure that grant funding acquired in the future is not lost.

Islamorada, Village of Islands * Statements of Explanation Concerning Findings**

Statement of Explanation to Finding No. 2: One project that accounted for approximately \$3.6 million dollars of returned funds was for a decentralized demonstration wastewater project for northern area of Lower Matecumbe Key. When the Village applied for and accepted this grant, it appeared that the project may have some viability. However, once the Village started working on the project, it became apparent that this project did not meet the needs of the area to be served by the grant. The Village returned the grant funds, rather than expend them on a project that did not meet the needs of the area.

The federal government allocated \$100 million for the entire Florida Keys. This amount was to be divided among the various local governments in the Keys based on agreed upon schedules and distributions among the parties. Those entities that were ready to go with their projects were to receive funds first, and the other entities would receive funds in subsequent years. Although the Village was slated to receive \$7,950,000 of these funds in the fiscal year ending September 30, 2010, the Village was not ready to utilize a portion of the funds (\$6,352,000) made available under the American Recovery and Reinvestment Act of 2009 ("ARRA") as those funds were restricted to shovel ready projects and not a project like the Village's which was in the design phase. The Village agreed to have those funds redistributed to other entities in the Keys, the City of Marathon and the Key Largo Wastewater Treatment District. Those funds were utilized to provide central wastewater in the Keys which was the overall goal of the federal allocation. By September 30, 2011, the Village did utilize and receive reimbursement for \$1,560,426 of the remaining \$1,598,000 in available Army Corps of Engineering funds that it was able to carry over from FY 2009-2010 to FY 2010-2011. Since the end of FY 2010-2011, the Village has also utilized the \$37,574 balance of the FY 2010-2011 allocation. Should the federal government allocate more funds to meet the \$100 million pledge, the Village would be next in line to receive the funds that it allowed to be distributed to the other Keys entities. The Village had changed its method of procuring the design and construction of the Village-wide wastewater utility from design-bid-build to design-build-operate-finance in order to do exactly what the Audit finding suggests, ensure financing of the entire Village-wide project, rather than attempt to finance the project piecemeal as funds became available.

As described in Statement of Explanation No. 1, the Village is in the process of planning the entire wastewater project through a design-build-operate contract. The contract with the selected design-build-operate firm will include all issues related to design, construction and operation.

The Village is also addressing the financing of the entire project. Some of the financing will be through state and federal grants, and the balance will be through special assessments and low interest State Revolving Fund (SRF) loans. The Village is also supporting the continuation of a one penny infrastructure tax in the Florida Keys which would defray project costs as well. To implement this financing plan, the Village has levied an initial capital wastewater assessment that will finance project planning and the first phase of construction. A financing plan has been developed for project implementation which has been submitted and approved by the state. The Village continues to seek grant funding to assist with project financing.

The Village engaged a state lobbyist beginning in 2010. Following efforts of the lobbyist, Village Council and Village staff, the 2012 appropriations bill passed by the Florida Legislature

Islamorada, Village of Islands * Statements of Explanation Concerning Findings**

includes a \$20 million appropriation from the Save Our Everglades Trust Fund specifically for the Islamorada wastewater system. The Village is aware of the timeframe for compliance with this state appropriation and has developed a schedule to meet the requirements.

In response to Islamorada's January 2012 Request for Inclusion for preconstruction funding, the Florida Department of Environmental Protection preapproved the Village for a State Revolving Fund (SRF) Preconstruction Loan. Village staff is subsequently completing the Preconstruction Loan Application required for execution of the loan agreement. Concurrently, Village staff is also completing a Request for Inclusion for construction funding and a SRF Construction Loan Application. A schedule to meet the SRF funding deadlines has been developed. Such a schedule will be developed for all future loans and grants.

On February 22, 2012, the Village issued a Request for Qualifications (RFQ) for a federal lobbyist to assist the Village with obtaining the balance of the \$100 million dollar federal pledge to the Florida Keys that has yet to be allocated or to obtain other federal funds to utilize to preserve the Village's near shore waters as part of its national significance. Responses to the RFQ have been received and the Village will be considering selection of a lobbyist in the near future.

Finding No. 3: The Village contracted for the design and construction of a reclaimed water system to irrigate Founders Park which, according to Village records, was complete in June 2006 and could have been hooked up in December 2009; however, the reclaimed water system had not been hooked up or put to use as of February 2012.

