

**STATE OF FLORIDA AUDITOR GENERAL**

**Operational Audit**

Report No. 2016-197  
June 2016

**CITY OF ARCHER**



Sherrill F. Norman, CPA  
Auditor General

## **Mayor, Vice Mayor, Commissioners, and City Manager**

During the period October 2013 through May 2015, the following individuals served as Mayor, Vice Mayor, Commissioner, or City Manager:

Doug Jones, Mayor from 1-12-15,  
Vice Mayor from 1-13-14 to 1-11-15,  
Commissioner to 1-12-14  
Frank Ogborn, Mayor to 1-11-15,  
Commissioner from 1-12-15 to 5-10-15  
Marjorie Zander, Vice Mayor from 1-12-15,  
Commissioner to 1-12-14  
Susan Drawdy, Commissioner from 5-11-15  
Gabe Green, Commissioner to 5-10-15  
Corey Harris, Commissioner from 5-11-15  
Fletcher Hope, Commissioner  
Al Grieshaber, City Manager

The audit was supervised by Michael J. Gomez, CPA.

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# CITY OF ARCHER

## **SUMMARY**

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This operational audit of the City of Archer (City) focused on selected City processes and administrative activities. Our operational audit of the City disclosed the following:

**Finding 1:** City procedures did not provide an appropriate separation of duties for the water bill collection and recordkeeping functions or establish other controls to compensate for this weakness.

**Finding 2:** City records did not always evidence that employees met the education and experience requirements for their positions. Additionally, City records did not always document each employee's position classification, compensation authorization, or approved payroll deductions.

**Finding 3:** City procedures did not require employees to document time worked and leave used, the documented supervisory review and approval of such time, the independent verification of overtime payment calculations before payments were made, or the independent verification of leave earned and recorded. In addition, the City did not always record sick leave earned by employees on the first day of each month as prescribed by City policies.

**Finding 4:** Although the State Constitution expressly prohibits municipalities from giving, lending, or using credit to aid any person, the City gave seven payroll advances, totaling \$5,500, to the Assistant City Manager.

**Finding 5:** The City paid \$2,938 to the former City Manager for unused sick leave, contrary to City policies.

**Finding 6:** City records did not always document annual employee performance evaluations.

**Finding 7:** City procedures could be enhanced to ensure, for every purchase that exceeds \$2,500, that the City Commission preapproves the purchase and follows the applicable competitive selection process set forth in the City Code of Ordinances.

**Finding 8:** The City had not established written policies and procedures governing the assignment and use of credit cards and fuel purchasing cards.

**Finding 9:** City procedures did not ensure employees used travel authorization and travel voucher forms to demonstrate that travel expenditures were for official City business and complied with State law. Additionally, the City did not always maintain documentation, such as applicable conference programs or agendas and vendor invoices, to support travel expenditures and did not always calculate travel mileage reimbursements based on State law.

**Finding 10:** The City had not established policies and procedures to ensure that contractual arrangements be evidenced by written contracts documenting essential elements, such as the nature of, and compensation for, the services to be performed, or that the contracts be subject to City Commission approval.

**Finding 11:** City-adopted budget resolutions for the 2013-14 and 2014-15 fiscal years included projected revenues and projected expenditures; however, the resolutions did not include balances brought forward from the respective prior fiscal years as required by State law.

**Finding 12:** During the 2013-14 fiscal year, the City did not make any budget amendments to adjust budgeted transactions as circumstances changed nor did City records document why the City reported total budgeted expenditures (\$598,816) instead of the City-approved 2013-14 fiscal year budget resolution projected expenditures (\$602,904). Because of the lack of budget monitoring, at September 30, 2014, the City had over expended 14 budget expenditure categories by a total of \$122,416.

**Finding 13:** City procedures could be enhanced to ensure records are maintained to document the authorized public purpose of petty cash fund replenishments and related disbursements and the independent review and approval of petty cash fund transactions.

**Finding 14:** The City needs to establish anti-fraud policies and procedures for the mitigation, detection, and reporting of suspected or known fraud.

## ***BACKGROUND***

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In 1850, the City of Archer (City) was incorporated as a municipality. State law<sup>1</sup> abolished the City in 1929 and established a new City and City Charter, which was subsequently approved by voter referendum. The City is located in Alachua County, governed by five elected commissioners, and operates under a Commission-Manager form of government. The City Charter<sup>2</sup> requires the City Commission to annually select the Mayor from their number with due regard to his or her experience in government, ability, and qualifications.

In 2014, the City had an estimated population of 1,137. The City provides citizens with services for general government, public works, recreation, water, and solid waste. Also, for the City, the Alachua County Sheriff's Office provides police services and the Alachua County Fire Rescue provides fire and emergency medical services.

During the period October 2013 to May 2015, the City had eight employees. These eight employees included a City Manager, Assistant City Manager, three other administrative employees, and three public works employees. Subsequent to this period, the City Manager resigned on June 25, 2015, and the Assistant City Manager resigned on June 27, 2015.

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<sup>1</sup> Chapter 13906, Laws of Florida (1929).

<sup>2</sup> Section 7 of the City Charter.

## ***FINDINGS AND RECOMMENDATIONS***

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### **Finding 1: Water Services**

The City operates a public water system that provides water services to customers and bills customers based on water meter readings. During the period October 2013 through May 2015, the City recorded collections totaling \$268,154 for the water services.

To the extent possible with existing personnel, it is important for organizations to separate cash collection duties so that no one employee has access to cash and the ability to record cash transactions in the accounting records. If a sufficient number of personnel are not available to appropriately separate duties, compensating controls, such as independent reconciliations of deposits to supporting documentation and supervisory review and approval of cash transactions, are necessary. Other compensating controls relating to collections for water services could include comparisons of the total gallons pumped from the water system to the gallons used by, and billed to, customers to assess the accuracy of the collections.

