



**OFFICE OF INSPECTOR GENERAL  
PALM BEACH COUNTY  
AUDIT OF THE CITY OF SOUTH BAY  
PROPERTY, HUMAN RESOURCES & PAYROLL  
AUDIT REPORT: 2014-A-0004**

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Inspector General

*"Enhancing Public Trust in Government"*

**SUMMARY RESULTS AT A GLANCE**

On May 2, 2013, we issued the first of two audit reports on the City of South Bay (the "City"). The first report (Audit Report 2013-A-0006) covered our review of cash disbursements during the period January 2009 to December 2012. We identified significant internal control deficiencies and questioned costs of \$306,377. We also referred questionable transactions to the State Attorney's Office, several of which were included in charges filed against the former City Manager.

This second report includes the results of our review of City property & equipment, human resources and payroll operations. All transactions and activities reviewed occurred during the period January 2009 to December 2012. In addition, we extended cash disbursements testing for an additional nine months past the period reviewed in our first audit report.

We found a number of significant deficiencies and control weaknesses involving property & equipment, human resources, payroll and cash disbursements. Our findings resulted in questioned costs of \$419,015 which includes potential lost revenue of \$69,337.

We identified the following significant deficiencies:

**Property & Equipment**

In our review of City-owned property, we found that property was not properly accounted for, not adequately maintained and not evaluated to maximize revenue.

**City-owned property was not adequately accounted for**

The City did not maintain adequate records of its property and could no longer locate or determine disposition of assets of significant value. Discrepancies between the assets recorded on the City's books and the results of a physical inventory performed in 2011, resulted in a write-off (reduction) of \$753,460 to the value of the assets recorded on the City's books. Due to lack of documentation to support the specific disposition of the equipment that was unaccounted for in the City's records and inventory, \$315,859 has been identified as a questioned cost.

**City properties are in disrepair and present potential safety risks**

Certain City-owned facilities are in a state of physical decay and/or present potential physical dangers to citizens. These facilities have not been repaired, demolished, or otherwise secured from access.

**The City could increase revenue and reduce expenses by evaluating uses for City owned properties**

The City owns a large number of properties acquired over the years through donation, conversion, and purchase with an appraised value of over \$2.9 million. However, a process to evaluate the most appropriate use of each property does not exist, potentially denying the City revenue through sale or lease, and the reduction or elimination of maintenance costs.

**The City does not have a lease agreement and has not collected lease payments for over six years on a property occupied by a commercial business**

The City owns land adjacent to US Highway 27 in South Bay, occupied by a manufacturing business. There is no lease agreement in place and lease payments have not been collected since 2007, resulting in a loss of revenue to the City of a minimum of \$60,000.

**The City has not properly accounted for infrastructure assets**

The City's accounting for infrastructure assets such as roads, curbs, and lighting was not consistent with governmental accounting standards, and resulted in continuing adverse audit opinions for the City's financial statements. The City has not taken prompt action to correct this deficiency.

**Human Resources & Payroll**

In our review of human resources and payroll we identified practices that were either not consistent with good human resources procedures, sound internal controls or the City's own employee handbook. Our findings include:

**The City's termination of two employees was not in compliance with City policy**

During our review we were informed by City staff that the former City Manager had improperly terminated two employees. We found that these two terminations were not done in accordance with City policy. There was no pre-termination documentation to support the actions taken by the former City Manager. However, the City did subsequently reinstate the two terminated employees.

**Employment and compensation of a former Director of Code Enforcement was not consistent with City guidelines and we could not substantiate a measurable benefit to the City**

We found that a former Director of Code Enforcement was hired as a full time employee, thus entitling him to benefits, even though he worked a part time schedule averaging 20.3 hrs/week. Upon the former Director's resignation, the former City Manager authorized a payout of 80 hours of accrued vacation leave. As a part time employee, the former Director would not be entitled to accrued vacation leave. We also found that code enforcement related activity was almost non-existent during this individual's period of employment. We questioned \$21,934 of salary and benefits paid to this employee. The OIG referred this matter to the State Attorney's Office.

