

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2023-148
March 2023

TOWN OF CARYVILLE

Prior Audit Follow-up



Sherrill F. Norman, CPA
Auditor General

Council Members and Town Clerk

During the period October 2020 through January 2022, the following individuals served as a Town of Caryville Council Member or Town Clerk:

Larry Palmer, Council Chairman

William Pate, Council Vice Chairman through 4-21-21^{a, b}

Michael Brandon Sasser, Council Member from 7-13-21

Mary Pate, Council Member

Henry Chambers, Council Member

James Taylor, Council Member

Kent Taylor, Town Clerk

^a Council member passed away on April 21, 2021, and the member seat was vacant until July 13, 2021.

^b The Council Vice Chairman position was vacated April 21, 2021, and had not been filled as of November 2022.

The team leader was Walter K. Cunningham, CPA, and the audit was supervised by Shane L. Herman, 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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TOWN OF CARYVILLE

SUMMARY

In our operational audit report No. 2021-016 of the Town of Caryville (Town), we noted 13 findings related to various functions and activities. This operational audit focused on the progress the Town has made, or was in the process of making, in addressing the findings and recommendations in report No. 2021-016.

Our audit disclosed that the Town had:

- Corrected 7 findings (Findings 2, 3, 4, 6, 10, 12, and 13).
- Partially corrected 5 findings (Findings 1, 5, 7, 9, and 11).
- Not corrected Finding 8.

BACKGROUND

In 1917, the Town of Caryville (Town) was incorporated as a municipality. State law¹ abolished the Town in 1955 and reincorporated it in 1965.² The Town is located in Washington County, comprises 3 square miles of land, and has a population of approximately 300 residents.³

The Town is governed by the Town Council composed of five Council members who are typically elected but may be appointed by the majority vote of the Council members.⁴ The Town Council is responsible for enacting ordinances, resolutions, and policies governing the Town, as well as appointing the Town Clerk. The Town Clerk is responsible for the administration of all Town affairs and carrying out policies adopted by the Council.

The Town provides its citizens with services for general government, recreation, water, and garbage. The Washington County Sheriff's Office provides law enforcement services, and the Washington County Board of County Commissioners provides fire and emergency medical services.

As of January 2022, the Town had four employees: a Town Clerk and three maintenance employees.

FINDINGS AND RECOMMENDATIONS

Finding 1: Financial Condition Assessment

Previously Reported

According to the financial audit report for the 2016-17 fiscal year, the Town of Caryville's (Town) most recent audit as of June 2020, the Town had experienced deteriorating financial conditions. In addition,

¹ Chapter 30646, Laws of Florida (1955).

² Chapter 65-1350, Laws of Florida (1965).

³ Florida Population Estimates for Counties and Municipalities, April 2021, Florida Legislative Office of Economic and Demographic Research.

⁴ According to the Town Government Structure and Procedures, "A vacancy of any seat of the Council will be filled at the next Council regular meeting following the vacancy, by the majority vote of the then seated Council."

due to inadequate and incomplete financial records, the Town's financial condition as of June 2020 could not be determined.

We recommended that the Town take immediate action to improve the Town's financial condition. Specifically, we recommended that the Town continue efforts to establish an emergency reserve fund and improve accountability by ensuring accurate and complete accounting records are maintained. Further, we recommended that the Town should also establish appropriate revenue and expenditure monitoring processes to ensure that, when revenues decrease, expenditures decrease as well.

Results of Follow-Up Procedures

The Town partially corrected this finding. As required by Auditor General rules,⁵ the independent certified public accountant (CPA) who performed the Town's most recent financial audit (2020-21 fiscal year), reported in the management letter that financial condition assessment procedures were applied, and that no deteriorating financial conditions were noted. Notwithstanding, we performed audit procedures using information reported in the Town's 2020-21 fiscal year audit report and determined that the Town was still experiencing similar deteriorating financial conditions as those reported in the 2016-17 fiscal year audit report and referenced in our report No. 2021-016.⁶ Specifically, our audit procedures disclosed that, although current assets exceeded current liabilities in the Water and Garbage Fund and the General Fund by \$35,105 and \$45,394, respectively, as of September 30, 2021, the following conditions existed for the 2020-21 fiscal year:

- The Town experienced an operating loss in its Water and Garbage Fund of \$44,729.
- General Fund expenditures exceeded revenues by \$2,923.

If such conditions persist, the Town could eventually be in a state of financial emergency and unable to provide critical services to its citizens.

As discussed in Findings 2, 3, 7, and 9, the Town has taken several actions that could potentially improve its financial condition. The Town has, for example, adopted policies to monitor revenues and expenditures and maintain target levels of General Fund unrestricted fund balance and Water and Garbage Fund working capital, improved the accuracy and completeness of its accounting records, replaced broken water meters, and paid delinquent payroll taxes and associated interest and penalties. Further, during its September 2019 meeting, the Town Council adopted a motion to create an emergency reserve fund and deposit \$500 each month, as funds allow. As of April 2022, the emergency reserve fund had a balance of \$16,500.