As part of our audit, we interviewed City personnel and reviewed related City records to gain an understanding and evaluate the City's procedures for water service collections. We found that:

- Certain Utility Clerk duties were incompatible as the Utility Clerk collected customer water bill payments and recorded the payments in the water bill system. The Utility Clerk could also record transactions in the water bill system without supervisory review and approval of the transactions.
- Certain duties performed by the Accounting Technician were incompatible as the Accounting Technician received water bill payments from the Utility Clerk, prepared the daily bank deposit, recorded the bank deposit in the accounting records, and performed the monthly bank account reconciliation. Additionally, the Accounting Technician served as back-up for the Utility Clerk and, as such, could record transactions in the water bill system without supervisory review and approval of the transactions.
- City water service collection procedures did not include adequate compensating controls to mitigate the incompatible duties. Such compensating controls could include independent reconciliations of deposits to customer water bill payments or other documentation, documented supervisory review and approval of cash transactions, and comparisons of total water pumped from the water system to total water usage compiled from the individual water meter readings used for preparing water bills.
- One customer's water account contained unresolved billing discrepancies dating back to June 2012. According to City personnel, they were aware of these discrepancies, but the account was never completely researched or the billing discrepancies resolved because of City management changes. Subsequent to our inquiries in December 2015, the Interim City Manager researched the customer's water account from the inception of the discrepancies and determined that a \$250 credit was due to the customer. The City recorded the credit in the customer's water account in March 2016.

Absent appropriate separation of duties or compensating controls, there is an increased risk of cash transaction errors and that cash misappropriations, should they occur, may not be timely detected.

**Recommendation:** The City should enhance water service collection procedures to separate the water bill collection and recordkeeping duties to the extent possible with existing personnel. If a sufficient number of personnel are not available to adequately separate duties, appropriate compensating controls should be implemented.

## **Finding 2: Employment Practices and Personnel Records**

Effective employment practices require verifying, before employees are transferred to new positions or new hires are selected to fill vacancies, that the individuals meet the positions' education and experience requirements. Organizations should maintain documented verifications of individuals' education credentials and prior work experience as well as documentation of each employee's position classification, compensation authorization (e.g., approval by those charged with governance or authorized delegate), and approved payroll deductions. The City adopted position descriptions that specify minimum education and experience requirements for each position.

Our examination of personnel records for the three individuals hired during the period April 2014 through June 2015, disclosed that City records did not evidence that the three employees met the requirements for their positions. The three positions included two accounting technician positions that required a high school diploma or equivalent or 5 years of experience, and one administrative service coordinator position that required an associate of arts degree or supervisory experience. According to City personnel, the City had not established procedures for verifying that individuals met the requirements for their positions. Documented verifications of individuals' education credentials and prior work experience would provide critical information for making personnel decisions and assurances that employees transferred to new positions or individuals selected for hire meet position requirements.

We also examined the personnel records for all ten City employees (including two hired in June 2015) who received salary payments during the months of November 2013, March 2015, and June 2015. We noted that City records did not document the employee's position classification, compensation authorization (i.e., approval by the City Commission, City Manager, etc.), or approved payroll deductions for seven of the ten employees. In response to our inquiry, City personnel informed us that the City had not established procedures to document each employee's position classification, compensation authorization, or approved payroll deductions. Without such procedures and related documentation, there is an increased risk that the City could encounter difficulty in resolving employee compensation or payroll deduction disputes should they arise. Also, without documentation authorizing the employee's compensation and approving payroll deductions, the City cannot demonstrate the accuracy of the salary payments made.

### **Recommendation: The City should establish procedures to ensure that:**

- **Before employees are transferred to new positions or new hires are selected to fill vacancies, verifications that the individuals meet the education and experience requirements for the positions are performed and documented.**
- **Documentation of each employee's position classification, compensation authorization, and approved payroll deductions is maintained.**

## **Finding 3: Attendance and Leave Records**

Effective payroll processing controls require documented supervisory review and approval of time worked and leave used by employees to ensure that compensation payments are appropriate and leave balances are accurate. Such controls should also include independent verifications of overtime payment calculations before payments are made and independent verifications to ensure that leave earned is

appropriately recorded. City policies<sup>3</sup> provide for sick and annual leave and indicate that employees are to earn sick leave on the first day of each month.

During the period October 2013 through May 2015, the City recorded salary payments totaling \$449,870. To determine whether the City maintained appropriate support for these salary payments, we requested applicable payroll records, including attendance and leave records, associated with 28 selected salary payments totaling \$47,257. In addition, for the two employees hired in June 2015, we requested applicable payroll records associated with June 2015 salary payments (one for each employee) totaling \$1,070. Of the 30 total payments, 29 payments were for time worked and 1 payment was for annual accumulated sick leave. Our tests disclosed that:

- The City maintained no attendance or leave records for the City Manager, who received 2 of the 30 salary payments.
- City records evidenced attendance records, signed by supervisory personnel, for 7 other payments; however, attendance records for the remaining 20 payments for time worked did not evidence supervisory review and approval.
- Attendance records for 16 of the 29 payments for time worked reflected overtime earned. While we determined that 14 of the 16 overtime amounts paid were properly calculated, 2 overtime amounts, paid to the Assistant City Manager, were based on an incorrect number of hours worked or an incorrect salary rate, resulting in overpayments totaling \$187.
- In October 2013 and October 2014, the City recorded the Assistant City Manager's projected sick leave for the 2013-14 fiscal year and 2014-15 fiscal year, respectively, instead of monthly recording the sick leave earned. Additionally, based on our review of other employees' records, we found that the City similarly recorded sick leave for other City employees. Subsequent to our inquiry in December 2015, the City began recording sick leave earned monthly in accordance with City policies.

