

CITY OF HAMPTON



Operational Audit



## **COUNCIL MEMBERS, MAYOR, CHIEF OF POLICE, AND CITY CLERK**

The City of Hampton's Council Members, Mayor, Chief of Police, and City Clerk who served during the period October 2009 through March 2013 are listed below:

### Council Members

Myrtice McCullough, Chairperson and Acting Mayor (1)  
Layne Stone, Vice Chairperson (2)  
Charles Norris Hall  
Frantz Innocent  
David Parker

### Mayor

Vacant

### Chief of Police (3)

John Hodges

### City Clerk

Jane Hall (4)

Notes: (1) Acting Mayor since 2006.

(2) Resigned as Council Member on 4-9-13.

(3) Pursuant to Ordinance No. 99-02, the title of Chief of Police is synonymous with the title of Marshal.

(4) Resigned as City Clerk on 6-3-13.

The audit team leader was Anita Marlowe, CPA, and the audit was supervised Michael J. Gomez, CPA. Please address inquiries regarding this report to Marilyn D. Rosetti, CPA, Audit Manager, by e-mail at [marilynrosetti@aud.state.fl.us](mailto:marilynrosetti@aud.state.fl.us) or by telephone at (850) 412-2881.

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**CITY OF HAMPTON**

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**EXECUTIVE SUMMARY**

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Our operational audit of the City of Hampton disclosed the following:

**GENERAL MANAGEMENT CONTROLS AND OVERSIGHT**

**Finding No. 1:** Several findings included in the City's 2011-12 fiscal year annual financial audit report had been reported for many years without correction.

**Finding No. 2:** The City had not established written policies and procedures necessary to assure the efficient and consistent conduct of accounting and other business-related functions and the proper safeguarding of assets.

**Finding No. 3:** The City had not provided for an adequate separation of duties, or established adequate compensating controls, in most areas of its business functions.

**Finding No. 4:** Lax controls, inadequate accounting procedures and processes, and errors in recordkeeping contributed to apparent overpayments totaling \$8,258 to the former Clerk.

**Finding No. 5:** The City's records did not demonstrate that a public purpose was served for petty cash fund disbursements, and petty cash was not adequately safeguarded and accounted for.

**Finding No. 6:** Cash receipt forms used to account for collections were not properly accounted for.

**FINANCIAL CONDITION OF THE WATER FUND**

**Finding No. 7:** The City Council needed to establish a policy indicating minimum target levels of working capital funds to be maintained for the Water Fund.

**Finding No. 8:** Rates and charges for water service were not assessed and accounted for in accordance with adopted ordinances, and City records did not demonstrate that established rates and charges were appropriate and sufficient to cover the cost of providing water service. Also, adopted ordinances did not specify the safekeeping and handling of water deposits and advances.

**Finding No. 9:** Water customer accounts were not adequately identified and monitored to ensure accounts were billed and payments timely made. Our review disclosed at least \$11,354 of unbilled and uncollected water revenue.

**Finding No. 10:** The City's high rate of unaccounted for water loss was deemed unacceptable by the Suwannee River Water Management District.

**BUDGETARY CONTROLS**

**Finding No. 11:** For the 2010-11 and 2011-12 fiscal years' budgets, the City did not consider the effect of available fund balances in the General Fund or net assets deficits in the Water Fund from prior fiscal years, contrary to law. Additionally, the tentative and final 2011-12 fiscal year budgets were not provided to Bradford County for posting on its Web site, contrary to law.

**Finding No. 12:** The public safety department incurred budget overexpenditures for the past three fiscal years with no action taken by the City Council, and the General Fund's total budget was overexpended for two of the past three fiscal years. Additionally, the City Council was not provided periodic budget-to-actual comparison reports to monitor the 2009-10, 2010-11, and 2011-12 fiscal years' budgets.

**CASH IN BANK**

**Finding No. 13:** Bank account reconciliations were not adequately prepared or not prepared at all.

**Finding No. 14:** Bank agreements were outdated and not maintained in the City's records.

Finding No. 15: The City failed to file an annual public deposit information report with the State Chief Financial Officer, contrary to law.

#### PERSONNEL AND PAYROLL ADMINISTRATION

Finding No. 16: The City did not maintain personnel files to document personnel related actions taken. Additionally, position descriptions and standard pay grades or salary ranges were not established to specify minimum education and experience requirements and starting salaries for job openings.

Finding No. 17: Timesheets were not required for all employees to document time worked and leave taken, and unsupported additional compensation totaling \$4,136 was paid to the Water Utility Operator and former Clerk; the City Council had not adopted a formal leave policy, although one employee received \$2,573 of payments in lieu of using vacation; and our tests disclosed discrepancies between hours worked per time records and hours paid for police officers.

Finding No. 18: City officials' salaries were not set by ordinance, contrary to City charter, and the former Clerk was paid \$361 for unidentified and undocumented work. Additionally, payroll taxes were not withheld from Council members' salaries, contrary to Internal Revenue Service regulations.

Finding No. 19: The City paid the former Clerk's daughter and son for services that were not reported to the Internal Revenue Service, contrary to law.

Finding No. 20: The City Council had not adopted policies and procedures addressing the employment of relatives, and the City Council reappointed a City Council member's wife (former Clerk) as City Clerk while the City Council member was serving on the City Council, contrary to law.

#### PROCUREMENT OF GOODS AND SERVICES

Finding No. 21: The City Council had not adopted an ordinance or resolution, or otherwise provided guidance, as to the assignment and proper use of City credit cards and charge accounts. Nor did the City require users of the credit cards and charge accounts to sign written agreements specifying acceptable uses of credit cards and charge accounts. Additionally, credit card billing statements were not always appropriately approved for payment, and supporting receipts were not always retained in the City's records.

Finding No. 22: Our audit disclosed expenditures totaling \$27,517 for which the City's records did not clearly demonstrate that a public purpose was served.

Finding No. 23: The City Council had not established policies and procedures regarding employee use of City-assigned cellular telephones.

Finding No. 24: The City did not always utilize its sales tax exemption and failed to timely renew its sales tax exemption certificate, resulting in the City paying sales tax it could have avoided.

#### CONTRACTS

Finding No. 25: Contractual services were not evidenced by written agreements; therefore, the basis for contract payments was not evident in the City's records.

Finding No. 26: For the 2011-12 financial audit required by Section 218.39, Florida Statutes, the City did not establish an audit committee, did not competitively select the auditor, and did not include certain statutorily required provisions in the contract for audit services, contrary to law.

#### GRANT ADMINISTRATION

Finding No. 27: Grant expenditure reimbursements, totaling \$34,753, were claimed from the grantor prior to expending the moneys, contrary to the grant agreement.

#### MOTOR VEHICLES

Finding No. 28: The City Council had not established policies and procedures for the assignment of City-owned vehicles on a 24-hour basis. In addition, the City's records did not demonstrate that the assigned vehicles were used primarily for a public purpose and used only incidentally for the personal benefit of the employees assigned the vehicles. Vehicle usage logs were not maintained and the personal use

of the vehicles was not included in the employees’ gross compensation reported to the Internal Revenue Service. Also, automobile insurance on City vehicles was not consistently maintained.

**PUBLIC RECORDS**

**Finding No. 29:** The City’s public records were not adequately maintained and safeguarded, contrary to law.

**Finding No. 30:** City Council meetings were not properly noticed and meeting minutes were incomplete.

**Finding No. 31:** An ordinance containing a City charter amendment was not filed with the Florida Department of State, contrary to law.

**BACKGROUND**

The City of Hampton (City), located in Bradford County, was created by the Florida Legislature through the enactment of Chapter 10599, Laws of Florida, 1925. The City operates under a mayor-council form of government and provides services to its citizens including public safety, culture and recreation, water, and other general government activities. The estimated population of the City in 2012 was 477<sup>1</sup>.

The City had three full-time employees and one part-time employee as of March 31, 2013, which included the City Clerk, Chief of Police, Water Utility Operator, and a part-time Crossing Guard. The Chief of Police is elected every two years.

**FINDINGS AND RECOMMENDATIONS**

**General Management Controls and Oversight**

**Finding No. 1: Financial Accountability**

The Government Finance Officers Association (GFOA), in its publication *An Elected Officials Guide to Internal Controls and Fraud Prevention*, notes that an effective internal control environment will exhibit the following characteristics:

- Management is aware of the importance of internal controls and communicates this importance to employees;
- The government has a rational and well-defined organizational structure that clearly assigns responsibility and accountability to individual employees;
- Sound personnel policies and practices are in place;
- Management actively monitors operations and investigates discrepancies between actual performance and anticipated results; and
- The governing body oversees management on a continuing basis.

The City has provided for an annual financial audit pursuant to Section 218.39, Florida Statutes. Several findings included in the City’s 2011-12 fiscal year annual financial audit report had been reported for at least the past two preceding years, and some date back at least to the 2006-07 fiscal year. Such findings included inadequate separation of duties in the accounting department and lack of personnel to prepare financial statements in accordance with generally accepted accounting principles (GAAP). As further discussed in this report, we noted that these

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<sup>1</sup> *Florida Estimates of Population 2012*, University of Florida, College of Liberal Arts and Sciences, Bureau of Economic and Business Research.

deficiencies, along with a lack of accounting controls and policies and procedures, and a lack of documented oversight by management over many of the City's business operations, resulted in poor business practices and unreliable accounting records.

The failure to timely and effectively correct audit findings indicates a weak internal control environment, and increases the risk that errors or fraud may occur without timely detection.

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**Recommendation:**     **The City should ensure that audit findings are addressed in a timely manner.**

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**Finding No. 2: Written Policies and Procedures**

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Written policies and procedures, which clearly define the responsibilities of employees, are essential to provide both management and employees with guidelines regarding the effective, efficient, and consistent conduct of City business and the effective safeguarding of the City's assets. In addition, written policies and procedures, if properly designed, communicated to employees, and effectively placed into operation, provide management additional assurance that City activities are conducted in accordance with applicable laws, ordinances, and other guidelines, and that City financial records provide reliable information necessary for management oversight. Written policies and procedures also assist in the training of new employees.

Our review of the City's operations disclosed that the City did not have written policies or procedures for its accounting and other business-related functions. Written procedures were not available to document controls over budgets, revenues and cash receipts, cash management, issuance of credit memos on customer accounts, capital assets, personnel and payroll, procurement of goods and services, and grant administration.

While we recognize the City is small in size and has limited resources, the establishment of comprehensive, written policies and procedures is necessary to help prevent instances of noncompliance or inadequate internal controls, such as those discussed in subsequent findings.

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**Recommendation:**     **The City should adopt comprehensive, written policies and procedures that are consistent with applicable laws, ordinances, and other guidelines. In doing so, the City should ensure that the written policies and procedures address the instances of noncompliance and internal control deficiencies discussed in this report.**

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**Finding No. 3: Separation of Duties**

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Governmental organizations, to the extent possible with existing personnel, should separate duties so that no one employee has access to both physical assets and the related accounting records, or to all phases of a transaction. Failure to adequately separate duties increases the risk that errors or fraud could occur without timely detection.

Our review of the City's controls disclosed inadequate separation of duties as the City Clerk (Clerk)<sup>2</sup> was responsible for all phases of the City's financial transactions. The Clerk received collections, prepared deposits, took deposits to the bank, prepared checks, recorded all accounting transactions, and reconciled bank account statements to the accounting records. Although checks were countersigned by a City Council member in addition to the Clerk, the checks were returned to the Clerk for mailing. In addition, the Clerk added new employees to the payroll system, had

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<sup>2</sup> For purposes of this report, Clerk is referring to former Clerk Jane Hall, who resigned on June 3, 2013.

the ability to change pay rates for employees (including her own), prepared payroll, distributed payroll checks, and maintained custody of unclaimed payroll checks.

