

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2023-079
January 2023

CITY OF PALM BAY

Prior Audit Follow-Up



Sherrill F. Norman, CPA
Auditor General

Mayor, Council Members, and City Manager

The following individuals served as City of Palm Bay Mayor, Deputy Mayor, Council Member, or City Manager during the period October 2020 through June 2021:

Rob Medina, Mayor from 11-3-20
William Capote, Mayor through 11-2-20
Kenny Johnson, Deputy Mayor
Jeff Bailey
Donny Felix, Council member from 11-3-20
Harry Santiago, Jr., Council member through 11-2-20
Randy Foster, Council member from 11-3-20
Brian Anderson, Council member through 11-2-20
Suzanne Sherman, City Manager from 1-7-2021^a
^a Served as Interim City Manager July 3, 2020, through
January 6, 2021.

The team leader was Daria Ermakova, CPA, and the audit was supervised by Jacqueline Bell, CPA.
Please address inquiries regarding this report to Derek H. Noonan, CPA, Audit Manager, by e-mail at dereknnoonan@aud.state.fl.us or by telephone at (850) 412-2864.

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CITY OF PALM BAY

Prior Audit Follow-Up

SUMMARY

In our operational audit report No. 2020-069 of the City of Palm Bay, we noted 31 findings related to various City functions and activities. This operational audit focused on the progress that the City had made, or was in the process of making, in addressing the findings and recommendations in report No. 2020-069.

Our audit disclosed that the City had:

- Corrected 22 findings (Findings 2, 3, 4, 5, 6, 8, 9, 10, 11, 12, 14, 16, 17, 18, 20, 23, 24, 26, 27, 28, 29, and 30).
- Partially corrected 8 findings (Findings 1, 7, 13, 19, 21, 22, 25, and 31).
- No occasion to correct Finding 15.

BACKGROUND

In 1960, the City of Palm Bay (City) was incorporated as a municipality. The City is located in Brevard County and, with a population of 122,765, is the most populous city in Brevard County.¹ The City is governed by the City Council composed of four elected Council members and an elected Mayor. The City Council is responsible for enacting ordinances, resolutions, and policies governing the City, as well as appointing the City Manager. The City Manager serves as the Chief Executive Officer and is responsible for the administration and implementation of policies adopted by the Council.

The City provides citizens with a full range of services, including police and fire, public works, planning and zoning, permitting, parks and recreation, water and sewer, and general administrative services.

FINDINGS AND RECOMMENDATIONS

CONSTRUCTION ADMINISTRATION

Finding 1: Highway Interchange and Connector Road Funding

Previously Reported

The City of Palm Bay (City) did not document efforts to secure contributions from other governmental entities and from developers for highway interchange and connector road projects. In addition, City personnel did not provide complete and accurate information to the City Council regarding anticipated funding needs for the projects.

¹ *Florida Population Estimates for Counties and Municipalities, April 2021*; Florida Office of Economic and Demographic Research.

We recommended, for future transportation-related projects, the City ensure that every effort is made to compel developers and benefiting governments to contribute to the cost of highway or road infrastructure improvements necessitated by developmental growth, including assessing transportation impact fees (TIFs) or proportionate share contributions (PSCs), as appropriate, and the City Council is provided complete and accurate information regarding the financing of the projects. Additionally, the City should ensure that developers associated with the currently undeveloped developments that contributed to the need for the Palm Bay Parkway Southern Interchange (Interchange) and St. Johns Heritage Parkway Interchange to Babcock Street (SJHP) Projects are required to pay PSCs to the extent allowable under City ordinances.

Results of Follow-Up Procedures

The City partially corrected this finding. Our examination of City records and discussions with City personnel disclosed that five developers currently owned seven undeveloped properties associated with the Interchange and SJHP Projects. As of August 2022, the City had executed agreements (two developer agreements and a PSC agreement) for three of the properties and each agreement required the developers to pay TIFs or PSCs in accordance with City ordinances. City management indicated that appropriate agreements will be executed for the remaining properties as projects come before the City for consideration.

Also, as of August 2022, our examination of City records and discussions with City management disclosed that the City had not planned or started any new transportation-related projects involving highway or road infrastructure improvements necessitated by developmental growth for which TIFs or PSCs can be assessed. Accordingly, the City had no occasion to implement the remaining audit recommendations. However, City management indicated that, when appropriate in the future, it is their intent to take actions to implement those recommendations.

Recommendation: We recommend that the City continue efforts to ensure that developers associated with the currently undeveloped developments that contributed to the need for the Interchange and SJHP Projects pay PSCs, or otherwise contribute appropriate amounts to the costs of the highway or road infrastructure improvements, to the extent allowable under City ordinances.

Finding 2: Design-Build Firm Selection Process

Previously Reported

City Controls over the competitive selection of design criteria and design-build professional services need enhancement to ensure compliance with State law and the City *Procurement Manual*, and to improve transparency.

We recommended that the City:

- Enhance procurement procedures to ensure competitive selection of design criteria professionals in accordance with State law.
- Maintain adequate records to justify the necessity of emergency purchases of services.

- Clarify in the *Procurement Manual* that all request for proposals (RFP) procurements for services, including those for design-build services, should be made in accordance with the aforementioned key provisions prescribed in the *Procurement Manual*.
- Enhance proposal evaluation procedures to ensure:
 - Proper disclosure and consideration of potential conflicts of interest for e-team members and inclusion of a design criteria professional on the evaluation team (e-team) in accordance with the *Procurement Manual*.
 - E-team members are provided written instructions on how criteria and scoring should be applied to proposals.
 - E-team members prepare sufficiently detailed explanations regarding how they applied the criteria and scoring to the information provided by respondents to arrive at the assigned scores.
 - E-team members score proposals in accordance with the RFP-specified methodology.

Results of Follow-Up Procedures

The City corrected this finding. The City updated its *Procurement Manual*, effective January 1, 2021, to clarify that design-build procurement services must be competitively procured in accordance with State law and key provisions prescribed in the *Procurement Manual*.

During the period August 2020 through June 2021, the City did not conduct any design-build solicitations; however, the City did procure services through 12 contracts (totaling \$286,516), including 5 consulting engineering contracts and 7 emergency purchases. As part of our follow-up procedures, we examined City records supporting those 12 procurements and found that the City had taken corrective actions. Specifically, we found that:

- The City maintained adequate records to justify the necessity of the 7 emergency purchases.
- All e-team members completed an *Evaluation Team (E-team) Member Conflict of Interest Statement*, which required the e-team member to list any actual, potential, or perceived conflict of interest from either the proposing vendors or for the subcontractors and subconsultants proposed by each vendor. No actual, potential, or perceived conflict of interest were reported on the statements.
- A member of the City’s procurement staff provided each e-team member a brief training session and written scoring guideline instructions.
- Detailed explanations described how each team member applied the criteria and scoring to the information provided by the respondents to arrive at the assigned scores.
- E-team members scored proposals in accordance with RFP-specified methodology.

Finding 3: Subcontractor Monitoring

Previously Reported

City personnel did not verify that the design-build firm for the SJHP Project used a competitive selection process to select subcontractors; document comparisons of the subcontractor bid awards, contract amounts, and invoices with related design-build firm payment requests; or verify that subcontractors were appropriately licensed before they commenced work on the project.

We recommended that the City establish policies and procedures for monitoring contractor selection and use of subcontractors to include verification that:

- The design-build firm selects subcontractors using a competitive selection process and subcontractor bid awards, contract amounts, and related payments agree. Such policies and procedures should require City personnel to attend subcontractor bid openings and to document comparisons of subcontractor bid awards, contract amounts, and invoices with the related design-build firm payment requests.
- Subcontractors are appropriately licensed before they commence work and require that documentation of such verification be maintained in City records.

Results of Follow-Up Procedures

The City corrected this finding. Our examination of City records and discussions with City personnel disclosed that there were no design-build solicitations during the period October 2020 through June 2021. Based on inquiries with the Chief Procurement Manager, should the City conduct a design-build solicitation in the future, a request for qualifications (RFQ) will be the preferred method of solicitation. As of September 2020, the City's RFQ template contained language requiring that all subcontractors be selected through a competitive solicitation process and provided the City the right to participate in any review of subcontractor bids received, including any sealed bid openings, and give final approval to the selection process for subcontractors. In addition, the City's *Procurement Manual*, effective January 2021, provided that the Department Project Manager for a design-build contract is responsible for ensuring that all aspects of the contract are adhered to, including subcontractor monitoring and the selected firm's competitive solicitation of major subcontractors.

