



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

401 Claude Pepper Building
111 West Madison Street
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August 21, 2014

The Honorable Lake Ray, Chair
Joint Legislative Auditing Committee
111 West Madison Street, Room 876
Tallahassee, Florida 32399-1400

Dear Representative Ray:

Section 11.45(2)(j), Florida Statutes, requires us to, no later than 18 months after the release of a report on the audit of a local governmental entity, perform such appropriate follow-up procedures as deemed necessary to determine the audited entity's progress in addressing the findings and recommendations contained within our previous report. Pursuant to Section 11.45(3)(a), Florida Statutes, we conducted an audit of Islamorada, Village of Islands (Village) and issued report No. 2012-169. The objective of this follow-up audit was to determine the Village's progress in addressing the findings and recommendations contained within our report No. 2012-169. This correspondence is to notify you of the results of our follow-up audit.

We inquired of the Village regarding actions taken to address the findings in report No. 2012-169. Responses to our inquiries, documentation obtained in support of the responses, and additional follow-up audit procedures, as appropriate, provided the basis for our determinations. Based on the procedures applied, we concluded that of the 16 findings included in report No. 2012-169, the Village's actions corrected 13 findings, partially corrected 1 finding, did not correct 1 finding, and had no occasion to correct 1 finding. The table below indicates the status for each finding.

#	Finding	Status of Finding			
		Corrected	Partially Corrected	Not Corrected	No Occasion to Correct
1	Wastewater Facilities Planning	X			
2	Grants for Wastewater Service Funding	X			
3	Reclaimed Water System	X			
4	Wastewater Customer Billings	X			
5	Charges for Wastewater Billing Services	X			
6	Building Permits	X			
7	Temporary Storage Unit Permits		X		
8	Budget Preparation and Reporting			X	
9	Capital Asset Records	X			

#	Finding	Status of Finding			
		Corrected	Partially Corrected	Not Corrected	No Occasion to Correct
10	Out of Service Motor Vehicles	X			
11	Solid Waste Contractual Services	X			
12	Fire Chief Interlocal Agreement				X
13	Use of Transportation Fund Revenues	X			
14	Competitive Bidding	X			
15	Auditor Selection Committee	X			
16	Employee Compensation Plan	X			
	Totals	13	1	1	1

Attachment A provides additional details for those findings that the Village had an occasion to correct, but had not fully corrected. The scope and methodology of this follow-up audit are described in Attachment B. Attachment C provides the response from the Village. Please advise if you or your staff have any questions regarding this information.

Our follow-up audit was conducted in accordance with applicable generally accepted government auditing standards. Those standards require that we plan and perform procedures to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our objectives.

Please address inquiries regarding these matters to Marilyn D. Rosetti, CPA, Audit Manager, by e-mail at marilynrosetti@aud.state.fl.us or by telephone at (850) 412-2881.

Sincerely,

David W. Martin, CPA
 Auditor General

Attachments

- c: Kathy DuBose, Coordinator, Joint Legislative Auditing Committee
 Islamorada Village Council

Attachment A
Findings Not Fully Corrected

Finding No. 7: Temporary Storage Unit Permits

Previously Reported

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.

We recommended that the Village 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.

Results of Follow-Up Procedures

The Village's actions partially corrected this finding. While Building Inspectors and Code Enforcement Officers were verbally instructed to be vigilant for unpermitted temporary storage units, and the Planning Director used a spreadsheet to track permit applications, the Village did not establish written procedures to detect unpermitted storage units.

Finding No. 8: Budget Preparation and Reporting

Previously Reported

Contrary to Section 166.241(2), Florida Statutes, which 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, 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 fiscal years, or adjust the amounts used to actual when those amounts were known. Additionally, starting in January 2010, the Village Council was not provided with budget-to-actual reports for the Wastewater Utility Fund.

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

Results of Follow-Up Procedures

The Village's actions did not correct this finding. For the Wastewater Utility Fund 2012-13 fiscal year budget, the Village only budgeted enough of the projected beginning net assets amounts as a revenue source necessary to equal the budgeted expenses. The Fund's budget was broken into two geographic areas: the North Plantation Key wastewater service area (considered unrestricted funds) and the Remaining Service Area (considered restricted funds). For unrestricted net assets, the 2012-13 fiscal year budget identified \$265,390 as the beginning unrestricted net assets source. However, the Village's 2011-12 fiscal year Comprehensive Annual Financial Report (CAFR) reported the ending unrestricted net assets as \$696,599, or \$431,209 more than the unrestricted net assets included in the budget. For restricted net assets, the 2012-13 fiscal year Wastewater Utility Fund budget reported \$2,500,000 as the beginning restricted net assets source. However, the Village's 2011-12 fiscal year CAFR reported the ending restricted net assets as \$2,047,753, or \$452,247 less than the restricted net assets included in the budget. Additionally, the Wastewater Utility Fund 2012-13 fiscal year budget beginning net assets amounts were not amended to the actual ending net assets amounts from the 2011-12 fiscal year CAFR.