In response to our inquiry, City personnel indicated that the City had not established written policies and procedures to require employees to record time worked and leave used or for documented supervisory review and approval of such activities. Further, City procedures did not provide for independent verifications of overtime payment calculations before payments were made or verifications of leave earned and recorded.

Without written policies and procedures that require employees to record time worked and leave used and documented supervisory review and approval of such activities, there is limited assurance that employee services are provided consistent with City expectations. Additionally, without such documentation, there is an increased risk that the City personnel may be incorrectly compensated and leave balances may not be accurate. Further, independent verifications of overtime payment calculations before payments are made and of leave earned and recorded would reduce the risk of overpayments and enhance the accuracy of leave records.

**Recommendation: The City should establish written policies and procedures that require all employees to record time worked and leave used, supervisors to review and document approval of such time, and overtime payment calculations be verified before payments are made. The City should also establish policies and procedures to independently verify leave earned and recorded and continue efforts to record sick leave earned by employees on the first day of each month as**

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<sup>3</sup> Section 4.2.1.C., *City of Archer Personnel Policy and Employee Handbook*, adopted May 12, 2014.

prescribed by City policies. Additionally, the City should take action to recover the \$187 overpayment.

#### **Finding 4: Payroll Advances**

The State Constitution<sup>4</sup> prohibits municipalities from giving, lending, or using credit to aid any person. Prior to May 12, 2014, City policies did not address such aid; however, effective May 12, 2014, the City adopted a policy<sup>5</sup> that authorized the City Manager to approve payroll advances for City employees.

During our review of payroll transactions, we noted that, during the period January 2012 through July 2014, the City gave the Assistant City Manager seven payroll advances totaling \$5,500 and, subsequently, the advances were repaid. Notwithstanding the City payroll advance policy, the giving, lending, or use of credit by the City to aid an individual is prohibited by the State Constitution and we are not aware of any legal authority for the City to make loans, such as payroll advances, to individuals.

**Recommendation: In the absence of constitutional or other legal authority, the City should discontinue the practice of making payroll advances. Additionally, the City should rescind the policy that authorizes the approval of payroll advances.**

#### **Finding 5: Unused Sick Leave**

City policies<sup>6</sup> provide that unused sick leave is forfeited when employment with the City ceases. Additionally, the City Manager's employment contract, effective February 2015, required that the City Manager's sick leave be provided in the same manner as for other City employees, and did not provide for the payment of unused sick leave upon the City Manager's separation from City employment.

In June 2015, the City Manager resigned from City employment and City records indicated that, after his separation from City employment, the former City Manager was paid \$2,938 for unused sick leave. City personnel indicated that the former City Manager's employment separation payment for unused sick leave was based on the former City Manager's instructions as City personnel were unfamiliar with City policies. Appropriate training could help ensure that employees understand City policies and procedures and prevent improper payments for unused sick leave.

**Recommendation: The City should ensure that employees are aware of City policies and that unused sick leave is not paid upon an employee's separation from City employment. In addition, the City should take appropriate actions to recover the \$2,938 from the former City Manager.**

#### **Finding 6: Performance Evaluations**

City policies<sup>7</sup> require employees to receive annual written performance evaluations. During the period October 2013 through June 2015, the City employed ten individuals, including two employees hired in June 2015. For the eight employees subject to annual evaluations during this period, we requested City personnel to provide evaluation documentation. However, documentation for only one employee

<sup>4</sup> Article VII, Section 10, Constitution of the State of Florida.

<sup>5</sup> Section 5.8, *City of Archer Personnel Policy and Employee Handbook*.

<sup>6</sup> Section 4.2.1.G., *City of Archer Personnel Policy and Employee Handbook*.

<sup>7</sup> Section 2.4.2 A., *City of Archer Personnel Policy and Employee Handbook*, adopted May 12, 2014.

evaluation was provided. According to City personnel, one employee's personnel records could not be located and evaluations were not available for the other six employees.

In response to our inquiry, the City Manager indicated that he constantly evaluated employees and, therefore, did not need to prepare written evaluations. Notwithstanding this response, timely conducted performance evaluations are important management tools that inform employees of their accomplishments, needed improvements, and training needs, and also help management make and support personnel decisions.

**Recommendation: The City should ensure that performance evaluations are timely completed as required by City policies and documented in employee personnel records.**

## **Finding 7: Procurement**

Effective procurement processes require preapproval of certain contracts and purchases that exceed an established dollar amount to ensure purchases are consistent with management's expectations and payments are within available resources. To provide an effective means of equitably procuring goods or services at the lowest possible cost consistent with desired quality, it is also important for organizations to use a competitive selection process for high dollar purchases. City ordinances<sup>8</sup> require:

- The City Commission's preapproval for every contract or purchase that exceeds \$2,500.
- For every contract or purchase between \$2,500 and \$7,500, the City Manager to request quotations or bids from at least five persons able to supply the needed good or service. Also, the City Commission is to examine the quotations or bids obtained during the next regularly scheduled meeting.
- For every contract or purchase that exceeds \$7,500, the City Manager to advertise in a local newspaper that the City will receive bids. Also, the City Commission is to examine all bids received during the meeting designated in the advertisement.