Further, as of April 2021, as was similarly done for the RFQ process, the City enhanced its invitation for bid (IFB) procedures to require selected contractors to submit copies of the subcontractor licenses to the City before the pre-construction meeting² and, once the contractor selected the subcontractors, require City Manager approval before the contractor can replace any subcontractors. During the period December 2020 through May 2021, the City awarded 8 construction contracts totaling \$7.6 million pursuant to IFB solicitations. Our examination of records for the 8 awards disclosed that the general contractor submitted subcontractor license numbers to the City before the subcontractors commenced work.

PROCUREMENT

Finding 4: Purchasing Authority

Previously Reported

The City Council's purchasing threshold of \$100,000 appeared excessive when compared to the

² A pre-construction meeting is scheduled by the Project Manager following issuance of the Notice to Proceed. The purpose of the meeting is to discuss the project plans and specifications, any unusual conditions, Federal or State requirements, permit requirements, training (if applicable), and any other items that will result in a better understanding among the involved parties. In addition, the contractor will discuss the schedule of operation, type and adequacy of equipment, sources of labor and labor requirements, maintenance of traffic, and precautions for the safety of employees and the public. The meeting must be attended by the Project Manager, the contractor, key subcontractors, the City inspector, and others as deemed necessary by the Project Manager.

purchasing thresholds at comparably sized municipalities, and the change in the purchasing threshold from \$25,000 to \$100,000 was not openly discussed at City Council workshops or other public meetings prior to the City Council's approval of the \$100,000 threshold.

We recommended that the City document the reasonableness of the delegated purchasing authority threshold based on an analysis that primarily considers the volume of the City's high-dollar purchases, along with consideration of the thresholds of similar Florida municipalities, and adjust the threshold as appropriate. In addition, we recommended that significant topics impacting City operations, such as changes to the purchasing threshold, be openly discussed at City Council workshops or public meetings.

Results of Follow-Up Procedures

The City corrected this finding. At its September 2020 workshop, the City Council discussed a City personnel analysis that included consideration of the volume of the City's high-dollar purchases and the purchasing thresholds of 47 Florida municipalities with populations of 60,000 or more. The City Council concluded that the \$100,000 purchasing threshold was reasonable and did not adjust it.

Finding 5: Procurement of Services

Previously Reported

The City needs to enhance policies and procedures to ensure that records are maintained to justify procurement decisions that deviate from evaluation committee recommendations and that continuing professional services contracts are periodically subjected to competitive procurement.

We recommended that the City enhance policies and procedures to ensure that continuing professional services contracts are periodically subjected to competitive procurement and records are maintained to justify procurement decisions that deviate from evaluation committee recommendations.

Results of Follow-Up Procedures

The City corrected this finding. Our examination of City records and discussions with City personnel disclosed that, as of October 2019, personnel began retaining all solicitation records, including documentation to support competitive selection. Our examination of continuing professional services contract procurement records, for the period August 2020 through June 2021, did not disclose any deviations from the evaluation committee recommendations. During the same period, five of the City's continuing professional services (engineering consulting services) contracts expired and providers for the new contracts were selected pursuant to competitive procurement.

Finding 6: Insurance Procurement

Previously Reported

The City needs to periodically negotiate group health insurance administration services with multiple potential administrators to ensure that such services are obtained at the lowest cost consistent with desired quality. In addition, the City needs to ensure that all significant decisions impacting City operations, such as decisions to exclude insurance-related services from competitive procurement, are

openly discussed at City Council workshops or public meetings, and the factors considered by decision makers documented.

We recommended that the City periodically negotiate administrative services only (ASO) services with multiple potential administrators to ensure that such services are obtained at the lowest cost consistent with desired quality. In addition, we recommended that all significant decisions impacting City operations be openly discussed at City Council workshops or public meetings, and that the factors considered by decision makers be documented.

Results of Follow-Up Procedures

The City corrected this finding. Our examination of City records and discussions with City personnel disclosed that the City's one ASO contract, related to medical insurance and stop loss insurance, was due for renewal in January 2021. The City advertised an RFP for medical insurance ASO coverage on May 20, 2020, subsequently selected the existing provider from four respondents on August 20, 2020, and signed a contract with the provider in October 2020. Additionally, City ordinances³ were amended, effective January 1, 2021, to no longer exempt insurance services from competitive procurement.

Finding 7: Selection of Debt Professionals

Previously Reported

Contrary to Government Finance Officers Association best practices, the City had not competitively selected the City financial advisor and bond counsel since April 2010 and September 2012, respectively.

We recommended that, when selecting professionals to assist in the debt issuance process, the City employ a competitive selection process whereby request for proposals (RFPs) or request for qualifications (RFQs) are solicited from a reasonable number of professionals.

Results of Follow-Up Procedures

The City partially corrected this finding. During the period October 2020 through June 2021, the City issued:

- Special Obligation Revenue Refunding Note, Series 2020, in the amount of \$4.3 million, to refund the City's outstanding Special Obligation Bonds, Series 2010.
- Utility System Revenue Note, Series 2020, in the amount of \$11.5 million, to fund the expansion and rehabilitation of the South Regional Water Treatment Plant.
- General Obligation Bonds, Series 2021, in the amount of \$50 million, to finance roadway improvements.

Our examination of City records and discussions with City personnel disclosed that, in June 2020, the City issued an RFP for debt issuance financial advisor services and received three proposals. The existing financial advisor was selected and in August 2020 the City Council approved a 3-year contract that included two additional 1-year terms.

However, as of March 2022, the City had not competitively selected a legal counsel. The legal counsel was originally contracted in September 2012 with no established term, and was paid \$92,000 during the

³ Section 38.07(B), City of Palm Bay Code of Ordinances.

period October 2020 through June 2021. In response to our inquiry, City personnel indicated that legal services are still exempt from the selection processes by City ordinances,⁴ and the City Attorney's Office selects professionals for legal services and regularly reviews the contracts. Notwithstanding the City's response, without employing a competitive selection process to select professionals to assist in the debt issuance process, the City cannot demonstrate that it contracted with the most qualified legal counsel, received the best services at the lowest cost possible, or that the selection process was free from self-interest and personal or political influences.

Recommendation: We continue to recommend the City, when selecting professionals to assist in the debt issuance process, employ a competitive selection process whereby RFPs or RFQs are solicited from a reasonable number of professionals.

Finding 8: Purchasing Cards

Previously Reported

Controls over City-assigned purchasing cards (P-cards) need improvement to ensure that P-card assignments are properly approved, credit limits are periodically evaluated and appropriately adjusted, and P-cards and related accounts are promptly canceled upon a cardholder's separation from City employment.

We recommended that the City enhance controls over P-cards to require:

- City records demonstrating that all P-cards, and related cardholder purchasing limits, are properly authorized and that cardholders took possession of the P-cards and agreed to the terms of use.
- Periodic reviews and evaluations of P-card use and cardholder purchasing limits. Based on the evaluation results, appropriate actions, such as adjustments to purchasing limits and canceling unused P-cards, should be promptly taken.
- Prompt collection of P-cards and cancellation of P-card accounts upon cardholders' separation from City employment.

Results of Follow-Up Procedures

The City corrected this finding. During the period October 2020 through June 2021, City personnel used 160 P-Cards and incurred 5,062 P-Card expenditures totaling \$718,968 and, as of July 14, 2021, there were 144 active P-Card accounts in use. Our examination of City P-card records and discussions with City personnel disclosed that:

- City records supported the 25 P-cards selected for testing and in use as of July 2021 were properly authorized by a Purchasing Card Request Form (P-card request form) and a P-card Acceptance Agreement Form (acceptance agreement form), which indicated the cardholder took possession of the P-card and agreed to the terms of use. Additionally, the cardholder purchasing limits approved on the P-card request forms agreed to the P-card purchase limits according to bank records.
- In February 2021, the City's Procurement Department finalized written P-card procedures⁵ requiring an annual reconciliation of the approved cardholder purchasing limits to the bank

⁴ Section 38.07, City of Palm Bay Code of Ordinances.

⁵ The P-card procedures were finalized February 9, 2021; however, City personnel implemented some of the procedures prior to that date.

records purchasing limits and a review of P-card usage. As part of our follow-up procedures, we reviewed documentation related to the City's 2020 P-card usage access review and determined, based on the evaluation results, that City personnel took appropriate actions, such as canceling unused P-cards.

- P-cards were promptly collected and canceled upon separation from employment for the 12 cardholders who separated from City employment during the period October 2020 through June 2021.

Finding 9: Wireless Communication Devices and Services

Previously Reported

The City needs to enhance controls over the acquisition, assignment, and use of wireless communication devices.

We recommended that the City enhance its policies and procedures for the acquisition, assignment, and use of wireless communication devices to require:

- Records justifying the need for the devices.
- A master list of all devices and related assignments be maintained.
- Documented comparisons of a master list of City devices to billing statements to verify that the City is only billed for City devices.
- Documentation that billing statements were reviewed to:
 - Evaluate whether charges were consistent with the City's wireless device plans and any additional charges were justified.
 - Identify any non-business use and that employee reimbursements were obtained for any such use that resulted in additional charges.