Recommendation: The Village should complete the hook-up of the system and use the system as intended for irrigating Founders Park, or document of record why the Village should not complete the hook-up and use of the system.

Statement of Explanation to Finding No. 3: The decision whether to treat all of the Village's effluent in Islamorada, maintain the Plantation Key Wastewater Treatment Facility and transmit a portion of the effluent to the Key Largo Wastewater Treatment Plant or to transmit all effluent to the Key Largo Wastewater Treatment District plant is still to be determined. The decision will be based on cost effectiveness and negotiations with Key Largo. If it is decided that the Plantation Key Wastewater Treatment Facility will not be decommissioned, the design-build-operate contract will include completion and operation of the reuse system. The reuse system would not be placed into operation if the Plantation Key Plant is to be decommissioned.

Finding No. 4: Some newly constructed buildings were not billed for wastewater charges until 3 to 51 months after the buildings were connected to the Village's wastewater utility, and the Village had not requested the Florida Keys Aqueduct Authority to back-bill customers for unbilled amounts.

Recommendation: The Village should ensure that all developed properties within NPK, and subsequent areas that receive wastewater services, are billed for wastewater services in accordance with the Village Municipal Code. In addition, the Village should determine the amounts that existing wastewater customers were not billed and seek to collect those funds.

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Statement of Explanation to Finding No. 4: The Village has tightened procedures to ensure that all developed properties within a completed wastewater project area are billed for wastewater services within the time frame specified by the Village's Code of Ordinances (within 30 days of the date that the property owner is notified that the system is available for connection). This procedure will ensure that all subsequent areas that receive wastewater services are properly billed.

Building staff alerts the Finance staff and the Wastewater staff when Village sewer permits are issued. Follow-up to ensure an inspection is performed after the sewer permit is issued is coordinated by all three departments. This procedure ensures that billing for new construction will begin timely.

As of March 12, 2012, Village staff worked with the FKAA staff to confirm the list of properties that were not billed as described in the AG's report. The Village has calculated the amounts due for each property, (the fixed base rate and for the monthly actual consumption charge) and will provide the FKAA with the parcels and amounts due for the unbilled time periods. The Village expects the FKAA will bill those parcel in its April billing cycle. The past due amounts total approximately \$39,000. In order to not unduly burden the property owners with a large bill, the FKAA has a procedure in place to work out payment plans for those customers that cannot pay the entire bill at one time and the Village is in agreement with the use of such a payment plan.

Finding No. 5: From December 2010 through July 2011, the Village was overcharged for wastewater bill processing.

Recommendation: The Village should periodically review the number of wastewater accounts for which they are charged and ensure that any overcharges are promptly credited.

Statement of Explanation to Finding No. 5: The Florida Keys Aqueduct Authority (FKAA) credited the Village \$929 in overcharges for services they provide the Village to perform wastewater service billing, thereby correcting this error.

To ensure that overbilling does not occur, Wastewater staff is implementing a procedure to reconcile each invoice from the FKAA to ensure that the correct number of accounts is billed. As an additional check and balance, the Village's Finance Department will review each monthly FKAA invoice to check for unexpected variations in account totals/billing amounts and confirm the same with Wastewater staff.

PERMITS

Finding No. 6: The Village's building permitting process needed improvement. We noted unaccounted for permit numbers, open permits, unlocated property permit files, and unissued certificates of occupancy.

Recommendation: The Village should develop procedures to periodically account for all permit numbers. Such procedures should provide assurance that the completion status for newly constructed structures is properly accounted for, all applicable fees (permit and wastewater

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assessments, if applicable) have been collected, and certificates of occupancy or completion are issued in accordance with the Florida Building Code.

Statement of Explanation to Finding No. 6: Two sources have been identified to explain unaccounted for permit numbers: applications entered in error and permit applications that were never issued/picked up. The building permit software has been modified to allow for coding to document these situations. This modification will provide for proper accounting of all permit numbers moving forward.

The permit software is being modified to properly close all building permits only after all required and necessary inspections and applicable fees have been paid. In addition, a system report of expired permits will now be generated regularly and be reviewed by the Building Official to allow for physical site visits to ensure compliance with the Florida Building Code prior to issuance of certificates of occupancy or completion.

Three permits were identified as having unissued certificates of occupancy. All three of these permits have now received the certificate of occupancy. Through the permit software modifications and system report described above, the Building Official will receive notification of the requirements for the certificate and can ensure that all certificates are properly issued.