Although we recognize that the City has limited staff available, making it difficult to adequately separate these functions, some risk related to inadequate separation of duties can be mitigated through the implementation of compensating controls such as independent bank account reconciliations and an independent comparison of amounts that should have been collected to actual amounts collected and deposited. While the City had hired an independent accountant to assist with certain accounting functions, it did not prove to be an effective control, as discussed in finding No. 13.

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**Recommendation:** The City should ensure that adequate compensating controls, such as independent oversight and monitoring, are implemented to mitigate circumstances in which adequate separation of duties with existing employees is not possible.

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#### **Finding No. 4: Accounting Controls and Records**

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Accounting controls are methods and procedures implemented to ensure the validity and accuracy of financial records. A well-designed and properly maintained accounting system is necessary to provide information needed to timely prepare financial statements in conformity with GAAP.

The City charter required the Clerk to keep records showing all receipts and disbursements of moneys, and to keep a record of all checks issued in numerical order. The charter also requires the Clerk at each City Council regular meeting, and more often if required, to make a written report to the City Council showing a list of all outstanding checks and the cash balances on hand for each fund. However, contrary to the charter, City records did not evidence that such written reports were prepared or presented to the City Council.

The City maintained its accounting records over the past 13 years on a personal computer using commercial accounting software. According to the Clerk, she received no training on the use of the accounting software. The accounting software included check-writing capability integrated with the general ledger. Our review of the City's records and processes during the period October 2009 through March 2013 disclosed significant deficiencies with its accounting controls and errors in the accounting records that necessitated expansion of our audit procedures to include verifying accounting information from the City's checks paid by the bank rather than relying on the information recorded in the accounting records. Additionally, we extended our review of such banking information through June 2013. Deficiencies in accounting controls and errors in the accounting records were noted, as follows:

- **Incorrect Check Numbers.** Blank checks purchased by the City were prenumbered for accountability and control purposes. During the check writing process, as checks were run through the check printer, the accounting software assigned check numbers in the accounting records. The accounting software defaults to the next check number that has not been assigned; however, this number may be changed prior to printing checks. Because there may be occasions when checks are manually prepared and not yet recorded in the accounting records, or checks may be damaged in the check printing process, it may be necessary to change the check number the accounting software will assign to coincide with the preprinted check number. If not properly monitored, the software could assign an incorrect first check number to the check run causing the subsequent check numbers recorded in the accounting records to be out of sequence with the preprinted check numbers.

We noted many instances in which the preprinted number on the check did not agree to the check number recorded in the accounting records. Additionally, our review disclosed 65 instances in which the same check number was assigned to two separate check transactions, including one instance in which the same check number was assigned to three separate check transactions. Upon inquiry, the Clerk stated that she was

unfamiliar with the accounting software and did not know how to correct the problem. Having correct check numbers recorded in the accounting records is important for identifying outstanding checks for bank account reconciliations and for required presentations to City Council.

Our review of sequential check numbers recorded in the City's accounting records disclosed that 198 check numbers were missing in the accounting records or otherwise accounted for. Some of the missing check numbers may have represented checks damaged during the check writing process and not retained. However, a listing of such damaged checks was not evident in the City's records. Unaccounted for checks increases the risk of the checks being subsequently used in an unauthorized manner.

- **Voided Checks.** Checks damaged during the check writing process or canceled after issuance should be defaced and retained in a voided check file for accountability of the prenumbered checks. Simultaneously, the accounting records should be updated for voided checks to ensure that the accounting records are accurate and provide a history of check numbers in sequential order. Our review of the City's accounting records disclosed that 22 check numbers had been recorded as void in the accounting records; however, only 6 of the 22 checks were observed in the voided check file. Conversely, we noted 76 checks in the voided check file that were not recorded as a voided check transaction in the accounting records. Additionally, several of the voided checks had not been appropriately defaced, increasing the risk of the checks being subsequently used in an unauthorized manner. Keeping accurate records of voided checks is an important control to account for and safeguard prenumbered checks. Also, the timely recording of voided check transactions in the accounting records helps ensure accurate accounting information, including available cash balance.
- **Altered Check Transactions.** Our review of the City's bank account reconciliations and listings of outstanding checks disclosed an instance in which a check transaction recorded in the accounting records on December 6, 2011, was inappropriately altered subsequent to the issuance of the check. The check was originally written to a vendor but subsequently canceled and placed in the voided check file. However, rather than voiding the check transaction in the accounting records, the transaction was altered as to date and amount, but not payee. Meanwhile a check, not recorded in the accounting records, was issued by, and payable to, the Clerk with the same date and for the same amount as the altered transaction. The bank account reconciliation showed the unrecorded check as reconciled with the altered transaction and cleared. The check issued to the Clerk, in the amount of \$377, was a duplicate salary check; therefore, it appears the Clerk was overpaid this amount. As discussed in finding No. 3, the incompatible duties of recording information in the accounting records, writing checks, and reconciling bank account statements increases the risk that errors or fraud could occur without timely detection.
- **Replacement of Stale-dated Checks.** Checks issued that remain outstanding for long periods of time can become stale and need to be voided or replaced. The appropriate procedure for handling such transactions is to void the stale dated check in the accounting records to provide a history, and issue a new replacement check. From April 19, 2012, to May 9, 2013, the Clerk issued herself four replacement checks totaling \$13,748 for 52 stale-dated checks, some of which were originally dated in 2008. Our review of the 52 stale-dated checks disclosed the following:
  - None of the original checks were voided in the accounting records.
  - Twenty-one checks totaling \$2,538 were not originally payable to the Clerk, but were payable to five separate family members of the Clerk, who were also paid by the City. Therefore, it appears the Clerk was overpaid this amount.
  - Ten checks, totaling \$3,464, had been previously replaced by another check payable to the Clerk that was cashed. Therefore, it appears the Clerk was overpaid this amount.
  - Twenty-one checks totaling \$7,746 were outstanding salary checks payable to the Clerk. The Clerk stated that she held the checks because the City's bank account was experiencing cash flow problems. This amount appeared to be legitimately owed to the Clerk.

Two of the four replacement checks were not recorded in the accounting records. The City's bank account reconciliation showed the two unrecorded replacement checks as reconciled with the associated stale-dated



checks. However, handling the replacement check transactions in this manner incorrectly shows the stale-dated checks as being paid by the bank instead of showing the stale-dated check transactions as voided in the accounting records. Additionally, it omits recording the replacement checks in the accounting records. For the other two replacement checks, the checks were recorded in the accounting records; however, because the original checks were not voided in the accounting records, the associated expenses were recorded twice.

- **Duplicate Salary Checks.** Payroll is prepared weekly by the Clerk for all employees. Our review of salary checks disclosed that five salary checks issued to the Clerk totaling \$1,879 were duplicate salary checks representing overpayments to the Clerk. Upon inquiry, the Clerk could not provide an explanation for the duplicate salary checks.
- **Deposit of Water Customer Payments.** City water customers submitted payments for water service to the City either in person or by mail. Our review of water customer payments disclosed that, as of July 31, 2013, 16 customer payment batches dating back to May 2007 and totaling \$10,282 were not deposited in the City's bank account. According to the Clerk, she and other employees sometimes "cashed" their paychecks by using cash receipts from water customers and she later returned the cash to the Water Fund after cashing a check she had written to herself as a replacement for stale dated checks (see previous discussion under the subheading **Replacement of Stale-dated Checks**); however, records were not maintained to evidence the handling of these transactions. Additionally, in response to our request for documentation regarding the missing deposits, the Acting Mayor stated that the money was used for petty cash purposes, including drug sting operations, and never paid back (see related discussion in finding No. 5.) Further, we noted two deposits totaling \$867 in the bank account statements that were not recorded in the accounting records.
- **Adjustments to Water Customer Accounts.** The Clerk issued credit memos to adjust water customer accounts for various reasons, including correction of billing errors, write-off of uncollectible accounts, and adjustments for insufficient funds checks. The City had no procedures for documenting the authorization or reason for issuing credit memos, and City records did not evidence the reason for the 190 credit memos totaling \$10,947 issued to water customer accounts from October 2009 through June 2013. Further, credit memos issued by the Clerk did not evidence review and approval by supervisory personnel.

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**Recommendation:** The City should ensure that written reports showing a list of all outstanding checks and cash balances on hand for each fund are provided to the City Council as required by the City charter. The City should also ensure that accounting personnel are properly trained on the use of its accounting software; transactions are appropriately recorded in its accounting records; and prenumbered checks are safeguarded, used in sequential order, and accounted for. In addition, the City should review the apparent overpayments to the Clerk totaling \$8,258 and enter into its records the basis for the payments or recover such overpayments from the Clerk. Finally, the City should establish written policies and procedures that ensure that water customer credit memos issued are supported, reviewed, and approved by supervisory personnel.

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#### **Follow-up to Management's Response**

*In her response, the Acting Mayor provided a spreadsheet from the City's external auditor for the 2011-12 fiscal year purporting to show that there were no overpayments to the Clerk. However, our audit included payments to the Clerk from October 2009 to June 2013, while the spreadsheet only shows payments to the Clerk for the 2011-12 fiscal year (i.e., October 2011 to September 2012), and does not show the relationship of these payments to other payments made to the Clerk prior and subsequent to the 2011-12 fiscal year. Additionally, the Acting Mayor indicated that the City has since been provided statements from each of the Clerk's family members stating that they were paid and the City does not owe them as indicated in the audit finding. However, our finding does not state that the City owes the Clerk's family members but that the Clerk used the family members' stale-dated checks partly as a basis for issuing herself a replacement check.*

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**Finding No. 5: Petty Cash**

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The purpose of a petty cash fund is to have a small amount of cash available from which to make payments for items such as delivery charges, postage stamps, or inexpensive office supplies. The City established a petty cash fund of \$200.

The City did not safeguard the cash or account for petty cash expenditures. Petty cash was commingled with cash receipts from water customer payments, and kept in an improperly secured desk drawer accessible by multiple City employees. The Clerk stated that petty cash was used for the public safety department's drug sting activities and small purchase items such as postage; however, the City did not maintain a record or receipts to support the use of petty cash or the amount of actual petty cash on hand.

Cash is highly susceptible to misappropriation and theft when it is not adequately safeguarded, and its use is not appropriately authorized and documented.

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**Recommendation:** The City should ensure that petty cash is adequately safeguarded, records are kept as to its use and the amount on hand, and documentation is maintained to support the propriety of all petty cash disbursements.

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**Finding No. 6: Cash Receipt Forms**

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Prenumbered cash receipt forms provide a means for documenting amounts collected by employees, fixing responsibility for such amounts, and determining that amounts collected are subsequently recorded to the accounting records and deposited in the bank.

Our review disclosed that during the period October 2009 through March 2013, the City used seven separate prenumbered cash receipt books, most of which contained 200 two-part receipts. The top part of the receipt (original) was given to the person remitting the money, while the bottom part (carbon copy) of the receipt was retained in the receipt book as a record of collections. Our examination of the cash receipt books disclosed that prenumbered cash receipts were not effectively used to document money collected and fix responsibility for such amounts, as noted below:

- Cash receipt books had not been properly maintained and accounted for, or kept in a secure place to prevent unauthorized use. More than one cash receipt book had been used simultaneously without distinction as to their use, such as for business license fees or water customer payments.
- Sixty-four receipts in one receipt book had been completely removed (i.e., original and carbon copy) without explanation. Consequently, a complete record of cash receipts may not have been evident in the City's records.
- Cash receipts were not used in consecutive order and, in some cases, the bottom part of receipts retained in the cash receipt book were blank.
- Many cash receipts were indecipherable due to poor handwriting or failure to include a protector sheet between receipt pages, causing an overlay of multiple cash receipts on a single receipt.
- Receipt numbers were not recorded in the accounting records to document water service payments by customers, preventing the City from reconciling cash receipts issued to deposits.