For the Wastewater Utility Fund 2013-14 fiscal year budget, the Village revised its presentation and did not include the projected beginning net assets as a revenue source. The budgeted revenues for the unrestricted net assets (North Plantation Key) totaled \$1,407,000 while the budgeted expenses totaled \$1,771,040. The presentation implies using \$364,040 from the prior fiscal year's ending net assets. For the restricted funds (Remaining Service Area), the budgeted revenues totaled \$46,977,980 and the budgeted expenses totaled \$43,627,980, or estimated excess revenues of \$3,350,000. However, Section 166.241(2), Florida Statutes,

Attachment A (Continued)
Findings Not Fully Corrected

requires that the amount available from taxation and other sources, including balances brought forward from prior fiscal years, must equal the total appropriations for expenditures and reserves. Neither of the Village's budget presentations presented a balanced budget. As of June 24, 2014, the Village has not prepared its Annual Financial Report or its CAFR for the 2012-13 fiscal year. Therefore, the actual available beginning net asset balances for the unrestricted and restricted budgets were not known.

The Village Council was not provided periodic budget-to-actual reports during the 2012-13 fiscal year other than those prepared for the 2013-14 fiscal year budget process.

Attachment B Audit Scope and Methodology

This follow-up audit included transactions, as well as events and conditions, occurring from April 2012 through July 2014.

For those activities and functions included within the scope of our follow-up audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the activities and functions; exercising professional judgment in considering significance and audit risk in the design and execution of interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included the examination of pertinent Village records and transactions, inquiry of Village personnel, observation of procedures in practice, and additional follow-up procedures as appropriate. Unless otherwise indicated in this report, records and transactions were not selected with the intent of projecting the results, although we have presented for perspective, where practicable, information concerning the relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature does not include a review of all records and actions of Village management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, waste, abuse, or inefficiency.

Scope (Topic)	Methodology
Finding No. 1, Wastewater Facilities Planning.	Determined whether the Village contracted to prepare a wastewater treatment master plan to provide wastewater service to the Village's Remaining Service Area (RSA) to meet the State's mandate. Examined an agreement between the Village and the Key Largo Wastewater Treatment District (KLWTD) to provide treatment for all of the Village's effluent and records evidencing the Village's cost considerations in abandoning facilities already constructed.
Finding No. 2, Grants for Wastewater Facilities Funding.	Determined whether the wastewater management plan addressed all of the applicable phases, including planning, design, construction, operating, and financing needs. Evaluated the reasonableness of sources and uses of funds anticipated for the wastewater project.
Finding No. 3, Reclaimed Water System.	Reviewed and evaluated the Village's cost-benefit analysis indicating that it was not cost effective to complete the reclaimed water system.
Finding No. 4, Wastewater Customer Billings.	Verified that the Village determined amounts due from unbilled customers and back-billed the customers through its billing provider. For properties designated as affordable housing, examined the Village Council's approval for paying the outstanding back-billed amounts with funds from the Affordable Housing Special Revenue Fund. Tested properties that were issued certificates of occupancy to determine if the customers were billed for wastewater services.
Finding No. 5, Charges for Wastewater Billing Services.	Determined whether the Village had implemented procedures to review the number of wastewater accounts for which it was charged by Florida Keys Aqueduct Authority to ensure that overcharges were promptly detected and credited. Reviewed Florida Keys Aqueduct Authority billings to the Village for reasonableness.