Recommendation: The Town should continue its efforts to improve its financial condition, including following its adopted policies and procedures and effectively monitoring revenue and expenditures to ensure that when revenues decrease, expenditures decrease as well.

⁵ Section 10.556(8), Rules of the Auditor General.

⁶ The deteriorating conditions reported included a \$37,902 operating loss in the Water and Garbage Fund, General Fund expenditures exceeding revenues by \$10,897, and current liabilities exceeding current assets by \$27,573 in the Water and Garbage Fund and by \$24,504 in the General Fund.

Finding 2: Policies and Procedures

Previously Reported

Comprehensive policies and procedures to govern and direct Town activities, functions, and transactions had not been established and maintained for many operational areas.

We recommended that the Town establish comprehensive policies and procedures that provide for the consistent conduct of Town business and operations in accordance with applicable laws, ordinances, rules, regulations, and good business practices. Further, we recommended that the Town ensure that the policies and procedures addressed those areas impacted by the noncompliance and control deficiencies discussed within report No. 2021-016.

Results of Follow-Up Procedures

The Town corrected this finding. Our examination of Town records disclosed that the Town Council adopted policies and procedures addressing the operational areas we noted as being impacted by noncompliance and control deficiencies in report No. 2021-016. Specifically, the Town adopted policies and procedures for cash⁷ and bank account reconciliations,⁸ grant administration,⁹ Town Council meeting notifications,¹⁰ preparation and approval of Town Council meeting minutes,¹¹ revenue and expenditure monitoring,¹² budget adoption and maintenance,¹³ and capital asset management.¹⁴

Finding 3: General Fund Unrestricted Fund Balance and Enterprise Fund Working Capital Requirements

Previously Reported

Contrary to Government Finance Officers Association (GFOA) best practices, the Town had not, as of June 2020, established General Fund unrestricted fund balance requirements¹⁵ and Water and Garbage Fund working capital target amounts.¹⁶

We recommended that the Town establish policies to ensure that acceptable levels of General Fund unrestricted fund balance and Water and Garbage Fund working capital amounts are maintained consistent with GFOA best practices.¹⁷

⁷ Town of Caryville Policy and Procedure No. 22-0001, *Cash and Check Handling*, adopted January 11, 2022.

⁸ Town of Caryville Policy and Procedure No. 22-0004, *Bank Reconciliations*, adopted February 8, 2022.

⁹ *Local Policies for the Town of Caryville*, adopted July 2022.

¹⁰ Town of Caryville Policy and Procedure No. 22-0002-1, *Town Council Meetings*, adopted August 9, 2022.

¹¹ Town of Caryville Policy and Procedure No. 22-0002, *Town Council Meeting Minutes*, adopted February 8, 2022.

¹² Town of Caryville Policy and Procedure No. 22-0005, *Revenue and Expenditure Monitoring*, adopted August 9, 2022.

¹³ Town of Caryville Policy and Procedure No. 22-0006, *Budgets*, adopted August 9, 2022.

¹⁴ Town of Caryville Policy and Procedure No. 22-0009, *Capital Asset Management*, adopted September 13, 2022.

¹⁵ Unrestricted fund balance, according to the GFOA, includes committed, assigned, and unassigned fund balances and represents resources that have the least spending constraints.

¹⁶ The GFOA defines working capital as current assets less current liabilities.

¹⁷ GFOA Best Practice: Fund Balance Guidelines for the General Fund, September 2015.

Results of Follow-Up Procedures

The Town corrected this finding. At its February 2022 meeting, the Town Council adopted policies that require the Town Clerk to:

- Annually calculate, based on GFOA best practices, target amounts of General Fund unrestricted fund balance and Water and Garbage Fund working capital, which are to be approved by the Town Council by resolution.¹⁸
- Monitor the bank accounts for the General Fund and Water and Garbage Fund and notify the Town Council if the balances come within \$1,000 of the target amounts adopted by the Town Council.¹⁹

In addition, our examination of Town Council meeting minutes disclosed that the Town adopted resolutions²⁰ establishing target amounts of General Fund unrestricted fund balance and Water and Garbage Fund working capital of \$15,082 and \$15,162, respectively, for the 2020-21 fiscal year, and \$19,425 and \$12,651, respectively, for the 2021-22 fiscal year. The resolution target amounts for the 2020-21 and 2021-22 fiscal years were consistent with GFOA best practices, which recommend maintenance of a general fund unrestricted fund balance of no less than 2 months of regular general fund operating expenditures and recommend maintenance of enterprise fund working capital of no less than 45 days' worth of the fund's annual operating expenses. Additionally, the Town's 2020-21 fiscal year audited financial statements disclosed that, as of September 30, 2021, the Town's General Fund unrestricted fund balance of \$45,394²¹ and Water and Garbage Fund working capital of \$35,105, exceeded the 2020-21 fiscal year target amounts by \$30,312 and \$19,943, respectively.