Three permits were not located during the audit but this has since been corrected and the permits are properly filed. The process of creating individual permit folders was initiated prior to the audit, but some older permits had been combined into single folders with multiple permits for the same property. These permits will be separated during the electronic conversion process currently underway.

Finding No. 7: The Village's procedures for issuing permits for temporary storage units needed improvement. Our review disclosed that 7 of 15 temporary storage units were not properly permitted.

Recommendation: The Village should develop procedures for Building Inspectors to be alert for new temporary storage units as part of their inspection duties and monitor those temporary storage units that were permitted or were grandfathered pursuant to Ordinance No. 05-20.

Statement of Explanation to Finding No. 7: Building Inspectors and Code Compliance Officers have been directed to look for unpermitted temporary storage units during their regular inspection duties. Owners of existing storage units eligible for annual permits will be contacted regarding permitting, however. Owners of unpermitted storage units will be contacted regarding application for temporary permits or removal of the storage units.

BUDGETARY CONTROLS

Finding No. 8: The estimated beginning net assets amount used for the Wastewater Utility Fund's 2009-10 fiscal year budget was overstated by \$1,660,243, and was not subsequently amended to the actual amount after the 2008-09 fiscal year audited financial statements were issued. Starting in January 2010, the Village Council members were not provided with budget-to-actual reports for the Wastewater Utility Fund.

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Recommendation: To aid the Council in planning its financial operations and making the most informed decisions, the Finance Department should enhance its procedures to propose amendments to the estimated beginning net assets balances as relevant information is available. The Council should require the Finance Department to provide periodic budget-to-actual reports for all Village funds.

Statement of Explanation to Finding No. 8: Beginning with the FY 2011-2012 budget meetings, when reporting net asset and fund balance amounts for budget preparation purposes and for budget versus actual presentations, the Finance Director used the latest available audited amounts reported in the most recently published CAFR as the basis for any subsequent estimation. When the latest CAFR is completed each year, a budget amendment will be presented to Council for approval to adjust fund balance and net asset amounts to audited amounts.

Currently, the Finance Director makes quarterly budget-to-actual presentations that include all of the Village's funds to the Village Council. The reports included in Council agenda packages are accessible by the public on the Village's web site. The Finance Director is in the process of creating a monthly financial report for the Council and for access by the public through the Village's web site that will include budget versus actual comparisons.

CAPITAL ASSETS

Finding No. 9: The Village needed to enhance controls over tangible personal property. We noted untagged property items and lack of necessary information in the property records.

Recommendation: The Village should place numbered tags on all appropriate property items identifying them as Village property and provide separate identification of each item in the property records. The Village should also combine item costs, where appropriate, to properly determine an item's total value or cost.

Statement of Explanation to Finding No. 9: The Village adopted a Fixed Asset Policy on January 14, 2010. Pursuant to that Policy, the Finance Department staff has tagged all assets that have been acquired since October 1, 2009 and is in the process of working with staff of the Village's individual departments to physically tag remaining assets purchased before October 1, 2009 that do not yet have numbered property tags. When there is an asset that cannot be physically tagged, the tag will be maintained with the property record. In compliance with the Village's adopted Fixed Asset Policy, during the month of March 2012, the Finance Department is coordinating with property custodians in each department to inventory capital assets of the Village and prepare the required annual report to the Village Manager by March 31, 2012. Finance Department staff will perform the physical inventory of capital assets.

In addition to adopting the existing Fixed Asset Policy, the Finance Director has determined that an additional change to the policy should be implemented by revising the Village's Fixed Asset Policy to a Capital Asset Policy that details treatment of capital outlay purchases and capital outlay projects. The Finance Director has also identified a need to record purchases that do not meet the capitalization threshold in operating accounts and to continue recording purchases that meet the capitalization threshold in capital outlay accounts. Currently, all

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purchases are coded to one account and then spreadsheets are maintained to identify those purchases that are capitalized. Properly coding the assets as the invoices are paid would be a more efficient process and would help ensure that capital outlay purchases are being recorded in the fixed asset software module for depreciation. This coding process would also facilitate reconciliation of capital asset balances on the general ledger to those in the fixed asset software module. The changes described will be implemented by the end of FY 2011-2012.

Finding No. 10: Numerous Village motor vehicles were not included in the property records.

Recommendation: To properly account for all Village property, the Village should record all donated property meeting the Village's capitalization policy into the property records at the estimated market value at the time of donation.

