STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2027-042
November 2026

CITY OF MEXICO BEACH

Prior Audit Follow-Up



Sherrill F. Norman, CPA
Auditor General

City Mayor, Council Members, and Administrator

During the period October 2024 through February 2026, the following individuals served as the City of Mexico Beach Mayor and City Council Members:

	Group
Richard Wolff, Mayor and Council Member	1
Erik Fosshage, Council Member from 4-25-25	2
Jerry Smith, Council Member through 4-24-25	2
Linda Hamilton, Council Member	3
Jason Adams, Council Member	4
Steve Cox, Council Member from 5-2-25 [a]	5
Tim Linderman, Council Member through 4-25-25 [a]	5

[a] Council Member position was vacant from 4-26-25 through 5-1-25.

Mell Smigielski served as City Administrator through October 13, 2024, Chris Truitt served as City Administrator from October 14, 2024, through April 23, 2025, and the position was vacant from April 24, 2025, through April 30, 2025. Mell Smigielski returned to serve as the Interim City Administrator from May 1, 2025, through June 24, 2025, and City Administrator for the remainder of the audit period.

The Auditor General conducts audits of government entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

The team leader was Barbara J. Sturdivant, CPA, and the audit was supervised by Kenneth C. Danley, CPA.

Please address inquiries regarding this report to Derek H. Noonan, CPA, Audit Manager, by e-mail at dereknoonan@aud.state.fl.us or by telephone at (850) 412-2864.

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CITY OF MEXICO BEACH

Prior Audit Follow-Up

SUMMARY

In our operational audit report No. 2025-095 of the City of Mexico Beach (City), we noted 9 findings related to various functions and activities. This operational audit focused on the progress that the City had made in addressing the findings and recommendations in report No. 2025-095.

Our audit disclosed that the City had:

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

BACKGROUND

The City of Mexico Beach (City) was created in 1967 pursuant to Chapter 67-1717, Laws of Florida. The City is located in eastern Bay County along the Gulf of Mexico and has an estimated population of 1,402.[1] The City operates water, sewer, and sanitation utilities and provides services including community enrichment and development, law enforcement and fire safety, and general administration.

The City has a Council-Administrator form of government. Elections occur each April, alternating between Mayor and Council members from Groups 2 and 3 in one cycle, and Groups 4 and 5 in the next. The City Administrator is appointed by the City Council and is responsible for the City's administration.[2]

FINDINGS AND RECOMMENDATIONS

Finding 1: Management Turnover

Previously Reported

The City experienced significant turnover in key management positions from January 2020 through August 2024.

We recommended that, to promote efficient operations, deliver high-quality services to residents, and consistently apply City policies and procedures, the City should develop policies and programs that foster a positive work environment and promote stability in key management positions.

[1] University of Florida, College of Liberal Arts and Sciences, Bureau of Economic and Business Research, *Florida Estimates of Population by County and City* 2025.

[2] Section 2.17, City of Mexico Beach Code of Ordinances, *City Administrator.*

Result of Follow-Up Procedures

The City corrected this finding. Our inquiries with City personnel and review of City records identified actions and programs that foster a positive work environment and promote stability in key management positions.

Finding 2: Financial Audits and Annual Financial Reports

Previously Reported

The City did not timely provide for and submit required annual audited financial statements and annual financial reports (AFRs) to the Auditor General and Florida Department of Financial Services (DFS), respectively, for the 2020-21 through 2022-23 fiscal years. Consequently, through August 2024, the Department of Revenue withheld from the City $37,137 in combined half-cent sales tax and municipal revenue sharing revenues.

We recommended that the City enhance efforts to comply with State law and ensure that annual audited financial statements and AFRs are timely completed and filed with the Auditor General and the DFS.

Result of Follow-Up Procedures

The City corrected this finding. Our review of City records disclosed that the City timely filed its 2024-25 fiscal year annual audited financial statements and AFR with the Auditor General and DFS.

Finding 3: Competitive Procurement

Previously Reported

City controls related to competitive procurement needed improvement.

We recommended that the City enhance procurement policies and procedures to ensure competitive procurement of goods and services in accordance with City ordinances and maintenance of records to evidence all aspects of competitive procurements, including advertisements, request for proposal responses and quotes, and bid tabulation forms.

Result of Follow-Up Procedures

The City corrected this finding. In May 2024, the City Council adopted a revised *Purchasing and Procurement Policy Manual*, including enhanced purchasing and procurement policies related to competitive procurement. Our examination of City records supporting 13 purchases totaling $1 million that were subject to competitive procurement during the period October 2024 through February 2026 disclosed that the City followed its competitive procurement policies and procedures.