Finding 4: Financial Audits

Previously Reported

The Town did not timely obtain a 2016-17 fiscal year financial audit and, as a result, the Department of Revenue (DOR) withheld \$7,397 from the Town, including \$4,030 for half-cent sales tax revenues and \$3,367 for municipal revenue sharing revenues. The 2016-17 fiscal year financial audit report was filed with the Auditor General in June 2019, 345 days late. The DOR released the municipal revenue sharing revenues to the Town after the audit report was filed; however, according to the DOR, the Town could not recover the \$4,030, as the financial audit was untimely.

We recommended that the Town ensure that financial audits are timely obtained and that the audit reports are timely presented to the Town Council and filed with the Auditor General by the statutorily prescribed deadline.²² Additionally, the Town should ensure that financial audits are prepared in accordance with generally accepted accounting principles by capable employees or contracted staff and that the financial audits are conducted by independent CPAs timely selected by the Town Council.

¹⁸ Town Policy and Procedure No. 22-0003, *General Fund and Water and Garbage Fund Policies*, adopted February 8, 2022.

¹⁹ Town Policy and Procedure No. 22-0005, *Revenue and Expenditure Monitoring*, adopted August 9, 2022.

²⁰ Town of Caryville Resolution Nos. 20-03 and 21-08.

²¹ Of this amount, \$36,295 was a transfer from the Water and Garbage Fund.

²² Section 218.39(1), Florida Statutes, requires audit reports to be filed with the Auditor General no later than 9 months after the end of the local governmental entity's fiscal year. Since the Town's fiscal year ends on September 30, the audit report due date is June 30 of the subsequent year.

Results of Follow-Up Procedures

The Town corrected this finding. The Town filed its 2019-20 fiscal year financial audit report with the Auditor General on October 7, 2021, which was 99 days after the June 30, 2021, due date established by State law. Upon inquiry, Town personnel indicated that the 2019-20 fiscal year financial audit report was not timely filed because the independent CPA that performed the Town's financial audit experienced staffing difficulties. The Legislative Auditing Committee did not act against local governmental entities that failed to file their financial audit reports for the 2019-20 fiscal year until subsequent to the Town's October 7, 2021, filing date; consequently, the Town was not subjected to financial penalties similar to the ones noted in our report No. 2021-016.

The Town timely filed its 2020-21 fiscal year audit report with the Auditor General on May 26, 2022, 35 days before the June 30, 2022, filing deadline.

Finding 5: Accounting Records and Related Controls

Previously Reported

Financial reports and related records were not always in agreement, increasing the risk of undetected errors, misappropriation, and fraud. For example, for the period October 2017 through March 2019, the profit and loss statement report included Town fund expenses totaling \$296,964, which was \$106,242 more than the recorded general ledger amount.

We recommended that the Town establish a properly designed and maintained accounting system and related policies and procedures to require and ensure the accurate recording of financial activity, periodic reconciliations of financial reports to corresponding general ledger and detailed subsidiary records, and appropriate retention of accounting records used during the fiscal year close-out and reporting processes.

Results of Follow-Up Procedures

The Town partially corrected this finding. Discussions with Town personnel and examination of Town Council meeting minutes for the period April 2019 through July 2022, disclosed that the Town contracted with a bookkeeper in February 2019 to implement a new accounting system and train the Town Clerk on how to properly record payments and deposits. Our comparison of the Town's accounting records for the period October 2020 through January 2022 to the profit and loss statements provided to the Town Council during the same period and to the financial audit report for the 2020-21 fiscal year disclosed that the records, statements, and report materially agreed, and that the Town accurately recorded financial activity and appropriately retained accounting records used during the 2020-21 fiscal year close-out and reporting processes. However, as discussed in Finding 11, the Town did not periodically reconcile its inventory of tangible personal property to its capital asset records.

Although the Town improved the accuracy of its accounting records, as of October 2022, the Town had not yet adopted formal policies and procedures that require and ensure the accurate recording of financial activity, periodic reconciliations of financial reports to corresponding general ledger and detailed subsidiary records, and appropriate retention of accounting records used during the fiscal year close-out and reporting processes. In response to our inquiries in October 2022, Town personnel indicated that the Town is working on a policy to address the maintenance of accounting records, the lack of written

procedures does not indicate a lack of concern from the Town, and that the maintenance of accurate accounting records is a high priority and is regularly addressed. Notwithstanding, although the Town has informal procedures in place to ensure the accurate recording of financial activity and maintenance of accounting records, absent established policies and written procedures, there is an increased risk of inaccurate accounting records and related reports in the event of changes in Town personnel or the contracted bookkeeper.

Recommendation: We continue to recommend that the Town establish policies and procedures to require and ensure the accurate recording of financial activity, periodic reconciliations of financial reports to corresponding general ledger and detailed subsidiary records, and appropriate retention of accounting records used during the fiscal year close-out and reporting processes.

Finding 6: Bank Account Reconciliations

Previously Reported

Bank account reconciliations were not always timely performed.

We recommended that the Town establish appropriate policies and procedures to ensure that bank account reconciliations are properly and timely performed, documented, reviewed, and approved.