The improper use of prenumbered cash receipts diminishes their effectiveness as a control and increases the risk that errors, fraud, and theft may occur without timely detection.

**Recommendation:** The City should ensure that prenumbered cash receipts are used in sequential order, and complete, legible, carbon copies retained in the cash receipt book. Additionally, cash receipt numbers should be recorded in the accounting records.

**Financial Condition of the Water Fund**

The City owns and operates a public water system. According to City records, the City had a total of 250 water meters, which included 14 commercial connections as of March 2013; however, 70 of the 250 water meters were inactive.

**Finding No. 7: Financial Condition of Water System**

The GFOA, in its best practice publication titled *Appropriate Levels of Working Capital in Enterprise Funds*, recommends that local governments adopt a target amount of working capital to maintain in each enterprise fund and include such targets in a formal financial policy or plan. The GFOA further recommends that to arrive at the target amount, local governments should start with a baseline of 90 days of working capital and adjust the target based on the particular characteristics of the enterprise fund (using 45 days as the minimum acceptable level). In its best practice advisory, the GFOA presents various characteristics that should be considered.

The City Council had not established a policy indicating a minimum target level of working capital funds that should be maintained for the water services enterprise fund (i.e., Water Fund). Additionally, using the minimum acceptable level of 45 days and the 2011-12 fiscal year Water Fund operating expenses, the City should have had a minimum amount of working capital of \$12,140 as of September 30, 2012; however, the City reported \$4,683 of working capital in its Water Fund as of September 30, 2012. As shown in Table 1, for the past five fiscal years, the Water Fund has reported net operating losses and unrestricted net assets deficits. Loans from the General Fund have been necessary to fund operations in the Water Fund and, as of September 30, 2012, the Water Fund owed \$173,576 to the General Fund.

**Table 1**

<b>Water Fund</b>					
<b>Net Assets Deficits and Operating Losses</b>					
<b>for Past Five Fiscal Years</b>					
	<b>Fiscal Year</b>				
	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>
Unrestricted Net Assets (Deficit)	(68,592)	(106,552)	(136,510)	(130,807)	(157,326)
Water Sales	45,257	37,775	47,621	51,732	53,454
Less: Operating Expenses	68,678	71,462	72,353	67,898	69,263
Operating Income (Loss) Before Depreciation	(23,421)	(33,687)	(24,732)	(16,166)	(15,809)
Less: Depreciation	32,450	32,450	32,258	25,119	29,202
Operating Income (Loss) After Depreciation	(55,871)	(66,137)	(56,990)	(41,285)	(45,011)

Source: Audited Financial Statements

As further discussed in finding Nos. 8, 9, and 10, there are several factors that contributed to the Water Fund's poor financial condition, including failure to: establish water rates that are sufficient to make the Water Fund self-sustaining; charge the rates adopted by ordinance; bill all water customers; collect on outstanding water bills; and identify all unaccounted for water.

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**Recommendation:** The City Council should establish a policy indicating a minimum target level of working capital funds to be maintained for the Water Fund.

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**Finding No. 8: Fees and Charges for Water Service**

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City Ordinance 2009-1 (ordinance), effective June 1, 2009, established the rates and charges for furnishing City water service, and repealed all prior ordinances addressing water service. Our review of the City's implementation of the ordinance for the period October 2009 through March 2013 disclosed the following:

- **Water Rates.** The ordinance provided for a fixed charge of \$25 per month for water usage up to 3,000 gallons. For every 1,000 gallons or portion thereof over 3,000 gallons, an additional \$2 was to be charged. Additionally, pursuant to the ordinance, effective October 1, 2010, and on each October 1<sup>st</sup> thereafter, the base water rate for 3,000 gallons of usage was to increase \$1 to cover increases for fuel and operation costs unless waived by the City Council. The rates established in the ordinance were not supported by rate studies or other analyses to support the reasonableness of the rates. In addition, contrary to the ordinance, base water rates were not properly assessed, as follows:
  - From October 1, 2010, through November 30, 2011, base water rates remained at \$25 per month instead of increasing to \$26. City records did not evidence a waiver by the City Council.
  - As of December 1, 2011, base water rates increased to \$28 per month. However, according to the ordinance, the monthly rate should have been \$27.
- **Service Disconnection and Reconnect Fees.** The ordinance provided for monthly billings and required payments to be made by the 25<sup>th</sup> of the month, but did not specify when service would be disconnected for nonpayment. The ordinance provided that when water service was discontinued or terminated for any reason, including nonpayment, a \$25 reconnect fee must be paid in advance to reinstate service. Nonpayment included, but was not limited to, dishonored checks. Our review disclosed that the City was inconsistent in disconnecting water service for nonpayment and, contrary to the ordinance, the City did not charge a reconnect fee when applicable.
- **Nonresident Surcharge.** The ordinance provided that a 15 percent surcharge would be applied to water services outside the City limits. However, our review disclosed that the City did not impose such a surcharge. Although there were only a few water customers located outside the City limits, City's records did not evidence the reason for not applying the surcharge.
- **Tap Application Forms.** Although the ordinance required that all connections to the City's water system be applied for on a tap application form furnished by the City, our inquiry with the Clerk disclosed that she was unaware of this requirement and did not require water customers to complete such a form. The tap application constitutes a contract between the applicant and the City, and specifies the water meter service location. Establishing and maintaining such forms helps to assure the City that it has a complete listing of all water customers in its records.
- **Security Deposits.** The ordinance provides that advance payment for water service or a deposit (security deposit) was required for each building at the time of a service application. However, the ordinance did not specify the amount of the security deposit, how such moneys should be accounted for, or when and how the moneys should be returned to water customers. The City required a \$50 security deposit for new water customers and collected \$900 from October 2009 through March 2013. We also noted that the City deposited the moneys in the Water Fund's operating account without establishing a reserve for these moneys

resulting in the moneys being available for operations instead of restricting the moneys for return to the water customer at the appropriate time.

The lack of a rate study or other analyses to support the basis of the water rates established by the City, and failure to assess and collect required fees and charges, contributed to the inadequate funding of the water system operations.

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**Recommendation:** The City should obtain a rate study or conduct other analyses to ensure that water rates are sufficient to cover the costs of providing water services. The City should also ensure that water customers are assessed the appropriate fees and charges. In addition, the City Council should amend Ordinance No. 2009-1 to specify the security deposit amount for new water customers, the manner in which security deposits should be accounted for, time frames for returning security deposits to water customers, and time frames within which monthly water bills must be paid before service is terminated for nonpayment. Further, the City should ensure that tap application forms are used to establish water customer accounts in the City's records along with related security deposits.

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### **Finding No. 9: Water Customer Accounts and Billings**

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A comprehensive, master listing of all water meter locations and the associated water customer accounts is an important control to ensure that all water meters are identified for reading and all water customer accounts are billed.

The City did not maintain a master listing of water meter locations. City personnel manually read water meters on a monthly basis, recording the readings in a log book. Upon completion of the meter readings, the log book was provided to the Clerk for preparing the individual customers' water bills. However, the City did not have a procedure for ensuring that all water customers were billed each month. In addition, the City did not have a procedure for reconciling water pumped from the system to water billed to ensure that water in total was billed; although, as further discussed in finding No. 10, the City cannot account for all water pumped due to leaking pipes, faulty meters, and unmetered uses.

Our review of selected water customer accounts and billings from October 2009 through March 2013 disclosed the following:

- According to City records, one of the City's largest commercial water customers, an elder care center, had not been billed for water service since its existence in 2007. In response to our inquiry, the Clerk stated that the customer's account may have been dropped from the accounting records when the City experienced computer problems. Our estimate of unbilled water service to this customer was \$10,000 as of March 2013.
- Our analysis of monthly billings for 13 customers for the period October 2009 through March 2013 disclosed a total of 17 months of water service were not billed to 3 City Council members, and a total of 21 months of water service were not billed to 7 other water customers, 3 of which were commercial customers. In response to our inquiry, the Acting Mayor said that sometimes the accounting software skips accounts and changes dates. The Acting Mayor also stated that in 2011 the City had computer problems and lost records.
- Our test of monthly billings to 34 customers for the period October 2009 through May 2013 disclosed 149 monthly water bills for 31 water customers were under-billed, resulting in \$1,354 of lost revenue. Almost half of the under-billings (\$662) pertained to the Hampton Elementary School.

For 9 of 13 water customer accounts analyzed, we noted large gaps between payment dates (ranging from 3 to 14 months). Some of these gaps may have been contributed to by the inconsistency in customer billings as discussed above. In response to our request for procedures used to collect from customers that do not make timely payments, City personnel stated that there was no strict cut-off policy, and that customers usually catch up on their payments when their water is scheduled to be turned off. However, as noted in finding No. 8, City Ordinance 2009-01 (ordinance) required that payments for water services be made by the 25<sup>th</sup> of the month, and the City's collection procedures should be adequate to ensure compliance with this requirement.

Absent the use of a master listing of water meter locations indexed to customer accounts for controlling meters read and accounts billed, the City has limited assurance that readings are being taken for all meters and all water accounts are being billed. Additionally, absent the monitoring of bill payments, the City has limited assurance that fees and charges are received from water customers in accordance with the ordinance and that it is receiving all revenue needed to cover the costs of operating the water system.

**Recommendation:** The City should establish a master listing of water meter locations indexed to customer accounts for use in controlling the water meters read and accounts billed. The City should also review the history of water billings to identify unbilled accounts and seek to recover unpaid fees and charges from applicable water customers to the extent permitted by law. Additionally, the City should establish adequate collection procedures to ensure that water customer payments are received in a timely manner or service is disconnected.

**Finding No. 10: Unaccounted for Water**

The Suwannee River Water Management District (SRWMD) manages water and related natural resources of the region of the State that includes the City by providing water quality and quantity monitoring, research, regulation, land acquisition and management, and flood protection. Additionally, one of the responsibilities of the SRWMD is to issue water use permits. Our review of documentation supporting the five-year water use permit issued to the City in June 2011 disclosed that the City had a high rate of unaccounted for water (46 percent of all water pumped) caused by leaking pipes, faulty meters, and unmetered uses.

One of the conditions of the 2011 water use permit issued by the SRWMD was that prior to renewal in June 2016, the City must provide the SRWMD with a plan and implementation schedule to reduce unaccounted for water to a level of 10 percent or less by detecting and correcting leaky pipes, replacing faulty meters, reducing nonmetered uses, or other appropriate means. In response to our inquiries regarding the City’s efforts toward reducing unaccounted for water, the City provided a contract for the replacement of some service lines, pumps, and a generator using Federal grant funds during the 2011-12 fiscal year.

Absent the identification of unaccounted for water, the City is unable to ensure whether the appropriate amount of water is being billed.

**Recommendation:** The City should continue its efforts to reduce unaccounted for water to an acceptable level.

**Budgetary Controls**

**Finding No. 11: Budget Preparation and Adoption**

Section 166.241(2), Florida Statutes, requires the governing body of each municipality to adopt a budget each fiscal year and provides that the amount available from taxation and other sources, including balances brought forward from prior fiscal years, must equal the total appropriations for expenditures and reserves. Also, effective for the 2011-12 fiscal year, Section 166.241(3), Florida Statutes, requires a municipality to post on its Web site the tentative and final budgets within 30 days after adoption. If the municipality does not operate an official Web site, the municipality must, within a reasonable period of time as established by the county in which the municipality is located, transmit the tentative budget and final budget to the manager or administrator of such county who shall post the budgets on the county’s Web site.