Finding 4: Purchase and Receipt of Goods and Services

Previously Reported

City purchasing controls needed enhancement to ensure that purchases exceeding $10,000 are approved by the City Council, purchase orders are used for purchases exceeding $20, and City records evidence receipt of goods and services.

We recommended that City personnel:

- Obtain and document City Council approval for all purchases exceeding $10,000, as required by City ordinances.
- Use purchase orders for purchases of goods and services exceeding $20, in accordance with City ordinances.
- Prior to payment of goods and services, document verification that goods or services were satisfactorily received in accordance with contract and purchase order terms.

Result of Follow-Up Procedures

The City partially corrected this finding. Effective contracting procedures include ensuring that purchases are properly authorized and approved. Our examination of City records supporting 30 purchases totaling $2.5 million during the period October 2024 through February 2026 disclosed that City personnel documented verification that goods or services were satisfactorily received prior to payment. However, we continued to note that:

- Contrary to City ordinances,[3] City records did not evidence City Council approval of five purchases, each individually exceeding $10,000, and totaling $777,789. In response to our inquiries, City personnel indicated that separate City Council approval was not obtained for the purchases because budgeted line items for the purchases were approved as part of the annual budget. Notwithstanding, City ordinances require City council approval of individual purchases exceeding $10,000.

- Contrary to City ordinances,[4] City records did not evidence that purchase orders were issued for four purchases exceeding $20 each, totaling $287,264, for professional services.[5] In response to our inquiries, City personnel indicated that purchase orders were not issued for the purchases because City purchasing and procurement policies[6] did not require purchase orders when the procurement of goods and services is governed by a written contract, in an emergency situation, or when an invoice is available. Notwithstanding, the City's purchase order ordinance has been in effect for 40 years, and City records did not indicate any efforts to revise the ordinance to authorize alternative purchasing methods without reliance on purchase orders.

Absent properly authorized and approved purchases in accordance with City ordinances, there is an increased risk that the City may make purchases contrary to City Council intent.

Recommendation: We continue to recommend that City personnel:

- **Obtain and document City Council approval for all purchases exceeding $10,000 as required by City ordinances.**
- **Use and approve purchase orders for purchases of goods and services exceeding $20 in accordance with City ordinances. If, however, the City Council chooses to authorize**

[3] Section 30.02, City of Mexico Beach Code of Ordinances, *Purchasing*, requires City Council approval for purchases exceeding $10,000.
[4] Section 30.03, City of Mexico Beach Code of Ordinances, *Purchase Orders*, adopted in 1986, requires all purchases, contracts, and/or agreements for work or service exceeding $20 to be executed by a properly authenticated purchase order.
[5] The four purchases included $149,283 for engineer services preapproved by the City Council; $134,583 for artificial reef services during the 2024-25 fiscal year, which was approved by City Council after-the-fact; $1,924 for engineer services established by a bid award; and $1,473 for disaster recovery consultants established by a bid award.
[6] Section 6.2, City of Mexico Beach Purchasing and Procurement Policy Manual, *Duties and Responsibilities: Purchasing Department*.

certain purchases through alternative methods, such as properly approved contracts, City ordinances should be amended to establish those authorization mechanisms.

Finding 5: Duplicate Payments

Previously Reported

City controls needed enhancement to prevent duplicate payments.

We recommended that the City follow its ordinances by issuing purchase orders for all purchases, contracts, and agreements for work or service and establish policies and procedures requiring invoices to be matched to purchase orders and invoices to be canceled at the time of payment to prevent incorrect and duplicate payments.

Result of Follow-Up Procedures

The City partially corrected this finding. Matching invoices to purchase orders and ensuring invoices have not already been paid reduces the chance that duplicate payments will be made. From the purchases totaling $11.4 million during the period October 2024 through February 2026, we examined City records supporting 30 selected purchases totaling $2.5 million and performed analytical procedures of City expenditures to identify potential duplicate payments. Although our examination and procedures disclosed no duplicate payments and invoices were matched to purchase orders when purchase orders were issued, purchase orders were not issued for all purchases exceeding $20, and City ordinances did not authorize alternative purchasing methods without use of purchase orders, as noted in Finding 4.

In response to our inquiries, City personnel indicated that, as of September 2026, the City's accounts payable system requires unique invoice numbers prior to payment, which prevents duplicate payments for the same invoice number. Notwithstanding, failure to issue purchase orders increases the risk of duplicate payments, such as the $450,031 duplicate payment noted in our report No. 2025-095.