According to City personnel and our review of City records, the City did not use a purchase order process but typically entered into contracts when purchasing goods or services. As part our audit, we examined the 11 contracts, totaling \$90,853, and related documentation supporting purchases exceeding \$2,500 and made during the period October 2013 through May 2015. We found that:

- For the 11 contracts and related purchases, the City Commission reviewed a list of expenditures relating to the contracts and purchases at various Commission meetings; however, City records did not document the City Commission's examination of any quotations or bids related to the contracts and purchases or the City Commission's preapproval for any of the contracts and purchases.
- For 6 contracts and related purchases that were between \$2,500 and \$7,500 and totaled \$26,537, City records did not document that the City Manager requested quotations or bids for the contracts and purchases. The goods and services acquired were for street repairs, surveying services, and the water system.
- For 3 contracts and related purchases that individually exceeded \$7,500 and totaled \$39,836, City records did not document that the City Manager advertised that the City would receive bids for the purchases. While the goods and services purchased were also for street repairs and the

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<sup>8</sup> Sections 2-79 through 2-81, City of Archer Code of Ordinances.

water system, the vendors differed from those providing the goods and services described in the preceding bullet.

Although we requested explanations for the noncompliance with City procurement ordinances, the City no longer employed personnel knowledgeable of the procurement details. Absent the City Commission's examination of quotations and bids and preapproval of contracts and related purchases that exceed \$2,500, there is an increased risk that purchases will be inconsistent with management's expectations and payments may exceed available resources. Also, absent documented adherence to a competitive procurement process for contracts and related purchases that exceed \$2,500, City records do not demonstrate that purchases were made at the lowest cost consistent with acceptable quality and the City may be subject to legal disputes should a vendor challenge the City procurement process.

**Recommendation: The City should enhance procedures to ensure that purchases of goods and services are made in accordance with the City Code of Ordinances. Such procedures should require that, for every contract or purchase that exceeds \$2,500, quotations and bids are obtained and examined by the City Commission and that the City Commission's preapproval is documented.**

#### **Finding 8: Credit Cards and Fuel Purchasing Cards**

The City uses credit cards and fuel purchasing cards (P-cards) to expedite certain purchases. Good business practice dictates, for organizations that decide to process purchases using these cards, that the organizations establish appropriate policies and procedures governing card assignment and use. Additionally, the policies and procedures should identify the employees authorized to have cards, the documentation required to support purchases made with the cards, and the supervisory personnel required to review and approve such purchases. Also, to ensure that card holders are fully aware of the terms and conditions related to the card assignment and use, organizations should require employees to sign written agreements that limit card use to business purposes and evidence the employees' concurrence to comply with the terms and conditions specified in the agreements. Further, policies and procedures governing card assignment and use should address the safeguarding and return of the cards, prompt card cancellation upon employment reassignments or separations, allowable purchases, acceptable merchants, card limits based on employee purchasing responsibilities, and the process for reporting lost or stolen cards.

To establish responsibility for card use, organizations should either prohibit different employees from using the same card, identify the employees who incur card charges by separate personal identification numbers (PIN), or maintain signed and dated receipts to identify who incurred each card charge. Further, by requiring that odometer readings be recorded when fuel P-cards are used to refuel vehicles, the reasonableness of fuel purchases can be evaluated.

During the period October 2013 through May 2015, City credit card purchases totaled \$38,468 and fuel P-card purchases totaled \$30,825. Based on discussions with City personnel and review of City records associated with the credit and fuel P-cards, we found that:

- The City lacked policies and procedures for the assignment and use of the credit cards and fuel P-cards. While City personnel decided to make purchases using these cards, the City Commissioners did not take official action to approve the assignment and use of the cards and had not identified, of record, the employees authorized to have cards, the documentation

required to support purchases, or the supervisory personnel required to review and approve purchases. Additionally, the City Commissioners did not require the two credit card users (City Manager and Assistant City Manager) or the five fuel P-card users (City Manager, Assistant City Manager, and the three Public Works Department employees) to sign written agreements that limited card use to business purposes and evidenced the employees' concurrence to comply with the agreements. Further, the City had not established policies and procedures to address safeguarding the cards, prompt card cancellation upon employment reassignments or separations, allowable purchases, acceptable merchants, card limits based on employee purchasing responsibilities, or the process for reporting lost or stolen cards.

- City records did not always document the authorized public purpose for certain credit card transactions. We reviewed City records supporting 179 selected credit card transactions totaling \$19,223 during the period October 2013 through May 2015. We found that, for 38 transactions totaling \$5,553, credit card statements were the only available records to support the transactions. The 38 transactions included charges to restaurants and utility companies. For 19 other transactions totaling \$890, we found that City records included credit card statements and credit card receipts that identified charges at restaurants (\$499), for party goods (\$265), and for car rentals (\$126). However, City records did not document the authorized public purpose for any of the 57 transactions totaling \$6,443.
- City records did not always document who made fuel purchases nor were fuel purchases compared to recorded vehicle odometer readings and evaluated for reasonableness. Our review of City records supporting 119 selected fuel P-card charges totaling \$5,926 and made during the period May through November 2014 disclosed that the fuel P-cards (one fuel P-card designated for City mowers and one fuel P-card designated for City vehicles) were used for 16 fuel purchases totaling \$799 on days that the Crew Leader was absent from work. According to City personnel, when the Crew Leader was absent, the other two Public Works' employees used his fuel P-cards. However, the fuel expenditure receipts did not identify (e.g., by signature) the purchaser and, since all three Public Works Department employees shared the same PIN, the City records did not identify who made the fuel purchases.
- For the Public Works Crew Leader's fuel P-card designated for City vehicles, vehicle odometer readings were required to be recorded at the time of refueling; however, the City had not established procedures to evaluate the reasonableness of the fuel purchased based on the recorded vehicle odometer readings.

Appropriate policies and procedures for the assignment and use of credit cards and fuel P-cards, are necessary to ensure that City records demonstrate the reasonableness, necessity, and public purpose of the related purchases. Absent such policies and procedures, there is an increased risk that improper charges may be made and not be timely detected.