Contrary to law, the City’s 2010-11 and 2011-12 fiscal year budgets did not consider the effect of available fund balances in the General Fund or the net assets deficits in the Water Fund from prior fiscal years, as follows:

- For the 2010-11 fiscal year budget, the City budgeted a balance forward in the amount of \$3,000 for the General Fund when the available fund balance was \$169,634; and budgeted a balance forward of \$3,000 for the Water Fund when the net assets balance showed a deficit of \$129,185.
- For the 2011-12 fiscal year budget, the City budgeted a balance forward in the amount of \$3,000 for the General Fund when the available fund balance was \$167,542; and budgeted a balance forward of \$3,500 for the Water Fund when the net assets balance showed a deficit of \$146,893.

Additionally, the tentative and final 2011-12 fiscal year budgets were not provided to Bradford County for posting on its Web site (the City had no Web site), contrary to law.

Failure to properly consider amounts available from prior fiscal years diminishes the City’s ability to determine appropriate increases or decreases in revenues or expenditures that may be needed for the fiscal year budgeted. If amounts carried forward from prior fiscal years are significantly overestimated, the planned level of expenditures may significantly exceed the funding available to pay incurred expenditures and reserves. If amounts carried forward from prior fiscal years are significantly underestimated, the planned level of expenditures may be significantly less than required to maintain necessary services.

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**Recommendation:** The City should appropriately consider all available amounts from prior fiscal years in the preparation of its budgets and provide its tentative and final budgets to the county for posting to its Web site as required by law.

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**Finding No. 12: Budget Overexpenditures**

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Section 166.241(2), Florida Statutes, provides that the budget must regulate expenditures of the municipality and that it is unlawful for any officer of a municipal government to expend or contract for expenditures in any fiscal year except in pursuance of budgeted appropriations. According to the GFOA’s publication *Recommended Budget Practices of the National Advisory Council on State and Local Budgeting* (1998), regular monitoring of budgetary performance provides an early warning of potential problems, gives decision makers time to consider actions that may be needed if major deviations in budget-to-actual results become evident, and is essential to demonstrating accountability.

In the City’s 2009-10, 2010-11, and 2011-12 fiscal years financial audit reports, the City’s external auditor noted that the City did not use the adopted budget to control expenditures and the City Council was not provided periodic budget-to-actual comparison reports. As shown in Table 2, our review of the City’s budget-to-actual comparisons for the 2009-10, 2010-11, and 2011-12 fiscal years disclosed that although traffic ticket revenues exceeded the City’s estimates, the budgeted appropriations for public safety were significantly overexpended in all three fiscal years.

**Table 2**

Fiscal Year	Traffic Ticket Revenue			Public Safety Expenditures		
	Budget	Actual	(Over)Under	Budget	Actual	(Over)Under
2011-12	\$180,000	\$211,382	(\$31,382)	\$159,000	\$203,278	(\$44,278)
2010-11	170,000	234,746	(64,746)	159,700	268,263	(108,563)
2009-10	132,000	170,060	(38,060)	106,000	174,065	(68,065)

Source: Audited Financial Statements

Notwithstanding that traffic ticket revenues were unrestricted as to their use, the City relied on this funding source for its public safety expenditures. However, this funding source was insufficient for the 2009-10 and 2010-11 fiscal years. Further, the General Fund was overexpended in total for the 2010-11 and 2011-12 fiscal years by \$174,179 and \$27,759, respectively.

The lack of timely budgetary data clearly presenting the City’s financial condition leaves the City Council without information necessary to gain an understanding of the City’s financial status, and could lead to instances of financial mismanagement, including denying expenditures when funds are available, authorizing purchases when funds are not available, and not identifying or remedying critical budget shortfalls in a timely manner.

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**Recommendation:** The City should enhance its budgetary procedures to ensure that expenditures are limited to budgeted amounts as required by law. The City should also ensure that the City Council is periodically provided budget-to-actual comparison reports for monitoring budgeted and actual expenditures.

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<b>Cash in Bank</b>
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**Finding No. 13: Bank Account Reconciliations**

Effective internal controls require that reconciliations of bank account balances to the accounting records be performed on a timely, routine basis. Such reconciliations are necessary to provide reasonable assurance that cash assets agree with recorded amounts, permit prompt detection and correction of unrecorded and improperly recorded cash transactions or bank errors, and provide for the efficient and economic management of cash resources.

While the City maintained six bank accounts, it primarily used two bank accounts for its operations. Total cash held on deposit in the two operating accounts at September 30, 2012, was \$2,872. In the City’s 2009-10, 2010-11, and 2011-12 fiscal years financial audit reports, the City’s external auditor noted that bank account reconciliations were not always performed in a timely manner, and some transactions that had not cleared the bank were so old they are unlikely to ever clear the bank.

Our review of the City’s bank account reconciliations from October 2009 through June 2013 for the General and Water Funds operating bank accounts disclosed that the City could not locate five monthly bank account reconciliations for the General Fund and four monthly bank account reconciliations for the Water Fund. Further, as discussed in finding No. 4, we noted numerous issues involving the inaccuracy of check numbers recorded in the accounting records, voided checks, stale-dated checks, and unrecorded checks that resulted in inaccurate bank account reconciliation detail. Although the Clerk stated that an outside accountant was used to assist her in preparing or reviewing bank account reconciliations, the circumstances described in finding No. 4 made reconciling the City’s bank account balances to the accounting records unnecessarily complex.

During the period October 2009 through June 2013, we identified ten checks, totaling \$3,443, drawn on the General Fund operating account, and four checks, totaling \$2,588, drawn on the Water Fund operating account, in which the City had insufficient funds in its bank accounts to cover the checks. Although the bank honored these checks, the City incurred overdraft fees totaling \$605. The overdrafts may have occurred because of late or inaccurate bank account reconciliations.

As noted in finding No. 4, upon inquiry, the Clerk stated that she was unfamiliar with the accounting software and did not know how to correct the problem with incorrect check numbers being assigned in the accounting records. Given these and other control deficiencies disclosed in this report, such as the inadequate separation of duties and lack of



controls over collections discussed in finding Nos. 3 and 6, respectively, there is an increased risk that errors or fraud could occur without timely detection.

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**Recommendation:** The City should ensure that bank account reconciliations are timely and properly prepared, and the City's bank account balances are monitored to avoid overdraft fees.

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#### **Finding No. 14: Bank Agreements**

Arrangements for banking services should be evidenced by a written agreement embodying all provisions, conditions, and costs of such services. The use of a formal written agreement protects the interests, and identifies the responsibilities, of both parties.

In response to our request for copies of the City's bank agreements, the Acting Mayor obtained copies from the bank, since none could be located in the City's records. Our review of the bank agreements disclosed that four of six agreements not updated since April 2007, and one agreement not updated since July 2003, contained outdated authorized signatures on the accounts. Subsequent to our inquiry, the City obtained new agreements for all bank accounts; however, we noted that the new agreements required only one authorized signature to transact business, contrary to current practice. Subsequent to bringing this matter to the City's attention, we were provided with copies of corrected agreements that require two signatures for all banking transactions.

Maintaining updated bank agreements in the City's records helps ensure that banking transactions are handled in the manner prescribed by City Council.

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**Recommendation:** The City should retain copies of all bank agreements, and ensure the agreements are periodically reviewed and updated, as appropriate.

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#### **Finding No. 15: Public Deposit Accounts**

Section 280.17 Florida Statutes, provides that each public depositor must execute a form prescribed by the State Chief Financial Officer (CFO) for identification of each public deposit account and obtain acknowledgment of receipt on the form from the qualified public depository at the time of opening the account; maintain the current public deposit identification and acknowledgment form as a valuable record; confirm annually that public deposit information as of the close of business on September 30 has been provided by each qualified public depository and is in agreement with public depositor records; and submit annually, not later than November 30, a report of public deposit accounts to the CFO. Contrary to this law, City records did not evidence public deposit account acknowledgment forms, annual confirmations regarding public deposit information, or submittal of the annual reports to the CFO. Upon inquiry, City personnel stated that they were unaware of the requirements.

Failure to obtain and retain a current public deposit identification and acknowledgment form precludes the City from filing a claim with the CFO upon default or insolvency of a qualified public depository. Further, if a public depositor does not comply with Section 280.17, Florida, Statutes, on each public deposit account, the protection from loss provided in Section 280.18, Florida Statutes, is not effective as to that public deposit account.

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**Recommendation:** The City should ensure compliance with the law regarding public deposit accounts.

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<b>Personnel and Payroll Administration</b>
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Excluding the elected Chief of Police, the City employed between 3 and 12 employees, depending on the size of its police force, during the period October 2009 through March 2013. The City's police force relied on the Bradford County Sheriff's Office for various support services such as dispatch and communication services, use of the County jail to house prisoners or arrestees, and access to Florida Crime Information Center and National Crime Information Center (FCIC/NCIC) data. According to correspondence provided to us by the Bradford County Sheriff, the City's Chief of Police was notified November 28, 2012, that the County-provided support services would no longer be provided to the City due to the City's failure to sign a user agreement relating to access to FCIC/NCIC data and failure to provide a roster of current City law enforcement officers. Subsequently, the City reduced its police force to just the Chief of Police.

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### **Finding No. 16: Hiring Practices**

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Effective control over the hiring of new employees includes adoption of position descriptions that specify minimum education and experience requirements, verification of employment history and educational experience prior to offering employment, and maintenance of personnel files that include completed applications, letters of reference, college transcripts (if applicable), and other appropriate documentation evidencing authorized personnel actions. Additionally, the adoption of standard pay grades or salary ranges for each position provides information to those seeking employment, and salary standards for those hired.

Our review of personnel records for the nine employees, including six police officers, hired from January 2010 through May 2013, disclosed the following:

- City records did not evidence personnel files for three (all police officers) of the nine employees. Personnel files provide a central location for all personnel-related documents and records.
- The City Council did not establish position descriptions specifying the minimum education and experience requirements. Candidates for positions were hired based on requirements included in job advertisements, which may be inconsistently applied without a City Council approved position description.
- The City Council did not establish standard pay grades or salary ranges for each position. An established salary or salary range is important to ensure that salaries are paid to employees in accordance with City Council's intent.
- Documentation reflecting original appointment and starting salary were not used. According to the Acting Mayor, the Mayor (for City staff) and the Chief of Police (for police force) provided verbal instructions to the Clerk regarding position and rate of pay of all new hires. Such documentation is necessary to avoid disputes that may arise regarding employee compensation and retirement benefits.
- City records did not evidence employment applications for four (all police officers) of the nine employees included in our review, including three police officers for which City records did not evidence documentation or verification that the officers met the minimum requirements provided for in Section 943.13, Florida Statutes, or received authorized exemptions. In these circumstances, there is an increased risk that an employee may be hired that lacks the minimum qualifications.

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**Recommendation:** To provide for efficient and effective personnel administration, the City Council should adopt position descriptions that specify minimum education and experience requirements and establish standard pay grades or salary ranges for each position. Also, the City should maintain personnel files that include employment applications, documentation that employees meet required education and experience requirements, and evidence of personnel actions.

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**Finding No. 17: Attendance and Leave Records**


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Maintaining a time record is important to document hours worked and leave taken for all employees, whether salaried or hourly-paid, and provides the basis for issuing a payroll check. Similarly, leave records document the earning and using of sick, vacation, and administrative leave, as appropriate, for the City.

Our review of attendance and leave records disclosed the following:

- With the exception of police officers, time records were not required to be completed by employees. Without documentation of attendance and leave taken, the City's records did not evidence the basis for issuing payroll checks. Upon inquiry, the Clerk stated that time records were not required because the employees were salaried positions. However, notwithstanding the designation of a salaried position, time records are necessary for all employees to document time worked.
- We noted that from October 2009 through June 2013, the Water Utility Operator received eight extra salary checks totaling \$2,626 and the Clerk received additional compensation, totaling \$1,510, for overtime pay. However, since time records were not utilized, City records did not evidence the basis for paying this additional compensation, nor did City records evidence supervisory approval of the additional compensation.
- The City Council had not adopted a formal leave policy for City employees and no employee leave records were established and maintained. However, we noted that from October 2009 through June 2013, the Water Utility Operator received five extra salary checks totaling \$2,573 for payments in lieu of vacation. City records did not evidence the basis, or supervisory approval, for such payments.
- Our test of 16 weekly pay periods for police officers disclosed that weekly time records for 3 pay periods were not evidenced by the City's records, and the hours reported as worked did not agree with the hours paid for 4 pay periods, indicating that four police officers were overpaid a total of \$465. It is important that time records be verified and used as the basis for calculating salary payments.