Statement of Explanation to Finding No. 10: In preparation for a sealed bid auction held in November 2011, the Finance Department added all donated vehicles to its capital asset inventory. At the end of FY 2010-2011, the Village received additional donated vehicles from the Monroe County Sheriff's Office and these vehicles were promptly added to the capital asset inventory at market value and so that depreciation is being calculated. The Finance Department will continue to follow a process of promptly adding all donated and purchased assets to its capital asset software module and of updating asset records when disposals occur. Through the auction, the Village was able to dispose of all of its unused vehicles through sale, and the Village's fixed asset software module was promptly updated. Proceeds from the sale totaled over \$17,000. Two vehicles that did not sell are being used by the Fire Department for vehicle extraction training purposes.

CONTRACTUAL EXPENDITURES

Finding No. 11: The 2003 contract for solid waste collection, disposal, and recycling services was extended in 2008 without competitive bidding, and the cost of the services increased significantly.

Recommendation: The Village should develop policies and procedures to ensure, for contracts with renewal provisions, that a competitive selection process is used in determining whether renewing a contract is in the Village's best interest.

Statement of Explanation to Finding No. 11: Since the Village incorporated, Solid Waste services have been provided by a contracted vendor. In 1998 the Village competitively selected a vendor and entered into a five year agreement. In 2003, the Village again issued procurement documents in order to competitively select a vendor to provide Solid Waste Services. The procurement documents included a provision that the proposed term of the franchise would be for an initial five years and a five year renewal. In July of 2003, pursuant to a competitive process, the Village Council awarded a Franchise for Residential and Commercial Collection, Disposal and Recycling Services (the "Franchise Agreement"). Consistent with the procurement documents, the term of the Franchise Agreement was for an initial five years with a five year renewal as is specified in Section 2.2 of the Franchise Agreement. Accordingly, the possibility of a ten year term for this award was contemplated at the time of procurement, and was contractually awarded as part of the selection process.

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On September 11, 2008 the Village exercised its contractual right as specified in Section 2.2 to extend the Franchise Agreement for an additional five years. The Agenda Memo for the September 11, 2008 explained the terms and conditions of the five year extension which appear to explain the management reasoning for the extension. As is specified in the Agenda Memo, the Village had asked the vendor to provide additional recycling incentives to the Village's customers. The recycling incentives are included in the amended Franchise Agreement, which includes a requirement that the vendor provide an additional recycling vehicle (which is an additional capital cost to provide the service). The amended Franchise Agreement also includes a Fuel Surcharge adjustment and a related change to the Cost of Living Adjustment to address the fluctuating cost of fuel during that timeframe. The Village was also exploring an alternative means of service delivery called Pay As You Throw, and included a provision to explore this alternative delivery method during the 2008-2009 fiscal year. The Budget Impact statement included in the September 11, 2008 Agenda Memo explains the increase to the vendor based upon the recycling and fuel adjustment components.

The Village does note that the Auditor recommends "the development of policies and procedures to ensure, for contracts with renewal provisions, that a competitive selection process is used in determining whether renewing a contract in in the best interest of the Village." As part of the process of reviewing the existing Purchasing Ordinance, the Village will consider policies and procedures relating to the evaluation process for contractual extensions of existing vendors.

Finding No. 12: The Village had not established procedures to document and reasonably allocate the cost of the Fire Chief's services provided pursuant to an interlocal agreement with the City of Marathon. Additionally, the Village provided Fire Chief services to the City of Key Colony Beach at no charge by the Village and without an interlocal agreement.

Recommendation: Should the Village enter into similar arrangements to share employees, it should establish procedures to document and reasonably allocate the cost of services and ensure that any such arrangements are documented by a written agreement.

Statement of Explanation to Finding No. 12: During the period of the Interlocal Agreement, the Fire Chief's weekly schedule consisted of spending two days in the Village, two days in the City and one split day spent half in the City and half in the Village. Although we believe that the Fire Chief's time was divided reasonably and in accordance with the conditions of the Interlocal Agreement, it may have been prudent to have required detailed time and expense logs.

With regard to the services provided to Key Colony Beach, it was understood at the time the Interlocal was executed that the City was responsible for services to Key Colony Beach. Those services were considered part of the fifty percent paid by the City of Marathon. If time and expense logs had been required, the equal split of time could have been documented.