Results of Follow-Up Procedures

The Town corrected this finding. As indicated in Finding 2, during its February 2022 Town Council meeting, the Town Council adopted a policy²³ for bank account reconciliations. The policy requires monthly bank account reconciliations be prepared by an independent bookkeeping service, Town Clerk resolution of any items identified during the bank account reconciliations as needing further investigation, the independent bookkeeper make any necessary adjustments, and Town Council Chairman review and approval of the bank account reconciliations.

To determine whether the Town timely and accurately performed bank account reconciliations in accordance with its policy, we examined Town records supporting 64 of the 179 bank account reconciliations required to be prepared for the Town's 10 bank accounts active between October 2020 and April 2022. Our examination disclosed that the independent bookkeeper timely prepared the bank account reconciliations throughout the examined period, and after adoption of the policy, in February 2022, the bank account reconciliations evidenced review and approval by the Town Council Chairman.

However, we did note that the policy did not require documentation as to who prepared the bank account reconciliations; consequently, the bank reconciliation preparer did not sign the examined bank reconciliations. Subsequent to our discussions with the Town Clerk, the Town Council enhanced the policy²⁴ at its August 2022 meeting to require the bank account reconciliation preparer to initial the reconciliations.

²³ Town of Caryville Policy and Procedure No. 22-0004, *Bank Reconciliations*.

²⁴ Town of Caryville Policy and Procedure No. 22-0004-1, *Bank Reconciliations*.

Finding 7: Water Services

Previously Reported

Town records did not always demonstrate that water customers were correctly assessed for water use because some water meters were broken and inoperable, and Town procedures did not always ensure timely collection of delinquent water bills.

We recommended that the Town continue efforts to replace broken and inoperable water meters to help ensure that customer use of water services is accurately assessed. In addition, we recommended that the Town take prompt and appropriate actions to collect amounts due for water services. Such actions should include assessing the 10 percent penalty on unpaid balances and disconnecting water services when accounts remain delinquent.

Results of Follow-Up Procedures

The Town partially corrected this finding. Our examination of Town records disclosed that the Town hired a contractor in May 2021 to inspect the Town's water meters and replace the broken and inoperable water meters. During the period August 2021 through November 2021, the vendor replaced 178 of the Town's 226 water meters. To determine whether the broken water meter replacement increased the accuracy of water usage assessments and resultant billings to water customers, we compared the average number of customer accounts being charged the minimum amount for the period October 2017 through March 2019 to the number of customers being charged the minimum amount as of January 2022, and found that the number of customers charged the minimum amount decreased from an average of 156 accounts²⁵ during the period October 2017 through March 2019 to 83 accounts in January 2022.²⁶ Of the 83 accounts charged the minimum amount in January 2022, only 17 of the accounts reflected no water usage compared to an average of 31 accounts per month during the period October 2017 through March 2019.

Town Ordinances²⁷ provide that each water service customer is to pay for the water used each month as assessed by the Town on or before the 10th day of the following month. Payments made after that date shall include a 10 percent penalty, and water bills still unpaid on or before the 20th day will cause customer water service to be discontinued, and the customer must pay a separate assessment of either \$25 during normal Town business hours or \$50 after normal Town business hours for the reconnection of water services.

To determine whether the Town appropriately assessed the 10 percent penalty for late payments, we examined Town records for the period October 2020 through January 2022. Our examination disclosed that the Town properly assessed the 10 percent penalty for the 834 late payments made during the period examined. However, the Town did not always disconnect water services or charge the reconnection fee when water service customers paid after the 20th of the month, as required by ordinance. Specifically, following Town Ordinances, the Town was required to disconnect 173 customer accounts for nonpayment

²⁵ This represented 97 percent of the average number of water accounts that were charged for water services during the period October 2017 through March 2019.

²⁶ This represented 45 percent of the number of water accounts that were charged for water services in January 2022.

²⁷ Town of Caryville Ordinance No. 17-01.

or late payments; however, the Town only disconnected water service for 16 customer accounts and only charged the reconnection fee for 3 of the 16 accounts.

In response to our inquiries, Town personnel indicated that the water billing spreadsheet maintained by the Town is not a good historical record, lending itself to errors, and that water customers may request an extension for payment, but these requests are not documented. Further, Town personnel indicated that, since the Town is in the process of implementing a new municipal utility billing system, it would not be an effective use of their time to investigate the noted differences. Notwithstanding, Town Ordinances do not provide for payment extensions, and water service should be disconnected for customer accounts not paid by the 20th of the month following the assessment of water usage. In August 2022, the Town adopted a policy,²⁸ clarifying Town Ordinances; however, the adopted policy did not address payment extensions.

Although the Town did not disconnect customer accounts in accordance with Town Ordinances, as shown in Table 1, the number of delinquent water accounts (i.e., accounts unpaid after the 10th day following the billing month) significantly decreased from 92 accounts as of March 31, 2019, to 13 accounts as of January 31, 2022.