**The City failed to identify that the former City Manager drove a City vehicle without a valid driver's license**

During our review of employee personnel files we discovered that the City had not obtained and verified driver's license information for the former City Manager. We determined that the former City

Manager had a suspended driver's license when he was initially hired by the City and it remained suspended for the first fourteen months of his employment. He routinely used a City take-home vehicle without a valid driver's license exposing the City to potential liability. Since he was not entitled to a take home vehicle without a valid driver's license, we questioned \$11,885, the estimated cost of fuel charged to the City by the former City Manager.

**Payroll timesheets are not always signed by the employee and approved/signed by the employee's supervisor**

We found that 17 of 24 (71%) of timesheets were not signed by the supervisor and 8 of 24 (33%) were not signed by the employee. The City had no written procedures to document the requirements for the timekeeping/payroll process.

**Employee performance evaluations are not conducted in accordance with City policy**

We found that 4 of the 5 employees in our sample did not have annual performance evaluations as required by City policies. Three employees had performance evaluations that were two years or older and one employee has had no performance evaluations since being hired in May 2011.

**Cash Disbursements**

**In our additional testing of cash disbursements, we identified the following three issues, two of which are inconsistent with the recommendations contained in our prior audit report**

- The City maintains a large cash balance, in excess of \$1 million, that is not invested in interest bearing instruments approved by the State of Florida; therefore the City lost revenue of approximately \$9,337.
- The City Manager was provided a personal loan from the City for \$6,300 that he repaid the next day. In our prior audit report we noted similar issues involving loans to the former City Manager and advanced loans of salary to two City Commissioners.
- The City credit cards have been replaced with credit cards on the personal account of the City Manager. This is similar to the condition identified in our prior report, where the City continued to use the credit card issued in the name of the former City Clerk.

We made 23 recommendations to correct the 13 findings contained in this audit report. Under new leadership, the City Commission and City management have initiated action on a number of our recommendations.

## BACKGROUND

The City is situated in the Glades region of western Palm Beach County, on the southern end of Lake Okeechobee. The City has been among the most financially distressed cities in the State of Florida, and has been designated by the Office of the Governor to be in a state of financial emergency. The City's revenue and expenditures for the year ended September 30, 2012 were \$2.51 million and \$2.47 million, respectively, across several funds. The accumulated general fund deficit was \$643,875.

The City operates as a 'Commission form of Government' with five elected City Commissioners. The Commissioners appoint one member as mayor and one as vice-mayor. The Commission may hire a City Manager to perform duties as designated by the Commission.

The City's organizational structure consists of an appointed City Clerk, City Treasurer, and the following Departments:

- Office of the City Manager
- Finance
- Human Resources
- Community Development
- Public Works
- Parks and Recreation
- Code Enforcement
- Planning and Economic Development

The Commission may also retain a City Attorney and appoint other officials as advisable. The City employs seventeen people. An Employee Handbook contains many of the relevant policies and procedures. The City provides benefits to full time employees. A money purchase pension plan is available to employees.

During our initial audit, on March 19, 2013, the City Commission appointed an interim City Manager, who became the new City Manager on January 7, 2014. Throughout this report we have referred to him as the City Manager. A new Mayor and Vice-Mayor were also appointed. The Finance Director is no longer also acting as the City Treasurer. On September 3, 2013, the responsibilities were assigned to the Vice-Mayor<sup>1</sup>. Given the significant issues related to cash disbursement controls noted in our prior audit report, we see this as a positive development consistent with our recommendations.

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<sup>1</sup> Commission Resolution 51-2013

City capital assets consisted of the following as of the fiscal year end September 30, 2012<sup>2</sup>:

City of South Bay Capital Assets	\$ Value
Land	979,150
Buildings and Improvements	727,541
Utility Plant and Systems	128,521
Other Improvements	181,919
Equipment and Machinery	696,028
Total	2,713,159
Accumulated Depreciation	(1,449,604)
<b>Total Capital Assets, net</b>	<b>\$1,263,555</b>

## OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of this audit were to:

- Assess controls over City physical assets including structures, land, and equipment;
- Review personnel-related controls including payroll and human resources operating practices;
- Review cash disbursements made by City check in the nine months that followed the period addressed in our prior audit report.