Recommendation: We continue to recommend that the City issue purchase orders for all purchases and match invoices to the purchase orders, or revise ordinances to authorize alternative purchasing methods.

Finding 6: Employment Contracts

Previously Reported

The City continued paying the City Accountant after the contract for services expired, and City records did not demonstrate the basis for classifying the contracted City Accountant as an independent contractor for Internal Revenue Service (IRS) reporting purposes.

We recommended that the City establish policies and procedures for determining whether workers should be classified as employees or independent contractors and document such determinations. In addition, the City should enhance agreement monitoring controls to ensure that a valid agreement is properly executed prior to payment and that payments are consistent with agreed-upon compensation terms.

Result of Follow-Up Procedures

The City partially corrected this finding. IRS regulations require employers to determine whether a worker is an employee or independent contractor for income tax reporting purposes. This distinction is important because employees and independent contractors are treated differently for Federal income tax reporting purposes. For example, compensation to independent contractors is not subject to income tax withholding or payment of employment taxes.

Our examination of City records disclosed that, in October 2024, the City contracted with a custodial worker, who performed general office cleaning. The City treated the worker as an independent contractor for income tax reporting purposes and made 16 payments totaling $4,950 to the worker in accordance with the terms and conditions of the service agreement. Our examination of City records and discussions with City personnel also disclosed that, in August 2023, the City ceased contracting with the City Accountant (discussed in audit report No. 2025-095), who was classified as an independent contractor. The City subsequently created a Finance Director position and hired an individual to fill the position as an employee in December 2024. However, although we requested, City records were not provided to demonstrate the City's basis for classifying the custodial worker as an independent contractor or the Finance Director as an employee.

In response to our inquiries, City personnel indicated that City personnel policies[7] require a potential employee to complete an employment application. Once interviewed and offered a position, the individual becomes a City employee. City personnel also indicated that the City's purchasing policies[8] define an independent contractor as a person who contracts to sell commodities or contractual services to the City, and that the City contracted with the custodial worker who is not told when to work and who provides her own cleaning supplies. Notwithstanding, without sufficient City records to evidence the relevant factors and circumstances considered when classifying workers as employees or independent contractors, there is an increased risk that the City may misclassify employees as independent contractors and be subject to employment taxes and penalties.

Additionally, the City developed a draft policy for determining whether workers should be classified as employees or independent contractors, requiring the City to document all worker classification determinations, including the factors considered and the basis for the determination. However, as of August 2026, the City had not finalized or implemented the policy.

Recommendation: We continue to recommend that the City establish effective policies and procedures for determining whether workers should be classified as employees or independent contractors and document such determinations.

Finding 7: Application Security Management

Previously Reported

City controls related to application security management needed improvement to ensure that access privileges are necessary and appropriate.

[7] Section I. Employee Handbook, *Objectives and Administration, Employment and Promotion Requirements*.
[8] Section 4, Purchasing and Procurement Policy Manual, *Definitions*.

We recommended that City management enhance procedures to ensure that users are restricted from performing incompatible functions or functions outside their areas of responsibility. Such enhancements should include establishing procedures for authorizing user access and the performance of periodic evaluations of access privileges granted, including the access privileges granted to groups, to verify that the privileges are necessary and appropriate for each user's assigned responsibilities.

Result of Follow-Up Procedures

The City partially corrected this finding. Access controls are intended to protect data and information technology (IT) resources from unauthorized disclosure, modification, or destruction. Effective access controls include granting users access to IT resources based on a demonstrated need to view, change, or delete data and restricting users from performing incompatible functions or functions outside of their areas of responsibility. Periodic reviews of IT access privileges, including those associated with security roles, help ensure that the access privileges remain appropriate and necessary.

Our examination of City records disclosed that, as of August 2026, the City had developed a draft policy governing user access to IT resources that includes procedures for authorizing access privileges and performing periodic evaluations of access privileges. The City was also using request forms for new IT users that documented the need for the user access privileges being requested.

Notwithstanding City efforts, as of August 2026 the City had not finalized or implemented the draft policy or other IT access privilege policies and procedures, and the City Clerk continued to have unnecessary access privileges to update bank information for customer payments received and the utility billings, capital assets, accounts payable, and accounts receivable modules.