Results of Follow-Up Procedures

The City corrected this finding. Our examination of City records and discussions with City personnel disclosed that, in January 2020, the City began documenting the review of billing statements to verify that the City is only billed for City devices in use and that charges were consistent with the City's wireless device plans. Monthly, the City's Information Technology (IT) Department uploads the wireless device bills to a document management system that notifies department heads or their designees that the bills are ready for review. The department heads then review the bills and evidence their review with a sign-off in the document management system. In addition, the City Council amended its administrative codes⁶ in July 2021 to require that City personnel maintain a master list of all wireless devices and related employee assignments.

During the period October 2020 through June 2021, the City received 18 cell phone billing statements totaling \$99,291 and 9 air card billing statements totaling \$107,713. Our examination of 4 cell phone billing statements, totaling \$19,527, and 2 air card billing statements, totaling \$24,361, disclosed that City personnel reviewed billing statements for unused devices, non-business use of assigned devices, and additional charges and the review was evidenced by a sign-off in the document management system.

⁶ Section G.23.2, City of Palm Bay Administrative Code, *Information Technology Administrative Codes*.

No significant instances of unused devices or non-business use of assigned devices were identified, and additional charges were justified.

PAYROLL AND PERSONNEL ADMINISTRATION

Finding 10: Extra Compensation

Previously Reported

The City paid extra compensation of \$18,000 to the Deputy City Attorney contrary to State law.

We recommended that the City ensure that payments to employees are only made pursuant to State law. In addition, we recommended that the City take appropriate action to recover the \$18,000 extra compensation payment from the Deputy City Attorney.

Results of Follow-Up Procedures

The City corrected this finding. Our examination of City records and discussions with City personnel disclosed that the City had not made any extra compensation payments during the period October 2020 through June 2021. In addition, the City Council elected not to pursue the recovery of the \$18,000 extra compensation payment from the Deputy City Attorney based upon the written advice from the City Attorney indicating that such action would be unlikely to prevail.

Finding 11: Severance Pay

Previously Reported

The City had not established policies and procedures to ensure that severance pay amounts do not exceed the limits specified in State law and are supported by documentation evidencing the public purpose for such pay. In addition, the City needs to take appropriate action to amend the City Attorney Emeritus employment agreement severance pay provisions to comply with State law. The City also needs to document the legal authority and public purpose for the severance payment to the Deputy City Manager or pursue recovery of the payment.

We recommended that the City establish policies and procedures for severance pay that ensure compliance with State law. Such policies and procedures should require that severance pay provisions in employment agreements limit amounts to no more than 20 weeks of compensation and prohibit severance pay when the employee has been fired for misconduct. The policies and procedures should also require appropriate documentation, including documentation demonstrating the basis for the severance payment amount and the necessity for and public purpose served by severance payments. In addition, we recommended that the City take appropriate action to amend the City Attorney Emeritus employment agreement severance pay provisions to comply with State law and that the City document the legal authority and public purpose for the severance payment to the Deputy City Manager or pursue recovery of the payment.

Results of Follow-Up Procedures

The City corrected this finding. In March 2022, the City amended its administrative codes⁷ to establish policies and procedures to limit severance pay to no more than 20 weeks of compensation and to prohibit severance pay to employees fired for misconduct.

At its September 2020 meeting, the City Council approved the termination of the City Attorney Emeritus employment agreement and paid 20 weeks of compensation as severance pay. Our examination of City records and discussions with City personnel disclosed that no other severance pay was made during the period October 2020 through June 2021.

Finding 12: Employee Time Records

Previously Reported

Supervisory approval of City employee time worked was not always appropriately documented.

We recommended that the Human Resource (HR) Department continue efforts to ensure that supervisory approval of employee time worked is appropriately documented. Such efforts should include communication with City management to remind applicable supervisors of their employee time record approval responsibilities.

Results of Follow-Up Procedures

The City corrected this finding. Our discussions with City personnel and examination of City payroll records disclosed that the City made salary payments totaling \$58 million to 931 City employees during the period October 2020 through June 2021. Our examination of time records supporting 30 selected salary payments totaling \$173,225 disclosed that the applicable employee supervisors approved all time records for the 30 salary payments prior to payment.

Finding 13: Employee Evaluations

Previously Reported

The City did not always timely conduct employee performance evaluations required by City administrative codes.

To ensure that employee performance evaluations are timely conducted, we recommended that each City department head establish a tracking system to monitor each employee's evaluation due date and the dates the evaluations were completed and submitted to the HR Department. We also recommended that the City's HR Department maintain a log of evaluations due and received and notify the applicable department heads when an evaluation is not timely received.

Results of Follow-Up Procedures

The City partially corrected this finding. Our examination of City records and discussions with City personnel disclosed that, as of July 2021, the HR Department maintained a log of City employee

⁷ Section G.25.2, City of Palm Bay Administrative Code, *Human Resources Rules and Procedures Affecting City Personnel Policies*.

evaluations due and received and HR Department personnel sent e-mails to the department heads when evaluations were not timely received. However, although we requested, we were not provided records evidencing that each department head had established a tracking system to monitor each employee's evaluation date and the dates the evaluations were completed and filed with the HR Department.

In September 2021, we requested for examination City records supporting performance evaluations for 30 of the 794 City employees employed during the period October 2020 through June 2021. Our examination found that:

- 1 employee, hired in February 2021, did not receive a 3-month or 6-month probationary performance evaluation and the employee separated from City employment on August 10, 2021.
- 4 employees with anniversary dates during the period October 2020 through June 2021 did not receive evaluations during that period. The most recent evaluations for these employees were dated July 2018 through September 2020.
- 5 employees with anniversary dates during the period October 2020 through June 2021 received evaluations 10 to 167 workdays after their anniversary dates, or an average of 86 workdays late.

In response to our inquiries, the HR Director indicated in September 2021 that evaluations for 4 employees were not performed due to staff turnover; however, the HR Director did not explain why the department heads did not timely perform and file with the HR Department evaluations for the other 6 employees, who worked in three departments. The HR Department had notified, via e-mail, each department head regarding the late employee evaluations; however, the three department heads were unresponsive. Timely conducted performance evaluations are an important management tool to inform employees of their accomplishments, training needs, and areas of improvement, and to assist management in making and supporting personnel decisions.

Recommendation: We continue to recommend that each City department head establish a tracking system to monitor each employee's evaluation due date and the dates the evaluations were completed and submitted to the HR Department. We also continue to recommend that the HR Department enhance controls to ensure that employee performance evaluations are timely conducted.

Finding 14: Pay Increases

Previously Reported

City policies and procedures need enhancement to ensure that all pay increases are appropriately supported.

We recommended that the City establish policies and procedures to require and ensure that City records are maintained to justify all pay increases and demonstrate compliance with City administrative codes.

Results of Follow-Up Procedures

The City corrected this finding. In March 2020, the City amended its administrative codes⁸ to establish policies and procedures for salary increases that require salary increase requests be made through

⁸ Section G.25.2, City of Palm Bay Administrative Code, *Human Resources Rules and Procedures Affecting City Personnel Policies*. The section was initially drafted in March 2020 and finalized in March 2022.

formal memoranda that include justification for the increases. The memoranda are filed with the HR Department as part of the employees' personnel records.

During the period October 2020 through June 2021, 107 City employees received pay increases totaling \$437,022. As part of our follow-up procedures, we examined City records supporting 24 pay increases totaling \$191,711 for 24 selected employees during that period and found that all salary increases were supported by formal memoranda that included justification for the salary increases.

Finding 15: Salary Cost Allocations

Previously Reported

Transfers from the City Stormwater Utility Fund to reimburse salary costs in other funds were not based upon documented employee time and effort expended on stormwater management activities for the applicable period.

We recommended that the City enhance procedures to ensure that transfers from the Stormwater Utility Fund to reimburse salary costs in other funds is based upon documented employee time and effort expended on stormwater management activities for the applicable period.

Results of Follow-Up Procedures

The City had no occasion to correct this finding. Our examination of City records and discussions with City personnel disclosed that the City did not make any transfers from the Stormwater Utility Fund to the General Fund during the period October 2020 through June 2021.

ACCOUNTABILITY FOR RESOURCES

Finding 16: Special Events

Previously Reported

The City has not established controls to provide adequate accountability for special events and did not document the public purpose for such events.

We recommended that the City establish policies and procedures to require, for each special event, City council approval; periodic evaluations of the economic viability of the event, including determinations of the amount of public funds and contributions needed to fund the event; specific guidelines for soliciting contributions and providing receipts to contributors; separate accountability; and establishment of criteria for determining event participant eligibility. In addition, we recommended that the City document in its records the public purpose for each special event.