All transactions tested occurred between January 2009 and December 2012, with the exception of cash disbursements testing that was extended from the period covered by the prior audit report to September 30, 2013. Our audit procedures included but were not limited to:

- Evaluating controls;
- Interviewing City personnel;
- Evaluating compliance with applicable policies and procedures;
- Selecting various samples of payroll and general expenditures from City records;
- Reviewing any available supporting documentation, and in some cases pursuing relevant information from third parties.

This audit was conducted 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.

<sup>2</sup> Most recent audited financial statements, September 30, 2012

**FINDINGS AND RECOMMENDATIONS****PROPERTY AND EQUIPMENT****Finding (1): CITY ASSETS WERE NOT PROPERLY CONTROLLED AND ACCOUNTED FOR**

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We found poor asset recordkeeping including not maintaining an accurate inventory of assets, not making timely accounting entries to reflect asset disposition, and not recording depreciation over many years. This resulted in the City making a large write-off (reduction) to the value of assets recorded on the City's books. The lack of adequate recordkeeping and accounting greatly increased the risk of errors and misappropriation of assets.

In March 2012 the Commission approved<sup>3</sup> a \$753,460 write-off consisting of \$290,654 for a construction project, \$146,947 in buildings and improvements, and \$315,859 of equipment. The adjustments were made retroactively to the City's financial statements for the year ended September 30, 2011.

Early in our audit, we requested documentation to support the \$753,460 write-off. Initially the City was unable to provide us any documentation. As we were finalizing our draft report, the City provided us with documentation for two of the three large components of the write-off.

From the documentation provided by the City and an additional check of County property records, we determined that payments totaling \$290,654 were made by the City on an entrance roadway construction project in 2000, and the property on which the roadway exists was sold in 2004, but the City never adjusted its accounting records until 2012. In addition, the write-off of \$146,947 related to an asset (City boat ramp) transferred to Palm Beach County in 2009, but the disposition was not accounted for until 2012. The lack of timely accounting for significant asset disposals was a serious weakness in control.

The write-off of \$315,859 of equipment resulted from a physical inventory performed by the City in 2011 which identified significant discrepancies between the inventory results and the equipment in the City's records. No documentation was provided by the City to identify the equipment not accounted for during the 2011 physical inventory. The write-off of equipment that could not be located is a questioned cost of \$315,859 as it is undeterminable whether the assets were properly disposed of or potentially lost or stolen.

In order to test the City assets currently on the City records, we selected a sample of five equipment items and five vehicles with a total cost basis of approximately \$206,000, representing 8% of the value of City assets before depreciation. We verified that the

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<sup>3</sup> Commission Resolution 13-2012

items were under City control and were properly accounted for in the City's financial records.

### Recommendations

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- (1) The City Manager should establish a policy and procedures for conducting periodic physical inventories of fixed assets, at least on an annual basis.**
- (2) The City Manager should ensure that accounting for assets is performed accurately and on a timely basis.**
- (3) The City Manager should require that the Finance Department review if asset records are available from prior periods to identify assets that were unaccounted and would support seeking recovery.**

### Management Response

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- (1) The City Manager will ensure that the Finance Department conducts a physical inventory of all City assets at least once per year.**
- (2) The City fixed asset policy adopted in Resolution 13-2012 requires accounting for all changes to fixed assets. The City Manager will ensure that the Finance Department is accounting for fixed assets on a timely basis.**
- (3) The City Manager will request that the Finance Department continue developing a list of written-off assets and related documentation for Commission consideration.**

### Finding (2): CITY PROPERTIES ARE IN A STATE OF DECAY AND PRESENT POTENTIAL SAFETY HAZARDS TO CITIZENS

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During our review of City properties, we conducted walkthroughs of six City-owned locations. Several City facilities, including recreational facilities, are in a state of physical decay, are not usable, and present potential dangers to citizens as they have not been repaired, demolished, or otherwise secured from access.