Exhibit B (Continued)
Audit Scope and Methodology

Scope (Topic)	Methodology
Finding No. 6, Building Permits.	Determined through review of Village records whether the Village developed procedures to periodically account for all permit numbers.
Finding No. 7, Temporary Storage Unit Permits.	Determined through review of Village records whether the Village developed procedures to ensure that Building Inspectors are alert for unpermitted temporary storage units as part of their inspection duties and monitor temporary storage units permitted or grandfathered pursuant to Ordinance No. 05-20.
Finding No. 8, Budget Preparation and Reporting.	Examined the Village's 2012-13 and 2013-14 fiscal year budgets to determine whether beginning net asset amounts were included. Determined whether the Village established procedures to periodically provide budget-to-actual reports to Council members.
Finding No. 9, Capital Assets Records.	Tested capital expenditures to determine whether the Village properly accounted for capital purchases in its property records. Tested property items recorded in the Village's property records to determine whether they were tagged as Village property.
Finding No. 10, Out of Service Motor Vehicles.	Examined the Village's property records to determine whether the Village recorded vehicles we had identified as unrecorded. Tested motor vehicles donated since April 2012 to determine whether the donated motor vehicles were recorded at the estimated fair value at the time of donation.
Finding No. 11, Solid Waste Contractual Services.	Determined whether the Village had developed policies and procedures to ensure, for contracts with renewal provisions, that a competitive selection process was used in determining whether renewing a contract was in the Village's best interest. Reviewed the procurement process of the solid waste contract and tested competitive selection of other service contracts.
Finding No. 12, Fire Chief Interlocal Agreement.	Determined through review of Village records whether the Village had entered into arrangements to share employees with other entities.
Finding No. 13, Use of Transportation Fund Revenues.	Determined through review of Village records whether the Village established separate accountability for each fuel revenue type.
Finding No. 14, Competitive Bidding.	Determined whether the Council amended the Village Code to require that justification of competitive bidding waivers be documented. Tested purchases exceeding the Village Code's \$25,000 competitive selection threshold and examined contract extensions.
Finding No. 15, Auditor Selection Committee.	Determined through review of Village records whether the Council revised the membership of its Auditor Selection Committee to ensure that the Committee was independent of management.
Finding No. 16, Employee Compensation Plan.	Examined the Village's compensation plans for the 2012-13 and 2013-14 fiscal years and tested salaries to determine compliance with the compensation plan ranges.

Exhibit C
Management's Response



*Islamorada,
Village of Islands*

August 13, 2014

Mr. David W. Martin
Auditor General
State of Florida
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32399-1450

Re: Report No. 2012-169 – Follow-up

Dear Mr. Martin:

Attached is the Village's response to the State of Florida Auditor General's preliminary results of follow-up procedures conducted to determine the Village's progress in addressing findings in report no. 2012-169 issued in March 2012. Of sixteen findings identified in the original report, the Village was able to correct thirteen of the findings. One finding was determined to be not correctable as the related contract had terminated. Of the two remaining findings, the follow-up procedures concluded that one of those was partially corrected and the last was not corrected.

We understand the results and expectations better now after the follow-up has been completed and will continue to work toward fully correcting the remaining two items. Additionally, we will continue to maintain procedures to ensure that other findings remain corrected.

Thank you for this opportunity to provide a higher level of service to the citizens of Islamorada, Village of Islands.

Sincerely,

Maria T. Aguilar

Maria T. Aguilar
Village Manager

Exhibit C (Continued)
Management's Response

**RESPONSE FROM ISLAMORADA, VILLAGE OF ISLANDS,
TO AUDITOR GENERAL'S PRELIMINARY RESULTS OF
FOLLOW-UP PROCEDURES REPORT NO. 2012-169**

Finding No. 7: Temporary Storage Unit Permits

The Village concurs that the Village has only partially corrected this finding.

Effective April 2014, a department separate from planning and building was established for code enforcement, and the Village Manager assumed direct supervision of the newly established Code Enforcement Department. With a new Village Manager and two new Code Enforcement Officers only recently assuming their respective positions since the time that the Auditor General issued its original Report No. 2012-169, written procedures to "detect unpermitted storage units" have not been finalized.

This week Code Enforcement staff has started inspecting previously identified temporary storage unit locations to first determine if temporary storage units still exist at these locations. If so, the status of permits will then be determined. Additional procedures undertaken, including drafting a form letter to be sent to property owners notifying them of compliance options, will be dependent upon the permit status of temporary storage units. As these activities take place, Code Enforcement staff will likely identify other temporary storage units.

The Village Manager has directed the Senior Code Enforcement Officer to draft written procedures for identification of temporary storage units and an ongoing process for follow-up permit renewal when temporary storage unit permits expire after 30 days.

Finding No. 8: Budget Preparation and Reporting

Village staff believed that it had corrected this finding by including projected net asset or fund balance information in budget documents presented to the Village Council during the budget preparation process. We now understand that correction of this finding entails presentation of a budget amendment to the Village Council to inform them of actual available beginning net asset balances for the unrestricted and restricted budgets and to inform them of actual available beginning fund balance amounts once those actual amounts are known and reported in the CAFR.

A format for monthly budget-to-actual reports to the Village Council has been created. Monthly reports will be included in agenda books prepared for the second Village Council meeting scheduled each month beginning in September 2014.