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**Recommendation:** The City should require that time records be prepared by all employees to document hours worked and leave taken. Also, time records should be verified and used as the basis for preparing the payroll. Additionally, the City Council should formally adopt a leave policy for its employees, and ensure that such policy is communicated to, and complied with by, its employees. Further, the City should take action, as appropriate, to recover the overpayments disclosed by our audit.

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**Finding No. 18: Clerk and City Council Members' Compensation**


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Article II, Section 4, of the City charter requires the salaries of the Clerk and City Council members to be fixed by ordinance. Additionally, these salaries are not to be changed during the term for which the City Council members have been elected and the Clerk appointed. Our review of the Clerk and City Council members' salaries for the period October 2009 through June 2013 disclosed that, contrary to the City charter, salaries were not set by ordinance. We noted that salaries were paid as discussed below:

**City Clerk.** The Clerk was paid a weekly salary of \$400 for work during the City's hours of operation, which was 10:00 a.m. to 2:00 p.m. The Clerk was paid an additional monthly check of \$320 for attending and preparing minutes at the monthly City Council meetings. We noted two checks paid to the Clerk totaling \$361 in December 2011 and February 2012, which did not match the amount of the Clerk's weekly salary checks or her monthly City Council meeting checks. City records did not evidence the basis for these payments and, upon our inquiry, the Clerk indicated that she was not sure what the checks represented.

**Council Members.** A determination as to whether an individual is an employee or an independent contractor is important to properly report compensation to the Internal Revenue Service (IRS) for the individual. Certain laws

apply when an individual serves in the role of an employee rather than an independent contractor. For example, compensation to independent contractors is not subject to withholding for employment taxes, whereas compensation to employees is subject to withholding for employment taxes, such as Federal Insurance Contributions Act (FICA) and Medicare employment taxes. Pursuant to Section 3401 of the Internal Revenue Code, “the term employee includes an officer, employee, or elected official of the United States, a State, or any political subdivision thereof.” Further, the IRS, in Chapter 4 of its Federal-State Reference Guide (IRS Publication 963), has indicated that because an elected official is responsible to the public and usually can be removed by the public or a superior, the elected official does not have the freedom from supervision that is characteristic of an independent contractor. As such, City Council members should be considered employees and be subject to required withholding and payment of FICA and Medicare employment taxes.

During the period October 2009 through March 2013, City Council members were paid \$125 monthly. However, contrary to Section 3401, Internal Revenue Code, City Council members were treated as independent contractors beginning January 2011 rather than employees and, as a result, no employment taxes were withheld or paid after December 2010.

Pursuant to Section 3509 of the Internal Revenue Code, if any employer fails to deduct and withhold FICA taxes with respect to any employee by reason of treating such employee as not being an employee, the employer is liable for the taxes. Therefore, as a result of incorrectly classifying the Council members as independent contractors, the City may be liable for unpaid employment taxes.

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**Recommendation:** As required by the City charter, compensation of the Clerk and the City Council should be fixed by ordinance. Also, the City should treat City Council members’ compensation as employees rather than independent contractors, and contact the IRS to determine what corrective action, if any, should be taken regarding unpaid employment taxes. In addition, the City should review the questioned payments to the Clerk totaling \$361 and enter into its records the basis for the payments or recover such payments from the Clerk.

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#### Follow-up to Management’s Response

*In her response, the Acting Mayor indicated that the basis for our statement that the Clerk was overpaid by a total of \$361 was unclear. As indicated in our finding, we observed two payments totaling \$361 to the Clerk that did not match the Clerk’s weekly salary check or her monthly City Council meeting check and, upon inquiry, the Clerk indicated that she was not sure what the checks represented. Additionally, the Acting Mayor indicated in her response that the independent financial audit of the City’s finances did not reveal such overpayments to the Clerk. However, the objective of that audit was to express an opinion on the fairness of the City’s financial statements and, as such, that audit would not necessarily include a review of such payments.*

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#### **Finding No. 19: Employee/Independent Contractor Status**

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IRS regulations require employers to make a determination of whether a worker is an employee or independent contractor for income tax reporting purposes. If the worker is determined to be an employee, appropriate payroll taxes are withheld, and a Form W-2 is issued to the employee at year end. If the worker is considered to be an independent contractor, payroll taxes are generally not withheld, and a Form 1099 is issued at year end, if income is at least \$600.

The City paid the Clerk’s daughter and son the amounts of \$3,800 and \$1,140, respectively, in 2011, and \$2,314 and \$680, respectively, in 2012. City records did not evidence that payroll taxes or deductions were applied to these moneys, or appropriate tax forms, such as Form 1099, were provided to the workers or the IRS for the 2011 or 2012 calendar years. The Clerk stated that her daughter and son worked on an as-needed basis for the City doing miscellaneous tasks; however, the frequency of the worked performed does not relieve the City of its responsibility to properly treat these workers as either employees or independent contractors in accordance with IRS regulations. As discussed in finding No. 17, time records were not required for employees other than police officers.

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**Recommendation:** The City should contact the IRS to determine what corrective action, if any, should be taken regarding unreported payments and possible unpaid employment taxes. Additionally, the City should document in its records its determination of whether workers are employees or independent contractors, and apply the appropriate IRS regulations.

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**Finding No. 20: Employment of Relatives**

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Pursuant to Section 112.3135(2)(a), Florida Statutes, an individual may not be appointed, employed, promoted, or advanced in or to a position in the City if such appointment, employment, promotion, or advancement is made by a collegial body of which a relative of the individual is a member.

The City Council had not adopted policies and procedures addressing the employment of relatives. During our audit, we noted that the Clerk’s husband had been a City Council member since 2006. Contrary to the above law, the Clerk’s husband was serving as a member of the City Council when, in 2009, his wife was reappointed as Clerk, notwithstanding that the City Council member abstained from voting on his wife’s reappointment.

The lack of City Council adopted policies and procedures addressing the employment of relatives, and the practice of employing relatives of City officials, increases the risk of an employment relationship contrary to Section 112.3135(2)(a), Florida Statutes.

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**Recommendation:** The City Council should adopt policies and procedures addressing the employment of relatives, and such policies and procedures should be designed to ensure documented compliance with Section 112.3135(2)(a), Florida Statutes.

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<b>Procurement of Goods and Services</b>
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**Finding No. 21: Credit Cards and Charge Account**

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During the period October 2009 through June 2013, the City made purchases totaling \$7,845 using a Visa credit card, \$18,372 using a Wal-Mart credit card, and \$132,350 using a charge account at a local convenience store. Our review of the control and use of credit cards and the charge account disclosed the following:

- **Assignment, Use, and Approval of Credit Card and Charge Account Transactions.** The City Council did not approve, of record, the issuance of credit cards or charge accounts or adopt policies, procedures, or other guidance as to the proper use of credit cards and charge accounts. Nor did the City require users of the credit cards and charge account to sign written agreements specifying acceptable uses of the credit cards and charge account. Credit cards were not assigned to specific City employees but were shared among City employees. Additionally, according to City personnel, the City Council approved billing statements prior to payment. However, our review of 73 (45 Visa and 28 Wal-Mart) monthly credit card billing statements and 243 weekly charge account billing statements disclosed that documentation of City Council approval was not evident for 57 (78 percent) of the monthly credit card billing statements and 240 (99 percent) of the weekly

charge account billing statements, respectively. In these circumstances, there is an increased risk that unauthorized charges may be made without timely detection.

- **Lack of Supporting Receipts.** Our review of the 73 credit card statements totaling \$26,217 disclosed that receipts were not available to support such charges. Although the Visa and Wal-Mart monthly billing statements included transaction detail for each purchase, the statements contained abbreviations such that it was difficult to determine what was purchased. Additionally, receipts totaling \$10,152 were missing for 18 (7 percent) of the 243 weekly charge account billing statements we reviewed. Also, 63 charge account payments totaling \$26,167 were not supported by billing statements or receipts since the City sometimes made payments prior to receiving the billing statements, thus creating a credit balance on the account. Absent sufficiently detailed statements and supporting receipts for charges incurred and paid on City credit cards and charge accounts, City records do not demonstrate that such charges are reasonable and serve a public purpose.
- **Late Fees and Finance Charges.** Our review of credit card statements disclosed that the City incurred additional costs totaling \$1,839 for late fees and finance charges due to failure to pay balances in full and untimely payments. Failure to timely pay bills in full results in additional fees and charges, which is an inefficient use of the City's resources.

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**Recommendation:** The City Council should determine whether credit cards and charge accounts should be used and, if so, establish written policies and procedures governing the control and use of credit cards and charge accounts. Such policies and procedures should require all employees utilizing credit cards or charge account privileges to sign a written agreement evidencing their understanding of, and agreement with, the City's credit card and charge account policies and procedures. Additionally, the City should enhance its controls to provide for the retention of detailed billing statements and receipts for all charges incurred on City-issued credit cards and charge accounts, approval of credit transactions incurred prior to payment, and timely payments to avoid incurring additional fees and charges.

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### **Finding No. 22: Questioned Expenditures**

Authority for City officials to expend moneys is set forth in various provisions of general or special law and in ordinances enacted by the City Council. Expenditures of public funds must, to qualify as authorized expenditures, be shown to be authorized by applicable law or ordinance; reasonable in the circumstances and necessary to the accomplishment of authorized purposes of the governmental unit; and in pursuit of a public, rather than a private, purpose. Additionally, the Attorney General has indicated on numerous occasions that documentation of an expenditure in sufficient detail to establish the authorized public purpose served, and how that particular expenditure serves to further the identified public purpose, should be present at the point in time when the voucher is presented for payment of funds. The Attorney General has further indicated that unless such documentation is present, the request for payment should be denied.

Our review of expenditures during the period October 2009 through May 2013 disclosed expenditures totaling \$21,021 for which the City's records did not clearly evidence the authorized public purpose served at the time the expenditures were paid. Explanations provided for \$14,233 of the expenditures indicated that they were for hospitality or entertainment purposes, as follows:

- \$12,325 for candy, food, toys, presents, and decorations related to fall festivals and Christmas and Easter parties for the City's children. City records indicated that \$3,339 of these expenditures were personally paid for by the Clerk and subsequently reimbursed to her; however, supporting documentation for the reimbursements was not evident in the City's records.
- \$875 for 27 gift cards for employees or other individuals for Christmas.
- \$570 for plants or flowers for employees or other individuals.

- \$463 for miscellaneous food purchases.

Additionally, we noted that the City paid membership fees of \$3,818 to join a nonprofit organization, which entitled the City to receive the organization's catalogs and acquire its merchandise. The organization receives excess, unsold merchandise from companies and gives the merchandise to schools, churches, and other nonprofit organizations that care for the ill, needy, or minors. According to the organization's Web site, all merchandise is free and members pay only a small fee to cover the cost of shipping and handling. The terms of the membership provide that, without exception, merchandise received from the organization must be used by the member solely for the care of the ill, the needy, or minors. In addition to the membership fees, the City paid the organization a total of \$2,678 for shipping and handling costs related to the acquisition of merchandise such as toys, clothes, books, office supplies, and crafts.