Results of Follow-Up Procedures

The City corrected this finding. In January 2020⁹ and June 2021,¹⁰ the City developed policies that generally included information and requirements in accordance with our recommendations, however;

⁹ Order Number 713, City of Palm Bay Police Department General Order, *Law Enforcement Trust Funds Donations*.

¹⁰ Section G.12.5, City of Palm Bay Administrative Code, *Co-Sponsorship Policy*. This section was initially drafted and approved by City Council in June 2021 and added to administrative code in February 2022.

neither policy required separate accountability for contributions received and expenditures made for each event.

During the period October 2020 through June 2021, the City participated in four special events by contributing \$44,886, consisting of donations totaling \$21,625 (including gift cards for \$4,163), and waived City fees totaling \$23,261. Our examination of City records related to these events disclosed that, although the City had not established policies and procedures requiring separate accountability, the detail in the accounting records related to the special event contributions and expenditures was sufficient to identify the amounts paid and fees waived by the City for each event. In addition, for each special event, the City established criteria for determining event participant eligibility and documented the public purpose.

Finding 17: Accountability for Donations to Organizations

Previously Reported

The City had not established appropriate policies and procedures for making donations to external organizations and confirming the organizations' use of such donations for a public purpose.

We recommended that the City establish appropriate policies and procedures for making donations to external organizations. Such policies and procedures should define the criteria for making donations to the organizations; specify the methodology for calculating donations amounts; and require agreements with the organizations specifying how the donations will service a City purpose and what records, such as periodic financial reports and related support, the organizations must provide to the City to properly account for use of the donations.

Results of Follow-Up Procedures

The City corrected this finding. In January 2020, the City issued a General Order,¹¹ which established policies and procedures to:

- Define the criteria for making donations to organizations.
- Specify the methodology for calculating donation amounts.
- Require all requests for funding be made through a Law Enforcement Trust Fund application.

During the period October 2020 through June 2021, the City made four donations totaling \$35,100 to four external organizations. As part of our follow-up procedures, we requested for examination City records supporting the four donations. Our examination disclosed that each donation was supported by an application for funding that appropriately established the City purpose for the donation and specified the records and related support to be provided to the City to demonstrate that the donations were used for their intended public purposes.

¹¹ Order Number 713, City of Palm Bay Police Department General Order, *Law Enforcement Trust Funds Donations*.

Finding 18: Land Disposition**Previously Reported**

City surplus land disposal procedures need enhancement to evidence compliance with City administrative codes and demonstrate City Council approval of any offers below the land parcel listing price.

We recommended that the City obtain records from real estate brokers to evidence compliance with the City administrative codes requiring use of the comparable sales method. In addition, we recommended that the City further enhance policies and procedures by requiring City Council approval of offers below the listing prices for all land parcels, regardless of acreage; and prohibiting real estate professionals, and the family members of those professionals, involved in the valuation of City-owned property from purchasing or having an interest in acquiring land parcels being offered by the City for sale.

Results of Follow-Up Procedures

The City corrected this finding. Our examination of City records and discussions with City personnel disclosed that, in October 2020, the City updated the City administrative codes¹² for the sale of City-owned real property, to include a requirement that the City Council approve the sale of all surplus City-owned real estate, including parcels sold below the listing price. Additionally, effective April 2020, the City included in their agreement for brokerage services restrictions against self-dealing by the broker, including employees and relatives.

During the period October 2020 through June 2021, the City sold ten land parcels with listing prices totaling \$2.6 million for a total of \$2.3 million. Our examination of City records for the ten land sales disclosed that the listing price for each land parcel was appropriately supported by either a comparable market analysis or an appraisal. Additionally, the City Council approved the sale of three land parcels sold in a single transaction for \$1.9 million, or \$400 thousand below the \$2.3 million listing prices.

Finding 19: Tangible Personal Property**Previously Reported**

The City needed to amend the City ordinances to assign responsibility for overall oversight of tangible personal property (TPP) records to a City employee and update the City *Accounting Manual* to ensure that appropriate accountability for TPP is achieved consistent with City ordinances.

We recommended that the City ensure that:

- City ordinances are amended to assign responsibility for overall oversight of the property records to a City employee and update the City *Accounting Manual* to ensure that appropriate accountability for TPP is achieved consistent with City ordinances.
- City departments maintain property records for all TPP valued or costing \$1,000 or more.

¹² Section G.34.2, City of Palm Bay Administrative Code, *Sale of City & CRA Surplus Real Estate*.

- Property records include, for each TPP item, the information required by City ordinances, including a unique identification number.
- City departments identify all TPP items valued or costing less than \$1,000¹³ that are not recorded in the property records, make a documented determination of whether any of those items require special attention as contemplated by Government Finance Officers Association (GFOA) guidelines, and maintain appropriate accountability for such items.
- An annual complete physical inventory of all TPP is conducted, documented, and reconciled to the property records. Any differences noted between the inventory and property records should be investigated and errors should be corrected.

Results of Follow-Up Procedures

The City partially corrected this finding. Our examination of City records and discussions with City personnel disclosed that the City amended its administrative code¹⁴ in May 2021 to assign responsibility for the safekeeping of TPP, including items costing less than \$1,000 requiring special attention, to department directors and to assign responsibility for reconciling departmental records to the property records to the Senior Accountant. Additionally, both the administrative codes and the City's *Accounting Manual*, updated in August 2021, changed the capitalization threshold (i.e., the policy for determining which purchased TPP items must be reported as capital assets on the City's financial statements) to \$5,000, which is consistent with Department of Financial Service (DFS) rules.¹⁵

However, although the *Accounting Manual* was amended to align with the administrative codes, in addressing the City's capitalization policy, the *Accounting Manual* states that such policy is "based on Florida Statutes, Chapter 274 and Rules of the State of Florida Auditor General Chapter 10.400, DFS Rule 691.73 [*sic*] and GFOA Best Practices." As indicated in our report No. 2020-069, the cited Auditor General rule has not existed for many years as, pursuant to State law,¹⁶ in 2006 the DFS became responsible for promulgating TPP accountability requirements by rule.

According to the City's 2019-20 fiscal year financial audit report, the acquisition value of the City's TPP totaled \$40.9 million as of September 30, 2020. Although we requested property records to support the City's reported TPP, the property records provided included recorded TPP acquisition values totaling only \$34.1 million, or approximately 83 percent of the total TPP reported by the City. To determine whether the property records included the required information, we selected for examination 30 items with total recorded values of \$251,203 from the 2,127 TPP items included in the property records for the City's 16 Departments and found numerous instances in which the property records lacked one or more required details. Specifically, the records for 25 items did not identify the condition of the item, the records for 12 items did not identify the last physical inventory date, the records for 7 items lacked the assigned

¹³ Sections 24.2, 24.4C, and 24.5, City of Palm Bay Code of Ordinances, *Accountability for City Property*, required that each department maintain a record for each item valued at or costing \$1,000 or more. Section G.20.3, City of Palm Bay Administrative Code, *Accountability for City Tangible Personal Property* replaced Section 24, City of Palm Bay Administrative Code, *Accountability for City Property*, requiring that each department maintain a record for each item valued at or costing \$5,000 or more.

¹⁴ Section G.20.3, City of Palm Bay Administrative Code, *Accountability for City Tangible Personal Property* replaced Section 24, City of Palm Bay Administrative Code, *Accountability for City Property*.

¹⁵ DFS Rule 691-73, Florida Administrative Code. While municipalities are not required to comply with DFS TPP rules, they may elect to follow such rules.

¹⁶ Chapter 2006-122, Laws of Florida, Section 41.

custodian, the records for 7 items lacked vendor or manufacturer information, and the records for 6 items did not identify the department.

In addition, we attempted to inspect 30 property items to verify the existence of the items and the applicable property records information but could not locate 20 of the items. The unlocated items included, for example, a camcorder, file cabinet, computers, and a printer. City personnel indicated, in response to our inquiries, that they were also unable to locate the 20 items.

To determine whether physical inventories of TPP items were performed, we requested records evidencing the conduct of such inventories and reconciliation of the physical inventory results to the property records, for the 2019-20 fiscal year. Our examination of the records provided disclosed that:

- Only 9 of the 16 departments' property records included TPP items with a cost or value of less than \$1,000.¹⁷ In response to our inquiries, City personnel provided records for 4 of the remaining 7 departments evidencing that the department heads had determined there were no TPP items with a cost or value of less than \$1,000 requiring special attention to ensure legal compliance, protect public safety and avoid potential liability, or compensate for a heightened risk of theft. No records evidencing that items costing less than \$1,000 and requiring special attention were identified, or alternatively, that no such items were identified, were provided for the other 3 departments.
- The City provided records demonstrating that 9 of the 16 departments' physical inventory results were reconciled to the property records. City personnel indicated that Finance Department personnel performed the reconciliations and that, as of September 2022, only 2 departments had not been reconciled. City personnel stated that it takes considerable time to investigate the whereabouts of each department's capital assets, given that some items are decades old.