No such arrangements or agreements are being considered; however, if the Village does enter into such an interlocal agreement or similar contractual arrangement in the future, a procedure will be put in place to document that the time, duties and costs are reasonably allocated.

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RESTRICTED RESOURCES

Finding No. 13: The Village did not provide for separate accountability of restricted fuel tax revenues.

Recommendation: The Village should establish separate accountability for each fuel tax revenue type.

Statement of Explanation to Finding No. 13: In FY 2000-2001, the Village created a Transportation Fund into which revenue sources restricted for use on transportation-related expenditures are reflected. Capital projects and other operational costs funded by those revenue sources are also reflected in the Transportation Fund. In preparing the financial statements to comply with GASB 54 for the FY 2010-2011 CAFR, the Finance Director analyzed the revenue sources in the Transportation Fund from 10/1/2001 through 9/30/2011 to ensure that revenue received from various sources was used on expenditures or to fund projects in accordance with any related agreements and/or with Florida Statutes. The Finance Director confirmed that all grants received since 2001 for transportation-related projects or expenditures have been fully expended in accordance with the terms of those grants. Further, the proper use of grant funds is evidenced by the single audit results published in each year's CAFR.

The most restrictive state revenue sharing source is the 2nd Local Option Gas Tax, which the Village began receiving October 1, 2009. Through September 30, 2011, the Village had not incurred any expenditures to which the 2nd Local Option Gas Tax could be applied. Therefore, the \$194,006.75 in revenue that the Village has received from this source from October 1, 2009 through September 31, 2011 is being reflected as a restricted portion of fund balance in the Transportation Fund's total fund balance of \$791,943.86.

The Finance Director will revise the general ledger number format so that revenue sources are coded to match expenditures funded by those sources. Additionally, a spreadsheet will be maintained to detail the classifications of fund balance. The changes described will be implemented by the end of FY 2011-2012.

PROCUREMENT OF GOODS AND SERVICES

Finding No. 14: The Village Code did not require that justification of competitive bidding waivers be documented, and did not address all conditions under which such waivers would be appropriate.

Recommendation: The Council should amend Village Code Section 2-328 to require that justification of competitive bidding waivers be documented.

Statement of Explanation to Finding No. 14: The Village has a formally adopted a Purchasing Ordinance found in Chapter 2, Article IV of the Village Code. The Purchasing Ordinance specifies instances in which competitive selection is to be utilized. The Ordinance further provides specific areas in which the Village may waive competitive selection. The Purchasing Ordinance includes a catch all provision, Section 2-328(1), which provides that the Council may waive competitive bidding. The Auditor correctly points out that this particular

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Ordinance provision does not require the Council to specify a factual justification for a waiver of bidding. Although not codified, the actual custom and practice utilized by the Village has been for staff to include the factual justification for waiver of bidding in the agenda memo accompanying the particular vendor selection and waiver request.

The Auditor recommends that the current actual practice of providing factual justification for waiver be formally codified. The Village agrees with the recommendation and will prepare amendments to Village Code section 2-328 to address this finding.

Finding No. 15: The Village's Auditor Selection Committee included the Village Finance Director, but did not include members of the Village Council, contrary to best practice advisories issued by the Government Finance Officers Association.

Recommendation: The Council should revise the membership of its Auditor Selection Committee to ensure that the Committee is independent of management.

Statement of Explanation to Finding No 15: The Village's Finance Director is aware of the GFOA's recommendation that an Auditor Selection Committee be comprised of members of the legislative body for the municipality or of their appointees who are independent of management. The Village's engagement with its current external auditors (Cherry, Bekaert and Holland) terminates after the FY 2010-2011 audit and CAFR preparation. Current Council has been provided GFOA's recommendation. Staff will ensure the Council is fully informed of the GFOA's guidance and recommendations related to auditor selection committees prior to initiating future auditor selection processes.

PERSONNEL AND PAYROLL

Finding No. 16: Contrary to the Village's Employees Policies and Procedures, the Village Manager had not adopted a compensation plan listing the authorized positions for the Village and the minimum and maximum annual salary ranges.

Recommendation: The Village Manager should establish a proper compensation plan that delineates minimum and maximum salaries.

Statement of Explanation to Finding No. 16: We acknowledge that a compensation plan has never been established as is provided for in the Employee Policies and Procedures manual. Prior to the adoption of the FY 2012-2013 Annual Budget, the Village Manager will establish a compensation plan to be updated periodically.