In response to our inquiries, the Acting Mayor indicated that the items acquired were given to City residents and the elementary school in connection with various parades and festivals. However, because City records did not evidence that the items acquired were used solely for the care of the ill, the needy, or minors, City records did not demonstrate that the City complied with the terms of its membership in the nonprofit organization. Also, the public purpose served by expending public funds in this manner was not evident in the City's records.

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**Recommendation:** The City should document in its public records the authorized public purpose of the questioned expenditures totaling \$27,517. Additionally, should the City Council determine that the membership in the nonprofit organization serves a public purpose, the City should seek a determination from the nonprofit organization as to whether the City's use of the merchandise is in compliance with the terms of its membership.

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### **Finding No. 23: Cellular Telephones**

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City management is responsible for establishing adequate controls that provide reasonable assurance that cellular telephone usage serves an authorized public purpose. Cellular telephone charges totaled approximately \$10,500 during the period October 2009 through June 2013.

The City Council had not established policies and procedures regarding use of City-assigned cellular telephones, nor did City records evidence supervisory review of cellular telephone billings to identify personal use and ensure subsequent reimbursements for such use. Our review of six cellular telephone billing statements during the period October 2009 through June 2013 disclosed the following charges for which City records did not indicate the necessity or public purpose of the charges:

- Charges totaling \$175 were incurred for 411 directory assistance.
- A total of \$110 was incurred for additional message service charges.
- A total of \$115 was incurred for downloads and other data charges, including charges for an application download for radio service.

Absent adequate controls and written policies and procedures over cellular telephone services, there is an increased risk that the City may be paying for cellular services that do not serve a public purpose.

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**Recommendation:** The City Council should establish written policies and procedures for the use and monitoring of cellular telephones. Such policies and procedures should require supervisory review of cellular telephone billings prior to payment.

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**Finding No. 24: Sales Tax Exemption**

Section 212.08(6), Florida Statutes, provides a sales tax exemption for municipalities on certain transactions and a valid sales tax exemption certificate is required to avoid the payment of sales tax on the exempted transactions. However, we noted that the City’s sales tax exemption was not always utilized. For example, \$796 of sales tax could have been saved on Wal-Mart purchases from October 2009 through March 2013. Further, the City’s sales tax exemption certificate expired on August 31, 2012, and the City applied to the Florida Department of Revenue (FDOR) for renewal prior to expiration; however, the application was rejected because the City did not provide the FDOR documentation evidencing that it is an official municipality. As of September 2013, the City still had not provided the required documentation to the FDOR for renewal of its sales tax exemption certificate.

**Recommendation:** The City should timely renew its sales tax exemption certificate with the FDOR and utilize the exemption to avoid paying sales tax on purchases.

**Contracts**

Controls should be established that provide assurance that the process of acquiring contractual services is effectively and consistently administered. As a matter of good business practice, procurement of services should be done using a competitive selection process to provide an effective means of equitably procuring services at the lowest possible cost consistent with desired quality. In addition, contractual arrangements for services should be evidenced by written contracts embodying all provisions and conditions of the procurement of such services. The use of a formal written contract protects the interests, and identifies the responsibilities, of both parties; defines the services to be performed; and provides a basis for payment. Further, to ensure that contractors comply with applicable terms and conditions of the contract and that the contractor’s performance is effective in accomplishing the objectives established in the contract, effective monitoring procedures should be established.

**Finding No. 25: Written Contracts**

The City had not adopted policies and procedures for the acquisition of services. Our review of payments for contractual services disclosed the following:

- **Attorney Services.** During the period October 2009 through March 2013, the City paid a local attorney \$36,731 for legal services. In response to our inquiry, City personnel stated that the City had used the services of the attorney for more than ten years; however, City records did not evidence a written contract between the City and the attorney. Our review of City Council meeting minutes disclosed that the City had reappointed the attorney in October 2009, but details of the terms of the services to be provided and compensation to be paid for such services were not provided in the minutes.
- **Water Treatment Plant Operator.** During the period October 2009 through March 2013, the City paid an individual \$425 monthly to record the City’s daily water usage and file a monthly report with the Florida Department of Environmental Protection; however, City records did not evidence a written contract between the City and the individual. Our review of payments to the individual disclosed:
  - The City made three payments totaling \$900 in addition to the individual’s monthly payments. Upon inquiry, City personnel stated that there had been many issues with the City’s water pumps and extra water testing was required. However, since the individual did not submit invoices for work performed, City records did not evidence support for the extra payments.
  - In our review of 34 weekly fuel statements for the City’s charge account with a local convenience store, we noted three fuel purchases by this individual totaling \$238. In response to our inquiry, City personnel



stated that since the individual traveled to the City every day, seven days a week, the City allotted a tank of gas each month. However, no monitoring of the gas purchased by the individual was evident in the City's records.

- **Accounting Services.** During the period October 2009 through March 2013, the City paid an individual \$25 per hour and a total of \$4,113 for accounting services. City records did not evidence a written contract between the City and the individual. In response to our inquiry, City personnel indicated that the individual's responsibilities included preparing or reviewing bank account reconciliations, assisting with certain accounting transactions, and filing required State and Federal Government reports.

Absent written contracts for the above-noted services, it was unclear as to the responsibilities of both parties, the services to be performed, and the basis used by the City for payment of such services.

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**Recommendation:** The City should ensure that future payments for contractual services are made pursuant to a written contract documenting the responsibilities of each party, the nature of the services to be performed, and the basis for the compensation for such services.

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**Finding No. 26: Auditor Selection and Contract**

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During the period October 2009 through September 2012, the City was required to provide for annual financial audits pursuant to Section 218.39, Florida Statutes. Such financial audits performed by licensed certified public accountants give assurance to the reliability and completeness of the City's financial statements; provide a means for evaluating the effectiveness of the City's internal control over financial reporting; and include a determination of the extent to which the City complied with applicable laws, rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the City's financial statement amounts. Consequently, it is important for entities to use an adequate auditor procurement process to ensure a quality audit.

The City must select the financial auditor using the procedures prescribed in Section 218.391, Florida Statutes. Sections 218.391(2) and (3), Florida Statutes, require the City Council to establish an audit committee to assist in the selection of an auditor and specify the responsibilities of the audit committee, which include publicly announcing the need for audit services and using requests for proposals. Additionally, Section 218.391(7), Florida Statutes, prescribes the required elements of the contract for audit services.

An audit firm was paid \$12,600 to conduct the City's 2011-12 fiscal year financial audit. City records did not evidence that an audit committee had been established by the City Council for selecting the audit firm, nor that requests for proposals had been used to competitively procure the audit services. Although the City entered into a written contract with the firm, contrary to Section 218.391(7)(b), Florida Statutes, the contract did not include a provision requiring invoices for fees or other compensation to be submitted in sufficient detail to demonstrate compliance with terms of the contract. Although the contract included a statement that fees for audit services would be billed at the firm's standard hourly rates plus out-of-pocket expenses, the level of staff and hourly rates were not indicated. Additionally, the invoices submitted to the City did not detail the level of staff, hours expended, or hourly rates charged. As such, City records did not demonstrate that the amount invoiced and paid was in accordance with the contract.

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**Recommendation:** The City should ensure compliance with the auditor selection and contract requirements prescribed in Section 218.391, Florida Statutes.

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<b>Grant Administration</b>
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<b>Finding No. 27: Florida Recreation Development Assistance Program</b>
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In July 2008, the City entered into two separate grant agreements totaling \$271,222 with the Florida Department of Environmental Protection (FDEP) for the construction of public outdoor recreation facilities at two of the City's parks. Pursuant to the grant agreements, reimbursements to the City for grant-related expenditures required reimbursement request forms and appropriate supporting documentation. In April 2012, the City received the final reimbursements from FDEP for the two grants.

Our review of the City's grant records and associated documentation disclosed that, contrary to the terms of the grant agreements, the City claimed \$34,753 in grant expenditures prior to expending the money. Although the City provided invoices and copies of checks issued in April 2011 to FDEP in its reimbursement requests, the issued checks were subsequently voided and reissued 3 to 17 months later. However, grant expenditures claimed on the grant reimbursement request forms were not eligible for reimbursement until the City actually paid for the expenditures.

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**Recommendation:**     **The City should ensure that grant reimbursements requested are in accordance with the grant terms.**

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<b>Motor Vehicles</b>
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<b>Finding No. 28: Motor Vehicle Usage and Insurance</b>
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As of August 2013, the City had 11 motor vehicles (8 police cars and 3 other City vehicles). Our review of motor vehicle assignment and usage disclosed the following:

- **24-hour Use Assignments.** The City Council had not established policies and procedures regarding the assignment of vehicles to employees for 24-hour use. According to City staff, motor vehicles were assigned for 24-hour use to the Water Utility Operator, and to certain police officers as determined by the Chief of Police; however, City records did not evidence the approval and assignment of vehicles to employees for 24-hour use.
- **Vehicle Usage Logs.** City employees that are assigned vehicles on a 24-hour basis were not required to maintain mileage logs. Absent this information, City records did not demonstrate that vehicles assigned on a 24-hour basis were used primarily for a public purpose and used only incidentally for the personal benefit of the employee assigned the vehicle.
- **Taxable Fringe Benefit.** United States Treasury Regulation 1.61-21(a)(3) provides that, with some exceptions, an employee's gross income includes the fair market value of any fringe benefits not specifically excluded from gross income by another provision of the Internal Revenue Code. The personal use of an employer-provided vehicle is a fringe benefit that must be included in the employee's gross income as compensation for services, unless otherwise excluded. Our review disclosed that the value of the personal use of vehicles assigned on a 24-hour basis was not included in applicable employees' gross compensation reported to the IRS, and City records did not evidence that the employees were exempted from such reporting pursuant to United States Treasury Regulation 1.61-21(a)(3).

City records disclosed that automobile insurance totaling \$1,465 was paid for the 2008-09 through 2011-12 fiscal years. However, our review of the insurance policies disclosed that only two vehicles were listed on the schedule of insured automobiles and neither one of them were vehicles the City owned. Subsequent to our inquiry, the City replaced the two automobiles on the insurance policy with two City-owned automobiles, but did not extend insurance

coverage for the remaining City-owned motor vehicles. Failure to insure all City motor vehicles exposes the City to increased risk of loss in the event of theft, property damage, or accidents.

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**Recommendation:** The City Council should establish policies and procedures for the assignment of motor vehicles to employees for 24-hour use and ensure that the fringe benefit of providing a City vehicle to employees for personal use is documented through the use of vehicle usage logs and appropriately reported to the IRS. The City should also ensure that all motor vehicles are appropriately insured.

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<b>Public Records</b>
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**Finding No. 29: Public Records Retention**

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Pursuant to Chapter 119, Florida Statutes, the City is required to maintain public records that are, with some exceptions, to be open for public inspection. Such records must be maintained in accordance with the Florida Department of State’s (FDOS) record retention schedule. Failure to maintain records in accordance with State law could result in City officials being subjected to the penalties specified in Section 119.10, Florida Statutes. Additionally, the City charter provides that the Clerk is to keep a record of all ordinances passed by the Council and is the custodian of all records, papers, and files of the City.

Our review disclosed that the City had not adopted a records retention policy, and the City did not have a systematic method of maintaining public records. For example, we noted that the City had not maintained an index of its currently adopted ordinances and resolutions. In response to our inquiry, City personnel indicated that an index to ordinances had not been maintained since December 1998. Additionally, City records did not evidence signed copies of resolutions adopting the final budgets for the 2009-10 and 2010-11 fiscal years, or a signed resolution adopting the final millage rate for the 2010-11 fiscal year.

In response to our inquiry, the Clerk stated that many of the City’s records prior to 1999, which were housed in a storage building located beside City Hall, were destroyed due to rain and flooding. Further, we were told that water meter log books prior to April 2012 were lost in a swamp in connection with a traffic accident involving the Water Utility Operator; however, City records did not evidence an accident report, and City personnel stated that the accident was not reported.