In response to our October 2021 inquiries regarding the TPP control deficiencies, City personnel acknowledged that their TPP "system of tracking and accountability requires an overhaul" and that City personnel were in the process of updating TPP accounting records and meeting with property custodians to improve departmental inventory procedures. Additionally, accounting department personnel begun meeting with department TPP custodians to ensure that department records include all required details and to reconcile department property records to the City's property records.

Absent adequate TPP controls, there is an increased risk that the City will lack appropriate accountability for TPP, City records will not accurately reflect the value of TPP, and that TPP may be lost, stolen or inappropriately used.

Recommendation: We continue to recommend that the City:

- **Update the City's *Accounting Manual* to correct the authoritative references in the City's capitalization policy.**
- **Require departments to maintain property records for all TPP valued or costing \$5,000 or more.**
- **Require departments to identify all TPP items valued or costing less than \$5,000 that are not recorded in the property records, make a documented determination of whether any of those items require special attention as contemplated by City administrative codes and GFOA best practices, and maintain appropriate accountability for such items.**

¹⁷ Section 24, City of Palm Bay Administrative Code, *Accountability for City Property*. The City updated its *Accounting Manual* in August 2021, to increase the capitalization threshold from \$1,000 to \$5,000.

- **Ensure that property records include, for each TPP item, the information required by City ordinances.**
- **Conduct and document an annual complete physical inventory of all TPP, reconcile the inventory results to the property records, investigate any differences noted between the inventory and property records, and correct any errors.**

MOTOR VEHICLES

Finding 20: Mayor's Assigned Vehicle and Incidental Expense Allowance

Previously Reported

The City provided a motor vehicle for the Mayor's use without documenting the specific authority for providing the Mayor a take-home vehicle, reducing the Mayor's monthly incidental expense allowance amount by an amount proportional to the mileage-related expenses, or requiring the Mayor to document the official purpose for all trips made in the City-owned vehicle. In addition, the City needs to enhance budgetary controls to ensure that authorizations for new vehicle acquisitions are accomplished through the annual budget process in accordance with City procedures.

We recommended that the City discontinue providing a vehicle for the Mayor's use as the City Charter does not provide that the Mayor be assigned a take-home vehicle or, alternatively, document the specific authority for providing the Mayor a take-home vehicle; reduce the Mayor's monthly incidental expense allowance amount by an amount proportional to the mileage-related expenses; and require the Mayor to document the purposes for all uses of and trips made in the City-owned vehicles. In addition, we recommended that the City enhance budgetary controls to ensure that authorizations for new vehicle acquisitions are accomplished through the annual budget process in accordance with City procedures.

Results of Follow-Up Procedures

The City corrected this finding. In December 2019, the City discontinued providing a vehicle for the Mayor's use and designated the vehicle as a Legislative Department vehicle.

Per inquiry with City personnel, in January 2020 the City implemented an unwritten procedure that requires requests for expenditures of unbudgeted funds be submitted on an agenda memorandum for City Council consideration and approval. During the period October 2020 through June 2021, the City purchased 25 vehicles with acquisition costs totaling \$690,367. Our review of these vehicle purchase records disclosed that the purchases were all authorized through the budgetary process.

Finding 21: Automobile Allowances

Previously Reported

The City provided automobile allowances to employees without determining the cost-effectiveness of providing such allowances or the reasonableness of the allowance amounts.

We recommended that the City establish policies and procedures that require and ensure periodic documented comparisons of the costs for providing a City-owned vehicle to the automobile allowance to ensure that the most cost-effective option is selected. In addition, to support the reasonableness of the

automobile allowance amount, the policies and procedures should require and ensure that all employees receiving a monthly automobile allowance periodically provide documentation supporting the actual costs of official business travel for a given month.

Results of Follow-Up Procedures

The City partially corrected this finding. In March 2022, the City amended its administrative codes¹⁸ to establish procedures that require periodic documented comparisons of the costs of providing a City-owned vehicle to the cost of providing a vehicle allowance. However, the City had not established travel policies and procedures to require vehicle assignments and automobile allowances be based on documentation supporting the costs of a typical month's official business travel. Such documentation could include periodic reports of business-related travel for a given month, including the dates, locations, and miles traveled for each official business use.

In response to our inquiries, City personnel indicated that the automobile allowance is an employee benefit and is utilized as both a recruitment and retention tool and as part of the overall employee compensation package. Additionally, the City obtained automobile allowance amounts from similarly sized cities to compare to the City's flat rate automobile allowance and noted that the City's automobile allowance appeared reasonable. Notwithstanding, absent City policies and procedures that require maintenance of records supporting the cost-effectiveness of vehicle allowances, the basis for the allowances is not readily apparent.

Recommendation: We continue to recommend that the City enhance policies and procedures to require and ensure that all employees receiving a monthly automobile allowance periodically provide documentation supporting the actual costs of official business travel for a given month.

Finding 22: Take-home Vehicle Assignment and Use

Previously Reported

Take-home vehicle assignments were not always supported by a properly completed *Take Home Vehicle Program Agreement* (program agreement) signed by the employee, applicable department head, and the City Manager or designee as required by City administrative codes.

We recommended that all take-home vehicle assignments be supported by a properly completed program agreement signed by the employee, applicable department head, and the City Manager or designee as required by City administrative codes.

Results of Follow-Up Procedures

The City partially corrected this finding. Our examination of City records and discussions with City personnel disclosed that, as of September 2021, there were 142 Police Department employees and 65 other City employees who were assigned take-home vehicles.

In August 2021, we requested City records to evidence appropriate assignment and approval of each take-home vehicle; however, program agreements were not provided to evidence that 39 of the 207 City employees with assigned take-home vehicles lived within the City limits and understood and agreed to

¹⁸ Section G.20.5, City of Palm Bay Administrative Code, *Vehicle Allowance*.

follow the City administrative codes, or that appropriate approval of the take-home assignments was obtained. Subsequent to our inquiries in March 2022, the 39 employees completed program agreements, and the City provided the program agreements to us. In response to our inquiries, City personnel indicated that the program agreements were not initially completed due to a misunderstanding on which employees were required to complete the program agreements.

Absent properly completed and approved take-home vehicle program agreements to evidence that employees live in the City limits and understand and agree to follow City administrative codes, there is an increased risk that the vehicles will be used for unauthorized purposes.

Recommendation: We continue to recommend that all take-home vehicle assignments be supported by a properly completed *Take Home Vehicle Program Agreement* signed by the employee, applicable department head, and the City Manager or designee as required by City administrative codes.

Finding 23: Vehicle Taxable Fringe Benefits

Previously Reported

The City did not always include the value of personal use of City vehicles in the gross income reported to the Internal Revenue Service (IRS) for applicable City officials and employees.

We recommended that the City ensure that the value of the personal use of City-owned vehicles is appropriately included in employees' gross income, reported to the IRS, and based on appropriately completed records of City-owned vehicle assignments and use.

Results of Follow-Up Procedures

The City corrected this finding. According to City records, as of September 2021, 21 of the 207 assigned take-home vehicles qualified as personal use vehicles. To determine whether taxable fringe benefits were reported to the IRS for the 21 employees assigned those vehicles, we examined City payroll records for the 2021 calendar year. Our examination disclosed that taxable fringe benefits related to personal use of City-owned vehicles was included in the employees' gross income reported to the IRS for the 2021 calendar year.

PUBLIC RECORDS

Finding 24: Public Records Retention

Previously Reported

The City had not established procedures that required the retention of electronic communications, such as e-mails and text messages. In addition, the City did not always comply with State records retention requirements and did not archive text messages sent or received using wireless communication devices.

To promote compliance with public records laws, we recommended that the City ensure that policies and procedures require and ensure that records are appropriately maintained in accordance with the applicable public records retention requirements.

Results of Follow-Up Procedures

The City corrected this finding. In July 2021, the City amended its administrative codes¹⁹ to require the retention of electronic communications records, such as e-mail and text messages. In addition, City personnel provided all public records we requested for examination.

Finding 25: City Council Meeting Minutes

Previously Reported

Contrary to State law, City Council meeting minutes were not always promptly prepared, reviewed, approved, and made available to the public.

We recommended that the City establish policies requiring Council meeting minutes to be promptly prepared, reviewed, approved, and made available to the public and ensure that City procedures comply with such policies.

Results of Follow-Up Procedures

The City partially corrected this finding. Our examination of City records and discussions with City personnel disclosed that, as of July 2021, the City had not established policies for requiring the timely recording, reviewing, and approving of City Council meeting minutes.