**Recommendation: The City Commission should determine whether credit cards and fuel P-cards should continue to be used for City purchases and, if so, ensure that appropriate written policies and procedures governing the assignment and use of the cards are established. Such policies and procedures should:**

- **Identify the employees authorized to have the cards.**
- **Require employees who are assigned cards to sign written agreements that limit card use to business purposes and evidence the employees' concurrence to comply with the agreements.**
- **Address safeguarding the cards, prompt card cancellation upon employment reassignments or separations, allowable purchases, acceptable merchants, card limits based on employee purchasing responsibilities, and process for reporting lost or stolen cards.**

- **Require employees to document the authorized public purpose for card charges and provide documentation, such as employee-signed card receipts, to designated supervisory personnel for review and approval.**
- **Either prohibit different employees from using the same card, identify the employees who use the cards by separate PINs, or maintain signed card receipts to identify who incurred each card charge.**
- **Document an independent evaluation of the reasonableness of fuel purchases based on recorded vehicle odometer readings.**

## **Finding 9: Travel Expenditures**

Although, pursuant to State law,<sup>9</sup> the governing body of a municipality may provide for a travel expense policy for its travelers which varies from the provisions in State law,<sup>10</sup> City policies<sup>11</sup> require that travel expenditures comply with State law. State law<sup>12</sup> requires authorized travelers to use travel authorization request forms when requesting approval for the performance of travel to a convention or conference. Authorized travelers must also use travel voucher forms to document and submit travel expenditures for approval and payment.<sup>13</sup> The travel voucher form must state the purpose of the travel and include a traveler-signed affirmation that the information provided is true and correct, the travel expenses were necessary to the performance of official duties, and the voucher conforms in every respect with the State law requirements. Additionally, copies of supporting documentation, such as conference programs or agendas, itemizing registration fees and any meals and lodging included in the registration fee, are to be attached to the travel authorization request form, which becomes a part of the travel voucher. City policies require the City Manager to review and approve travel expenditures.

During the period October 2013 through May 2015, the City had 38 travel expenditures totaling \$7,010. Our test of 20 travel expenditures totaling \$6,368 disclosed:

- City personnel did not use travel authorization request forms when requesting approval for the performance of travel to a convention or conference and the City did not require the use of travel voucher forms for the approval and payment of travel expenditures. As a result, the City Manager approved, and the City paid, travel expenditures without pertinent information and required documentation. For example:
  - Eleven travel expenditures totaling \$2,096 were for rental cars, lodging, and meals but City records did not document the purpose(s) for any of the 11 expenditures.
  - Three expenditures totaling \$916 were for conference costs; however, City records did not include the required travel authorization request forms or copies of conference programs or agendas.
- Expenditures totaling \$1,397 related to vendors that provided services for rental cars, lodging, and meals; however, City records did not evidence invoices or other documentation to support the charges.

<sup>9</sup> Section 166.021(9)(b), Florida Statutes.

<sup>10</sup> Section 112.061, Florida Statutes.

<sup>11</sup> Section 3.2, *City of Archer Personnel Policy and Employee Handbook*, adopted May 12, 2014.

<sup>12</sup> Section 112.061(11)(a), Florida Statutes.

<sup>13</sup> Section 112.061(11)(b)1., Florida Statutes.

- Three expenditures totaling \$456 were paid to travelers for mileage reimbursement based on the Internal Revenue Service 2014 standard rate of 56 cents per mile<sup>14</sup> rather than the required State rate of 44.5 cents per mile, resulting in overpayments totaling \$94.

Although we requested explanations for the travel recordkeeping deficiencies and noncompliance, the City no longer employed personnel knowledgeable of the travel details. In absence of documentation to justify the travel expenditures, the City cannot demonstrate compliance with State law and the risk increases that unallowable travel expenditures may have been paid.

**Recommendation:** The City should ensure that employees use travel authorization and travel voucher forms to demonstrate that travel expenditures are for official City business and comply with State law. Additionally, the City should ensure that documentation to support travel expenditures is maintained, such as applicable conference programs or agendas and vendor invoices, and that mileage reimbursements are calculated based on the State rate.

### Finding 10: Professional Services Contracts

Contractual arrangements for professional services should be approved and evidenced by written contracts embodying all provisions and conditions of the procurement. Properly written contracts protect contracting party interests, identify the responsibilities of contracting parties, define the services to be performed, and provide a basis for payment.

As part of our audit, we reviewed City procurement processes and noted that the City had not established policies or procedures requiring written contracts for professional services. To determine whether the City entered into any contracts for professional services, we reviewed City records supporting professional services expenditures totaling \$155,887 during the period October 2013 through May 2015. We found that the City Manager approved the procurement of legal services and events coordination services; however, the City did not enter into written contracts for these services. The City paid \$85,971 to the attorney who provided the legal services and \$14,630 to the company that provided the events coordination services. Without written contracts defining the services to be provided and describing the responsibilities of both parties, there is an increased risk of misunderstandings between the parties and that the services received may not be consistent with City Commission expectations. In addition, absent a documented basis for payment, overpayments may occur.

**Recommendation:** The City should establish policies and procedures that require written contracts for professional services. Such requirements should ensure that contractual arrangements be evidenced by written contracts documenting essential elements, such as the nature of, and compensation for, the services to be performed, and that the contracts be subject to City Commission approval.

### Finding 11: Budget Preparation and Adoption

State law<sup>15</sup> requires the governing body of each municipality to adopt a budget each fiscal year and provides that the amount available from taxation and other sources, including balances brought forward

<sup>14</sup> The Internal Revenue Service annually issues standard mileage rates for taxpayer use in calculating the deductible costs of operating an automobile for business, charitable, medical, or moving purposes.