Securing the properties from public access could avert potential safety concerns and reduce the potential liability for the City. Repairing recreational facilities can provide a benefit to the citizens of South Bay. Funds have been used for new projects and other activities that could be considered discretionary at the same time hazardous and/or unusable conditions exist at various other City locations.

Examples of deteriorating City-owned properties that we noted during physical inspection included:

- 22 NW 1<sup>st</sup> Avenue (the “American Legion Hall”): Roof collapsed into the structure, no windows, no perimeter security. *(Picture Below Left)*
- Tanner Park: Racquetball courts that are in disrepair and the doors are heavily damaged and not secured. *(Picture Below Center)*
- Abandoned Service Station at 480 US Highway 27 N without any security fencing. *(Picture Below Right)*



A formal safety and maintenance inspection program does not exist to identify and address the issues with City properties. A visit to City facilities was conducted in 2012 by a risk representative of the Florida League of Cities (FLC); however it addressed only City operated building and park structures and did not evaluate other City-owned structures. FLC provided various templates and forms that the City could adapt/customize in developing safety inspection programs. FLC noted that the insurance cost to the City could be reduced by a 2% Safety Program Premium Credit if implemented. The City had not yet addressed all the recommendations by FLC and implemented the program.

We were informed that in response to this finding management is taking various actions. The City has requested the reallocation of certain grant funds totaling \$456,625 from a road project for use in the rehabilitation of City parks.

### Recommendations

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- (4) The City Manager should conduct a formal evaluation of the condition of all City-owned property that determines the need for repairs, demolition, and/or securing the property from access.**
- (5) The City Manager should implement a formal on-going safety inspection and maintenance program for City-owned property.**



- (6) The City Manager should direct a review of capital funding options for addressing the issues with City-owned property.

### Management Response

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- (4) All City properties have been evaluated as of the first quarter of 2013. The properties noted in the report were scheduled for demolition that started in the 2<sup>nd</sup> quarter of 2013 and is continuing through the 2<sup>nd</sup> quarter of 2014.
- (5) The Public Works Department has implemented a routine, on-going inspection program starting July 2013 the results of which are documented and reviewed by the Director of Public Works, HR Director/Risk Manager and, periodically, by the City Manager.
- (6) A grant in the amount of \$450,000 will be used to rehab City-owned property. The City Manager will ensure that staff reviews the availability of other grants and/or request Commission consideration for allocation of budget resources.

### Finding (3): THE CITY COULD INCREASE ITS REVENUE AND REDUCE EXPENSES BY REDUCING THE NUMBER OF CITY-OWNED PROPERTIES

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The City has accumulated many properties over the years through conversion, donation, and purchase. Currently, the City owns 46 parcels, 14 of which have at least one structure on the property. In-use City buildings or parks occupy a total of seven of the parcels. The combined estimated market value of the properties, as established by the Palm Beach County Property Appraiser, is \$2.9 million. The market value for various parcels, however, may be higher than the appraised value.

The City does not have a process to evaluate how each property should be maintained, or whether it should be sold or donated. The lack of a formal process to determine the more immediate and longer term plan for each parcel could be denying the City revenue through sale or lease, as well as reductions to maintenance costs. Given the City's challenged financial condition, establishing such a process could provide a much needed financial benefit.

Examples of City-owned property not used for City operations include:

Parcel No.	Description	Status	Appraised Market Value <sup>4</sup>
58364411000003020	Land and building	See Finding 4	\$92,830
58364414090000220	Land and building	Vacant	\$247,555
58364411000007260	Land – 12 acres, farm	Leased	\$255,527
58364411000003140	Land – 79 acres, farm	Leased	\$271,469
58364411000007081	Commercial frontage, including service station building <sup>5</sup>	Vacant	\$16,587

### Recommendations

- (7) The City Manager should propose plans for the Commission to evaluate the optimal use or disposition of City-owned property, including properties containing facilities no longer in use by the City.**

### Management Response

- (7) The Commission has reviewed a comprehensive proposal for disposition of various properties and approved by motion in January 2014 that staff begin marketing City-Owned Surplus Real Estate.**

### Finding (4): THE CITY DOES NOT COLLECT LEASE PAYMENTS ON A PROPERTY OCCUPIED BY A COMMERCIAL OPERATION THEREBY LOSING REVENUE

The City owns three parcels of land occupied by a third party business adjacent to US Highway 27 that is being used for manufacturing. The total land area is approximately 10 acres.