During the period October 2020 through June 2021, the City Council held 24 meetings, including 18 regular meetings (generally 2 each month) and 6 special meetings. Our examination of records of City Council meetings for this period disclosed that the minutes for 12 City Council meetings (11 regular meetings and 1 special meeting), were not made available to the public until 33 to 64 days after the meetings occurred. According to City personnel, the delays in preparation and approval of the meeting minutes occurred due to an increased number of meetings.

City personnel also indicated that the meetings are recorded and the videos are uploaded to the City's Web site within a few days thereafter. On December 15, 2022, we reviewed meeting videos on the City's Web site and noted that the December 6, 2022, City Council meeting was included. However, we also noted that the durations of the City Council meetings videoed during the period September 2022 to December 2022 ranged from 1 to almost 7 hours; consequently, written meeting minutes would provide members of the public a more concise overview of the actions taken by the City Council. The prompt approval and posting of meeting minutes would further enhance the ability of members of the public to have timely access to official City Council actions.

Recommendation: We continue to recommend that the City establish policies requiring City Council meeting minutes be promptly prepared, reviewed, approved, and made available to the public and ensure that City procedures comply with such policies.

¹⁹ Section G.23.2, City of Palm Bay Administrative Code, *Information Technology Administrative Codes*.

Finding 26: Anti-Fraud Policies and Procedures**Previously Reported**

The City needs to establish policies and procedures for communicating, investigating, and reporting known or suspected fraud.

We recommended that the City establish policies and procedures for communicating, investigating, and reporting known or suspected fraud that:

- Provide examples of actions constituting fraud.
- Require individuals to communicate and report known or suspected fraud.
- Provide for anonymous reporting of known or suspected fraud.
- Require officials to keep accurate records of reported fraud or suspected fraud.
- Assign responsibility for investigating potential incidents of fraud and for taking appropriate action.
- Provide guidance for investigating potential and actual incidents of fraud, reporting evidence obtained by the investigation to the appropriate authorities, and protecting the reputations of persons suspected but not determined guilty of fraud.

Results of Follow-Up Procedures

The City corrected this finding. In November 2020,²⁰ and May 2021,²¹ the City amended City ordinances to establish procedures for communicating, investigating, and reporting known or suspected fraud consistent with our recommendations.

Finding 27: Budget Controls**Previously Reported**

City controls over the budgetary process need enhancement to ensure that expenditures are limited to approved budgeted amounts.

We recommended that the City enhance budget controls to ensure that expenditures are limited to approved budgeted amounts as required by State law.²²

Results of Follow-Up Procedures

The City corrected this finding. In November 2019, the City Finance Director sent an e-mail to department heads notifying them that the Finance Department would no longer provide approval for purchase requisitions if the purchase would cause a budgeted general ledger account to be overexpended by \$2,500 or more. For any purchase that would cause a line item budget overexpenditure

²⁰ Sections 34.20 through 34.32, City of Palm Bay Code of Ordinances, *Whistle-blower's Ordinance*.

²¹ Chapter 62, City of Palm Bay Code of Ordinances, *Fraud Investigation Committee*.

²² Section 166.241, Florida Statutes.

exceeding \$2,500, the department head must complete a budget transfer form and submit it to the Finance Department.

Our examination of the City's 2019-20 fiscal year audited financial statements did not disclose any significant expenditures exceeding budgeted amounts at the department level within each fund.²³

Finding 28: Budget and Financial Condition Monitoring

Previously Reported

The City did not always prepare and submit to the City Council sufficiently detailed monthly reports of receipts and disbursements as required by City ordinances.²⁴

We recommended that the City prepare and submit to the City Council monthly reports of receipts and disbursements as required by City ordinances. Should the City Council believe that posting monthly financial reports on the City's Web site is a better method of providing financial information to decision makers and the public, the City Council should consider amending City ordinances to direct such postings rather than the monthly reports. In addition, to more accurately show the financial condition of the City and provide for the budgetary monitoring contemplated by the GFOA, we also recommended that the City periodically present the financial activity for each individual fund.

Results of Follow-Up Procedures

The City corrected this finding. Our review of the City Council meeting minutes and discussion with City personnel indicated that, as of January 2020, the City Manager had been presenting the monthly financial reports to the City Council during regular City Council meetings.

As part of our follow-up procedures, we requested for examination the 9 monthly financial reports prepared and submitted to the City Council for the period October 2020 through June 2021. Our examination disclosed that all 9 reports presented the financial activity, including budgeted and current year-to-date revenues and expenditures, for each of the City's funds.

Finding 29: Council Members Communications with City Personnel

Previously Reported

The Mayor and another City Council member interacted with City employees without following City Charter provisions and giving reasonable notice to the City Manager.

We recommended that, in accordance with the City Charter, the Mayor and other City Council members should not direct, interfere, or otherwise deal with City officers and employees who are subject to the direction and supervision of the City Manager, except through the City Manager.

²³ Section 35.035, City of Palm Bay Code of Ordinances, establishes the City's legal level of budgetary control (i.e., the level at which expenditures may not legally exceed budget amounts) at the department level within each fund.

²⁴ Section 35.001, City of Palm Bay Code of Ordinances.

Results of Follow-Up Procedures

The City corrected this finding. Our examination of City records and discussions with City personnel disclosed that, in accordance with the City Charter, during the period October 2020 through June 2021, City Council members only communicated directly with City employees after first contacting the City Manager.

INFORMATION TECHNOLOGY

Finding 30: Information Technology User Access Privileges

Previously Reported

To ensure that user information technology (IT) user access privileges are limited to those necessary for the users' assigned job responsibilities and enforce an appropriate separation of duties, the City needs to implement an effective process for documented, periodic evaluations of user access privileges and promptly remove any inappropriate or unnecessary access privileges detected.

We recommended that the City establish procedures to ensure that IT user access privileges are necessary for the users' assigned job duties and enforce an appropriate separation of duties. Such procedures should include an effective process for documented, periodic evaluations of user access privileges and prompt removal of any inappropriate or unnecessary access privileges detected.

Results of Follow-Up Procedures

The City corrected this finding. In July 2021, the City amended its administrative codes²⁵ to establish requirements for user access to ensure that users only have access permissions necessary to perform their daily job duties. In January 2022, subsequent to our inquiries, the City further amended its administrative codes²⁶ to require the IT Department to collaborate with all other department heads to annually review user access privileges to verify that such privileges are necessary for assigned job duties and provide for appropriate separation of duties.

As of September 2021, the City had 212 financial system users. Our examination of the IT access permissions for the 212 financial system users did not disclose inappropriate employee access. The IT Department regularly reviewed IT access when employee changes occur and completed a review of financial system procurement functions in October 2021, which concluded that all IT procurement access was appropriate. Additionally, in August 2022, the City completed a comprehensive review of financial system user access to ensure appropriate staff permissions and separation of duties.

Our examination of the comprehensive review disclosed that each department head assigned one or more employees to review access, and the reviewers were provided a list of department employees with financial system access and a detailed report of each employee's access. The reviewers submitted any requested changes to the IT Department and evidenced completion of the review by electronically signing off in the City's document management system.

²⁵ Section G.23.2, City of Palm Bay Administrative Code, *Information Technology Administrative Codes*.

²⁶ Section G.23.2, City of Palm Bay Administrative Code, *Information Technology Administrative Codes*.

Finding 31: Information Technology Disaster Recovery Plan

Previously Reported

The City had not established an information technology (IT) disaster recovery plan detailing the procedures to be followed to recover and restore financial records and other critical City applications in the event of a major hardware or software failure.

We recommended that the City establish a comprehensive IT disaster recovery plan, and annually test and evaluate the plan.

Results of Follow-Up Procedures

The City partially corrected this finding. In August 2019, the City adopted a Continuity of Operation Plan (Plan) which identified and prioritized all applications and functions in the case of a disaster. The Plan includes a list of vital records, systems, essential functions, and equipment, as well as key personnel, disaster checklists, and a risk and vulnerability assessment. However, the Plan does not require annual testing of the Plan or evaluation of the City's ability to access and run critical applications and processes from an alternate site in the event of a disaster.

At its July 2020 meeting, the City Council approved funding totaling \$624,300 for the establishment of an offsite hardened facility for the placement of IT equipment and additional application software licenses to provide for critical application and data during any disaster. As of January 2022, after delays in purchasing equipment due to the ongoing computer chip shortage, the IT Department began IT equipment installation at the offsite facility, and City personnel estimate completion of the site by October 31, 2022.

Recommendation: We recommend that the City amend its Plan to require annual testing of the Plan and annually test and evaluate the Plan.

OBJECTIVES, SCOPE, AND METHODOLOGY

Pursuant to Section 11.45(3)(a), Florida Statutes, we conducted an operational audit of the City of Palm Bay and issued our report No. 2020-069 in December 2019. Pursuant to Section 11.45(2)(j), Florida Statutes, the objective of this audit was to perform, no later than 18 months after the release of that report, appropriate follow-up procedures to determine the City's progress in addressing the findings and recommendations contained within report No. 2020-069.