<sup>15</sup> Section 166.241(2), Florida Statutes.

from prior fiscal years, must equal the total appropriations for expenditures and reserves. The City-approved budget resolution for the 2013-14 fiscal year included projected revenues and projected expenditures (including transfers) each totaling \$602,904. Additionally, the budget resolution for the 2014-15 fiscal year included projected revenues totaling \$614,325 and projected expenditures (including transfers) totaling \$607,904. However, the resolutions for these 2 years did not include the prior fiscal year balances as beginning fund balance amounts totaling \$311,031 and \$386,998, respectively.

City personnel did not provide an explanation as to why the City did not include the beginning fund balance amounts in the respective budget resolutions. Without inclusion of balances brought forward from prior fiscal years, the usefulness of the budget as a financial management tool is diminished. In addition, without consideration of the available beginning fund balance, the risk is increased that the City may unnecessarily increase taxes or other revenue sources to fund planned expenditures or to establish reserves.

**Recommendation: The City should ensure that future budgets include beginning fund balance amounts that include balances brought forward from prior fiscal years.**

### **Finding 12: Budget Monitoring**

State law<sup>16</sup> requires that the budget regulate municipality expenditures, prohibits municipality officers from expending or contracting for expenditures in any fiscal year except pursuant to the adopted budget, and provides the process for amending the budget. According to the Government Finance Officers Association (GFOA),<sup>17</sup> regular monitoring of budgetary performance provides an early warning of potential problems, gives decision makers time to consider actions that may be needed if major deviations in budget-to-actual results become evident, and is essential to demonstrate accountability.

The City reported General Fund budgeted expenditures and transfers totaling \$598,816 in the City's annual financial report. However, during the 2013-14 fiscal year, the City did not make any budget amendments to adjust budgeted transactions as circumstances changed nor did City records document why the City reported total budgeted expenditures and transfers of \$598,816 instead of the City-approved 2013-14 fiscal year budget resolution projected expenditures and transfers of \$602,904, mentioned in Finding 11. Because of the lack of budget monitoring, the City over expended 14 budget expenditure categories by a total of \$122,416 at September 30, 2014.

The September 30, 2014, actual ending fund balance in the General Fund totaled \$386,998 and was sufficient to address normal contingencies. However, without properly monitoring and amending the budget to meet changing financial circumstances, there is an increased risk of fiscal mismanagement and that expenditures may exceed available resources. A similar finding was noted by auditors in the City's 2013-14 fiscal year financial audit and our review of the City's 2014-15 fiscal year records noted that the City also did not monitor and amend its budget for changing financial circumstances during the 2014-15 fiscal year.

<sup>16</sup> Section 166.241, Florida Statutes.

<sup>17</sup> GFOA publication, *Recommended Budget Practices of the National Advisory Council on State and Local Budgeting* (1998).

**Recommendation: The City should timely amend budgets, as necessary, and ensure that expenditures are limited to budgeted amounts as required by State law.**

### **Finding 13: Petty Cash Fund**

The purpose of a petty cash fund is to have a small amount of cash available for reimbursing employees and contractors for items such as delivery charges, fuel, postage stamps, or inexpensive office supplies. City records indicated that, during the period October 2013 through May 2015, the City established a \$300 petty cash fund balance and made 45 replenishments totaling \$6,156 to the fund to maintain the established balance.

In response to our inquiry, City personnel indicated that the Assistant City Manager kept petty cash disbursement receipts with the petty cash in the City vault and, when the petty cash fund balance needed to be replenished, the Assistant City Manager submitted the receipts to the Accounting Section. The Accounting Section issued a reimbursement check to the Assistant City Manager, as custodian, who cashed the check to replenish the fund. While petty cash fund disbursements are subject to the same public purpose requirements as other City disbursements, the City had not established procedures to document the authorized public purpose for petty cash fund replenishments and related disbursements or the independent review and approval of petty cash fund transactions.

Our examination of supporting documentation for 20 petty cash fund replenishments totaling \$3,094 disclosed that City records did not evidence the authorized public purpose for petty cash disbursements totaling \$623. These disbursements included \$515 for gasoline purchases, \$106 for meal purchases at fast food restaurants, and a \$2 lottery ticket purchased by the company that coordinated City events.

As of June 2015, the City no longer employed the individuals associated with the petty cash fund transactions and, consequently, no one was available to further clarify the basis for the disbursements totaling \$623. Since cash is highly susceptible to misappropriation, it is essential that controls be established to document the authorized public purpose for petty cash fund replenishments and related disbursements and that petty cash fund transactions be independently reviewed and approved.

**Recommendation: The City should enhance procedures to ensure records are maintained to document the authorized public purpose for petty cash replenishments and related disbursements and the independent review and approval of petty cash fund transactions.**

### **Finding 14: Anti-Fraud Policies and Procedures**

Appropriate policies and procedures for communicating and reporting known or suspected fraud are essential to aid in the mitigation, detection, and prevention of fraud. Such policies and procedures identify actions constituting fraud, incident reporting procedures, responsibility for fraud investigation, and consequences for fraudulent behavior. Incident reporting policies and procedures allow individuals to anonymously report known or suspected fraud and provide an appropriate process for communicating and reporting known or suspected management fraud directly to those charged with governance or an entity's legal counsel.

Anti-fraud policies and procedures are also necessary to educate employees about proper conduct, create an environment that deters dishonesty, and maintain internal controls that provide reasonable

assurance of achieving management objectives and detecting dishonest acts. In addition, such policies and procedures serve to establish the actions for investigating potential fraud, reporting evidence of such actions to the appropriate authorities, and avoiding damaging reputations of persons suspected of fraud but subsequently found innocent.