**Table 1
Delinquent Water Accounts**

Amount Outstanding	As of March 31, 2019		As of January 31, 2022	
	Number of Accounts	Total	Number of Accounts	Total
\$501 to \$1,000	5	\$3,641	4	\$3,057
\$100 to \$500	31	7,099	2	242
Less than \$100	56	2,259	7	276
Total	<u>92</u>	<u>\$12,999</u>	<u>13</u>	<u>\$3,575</u>

Source: Town records.

Recommendation: We recommend that the Town continue its efforts to take prompt and appropriate actions to collect amounts due for water services. Specifically, the Town should disconnect water services as required by Town Ordinances and consistently assess water reconnection fees. Additionally, if the Town Council determines that payment extensions are appropriate, policies and procedures should be enhanced to address circumstances under which payment extensions would be appropriate and how such extensions should be applied for, approved, and documented.

Finding 8: Separation of Duties

Previously Reported

Incompatible duties were not effectively separated, and controls did not exist to compensate for those duties.

²⁸ Town Policy and Procedure No. 22-0008, *Water and Garbage Collections*.

We recommended that the Town enhance procedures to separate cash collection and recordkeeping duties to the extent possible or, if a sufficient number of personnel are not available to adequately separate these duties, appropriate compensating controls be implemented.

Results of Follow-Up Procedures

The Town had not corrected this finding. Based on discussions with Town personnel in March 2022, we determined that duties were still not always appropriately separated among employees or Town officials. Specifically, the Town Clerk prepares and sends invoices for water and garbage services, collects cash and checks as payment, records payments to customer accounts, prepares related bank deposits and deposits the funds into the applicable bank account, and records the deposits in the accounting records. Upon inquiry as to whether the Town had taken actions to separate the Town Clerk's duties or implement compensating controls, Town personnel indicated that the Town adopted a policy²⁹ requiring bank reconciliations be performed monthly by an independent bookkeeper and reviewed by the Chairman of the Town Council.

Based on our review of the policy; however, we determined that the policy and implemented procedures did not compensate for the Town Clerk having control over the cash collection and recordkeeping processes. For example, the bank reconciliations performed by the independent bookkeeper and approved by the Chairman of the Town Council would not detect misappropriated cash if the related accounting records were adjusted accordingly.

Recommendation: We continue to recommend that the Town enhance their policies and procedures to separate the cash collection and recordkeeping duties to the extent possible. If a sufficient number of personnel are not available to adequately separate these duties, appropriate compensating controls should be implemented.

Finding 9: Unpaid Payroll Taxes

Previously Reported

The Town did not timely remit required payroll taxes totaling \$39,952 to the Internal Revenue Service (IRS) for the 13 quarters ending June 30, 2015, through June 30, 2018. As a result, the Town had to pay interest totaling \$3,034 and late payment penalties totaling \$2,125 to the IRS.

We recommended that the Town establish procedures to ensure that payroll taxes are timely reported and paid.

Results of Follow-Up Procedures

The Town partially corrected this finding. Our examination of Town records disclosed that the Town developed unwritten procedures for the timely remittance of payroll taxes to the IRS and that the Town timely filed the five Form 941s due for the quarters ending December 2020 through December 2021.³⁰ However, although the Town timely filed its quarterly Form 941s, the Town did not always timely remit its

²⁹ Town of Caryville Policy and Procedure No. 22-0004, *Bank Reconciliations*.

³⁰ Pursuant to IRS Publication 15, *Employer's Tax Guide*, the Town must quarterly file Form 941 with the IRS to report wages paid, Federal income tax withheld, and both the employer and employee share of Social Security and Medicare taxes withheld.

payroll tax deposits.³¹ Specifically, the Town remitted their January 2021 payroll tax deposit 2 days late, and the June 2021 deposit 5 days late. Further, the November 2021 and December 2021 payroll tax deposits were remitted 41 and 6 days late, respectively, resulting in the Town incurring a late deposit penalty of \$489, which the Town paid in February 2022.

In response to our inquiries in May 2022, Town personnel indicated that they remitted the deposits late due to errors in the deposit remittances and the Town's accounting software sending automatic deposit error notifications to an e-mail account that was previously used by the Town and no longer actively monitored. Town personnel indicated that, as of May 2022, they had updated the e-mail account used for error notifications and updated the Town's e-mail application to monitor both e-mail accounts.

Recommendation: To avoid interest and penalties, the Town should enhance procedures to ensure that payroll tax deposits are timely made.

Finding 10: Payroll and Personnel Administration

Previously Reported

Town records did not always evidence support for time worked by Town personnel.

We recommended that the Town enhance procedures to ensure that timecards are maintained to support payroll transactions.

Results of Follow-Up Procedures

The Town corrected this finding. During the period October 2020 through January 2022, the Town issued 252 payroll checks totaling \$83,679 to six employees. Of the 252 payroll checks, we examined 30 payroll checks totaling \$9,968, and the related supporting documentation, and noted that the Town maintained proper documentation, including timecards evidencing the time worked by the employees, for all 30 payroll checks examined.

Finding 11: Capital Assets

Previously Reported

Town policies did not set forth guidelines and procedures for establishing and maintaining appropriate controls over capital assets, including tangible personal property (TPP), and to help evaluate the adequacy of, and provide sufficient, capital asset insurance.