We conducted this follow-up audit from June 2021 through December 2022 in accordance with applicable generally accepted government auditing standards. Those standards require that we plan and perform the follow-up 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.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the follow-up audit, weaknesses in management's internal controls, instances of noncompliance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines; and instances of inefficient or ineffective operational policies, procedures, or practices. The overall objective 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 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 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's findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included transactions, as well as events and conditions, occurring during the audit period October 2020 through June 2021, and selected City actions taken prior and subsequent thereto. Our audit included the examination of pertinent City records and transactions, inquiry of City 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 from examination.

In conducting our audit, we:

- Reviewed applicable laws, and City ordinances, administrative regulations, policies and procedures, and interviewed City personnel to obtain an understanding of applicable processes, administrative activities, and the related requirements.
- Examined City records to determine the extent to which the City attempted to obtain developer or other contributions to cover City costs related to the Palm Bay Parkway Southern Interchange and St. Johns Heritage Parkway Interchange to Babcock Street (SJHP) Projects.
- Examined City records for the 12 contracts executed during the period August 2020 through June 2021 to determine whether professional services were competitively procured, the evaluation team (e-team) members were provided written instructions on how criteria and scoring of contractor proposals should be applied, scoring by e-team members was supported by documented explanations, the submitted proposals were scored in accordance with the specified methodology, e-team members completed conflict of interest forms, and subcontractors were appropriately licensed; and to determine if adequate records were maintained to support emergency purchases.
- Reviewed the *Procurement Manual* to determine whether the City clarified the RFP competitive sealed proposal process section including those for design-build services.
- Determined whether the City enhanced policies and procedures to adequately monitor contractors' selection and use of subcontractors.
- Evaluated the reasonableness of City procurement thresholds by examining City personnel's analysis and support. Additionally, reviewed City Council meeting minutes for evidence of City Council discussion and approval of City procurement thresholds.

- Examined City records for the Administrative Services Only for medical insurance administration and stop loss insurance service contract signed in October 2020 to determine whether the plan administrator was appropriately selected based on consideration of the quality of services and reasonableness of related fees.
- Determined whether the City followed Government Finance Officers Association best practices for selecting debt professionals.
- Evaluated the reasonableness of City procedures for assignment and use of City-issued purchasing cards (P-cards). We also determined whether City personnel periodically reviewed and evaluated P-card use and cardholder purchasing limits.
- Determined whether the City timely canceled P-card privileges for 12 cardholders who separated from City employment during the audit period.
- Examined City policies and procedures to determine whether justification was required for wireless communication device assignments and appropriate controls existed for monitoring device usage and related charges.
- From the nine monthly air card service billing statements during the period October 2020 through June 2021 totaling \$107,713, examined City records supporting two selected billing statements totaling \$24,361 to determine the propriety of the charges and whether the City paid for unused air cards.
- From the 18 cell phone service billing statements during the period October 2020 through June 2021 totaling \$99,291, examined City records supporting 4 selected billing statements totaling \$19,527 to determine the propriety of the charges and whether the City paid for unused cell phones.
- Reviewed City Council meeting minutes and interviewed City personnel to determine whether City employees received excess compensation during the period October 2020 through June 2021.
- Evaluated the reasonableness of City procedures for severance pay. We also examined severance pay provisions in three employment agreements to determine whether the provisions complied with Section 215.425(4), Florida Statutes.
- Examined City records supporting salary payments totaling \$173,224 to 30 selected employees from the salary payments totaling \$58 million during the period October 2020 through June 2021 to determine whether supervisory personnel reviewed and approved employee reports of time worked.
- Examined City personnel files for 30 employees selected from the 794 City employees employed as of June 2021 to determine whether performance evaluations were conducted for each applicable employee in accordance with City policies.
- From the 107 employees who received pay increases totaling \$437,022 during the audit period, examined City records supporting 24 pay increases totaling \$191,711 for 24 selected employees to determine whether the pay increases complied with applicable State laws, City policies and procedures, and other guidelines.
- Interviewed City personnel and examined City records to determine whether the City transferred moneys from the Stormwater Utility Fund to the General Fund during the period October 2020 through June 2021.
- Examined City records supporting three expenditures totaling \$21,625 and waived fees totaling \$23,261 to determine whether the City established adequate accountability to ensure that special events moneys were expended for City-intended purposes.

- Examined City records for four donations totaling \$35,100 made to four organizations during the audit period to determine whether donations were made in accordance with applicable laws, City ordinances, City policies and procedures, and other guidelines.
- Examined City records supporting the sale of ten land parcels for \$2.3 million to determine whether the land sales were made in accordance with applicable State laws, the City administrative codes, City policies and procedures, and other guidelines.
- Examined City tangible personal property (TPP) records for the period October 2020 through June 2021 to determine whether the City followed policies, procedures, and good business practices to ensure that property records were sufficiently detailed to safeguard assets, promptly updated for TPP purchases, and provided accountability for sensitive and attractive items with purchase prices below the City TPP capitalization threshold. We also determined whether City personnel periodically conducted TPP inventories and reconciled the results to the property records.
- From the 2,127 TPP items with recorded costs totaling \$34.1 million in 16 City Departments as of September 30, 2020, selected 30 items to locate with values totaling \$251,203 to determine whether the items existed and were tagged or otherwise identified as City property. In addition, for the same 30 items, we examined City property records to determine whether the property records contained all required information, such as serial numbers and descriptions.
- Reviewed City records for the 25 vehicle acquisitions totaling \$690,367 during the period October 2020 through June 2021 to determine whether the purchases were made in accordance with City policies and procedures.
- Reviewed City records supporting automobile allowances paid to City employees to determine whether allowances were made in accordance with applicable State laws, City ordinances, and City policies and procedures and were reasonably justified in accordance with good business practices.
- Examined City records for the 207 take-home vehicles assigned as of September 2021 to determine whether City policies and procedures were followed. Additionally, we examined City records for 21 employees to determine whether personal use of take-home vehicles was appropriately reported as taxable income to the Internal Revenue Service for the 2021 calendar year.
- Evaluated the adequacy of City policies and procedures established to promote compliance with State and City records retention requirements, including requirements for retaining electronic communications, such as e-mails and text messages.
- Examined records of City Council meetings for the 24 City Council meetings held during the period October 2020 through June 2021, including the meeting minutes and archived meeting videos on the City Web site as of December 2022 to determine the propriety and sufficiency of actions taken relative to topics included in the scope of this audit and to determine whether the City properly noticed the meetings and promptly recorded minutes of the meetings, reviewed and approved the minutes, and made the minutes readily accessible to the public.
- Determined whether the City had established anti-fraud policies and procedures to provide guidance to employees for communicating known or suspected fraud to appropriate individuals.
- Examined City records to verify that the City did not expend 2019-20 fiscal year moneys in excess of the 2019-20 fiscal year adopted budget, as amended.
- For the period October 2020 through June 2021, determined whether the nine monthly financial reports required by City ordinance were prepared and presented to the City Council and that the reports were in sufficient detail to provide City Council members a sufficient understanding of the City's financial condition.

- Interviewed City management regarding City Council members communications with City personnel during the audit period to determine whether communications complied with City Charter provisions.
- Evaluated City procedures for establishing and periodically reviewing access to information technology (IT) resources.
- Determined whether a comprehensive IT disaster recovery plan was in place, designed properly, operating effectively, and had been recently tested.
- 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.

A handwritten signature in blue ink that reads "Sherrill F. Norman". The signature is fluid and cursive, with the first name being the most prominent.

Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE



January 3, 2023

Ms. Sherrill Norman, Auditor General
Office of the Auditor General
Claude Denson Pepper Building, Suite G74
111 West Madison Street
Tallahassee, FL 32399-1450

Dear Ms. Norman,

In follow-up to our Exit Conference held on 12/15/2022 and in response to the Preliminary and Tentative Audit Findings received 12/16/2022 as an outcome from the prior audit progress review, I am enclosing the City's response to the remaining 9 findings out of the original 31 that were determined to be partially corrected or that had no occasion to correct.

Thank you for the opportunity to review and provide our comments as part of this process. The City remains committed to continuing to strengthen our ordinances, administrative codes, and procedures to foster transparency, integrity, and fiscal responsibility in our operations. Thank you for your assistance as we work daily to earn and keep our public's trust.

If you have any questions or need additional information, please contact my office at 321-952-3413.

Sincerely,

A handwritten signature in blue ink that reads "Suzanne Sherman".