Without appropriately restricted access privileges, there is an increased risk of unauthorized modification, loss, and disclosure of City data and IT resources. According to City personnel, in September 2026 the City Clerk's unnecessary access privileges were disabled.

Recommendation: We continue to recommend that the City establish effective policies and procedures governing user access to IT resources, including performing periodic evaluations of access privileges and restricting IT users from performing incompatible functions or functions outside their areas of responsibility.

Finding 8: Timely Removal of IT Access Privileges

Previously Reported

Access privileges to IT resources were not always promptly disabled when no longer necessary.

We recommended that City management enhance controls to ensure that user access privileges are promptly removed when a user separates from employment or when access is no longer required.

Result of Follow-Up Procedures

The City did not correct this finding. Inactive accounts and accounts for terminated individuals should be promptly disabled or removed when a user separates from employment or, for some other reason, is no longer authorized access to IT resources.[9]

To determine whether the City promptly disabled IT user access privileges upon separation from City employment, we examined City records for the five employees with IT access who separated from City employment during the period October 2024 through February 2026. We found that the access privileges for three of the individuals were not removed until 28, 26, and 16 days after the employees' separation dates and, although we requested, City records were not provided to identify the date the access privilege was removed for one of the other two individuals. City personnel indicated that they did not know the reasons for the delays in removing the access privileges for the three former employees and that the IT resources provider could not provide the date the access privileges were removed for the fourth former employee due to technical issues.

In addition, we examined City records as of February 2026 indicating the log-in dates for the 21 active IT user accounts. Our examination disclosed that:

- 3 user accounts assigned to a software vendor administrator, who assisted City employees with software issues, an external auditor, and an external accountant, had never been used.
- 2 user accounts assigned to a software vendor administrator, who assisted City employees with software issues, and the Code Enforcement Officer, had not been used since 2021.
- 2 user accounts assigned to the Fire Chief and Utility Director had not been used since 2022.
- 1 user account assigned to an external accountant had not been used since 2024.

Subsequent to our inquiries, City personnel indicated that they removed the access privileges for the 8 user accounts and that they will reactivate the accounts only when needed. Absent prompt removal of IT user access privileges when the access privileges are no longer required, there is an increased risk that the access privileges may be misused.

Recommendation: We continue to recommend that City staff promptly remove IT access privileges when a user separates from employment or when access is no longer required.

Finding 9: Anti-Fraud Policy

Previously Reported

The City had not established policies and procedures for communicating, investigating, and reporting known or suspected fraud.

We recommended that the City develop and implement anti-fraud policies and procedures to aid in the mitigation, detection, and prevention of fraud.

[9] Federal Information System Controls Audit Manual.

Result of Follow-Up Procedures

The City did not correct this finding. Effective policies and procedures for communicating, investigating, and reporting known or suspected fraud are essential to aid in the mitigation, detection, and prevention of fraud. Such policies and procedures educate employees about proper conduct, create an environment that deters dishonesty, and establish controls that provide reasonable assurance of achieving management objectives and detecting dishonest acts. Specifically, anti-fraud policies and procedures identify actions constituting fraud, require individuals to report known or suspected fraud, provide guidance for incident reporting, establish responsibility and guidance for fraud investigation, and specify consequences for fraudulent behavior.

Although, as of August 2026, the City had developed a draft annual employee training and education policy that requires periodic training to identify fraud, the policy did not address key elements of an effective anti-fraud policy, such as identifying actions constituting fraud, requiring individuals to report known or suspected fraud, providing guidance for incident reporting, establishing responsibility and guidance for fraud investigation, and specifying consequences for fraudulent behavior. In response to our inquiries, City personnel indicated that the policy was drafted by a former City Administrator, and they did not know why it did not address the key elements noted above.

Absent a comprehensive anti-fraud policy, there is an increased risk that potential acts of fraud may not be recognized, appropriately communicated and investigated, and reported to the appropriate authorities for resolution.

Recommendation: We continue to recommend that the City develop and implement comprehensive anti-fraud policies and procedures to aid in the mitigation, detection, and prevention of fraud.

OBJECTIVES, SCOPE, AND METHODOLOGY

Pursuant to Section 11.45(3)(a), Florida Statutes, we conducted an operational audit of the City of Mexico Beach (City) and issued our report No. 2025-095 in January 2025. 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. 2025-095.

We conducted this follow-up audit from May 2026 through September 2026 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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 period October 2024 through February 2026 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 relevant population value or size and quantifications relative to the items selected for examination.