Deficiencies in maintaining official City records, such as those indicated above, in addition to the City’s failure to retain credit card billing statements and receipts for purchases as discussed in finding No. 21, could subject the City to penalties and limit officials, employees, and the public from reviewing such documents.

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**Recommendation:** The City should ensure that public records are maintained as required by law, the City charter, and FDOS guidelines.

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**Finding No. 30: City Council Meeting Notices and Minutes**

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Pursuant to Section 286.011, Florida Statutes, the City Council is required to provide reasonable notice of all City Council meetings. Additionally, the minutes of Council meetings are required to be promptly recorded and open to public inspection. To ensure that minutes accurately reflect all actions and proceedings of the Council, the minutes of each meeting should be reviewed, corrected if necessary, approved at a subsequent Council meeting, and signed by the appropriate City official(s).

During the period October 2009 through March 2013, the City Council held 49 meetings, generally comprised of one required regular meeting on the second Tuesday of each month, and occasional special meetings. According to City personnel, although regular Council meetings were not noticed, special meeting notices were posted at City Hall, the post office, and in the local newspaper; however, City’s records did not evidence notices for special meetings. Failure to provide notice of City Council meetings is contrary to law and denies public accessibility to participate in official City actions.

Our review of meeting minutes for meetings held during the period October 2009 through March 2013 disclosed that the minutes were generally not signed by the Clerk or other appropriate City official, and did not include the date of City Council approval. Also, City records did not evidence minutes for seven City Council meetings, and the reason(s) why four regular Council meetings were not held. Absent review and approval of the minutes by City Council members, the City cannot be assured that minutes transcribed properly reflect the actions taken.

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**Recommendation:** The City should ensure that all City Council meetings are reasonably noticed, held, and the meeting minutes are timely recorded, appropriately signed and approved, and retained in the City’s records for public inspection.

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**Finding No. 31: Charter Amendments**

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Section 166.031, Florida Statutes, provides that the governing body of a municipality may, by ordinance, or the electors of a municipality may, by petition signed by ten percent of the registered electors as of the last preceding municipal general election, submit to the electors of said municipality a proposed amendment to its charter, which amendment may be to any part or to all of said charter except that part describing the boundaries of such municipality. Further, the law provides that upon adoption of an amendment to the charter of a municipality by a majority of the electors voting in a referendum upon such amendment, the governing body of said municipality shall have the amendment incorporated into the charter and shall file the revised charter with the FDOS. All such amendments are effective on the date specified therein or as otherwise provided in the charter.

The City adopted Ordinance 85-4 to amend its charter as it pertains to the City Clerk, City Treasurer, City Tax Assessor, and City Tax Collector, providing for an appointed City Clerk to perform the duties of City Clerk, City Treasurer, City Tax Assessor, and City Tax Collector; providing for submission of the change to the electorate; and further providing for an effective date. Although Ordinance 85-4 was approved by a majority of the voters, the City failed to file a certified copy of the charter amendment with the FDOS, contrary to the ordinance and law.

While the implementation of the charter amendment was not adversely affected by the failure to file the amendment with the FDOS, the public’s ability to be apprised of the effective laws under which the City operates was diminished.

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**Recommendation:** The City should ensure that all ordinances amending its charter are filed with the FDOS, as required by law.

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**OBJECTIVES, SCOPE, AND METHODOLOGY**

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

11.45(3)(a), Florida Statutes, the Legislative Auditing Committee, at its April 1, 2013, meeting, directed us to conduct this audit.

We conducted this operational audit from May 2013 to September 2013 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of this operational audit were to:

- Evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse and in administering assigned responsibilities in accordance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines.
- Examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those controls.

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

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

The scope and methodology of this operational audit are described in Exhibit A. Our audit included selection and examinations of various records and transactions from October 2009 through March 2013, and selected actions taken prior and subsequent thereto. Unless otherwise indicated in this report, these 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.

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

**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.



David W. Martin, CPA  
Auditor General

**MANAGEMENT'S RESPONSE**

Management's response is included as Exhibit B.

**EXHIBIT A**  
**AUDIT SCOPE AND METHODOLOGY**

Scope (Topic)	Methodology
Organizational structure, public records, and minutes.	Reviewed organizational structure of the City and assessed the functional responsibilities within the organizational structure to determine whether they were adequately separated to provide effective internal controls. Reviewed the City’s charter and ordinances regarding elections and vacancies in office to determine compliance with applicable laws. Examined and reviewed City Council meeting notices and related minutes, and other City records, to determine compliance with applicable laws and other guidelines.
Audit findings disclosed by the City’s independent auditor.	Reviewed all findings reported by the auditor and determined the status of the City’s corrective action.
Written policies and procedures.	Determined whether the City had written policies and procedures in place for major business functions. Determined whether the City maintained public records in accordance with Chapter 119, Florida Statutes.
Related party transactions.	Applied procedures to determine whether purchases were made from businesses, City Council members, City employees, or relatives of City Council members or City employees that represented a conflict of interest.
Budgetary controls.	Reviewed the City’s budgetary procedures for adequacy and determined whether adopted budgets and amendments were prepared and adopted in accordance with law.
Cash management.	Reviewed the City’s procedures related to cash and petty cash. Reviewed bank account reconciliations for timeliness and completeness. Identified reasons for issuance of worthless checks. Reviewed banking agreements for sufficiency in providing adequate safeguards. Determined compliance with the reporting requirements in Chapter 280, Florida Statutes.
Financial condition of the Water Fund.	Assessed the financial condition of the Water Fund. Reviewed the City’s water permit and procedures for billing and collection for water service. Tested water billings and collections for compliance with Ordinance No. 2009-1 and good business practices. Determined whether the City had procedures in place to account for water usage.
Traffic ticket revenue.	Determined whether traffic ticket revenue collected was appropriately accounted for and used.
Personnel and payroll administration.	Reviewed the City’s procedures for maintenance of key personnel records. Tested new hires and payroll transactions for compliance with applicable laws, rules, regulations, City policies and procedures, and other guidelines.
Procurement of goods and services.	Reviewed the City’s assignment and use of credit cards and its charge account. Tested City check disbursements, and credit card and charge account payments, to determine whether they were properly approved, served a public purpose, and were in accordance with applicable laws, rules, regulations, contracts, grant agreements, City policies and procedures, and other guidelines.

**EXHIBIT A (CONTINUED)**  
**AUDIT SCOPE AND METHODOLOGY**

Scope (Topic)	Methodology
Contractual services.	Reviewed City contracts and related payments to determine whether the contracts were procured, executed, and monitored in accordance with applicable laws, rules, regulations, contracts, grant agreements, policies and procedures, and other guidelines.
Grants administration.	Tested expenditures of grant awards received from the Florida Department of Environmental Protection to determine compliance with terms of the grant agreements.
Motor vehicles.	Reviewed procedures and records related to vehicles, including assignment and use, and determined compliance with United States Treasury Regulations regarding personal use of vehicles. Reviewed and evaluated controls over fuel purchases and vehicle usage. Determined whether vehicles were appropriately insured and evaluated the disposition of vehicles for compliance with City ordinances, policies and procedures, and good business practices.



**EXHIBIT B**  
**MANAGEMENT'S RESPONSE**

City of Hampton  
P.O. Drawer 250  
Hampton FL, 32044  
352.468.1201

January 29th 2014

David W. Martin, CPA  
Auditor General  
G74 Claude Pepper Building  
111 West Madison Street  
Tallahassee, Florida 32399-1450  
Flaudgen Audrpt lg@aud.state.fl.us

Dear Mr. Martin,

Please find enclosed the City's proposed corrective actions and responses to the tentative audit findings and recommendations forwarded to the City on Dec 30 2013. These findings, recommendations, and responses have been approved by the City Council.

The Auditor General makes a number of findings concerning specific financial transactions and practices. The City is unable to corroborate the accuracy of each finding based upon personnel and resource limitations. This statement should not be construed as an objection to any specific fact or finding.

The City of Hampton is committed to implementing such controls and procedures as are required by law and sound operational principles in the conduct of its affairs. Accordingly, the City intends to continue its review of its operations and consider the recommendations that the Auditor General has articulated in their formulation and implementation, subject to the City's limited resources.

With regard to the City's response to specific findings, please be advised that City Council action will be required. Some issues have already been addressed administratively as is appropriate.

Thank you for your attention. Please contact the clerk if any further action is necessary.

Sincerely,



Myrtice McCullough  
Acting Mayor

**EXHIBIT B (CONTINUED)**  
**MANAGEMENT'S RESPONSE**

**Finding No. 1: Financial Accountability**

The City will endeavor to address audit findings in a timely manner.

**Finding No. 2: Written Policies and Procedures**

The City Council intends to consider, adopt, and implement policies and procedures pursuant to the recommendation concerning Finding Number 2.

**Finding No. 3: Separation of Duties**

Taking into account limited financial and personnel resources, the City Council intends to consider, adopt, and implement written policies and procedures. The City Council intends to hire a new, more experienced, independent accountant, to assist with certain accounting functions and take a more active role in monitoring and reporting. Currently, the City is requesting proposals, through newspaper advertisement, for independent accounting services to address the noted deficiencies.

**Finding No. 4. Accounting Controls and Unreliable Records**

With the documentation provided to the City by the external auditor, we are unable to corroborate the finding except for the \$2,538 (See attached signed statements) owed to family members of the Clerk. The City can agree with the balance of the recommendation that does not pertain to the possible overpayments to the clerk. The City has since been provided statements from each individual stating that they were paid and the City does not owe them as indicated in the audit finding. The spreadsheet attached hereto and made a part hereof was provided to the City and the State Auditors by our external auditor, and reflects no overpayments per the indicated timeframe. The City will initiate procedures to comply with the remainder of the recommendation not entailing the possible overpayments to the clerk. The former clerk has been notified of the alleged overpayments, which are vehemently denied by her. It is unclear what, if any, additional measures can be undertaken which would be cost effective to determine whether overpayments were made.

**Finding No.5: Petty Cash**

The City has already undertaken procedures to ensure that petty cash is appropriately accounted for and deposited into the appropriate account on a regular basis. The City Council has authorized, \$40.00 petty cash to be kept on hand, appropriately safeguarded, and all disbursements to be documented and presented to the City Council for approval and/or review. Despite such authorization, petty cash is not currently being kept on hand.

**Finding No.6: Cash Receipt Forms**

Cash receipt books have been retained, used in sequential order, and all cash receipt numbers are recorded into accounting records.

**EXHIBIT B (CONTINUED)**  
**MANAGEMENT'S RESPONSE**

**Finding No.7: Financial Condition of Water System**

The City plans to establish a minimum target level of working capital funds sufficient to maintain the Water Fund. The City plans to utilize information provided by Florida Rural Water and its external auditor for guidance.

**Finding No.8: Fees and Charges for Water Service**

The City plans to obtain an analysis by Florida Rural Water and/or its external auditor to provide guidance concerning the appropriate customer charges for water service. The City Council plans to review and update Ordinance 2009-1 to specify security deposit amounts, time frames for water deposits, time frames for payments, and termination of water service policies.

**Finding No.9: Water Customer Accounts and Billings**

The City is currently working to establish a master listing of water meter locations, indexed to customer accounts for use in controlling the water meters read, and accounts billed. The City is cross-referencing the county's 911 address listings to ensure that every meter is read and every account is being appropriately billed. The City will review Ordinance 2009-1 and establish a written policy to ensure that water customer payments are received in a timely manner and disconnected if payments are not received pursuant to that policy.

**Finding No.10: Unaccounted for Water**

The City will continue our endeavors to account for all water usage to the extent possible and reduce waste.

**Finding No.11: Budget Preparation and Adoption**

The City will consider all available amounts from prior fiscal years in preparation for its budget. The tentative and final budget will be delivered to the county so that it can be posted to the county's website.