Our review of City policies and procedures and discussions with City personnel disclosed that, as of December 2015, the City did not have any anti-fraud policies or procedures. Absent such, the risk increases that a known or suspected fraud may be identified but not reported to the appropriate authority for resolution.

**Recommendation: The City should establish anti-fraud policies and procedures to aid in the mitigation, detection, and prevention of fraud.**

## **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. Pursuant to Section 11.45(3)(a), Florida Statutes, the Legislative Auditing Committee, at its March 16, 2015, meeting, directed us to conduct this operational audit of the City of Archer.

We conducted this operational audit from June 2015 through November 2015, 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:

- Evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, ordinances, bond covenants, contracts, grant agreements, and other guidelines.
- Examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those controls.
- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in management's internal controls; instances of noncompliance with applicable laws, ordinances, bond covenants, contracts, grant agreements, and other guidelines; and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities, and functions included within the scope of our 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 program, activity, or function; exercising professional judgment in considering significance and audit risk in the design and execution of the research, 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 selection and examination of transactions and records during the period October 2013 through May 2015, and selected transactions made prior and subsequent thereto. Unless otherwise indicated in this report, these transactions and records were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning 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 agency management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, waste, abuse, or inefficiency.

In conducting our audit we:

- Reviewed applicable laws; rules; regulations; and City ordinances, policies, and procedures, and interviewed City personnel to gain an understanding of the City's processes and to evaluate whether the City had established reasonable written policies and procedures for major City functions, such as procurement, finance, and human resource management.
- Examined the minutes of City Commission meetings for the period October 2013 through May 2015 to determine the propriety and sufficiency of actions taken.
- Obtained the City-approved budget for the 2013-14 and 2014-15 fiscal years and reviewed applicable City records for compliance with requirements established in law. Specifically, we compared the beginning fund balance amounts on the original budget resolutions to ending fund balances from the respective prior fiscal years to determine whether prior year fund balances were brought forward. We also compared the final budget to actual expenditures to identify whether any over expenditures existed for the respective reporting periods.
- Examined personnel files for all ten employees employed from October 2013 through June 2015 to determine whether the files contained appropriate documentation including evidence of employee education and experience, position classifications, the basis for salary payments, and documentation of employee-approved payroll deductions, and whether employee performance evaluations were conducted for each applicable employee in accordance with City policies.
- Examined applicable City records, including attendance and leave records, supporting 30 salary payments during the period October 2013 through June 2015 to determine whether the payments were accurately calculated, properly paid, and adequately supported and whether hours worked and leave earned and used were properly recorded in City records.
- From the 45 petty cash replenishments during the period October 2013 through May 2015, examined supporting documentation for 20 selected petty cash replenishments totaling \$3,094 to determine whether the related petty cash disbursements were adequately supported, served an

authorized public purpose, and were in accordance with applicable laws, ordinances, and City policies.

- Examined supporting documentation for all three grant agreements totaling \$1.8 million in effect during the period October 2013 through May 2015 to determine whether City information contained in grant applications was accurate and supported by City records.
- Examined the 11 contracts and supporting documentation for vendors paid in excess of \$2,500 during the period October 2013 through May 2015 to determine whether the City complied with quotation and bid requirements and City Commission preapproval was documented. Also, to determine whether the City entered into any contracts for professional services, we reviewed City records supporting professional services expenditures totaling \$155,887 during the period October 2013 through May 2015.
- Evaluated City policies and procedures and examined applicable procurement documents to determine whether the District hired a certified public accountant to provide for an annual financial audit in accordance with applicable laws and other guidelines.
- Examined supporting documentation for 306 water bills issued during the period June 2014 through May 2015 for 30 of 1,015 customer water accounts to determine whether bill amounts and related collections generally complied with applicable City ordinances. We also evaluated the City's water service billing and collection processes.
- Examined documentation supporting 179 selected credit card transactions made during the period October 2013 through May 2015 and 119 fuel purchasing card transactions made during the period May through November 2014 to determine whether expenditures were made in accordance with applicable laws, City ordinances, and City policies. We also evaluated City procedures for the assignment and use of credit cards and fuel purchasing cards.
- Examined documentation supporting 20 of 38 travel expenditures during the period October 2013 through May 2015 to determine whether expenditures were made in accordance with applicable State laws, City ordinances, City policies, bond covenants, regulations, contracts, grant agreements, and other guidelines.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

## **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.



Sherrill F. Norman, CPA  
Auditor General

## MANAGEMENT'S RESPONSE

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# CITY OF ARCHER

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Sherrill F. Norman, CPA  
Auditor General of Florida

**Mayor:** Corey Harris  
**Vice-Mayor:** Susan Drawdy

**Commissioners**

Doug Jones  
Fletcher Hope  
Marjorie Zander

**City Manager**

Zeriah K. Folston, MPA

Dear Ms. Norman:

The following are the City of Archer's responses regarding the tentative findings and recommendations resulting from the Auditor General's operational audit of the City of Archer.

**Finding 1:** "City procedures did not provide an appropriate separation of duties for the water billing collection and recordkeeping functions or establish other controls to compensate for this weakness."

**City's Response:** Due to the City's limited staffing it is not feasible to correct this finding through segregation of duties. As compensating controls, the Bookkeeper will reconcile the daily utility reports with the computer generated daily collections report and resolve all differences. The City Manager will then review this reconciliation. In addition, the City Manager will review and approve all adjustments to the utility billings.

**Finding 2:** "City records did not always evidence that employees met the education and experience requirements for their positions. Additionally, City records did not always document each employee's position classification, compensation authorization, or approved payroll deductions."