Digitally signed
by Suzanne
Sherman
Date:
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Suzanne Sherman
City Manager Enclosure

**RESPONSE TO PRELIMINARY AND TENTATIVE AUDIT FINDINGS
AND RECOMMENDATIONS, AUDIT OF THE CITY OF PALM BAY –
AUDIT PROGRESS REVIEW
(OPERATIONAL AUDIT REPORT NO. 2020-069)**

Per auditors, fully corrected 22 of 31 Findings: 2, 3, 4, 5, 6, 8, 9, 10, 11, 12, 14, 16, 17, 18, 20, 23, 24, 26, 27, 28, 29, 30

Additional City responses are below for the 8 Findings (1, 7, 13, 19, 21, 22, 25, 31) deemed partially corrected, as well as the 1 Finding (15) classified as “no occasion to correct”.

Finding 1:

The City did not document efforts to secure contributions from other governmental entities and from developers for highway interchange and connector road projects. In addition, City personnel did not provide complete and accurate information to the City Council regarding anticipated funding needs for the projects.

City Response:

This item was deemed partially corrected as the City has executed only two developer agreements and one proportionate share contribution agreement for the properties that surround the Interchange and SJHP project area. Additional agreements are expected in the future, however, those agreements are to be executed in direct correlation with any property owner’s plan to develop currently vacant properties in this area. Staff will continue to follow ordinances and administrative codes regarding requiring these agreements; however, agreements cannot be executed until such time as the property is submitted for site plan/development consideration. The City will continue to ensure that developers associated with the currently undeveloped properties, that will ultimately contribute to the need for the Interchange and SJHP Projects, are required to pay their proportionate fair share of impact fees to the extent allowable under City ordinances.

Finding 7:

Contrary to Government Finance Officers Association best practices, the City had not competitively selected the City financial advisor and bond counsel since April 2010 and September 2012, respectively.

City Response:

In 2020, the City completed a competitive request for proposals process for debt issuance financial advisor services, and City Council approved a 3-year contract with the new firm. This item was deemed partially completed as the City did not use a similar process to select outside legal services.

Consistent with Florida law and the City's procurement policies, there is no competitive solicitation requirement for legal services, including bond counsel. The City selects attorney services based upon the requirements of Florida Statutes. As part of the City Attorney's review of contracted attorney services, the qualifications of prospective candidates are obtained including CVs and resumes for all outside attorneys and performance reference checks with those who are most familiar with the attorney's work.

Finding 13:

The City did not always timely conduct employee performance evaluations required by City administrative codes.

City Response:

Human Resources Administrative Code 1-31 was updated to stipulate that HR will provide quarterly reports to the departments to indicate past due and upcoming performance evaluations. It also indicates that City departments are responsible for establishing a tracking system to ensure timely completion of evaluations. The administrative code was also updated with language stating that "Failure to complete performance evaluations in a procedural and timely manner may lead to discipline." HR will advise the City Manager's Office quarterly of any departments with outstanding evaluations.

Additionally, in 2023, HR will provide mandatory training for specific staff positions related to evaluations and the tracking process. The City remains committed to accomplishing timely evaluations for all employees.

Finding 15:

Transfers from the City Stormwater Utility Fund to reimburse salary costs in other funds were not based upon documented employee time and effort expended on stormwater management activities for the applicable period.

City Response:

The audit progress review indicates that the City had no occasion to correct this finding as the examination of records did not identify any transfers from the Stormwater Utility Fund to the General Fund.

The reason for this is in October 2019, staff implemented a standardized charge back method for any transfers between funds, which requires detailed recording of actual time spent working within each department/fund/project, in order to properly justify any transfers. Additionally, after further review, the City established a new Finance Department Administrative Code G.20.6, Salary Cost Reimbursements Between Funds. This will further control the transfer of funds between departments with Finance as the overseeing authority. The administrative code provides guidance regarding these types of transfers and clarifies the documentation and justification necessary before requests of this type will be processed. Also, the Finance Department's Accounting Policy and Procedure manual will be updated with more detailed procedures to ensure compliance and accurate tracking of transfers between funding sources.

Finding 19:

The City needs to amend the City ordinances to assign responsibility for overall oversight of tangible personal property (TPP) records to a City employee and update the City *Accounting Manual* to ensure that appropriate accountability for TPP is achieved consistent with City ordinances and Florida Department of Financial Services rules.

City Response:

The audit review deemed this Finding partially corrected; however, the City remains fully committed to addressing this in full. The City acknowledges that more work is needed to resolve this issue, and funding has been approved to hire an Asset Manager as part of the Finance Department. This position will be responsible for the overall annual inventory and tracking of assets within the City, collaborating with assigned department points of contact. In addition to hiring for this position, the City is currently in the development phase for an RFP to procure a new ERP system that will allow for the centralizing and standardization of asset tracking within the City. Funding is already allocated for the new system. The City's current system is antiquated and does not have the ability to properly support asset tracking.

Regarding the concerns noted reference the Auditor General, the wording within Finance Administrative Code G.20.3 was changed in May 2021 to remove the reference from the Auditor General and to add the Department of Financial Services, however, the data link on the Finance Department web page was not updated. Information Technology has been contacted to update the link and remove all references to the Auditor General.

Finding 21:

The City provided automobile allowances to employees without determining the cost-effectiveness of providing such allowances or the reasonableness of the allowance amounts.

City Response:

This item was deemed partially corrected by the auditors as the City did establish procedures to periodically review the costs of providing a City-owned vehicle to the cost of providing a vehicle allowance, including review/comparison of automobile allowance amounts from similarly sized cities, which reflected the City's allowance rate was reasonable. However, the auditors were seeking records supporting the cost-effectiveness of vehicle allowances.

The City considers the automobile allowance as an employee benefit for G1 employees, and it is considered both a recruitment and retention tool and part of the overall employee compensation package. The amount of the allowance is considered as supplemental wages for these employees and is taxable. Therefore, it is the City's position that an analysis of cost-effectiveness would have no bearing on the policy application of the allowance. This information was further discussed with City Council at a public workshop held on July 8, 2021.

Finding 22:

Take-home vehicle assignments were not always supported by a properly completed *Take Home Vehicle Program Agreement* signed by the employee, applicable department head, and the City Manager or designee as required by City administrative codes.

City Response:

This item was deemed partially corrected by the auditors. The City is committed to improving the process to insure that agreements are completed by all employees assigned a take home vehicle. The City adopted Administrative Code G.20.2, Take Home Vehicles, and updated the procedures to be followed. Each department is

responsible for having employees assigned a vehicle sign the agreement, which is then approved by the Department Head and City Manager. The executed agreement is filed and retained as a permanent record in Human Resources with the proper documentation submitted to Finance, payroll division, to compute the value of the personal use and report as employee compensation on a quarterly basis. Further improvements that will be made include the development of master lists, specific to each department, that will be verified through a quarterly review by the department, Finance/Payroll and Accounting, and Public Works Fleet. The quarterly review will include a confirmation and updating of all vehicles and whether they are assigned as take-home vehicles, which will lead to further review of the completion of the agreement and the proper payroll documentation.

Finding 25:

Contrary to State law, City Council meeting minutes were not always promptly prepared, reviewed, approved, and made available to the public.

City Response:

This item was deemed partially corrected as the meeting minutes for 12 meetings reviewed by the auditors did not have minutes made available to the public until 33 to 64 days after the meetings occurred.

The City remains committed to providing minutes in a timely manner. However, based on the volume and duration of meetings, and staff members available to complete the task, it has been challenging to further decrease the turnaround time. The City is working to fill a recently funded position in the City Clerk's Office that will provide support for these efforts. Additionally, the City makes recorded videos of the meetings available within a few days of the meetings. Items on the agenda are linked to specific points in the recording, making it an easy process for the public to review the results of specific items or discussions.

Finding 31:

The City had not established an IT disaster recovery plan detailing the procedures to be followed to recover and restore financial records and other critical City applications in the event of a major hardware or software failure.

City Response:

The audit progress review deemed this item partially corrected. Based on additional review, the City has now amended the disaster recovery plan (IT Continuity of

Operations Plan 2022) to include a testing strategy that allows for annual testing of the disaster recovery plan while testing and evaluating its effectiveness. During this scheduled occasion, the City will simulate a downtime event by taking the primary datacenter offline and transition critical information technology operations to the disaster recovery site. Coordination efforts will include senior management and all department heads or designees. The plan's primary focus is to test the operability of the disaster recovery site prior to a disaster to minimize interruptions to normal City technology operations.

Regarding the disaster recovery site, the City has established data communication between the disaster recovery site and the primary data center with final steps before go-live to comprise configuration and testing to ensure all critical applications are included. Unfortunately, the City experienced two hurricanes and a networking issue in 2022 which delayed the project's previously anticipated completion date. Since then, the hardware issue has been resolved, and the City's primary focus is to finalize the site. The City is confident that the site will be fully functional by February 28, 2023.