**Finding No.12: Budget Overexpenditures**

The City has implemented a purchase order system and plans to implement written policies to establish better controls. The Clerk will give periodic budget-to-actual comparison reports, for monitoring budgeted and actual expenditures, to each council member at appropriate regularly scheduled council meetings. The City Council intends to improve the monitoring of budget expenditures and amend the budget as necessary. It is contemplated that the accountant will assist in the preparation and completion of budget amendments.

**Finding No.13: Bank Account Reconciliations**

The City will ensure that bank account reconciliations are timely and properly prepared. This process should effectively avoid overdraft fees.

**EXHIBIT B (CONTINUED)**  
**MANAGEMENT'S RESPONSE**

**Finding No.14: Bank Agreements**

The City will retain copies of all bank agreements, ensure that agreements are periodically reviewed, and updated when necessary.

**Finding No.15: Public Deposit Accounts**

The City is in the process of complying with this requirement.

**Finding No.16: Hiring Practices**

The City is currently working to implement policies and procedures regarding employment and termination.

**Finding No.17: Attendance and Leave Records**

Time sheets are being enforced for all departments, with the exception of the town Marshal. The Marshal is an elected official. The time records being compiled are being utilized to document hours worked and leave taken, and as the basis for calculating payroll. The City plans to adopt policies to appropriately reflect the duties of the office of the City Clerk. It is anticipated that a leave policy will be implemented.

**Finding No.18: Clerk and City Council Members' Compensation**

The City Council will consider an ordinance to address the issue, and will comply with the Internal Revenue Code with regard to payments made to City Council members.

Finding Number 18 indicated that the Clerk was overpaid by the total of \$361.00. The basis for this statement is not clear and the City is unable to corroborate independently such overpayments. There is no apparent cost effective means by which the City can determine if the overpayments were made. The independent audit of the City's finances did not reveal such overpayments.

**Finding No.19: Employee/ Independent Contractor Status**

The City relied on our independent accountant to prepare payroll returns, and appropriate tax forms. Moving forward, the City will ensure that there is an independent contractor agreement with the accountant, appropriate forms are completed, and contractors and employees are documented and reported appropriately.

**Finding No.20: Employment of Relatives**

The City plans to consider adoption of a policy regarding the employment of relatives. Additionally, the City intends to comply with applicable laws.

**EXHIBIT B (CONTINUED)**  
**MANAGEMENT'S RESPONSE**

**Finding No.21: Credit Cards and Charge Accounts**

The City Council plans to consider whether credit cards and charge accounts should be used, and if so, establish written policies and procedures governing the control and use of credit cards and charge accounts. Currently, the charge accounts are kept with local vendors and are subject to a newly established purchase order system.

**Finding No.22: Questioned Expenditures**

The City feels that a public purpose was served in providing various parades and festivals to the residents of Hampton. The City's intent was to provide some benefits to various residents and children and it is now clear that such expenditures are objectionable. There is no suggestion of personal gain by any person employed by or serving in any official capacity with the City. The per capita income for the City of Hampton is very low and the City's children benefited from the expenditures. The City Council approved the expenditure of these funds and considered them to be legitimate public expenditures. The auditors' concern of these expenditures is noted and it is anticipated that the City Council will be circumspect in the future concerning such expenditures and documentation therefore. Moving forward, membership in the nonprofit organization has been terminated.

**Finding No.23: Cellular Telephones**

The City has revised its contract with the cellular provider, which action has resulted in substantial savings. The new contract with the cellular provider provides for unlimited text, talk, and web service. Accepted use of cellular telephones will be detailed in the anticipated employee handbook.

**Finding No.24: Sales Tax Exemption**

The City is in the process of attempting to renew or restore its sales tax exemption with the FDOR, with intent to use the exemption in the future for purchases.

**Finding No.25: Written Contracts**

The City will endeavor that future services are procured pursuant to a contract or written agreement. A contract for services of the Attorney has been approved by the City Council.

**Finding No.26: Auditor Selection and Contract**

The City has established an Audit Committee and we will ensure compliance with the statute from this point forward.

**Finding No. 27: Florida Recreation Assistance Program**

Generally, we have an administrator for significant sized grants. The City will ensure that future grant reimbursements requested are in accordance with the grant terms.

**EXHIBIT B (CONTINUED)**  
**MANAGEMENT'S RESPONSE**

**Finding No.28: Motor Vehicle Usage and Insurance**

The City Council will endeavor to establish policies and procedures for the assignment of motor vehicles to employees for 24-hour use and ensure documentation of the use of such vehicles in accordance with IRS guidelines. The number of officers employed by the City has been drastically reduced, and the number of vehicles owned by the City has been significantly reduced. The City concurs that all motor vehicles should be appropriately insured.

**Finding No.29: Public Records Retention**

The City is in the process of organizing all available public records in a manner required by law, the City Charter, and FDOS guidelines.

**Finding No. 30: City Council Meeting Notes and Minutes**

The City has taken corrective measures to ensure that all Council meeting are reasonably noticed, held, and the meeting minutes are timely recorded, appropriately signed, approved, supporting documents are delivered to Council members, attached to meeting minutes, and retained in the City's records for public inspection.

**Finding No.31: Charter Amendments**

The City will ensure that all ordinances amending its charter are filed with the FDOS, as required by law.

**EXHIBIT B (CONTINUED)  
MANAGEMENT'S RESPONSE**

Hampton

Summary of Jane Hall Payroll checks cleared the bank  
fye 9/30/2012

<u>Month</u>	<u>Check</u>	<u>Check</u>	<u>Check</u>	<u>Total PR</u>	<u>Total PR</u>	<u>Reimb</u>	
<u>cleared</u>	<u>Number</u>	<u>Date</u>	<u>amount</u>	<u>Dated</u>	<u>Dated</u>	<u>Cks</u>	<u>Comments</u>
<u>bank</u>				<u>prior year</u>	<u>current year</u>		
Oct-11	17153	6/30/2011	377.40	377.40			
	17386	9/22/2011	377.40	377.40			
	17441	10/4/2011	377.40		377.40		
	17464	10/4/2011	377.40		377.40		
	17485	10/27/2011	458.36		458.36		
	17486	10/11/2011	301.92		301.92		
Nov-11	17535	11/10/2011	377.40		377.40		
	17539	11/10/2011	377.40		377.40		
	17550	11/15/2011	2,589.00			2,589.00	reimb computer cost & loan
	17553	11/17/2011	377.40		377.40		
	17565	11/23/2011	377.40		377.40		
	17569	11/23/2011	301.92		301.92		
	17571	11/27/2011	377.40		377.40		
	17572	11/27/2011	360.00			360.00	reimb xmas toys
Dec-11	16166	8/17/2010	369.40	369.40			
	16273	8/5/2010	369.40	369.40			
	16397	9/23/2010	295.52	295.52			
	16521	10/22/2010	295.52	295.52			
	16765	1/27/2011	377.40	377.40			
	16897	3/18/2011	377.40	377.40			
	16939	4/7/2011	377.40	377.40			
	17351	9/8/2011	377.40	377.40			
	17601	12/8/2011	377.40		377.40		
	17609	12/8/2011	169.00			169.00	xmas
	17611	12/1/2011	180.52			180.52	5121100

**EXHIBIT B (CONTINUED)  
MANAGEMENT'S RESPONSE**

<u>Month</u>	<u>Check</u>	<u>Check</u>	<u>Check</u>	<u>Total PR</u>	<u>Total PR</u>	<u>Reimb</u>	
<u>cleared</u>	<u>Number</u>	<u>Date</u>	<u>amount</u>	<u>Dated</u>	<u>Dated</u>	<u>Cks</u>	<u>Comments</u>
<u>bank</u>				<u>prior year</u>	<u>current year</u>		
Jan-12	17664	12/19/2011	377.40		377.40		
	17665	12/29/2011	377.40		377.40		
	17717	1/12/2012	377.40		377.40		
	17731	1/19/2012	377.40		377.40		
	17753	1/26/2012	377.40		377.40		
	17760	1/27/2012	301.92		301.92		
Feb-12	16178	6/24/2010	295.52	295.52			
	17590	12/6/2011	180.52			180.52	ck
	17639	12/7/2011	377.40		377.40		
	17684	1/5/2012	377.40		377.40		
	17768	2/2/2012	566.10		566.10		
	17787	2/14/2012	600.00			600.00	check
	17795	2/16/2012	377.40		377.40		
Mar-12	17801	2/16/2012	377.40		377.40		
	17825	2/23/2012	377.40		377.40		
	17827	2/23/2012	301.92		301.92		
	17840	3/1/2012	377.40		377.40		
	17846	3/5/2012	135.00			135.00	postage
	17852	3/8/2012	377.40		377.40		



**EXHIBIT B (CONTINUED)  
MANAGEMENT'S RESPONSE**

Month cleared	Check bank	Check Number	Check Date	Check amount	Total PR Dated prior year	Total PR Dated current year	Reimb Cks	Comments
Apr-12		17779	2/9/2012	377.40		377.40		
		17877	3/15/2012	377.40		377.40		
		17889	3/22/2012	377.40		377.40		
		17903	3/29/2012	377.40		377.40		
		17918	4/5/2012	301.92		301.92		
		17920	4/5/2012	377.40		377.40		
		17936	4/12/2012	377.40		377.40		
		17942	4/15/2012	195.32	office suppl		195.32	
		17948	4/19/2012	377.40		377.40		
		17950	4/19/2012	5,120.96	5,120.96			<b>to replace old checks - signed by Layne S. agreed to os check list but some checks made out to others</b>
		17951	4/20/2012	301.92		301.92		<b>includes checks to</b> Adam Hall 73.88 Charles Hall 875.44 Christina Hall 72.00 Christina Gibbs 128.00 <b>(confirmed that others received there portion)</b>
May-12		17955	4/28/2012	377.40		377.40		
		18009	5/8/2012	452.88		452.88		
Jun-12		18044	5/31/2012	377.40	input date 5/3/12	377.40		
		18020	5/17/2012	415.14		415.14		
		18032	5/24/2012	377.40		377.40		
		18033	5/24/2012	301.92		301.92		
		18056	6/7/2012	377.40		377.40		
		18069	6/14/2012	377.40		377.40		Jane check after 9/30
Jul-12		18085	6/28/2012	377.40		377.40		
		18086	6/28/2012	301.82		301.82		
		18099	7/3/2012	377.40		377.40		
		18112	7/12/2012	377.40		377.40		
Aug-12	none cleared							
Sep-12	none cleared							

**EXHIBIT B (CONTINUED)**  
**MANAGEMENT'S RESPONSE**

Month cleared	Check bank	Check Number	Check Date	Check amount	Total PR Dated prior year	Total PR Dated current year	Reimb Cks	Comments
Outstanding as of 09/30/2012								
				18127 7/19/2012 377.40		377.40		
				18136 7/26/2012 377.40		377.40		
				18145 8/2/2012 377.40		377.40		
				18162 8/9/2012 377.40		377.40		
				18176 8/16/2012 377.40		377.40		
				18185 8/23/2012 377.40		377.40		
				18199 8/30/2012 377.40		377.40		
				18211 9/6/2012 377.40		377.40		
				18231 9/13/2012 377.40		377.40		
				1835 9/20/2012 377.40		377.40		
				18249 9/27/2012 377.40		377.40		
				<u>35,088.22</u>	<u>9,010.72</u>	<u>21,668.14</u>	<u>4,409.36</u>	

35,088.22

reconciliation of amounts paid to Jane for old payroll checks not cashed

Total amount of payroll checks outstanding to Jane as of 9/30/11	
per the outstanding check list as of 09/30/2011	7,484.00

Total checks cash per above	9,010.72
Less portion of lump sum payment attributable to oth	<u>(1,526.72)</u>
	7,484.00

difference	0.00
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