**City's Response:** The City will develop position descriptions for all positions within the City. A checklist will be developed to track and ensure that qualifying documentation is obtained and filed for all position requirements. This checklist will also specify appropriate documents to be retained regarding initial hiring and changes in employee compensation and approved payroll deductions.

**Finding 3:** "City procedures did not require employees to document time worked and leave used, the documented supervisory review and approval of such time, the independent verification of overtime payment calculations before payments were made, or the independent verification of leave earned and

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recorded. In addition, the City did not always record sick leave earned by employees on the first day of each month as prescribed by the City policies.”

**City’s Response:** The City acknowledges that inadequacies in employee leave records and utilization has been a long standing deficiency as identified in prior annual audits. During the course of the current year’s audit, accrued leave balances for all employees as of September 30, 2015 were calculated. The City is in the process of developing an effective employee leave accounting system which fully addresses these longstanding deficiencies. To date, a leave policy resolution and accompanying standard timesheet and leave request form has been developed and via a Resolution adopted by the City Commission.

**Finding 4:** “Although the State Constitution expressly prohibits municipalities from giving, lending, or using credit to aid any person, the City gave seven payroll advances, totaling \$5,500, to the Assistant City Manager.”

**City’s Response:** This finding was first noted in the City’s annual audit for the fiscal year ended September 30, 2013, and involved two former employees. All advances were repaid and this practice has been fully eliminated by the City via a Resolution adopted by the City Commission amending the City’s Personnel Policy.

**Finding 5:** “The City paid \$2,938 to the former City Manager for unused sick leave, contrary to City policies.”

**City’s Response:** The City agrees with this finding and will direct the City Attorney to take appropriate action for collection. Staff will also be trained on the use and accumulation of sick leave as outlined in the City’s Personnel Policy.

**Finding 6:** “City records did not always document annual employee evaluations.”

**City’s Response:** As discussed in the aforementioned response to Finding 3, the City will include this procedure in the employee checklist. The City Manager has developed an employee evaluation form that via a Resolution has been adopted by the City Commission

**Finding 7:** “City procedures could be enhanced to ensure, for every purchase that exceeds \$2,500, that the City Commission pre-approves the purchase and follows the applicable competitive selection process set forth in the City Code of Ordinances.”

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**City's Response:** This City will develop an approval coversheet for vendor expenditures that documents prior approval for the various types of purchases covered by the City's purchasing procedures.

**Finding 8:** "The City had not established written policies and procedures governing the assignment and use of credit cards and fuel purchasing cards."

**City's Response:** This finding was included in the City's audit report for the fiscal year ended September 30, 2014, and has not yet been corrected. This City has subsequently developed appropriate policies for full accountability of credit and fuel purchasing cards in the City's purchasing procedures. A Purchasing Agreement for the above Policy was also implemented to help strengthen these procedures. These procedures via a Resolution were adopted by the City Commission.

**Finding 9:** "City procedures did not ensure employees used travel authorization and travel voucher forms to demonstrate that travel expenditures were for official City business and complied with State law. Additionally, the City did not always maintain documentation, such as applicable conference programs or agendas and vendor invoices, to support travel expenditures and did not always calculate mileage reimbursements based on State law."

**City's Response:** The City has subsequently implemented a travel voucher similar to the State voucher, and updated the City's travel policy to require that all travel expenditures be fully documented as required by F.S. 112.061. These procedures are pending approval by the City Commission and once approved will be immediately implemented.

**Finding 10:** "The City had not established policies and procedures to ensure that contractual arrangements be evidenced by written contracts documenting essential elements such as the nature of, and compensation for, the services to be performed, or that the contracts be subject to the City Commission approval."

**City's Response:** The issues specified in the Auditor General's report have been fully resolved. The City will include appropriate procedures in the revision of the City's purchasing policies to fully address this issue.

**Finding 11:** "City-adopted budget resolutions for the 2013-14 and 2014-15 fiscal years included projected revenues and projected expenditures; however, the resolutions did not include balances brought forward from the respective prior fiscal years as required by State law."

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**City's Response:** The budget for the upcoming year will be prepared in full compliance with the State law and include estimated balances brought forward.

**Finding 12:** "During the 2013-14 fiscal year, the City did not make any budget amendments to adjust revenues or expenditures as circumstances changed nor did City records document why the City reported total budget expenditures (\$598,816) instead of the City-approved 2013-14 fiscal year budget resolution projected expenditures (\$602,904). Because of the lack of budget monitoring, at September 30, 2014, the City had over expended 14 budget expenditure categories by a total of \$122,416."

**City's Response:** This finding was noted as Finding 2014-5 in the Management Letter in the 2014 audit. Steps will be taken by the City Manager to properly manage the current year and subsequent budgets and make budget amendments as necessary for proper budget administration.

**Finding 13:** "City procedures could be enhanced to ensure records are maintained to document the authorized public purpose of petty cash fund replenishments and related disbursements and the independent review and approval of petty cash fund transactions."

**City's Response:** The City Manager has currently placed severe restrictions on the use of petty cash funds, and has subsequently developed policies and procedures to govern the use of these funds to fully address the noted weaknesses. The City has implemented a Petty Cash Policy and Petty Cash Procedures via a Resolution adopted by the City Commission.

**Finding 14:** "The City needs to establish anti-fraud policies and procedures for the mitigation, detection, and reporting of suspected or known fraud."

**City's Response:** The City agrees with this "best practices" recommendation and has subsequently developed a fraud policy to fully address this issue. This policy via a Resolution adopted by the City Commission has been implemented.

If you so request, the City will provide you with periodic updates as these corrective measures are fully implemented. Please let me know if you need any additional information at this time.

Sincerely,



Zeriah K. Folston, MPA

City Manager

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