We recommended that the Town Council adopt policies for establishing and maintaining appropriate controls and records for capital assets, including TPP. Additionally, we recommended that after adoption of such policies, Town personnel should follow the adopted policies and use the established records to help evaluate the adequacy of, and provide sufficient, capital asset insurance.

³¹ Amounts withheld from employees' pay pursuant to Federal law (Title 26, Section 3102, Code of Federal Regulations) are to be remitted by the Town to the IRS on the 15th day following the month the taxed payments were made unless the 15th day falls on a weekend or holiday in which case they are due on the next business day.

Results of Follow-Up Procedures

The Town partially corrected this finding. Upon inquiry with Town personnel, we determined that, as of April 2022, the Town had not adopted policies and procedures to establish and maintain appropriate controls and records for capital assets and, as of November 2022, could not provide Town capital asset, including TPP, records.

Upon further inquiry, the Town indicated that a physical inventory of the Town's TPP was performed in February 2022, and the Town evaluated the sufficiency of its capital asset insurance during its November 2020 Town Council meeting. Our examination of the TPP inventory worksheet, found that the worksheet did not indicate the individual who performed the inventory or evidence that the inventory was compared to capital asset records to determine whether items were unaccounted for or should be added to the TPP records. Consequently, the usefulness of the Town's TPP physical inventory was limited.

In addition, the Town Council November 2020 meeting minutes indicated that the Town's evaluation of the sufficiency of capital asset insurance consisted of a representative from the Town's property insurance carrier inquiring of the Town Council as to whether the insurance for certain capital assets should be increased. Absent comprehensive capital asset records periodically reconciled to inventoried capital assets, the usefulness of the Town's evaluation of the sufficiency of its insurance coverage was limited, as it only considered items already insured and listed on the Town's insurance schedule.

Absent effective controls to account for capital assets, including the conduct of periodic physical TPP inventories, reconciliations of the inventory results to the subsidiary records, and appropriate adjustments to insurance levels based on those procedures, there is an increased risk that the items may be misused or stolen and for capital asset insurance to be insufficient or excessive.

To address these issues, in July 2022, the Town contracted with a third party to create a capital asset listing including TPP, determine the adequacy of the Town's capital asset insurance, and create a policy for capital assets, including TPP. As indicated in Finding 2, the Town Council adopted a capital asset management policy³² in September 2022. The policy:

- Designates the Lead Maintenance person as capital asset custodian.
- Requires maintenance of capital asset records that lists both TPP and real property.
- Requires the capital asset custodian and one other person, such as the Town Clerk or a Town Council member, to perform an inventory of capital assets, including TPP, at least annually, and compare the results of the inventory to the capital asset records. Any differences noted are to be resolved and the capital asset records updated accordingly. If any capital assets listed in the Town's capital asset records are not located, they are to be reported to the Town Council.
- Requires the Town Clerk, once the inventory has been completed and the capital asset records updated, to compare the capital asset records to the detailed schedule of assets insured by the Town to ensure they are in agreement.

Recommendation: We recommend that Town personnel follow the adopted policy and establish capital asset records. The established capital asset records should be used to evaluate the adequacy of capital asset insurance and during the reconciliation of the results of periodic physical inventories of capital assets, including TPP.

³² Town of Caryville Policy and Procedure No. 22-0009, *Capital Asset Management*.

Finding 12: Town Ordinances and Resolutions

Previously Reported

The Town had not codified or otherwise retained comprehensive records of Town ordinances and resolutions, contrary to State law.³³

We recommended that the Town codify or otherwise maintain and make available for public inspection comprehensive records of ordinances enacted and resolutions adopted by the Town Council. We also recommended that the Town create backups of such records and that the Town continue its efforts to recover prior ordinances and resolutions.

Results of Follow-Up Procedures

The Town corrected this finding. Our examination of Town records disclosed that the Town adopted 2 ordinances and 22 resolutions during the period October 2017 through January 2022. Upon request, the Town provided to us copies of both ordinances and the 22 resolutions.

Finding 13: Town Council Meeting Notices and Minutes

Previously Reported

Town Council meetings were not always properly noticed, contrary to State law,³⁴ and minutes of the meetings did not always evidence review and approval.

We recommended that the Town ensure that reasonable notice is provided for Town Council meetings and that documentation is maintained to evidence such notice. Additionally, we recommended that the Town Council establish policies and procedures for the review and approval of Town Council meeting minutes, and that such procedures require that all Town Council meeting minutes be signed by the Council Chairman and Town Clerk upon Town Council approval of the minutes.

Results of Follow-Up Procedures

The Town corrected this finding. As indicated in Finding 2, the Town adopted policies³⁵ to govern the recording, review, and approval of Town Council meeting minutes in February 2022 and notification of public meetings in August 2022. For the 22 Town Council meetings held between October 2020 and January 2022, we examined the Town Council's meeting minutes and the public notices for those meetings and determined that the Town provided reasonable notice of the meetings and maintained documentation evidencing the notice. Further, the Town Council meeting minutes were recorded, timely approved, and signed by both the Town Council Chairman and the Town Clerk.