In conducting our audit, we:

- Reviewed applicable City ordinances, City policies and procedures, and other guidelines, and interviewed City personnel to obtain an understanding of applicable City processes and administrative activities.
- Examined minutes of City Council meetings held during the audit period, and the minutes of selected meetings held prior and subsequent to the audit period, to determine the propriety and sufficiency of actions taken related to the programs, activities, and functions included in the scope of this audit.
- Inquired of City personnel and examined City records to determine whether the City had developed policies and programs that foster a positive work environment and promote stability in key management positions.
- Examined City records to determine whether the City had timely submitted the 2024-25 fiscal year annual audited financial statements and annual financial report to the Auditor General and the Florida Department of Financial Services in accordance with Sections 218.39(1)(b) and 218.32(1)(a), Florida Statutes, respectively.
- From the population of 296 vendors receiving one or more payments collectively totaling $11.4 million during the audit period, examined 30 payments totaling $2.5 million to determine whether the City complied with applicable City ordinances, including whether competitive selection processes were used; bid requests and requests for proposals were properly advertised; respondent bid tabulation forms were properly maintained; City Council approval was obtained for applicable purchases; purchase orders were properly issued; and City records evidenced that goods or services were satisfactorily received prior to the payment.
- Inquired of City personnel and examined City records to determine whether City procedures were effective in preventing duplicate payments.

- Inquired of City personnel and examined City records to determine whether City procedures were effective in determining whether workers should be classified as employees or independent contractors, that valid agreements were properly executed with independent contractors prior to payment, and that payments were consistent with agreed-upon compensation terms.
- Evaluated City procedures for granting and periodically reviewing information technology (IT) user access privileges to IT resources. For the 21 users with access to City IT resources in February 2026, we examined the users' access privileges to determine whether the privileges were appropriate and necessary based on the users' job responsibilities.
- Inquired of City personnel and examined City records for the period October 2024 through February 2026 to evaluate whether IT access privileges were promptly removed for the five IT users who separated from City employment. Additionally, as of February 2026, we examined City records indicating the log-in dates for the 21 active IT user accounts to determine if the accounts were necessary.
- Inquired of City personnel and examined City records to determine whether the City had established and implemented comprehensive anti-fraud policies and procedures to aid in the mitigation, detection, and prevention of fraud.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading ***MANAGEMENT'S RESPONSE.***

AUTHORITY

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



Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE

City of Mexico Beach Response Letter to Audit Findings
October 22, 2026

Auditor General
Claude Denson Pepper Building
Suite G74, 111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Auditor General,

We appreciate the time and effort your team has dedicated to conducting this comprehensive operational audit of the City of Mexico Beach. We take these findings very seriously and are grateful for the opportunity to have an external agency review our operations. Your recommendations are instrumental in helping us improve our processes and better serve our residents.

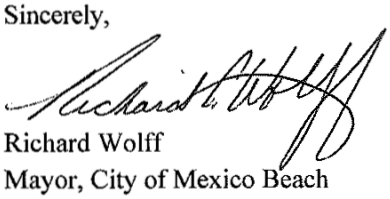
Outlined below is our response to the audit findings:

1. Management Turnover: Corrected
2. Financial Audits and Reports: Corrected
3. Competitive Procurement: Corrected
4. Purchase and Receipt of Goods and Services: Partially corrected - A clarified purchase order and invoice management policy, along with City Council approval of all purchases over $10,000, will ensure better oversight and transparency.
5. Duplicate Payments: Partially corrected - To enhance compliance, we have implemented invoice matching procedures within our financial software.
6. Employment Contracts: Partially corrected – Updated our policy for classifying workers to avoid future discrepancies.
7. Application Security Management: Partially corrected - Access controls for the City's Springbrook system have been centralized, and updated procedures for authorizing and periodically reviewing user access are in place.
8. Timely Removal of IT Access Privileges: Not corrected - Access controls for the City's Springbrook system have been centralized, and during the review, the database has been updated to only required personnel.
9. Anti-Fraud Policy: Not corrected - A comprehensive anti-fraud policy, including annual employee training, has been developed to aid in fraud detection and prevention.

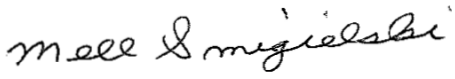
We are dedicated to implementing these changes promptly and effectively to enhance the integrity and efficiency of our operations. Should you have any questions or require further clarification, please feel free to contact us.

Thank you again for your invaluable recommendations.

Sincerely,



Richard Wolff
Mayor, City of Mexico Beach



Mell Smigielski
Administrator, City of Mexico Beach