³³ Section 166.041(5), Florida Statutes.

³⁴ Section 286.011(1), Florida Statutes.

³⁵ Town of Caryville Policy and Procedure No. 22-0002, *Town Council Meeting Minutes*, and Town of Caryville Policy and Procedure No. 22-0002-1, *Town Council Meetings*.

OBJECTIVES, SCOPE, AND METHODOLOGY

Pursuant to Section 11.45(3)(a), Florida Statutes, we conducted an operational audit of the Town of Caryville (Town) and issued our report No. 2021-016 in September 2020. 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 Town's progress in addressing the findings and recommendations contained within report No. 2021-016.

We conducted this follow-up audit from March 2022 through November 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 January 2022, and selected Town actions taken prior and subsequent thereto. Our audit included the examination of pertinent Town records and transactions, inquiry of Town personnel, observation of procedures in practice, and additional follow-up procedures as appropriate. Unless otherwise indicated in this report, records and transactions were not selected with the intent of projecting the results, although we have presented for perspective, where practicable, information concerning the relevant population value or size and quantifications relative to the items selected for examination.

In conducting our audit, we:

- Reviewed applicable laws, contracts, Town policies and procedures, and other guidelines, and interviewed Town personnel to obtain an understanding of applicable processes and administrative activities.
- Examined Town records to determine whether the Town established policies to ensure that accounting records were maintained that accurately reflected Town financial activities.
- Examined the minutes of the Town Council meetings during the period April 2019 through July 2022 to determine the propriety and sufficiency of actions taken relative to the programs, activities, and functions included in the scope of the original audit.
- Examined Town records during the period October 2020 through November 2022 to determine whether the Town had established policies and procedures to ensure that:
 - Town Council meetings are publicly noticed, and documentation is maintained evidencing the public notice.
 - Town Council meeting minutes are timely recorded and approved.
 - Capital asset records, including tangible personal property (TPP), are established and maintained.
 - Incompatible duties related to cash collection and recordkeeping are not performed by Town personnel.
 - Bank account reconciliations are performed timely and approved.
 - Grants are administered properly.
 - Effective payroll recordkeeping and administration, including remittance of taxes to the Internal Revenue Service (IRS).
 - The Town Council monitored revenues and expenditures.
- Obtained and reviewed the Town's 2020-21 fiscal year financial audit report to determine whether the Town was experiencing one or more deteriorating financial conditions.
- Examined Town records during the period October 2020 through January 2022 to determine whether the Town had established and funded an emergency reserve fund in accordance with Town policies and procedures.
- Obtained and reviewed the Town's 2020-21 fiscal year financial audit report to determine whether the Town's General Fund unrestricted fund balances and the Water and Garbage Fund working capital amounts were in compliance with Government Finance Officers Association (GFOA) recommendations and Town policies and procedures.
- Examined Town records to determine whether the Town maintained adequate subsidiary records of its capital assets during the period October 2020 through January 2022.
- Determined whether the Town conducted a TPP inventory during the period October 2020 through June 2022. Additionally, for the TPP inventory conducted by the Town in February 2022, we examined Town records to determine whether the inventory was performed by an individual not responsible for the property items and if the results of the inventory were compared to the capital asset records.
- Examined Town records to determine whether the ordinances and resolutions adopted by the Town Council during the period October 2017 through January 2022 were retained and readily available for public inspection.
- Examined Town records and Town Council meeting minutes for the 22 Town Council meetings held during the period October 2020 through January 2022 to determine whether the Town

provided adequate public notice for the meetings; timely transcribed, and approved minutes for those meetings; and maintained the minutes for public review in compliance with Town policies.

- Examined Auditor General records to determine whether the Town obtained 2019-20 fiscal year and 2020-21 fiscal year audits and timely filed the audit reports with us.
- To determine whether the profit and loss statements materially reconciled to the audited financial statements and to the Town's accounting records, we compared the profit and loss statements provided to the Town Council during the 2020-21 fiscal year to the 2020-21 fiscal year audited financial statements and to the Town's accounting records.
- From the population of 179 bank account reconciliations for the period October 2020 through April 2022, we examined 64 bank account reconciliations to determine whether the reconciliations:
 - Were timely performed by an individual without cash processing duties.
 - Signed and dated by the preparer to evidence the individual who performed the reconciliation and the date it was completed.
 - Were approved by the Town Council Chairman.
 - Included adequate explanations for all reconciling items and that the reconciling items were timely researched and resolved.
- Examined Town records for the period October 2020 through January 2022 to evaluate the adequacy of Town actions to replace broken and inoperable water meters.
- Examined Town records for the period October 2020 through January 2022 to determine whether appropriate actions were taken by the Town to collect amounts due for water services and whether customers were billed in accordance with rates established by Town ordinances and resolutions.
- Examined Town records for the period October 2020 through August 2022 to determine whether the Town had fully paid to the IRS delinquent payroll taxes, interest, and penalties identified in our report No. 2020-016.
- Examined the five quarterly Form 941s required to be filed with the IRS during the period January 2021 through January 2022 to determine whether the Town timely filed the Form 941s. Additionally, we examined Town records to determine whether the Town timely made payroll tax remittances to the IRS for the same period.
- From the population of 252 payroll checks totaling \$83,679 issued between October 2020 and January 2022, examined 30 payroll checks totaling \$9,968 and supporting timecards and other payroll records to determine whether Town records evidenced employee time worked, employees were paid at the Town Council-approved pay rates, and the amounts paid to employees were mathematically accurate.
- Reviewed Town records and inquired of Town personnel to determine whether the Town made any expenditures or entered into any contracts utilizing the authority granted by an applicable state of emergency.
- Examined Town records, including Town Council meeting minutes, for the period October 2020 through January 2022, and inquired of Town personnel, to determine if any construction or electrical projects were performed using Town services, employees, and equipment with estimated or actual costs exceeding the thresholds specified in Section 255.20, Florida Statutes.
- 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 written in a cursive style with a large, stylized initial "S".

Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE

**TOWN OF CARYVILLE
4436 OLD SPANISH TRAIL
CARYVILLE, FLORIDA 32427
850-548-5571
admin@caryvillefl.com**

March 14, 2023

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

Dear Ms. Norman,

Please find our enclosed response and reply in response to the 13 Preliminary and Tentative audit findings that were outlined in the Exit conference conducted by telephone on February 14, 2023.

We appreciate the opportunity to respond to and correct the audit findings and we are continuing to address the open items including the improvement of our Town's Policies and Procedures to guide the Town personnel in the performance of their duties to ensure that full recovery is made to prepare the Town of Caryville for the Future.

X Larry L Palmer

Larry L Palmer
Council Chairman
Signed by: 80a34519-8508-4876-9dfd-0a61baf724ea

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Town of Caryville response to the review of 13 preliminary and tentative audit findings and recommendations received February 17, 2023, from operational audit report No, 2021-016 of the Town of Caryville.

1. **Financial Condition Assessment:** Finding number one has been deemed partially corrected and we agree that there is still work to do on restoring our financial condition. Unfortunately this is a small town with little in the way of financial resources and it will take time. We monitor revenue and expenses on a daily basis now and try to ensure all purchases are needed.
2. **Policies and Procedures:** This has been deemed corrected, but we are not finished and will continue to improve existing Policies and Procedures and add additional policies as we see the need. It is especially important for new Clerks / employees training and orientation.
3. **General Fund Unrestricted Fund Balance and Enterprise Fund Working Capital Requirements:** This has been deemed corrected.
4. **Financial Audits:** This has been deemed corrected.
5. **Accounting Records and Related Controls:** This has been deemed partially correct. We are serious about our accounting system accuracy and will continue to develop policies and procedures relating to accounting as time allows to ensure smooth transitions in personnel changeovers.
6. **Bank Account Reconciliations:** This has been deemed corrected. To further enhance the Preparation and Review the Town now has two rubber stamps; one for Prepared By and another for Reviewed By.
7. **Water Services:** This has been deemed partially corrected. The Town has adopted a Policy & Procedure (No.22-0008) which allows a \$10.00 or less on water bill without being turned off and permits customers who have been cut-off to defer the cut-on Fee until the next billings. There is no allowance for extensions. The Town has hired an office assistant, primarily to administer Water & Garbage Billing, basic bookkeeping and to help implement the Banyon Utility Billing application, which should correct many of the issues in the subsidiary ledger (in Excel) that is currently used.

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8. **Separation of Duties:** While we recognize the importance of separation of duties, especially cash collection and record keeping, it is very difficult for a small town to do and while the Town has hired an office assistant, there will often be the same person doing both. The Clerk and the assistant are sharing the same office however, which reduces the opportunity to intentionally mishandle or misappropriate funds by either employee.
9. **Unpaid Payroll Taxes:** Taxes are now being paid on-time and past-due notices have been paid as noted. We make every effort to pay our taxes in full and on-time and are looking for ways to enhance procedures.
10. **Payroll and Personnel Administration:** This has been deemed corrected.
11. **Capital Assets:** This has been deemed partially corrected. As noted by the Audit Team, the Town of Caryville has adopted a Capital Asset Policy. FY 21-22 Inventory and evaluation has been completed, (the CPA who initially prepared the assessment uncovered a Dump Truck being insured, that was disposed of many years ago, so yes, it is a worthwhile process.) The Town will continue to monitor its assets and perform an annual inventory and assessment of insurance.
12. **Town Ordinance and Resolutions:** The Town has recovered approximately 98-99% of all documents missing. We are still endeavoring to find the remaining pages. Due to amount of time required by the Town Clerk to perform recovery of the other finding, with a limited staff (a one-person office until very recently) the Town has not been able to properly codify and back up Ordinances and Resolutions. The Town has hired an office assistant and soon after her initial training is completed, we plan to begin organizing, codifying, and backing up scanned documents.
13. **Town Council Meeting Notices and Minutes:** This has been deemed corrected.