Our review found that no lease agreement is in place and lease payments have not been collected since April 2007. Up to that time and for years, an informal (undocumented) agreement between the City and the business resulted in a \$750 monthly payment. Our review of court records show that the City has periodically been in litigation with the business since 2006 concerning use of the land including unpaid lease payments. Both parties have filed various claims against the other during this time but no resolution was reached until recently. In its response, the City stated that recently the 4th District Court of Appeals ruled in favor of the City and the City is in the process of removing the tenant.

<sup>4</sup> Per Palm Beach County Property Appraiser; actual market value will vary.

<sup>5</sup> The Commission approved a Brownfield Site assessment by Commission Resolution 50-2013.

The failure of the City to initially establish a formal lease contract and to subsequently resolve the matter on a timely basis has resulted in lost revenue to the City, and exposed the City to potential liability related to the manufacturing business operating on its property. Acceptable use, including the prohibition and control of potentially dangerous or environmentally damaging materials and related indemnities, has not been defined and documented in a contract. During our audit, the City Manager mailed a letter to the business on September 9, 2013 noting the failure of the business to respond to a lease offer made in the prior month and stating that the property will be secured. It is our understanding that the City has moved to secure the property. (Picture to right.)



An estimate of the lost revenue, based on prior lease payments of \$750 per month, is a questioned cost of \$60,000.

### Recommendations

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- (8) The City Manager should ensure that a lease agreement is in place with any third party that occupies a City property.**
- (9) The City Manager and City Attorney should resolve the situation with the property by proposing a lease, sale, or other action for the Commission to consider, consistent with recommendation (7).**
- (10) The City Manager should work with the City Attorney to determine if unpaid lease amounts from prior periods can be collected from the business.**

### Management Response

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- (8) The City Manager will verify that all properties occupied by third parties are covered by a lease agreement, except for the property noted in this finding. All other properties are under current leases.**
- (9) This property case was recently decided upon by the 4<sup>th</sup> District Court of Appeals in favor of the City of South Bay after a lengthy legal proceeding. The tenant is being removed from the property.**

- (10) The City Commission is reviewing a debt collection policy and staff is seeking approval in February 2014; should Counsel indicate that the City can successfully collect compensation for the occupancy of the City land it would be pursued according to the policy.

**Finding (5): THE CITY HAS NOT ACCOUNTED FOR INFRASTRUCTURE ASSETS RESULTING IN FINANCIAL STATEMENTS THAT LACK CONFORMITY WITH GOVERNMENTAL ACCOUNTING STANDARDS**

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The City's accounting for infrastructure assets such as roads, curbs, and lighting assets was not consistent with generally accepted accounting principles, and resulted in repeated adverse audit opinions on the City's governmental activities rendered by the public accountants.

The Government Accounting Standards Board (GASB) issued Statement 34 which in part requires local governmental entities with less than \$10 million in revenues to include, for periods beginning after June 15, 2003, the capitalized value of infrastructure assets in the government-wide financial statements. In addition, such assets must be depreciated over their useful lives. The City has not implemented the requirement as it has not placed a value on its infrastructure and recorded the value in the financial statements, and has not depreciated those assets.

As a result, the public accountant's opinion on the City's most recent financial statements stated as follows: "...the financial statements...do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the City as of September 30, 2012, or the changes in financial position for the year then ended".

City financial statements that are noncompliant with accounting principles reduce the information available to the Commission and the public, and adversely impact the City's credibility with financial and governmental entities that review the City's financial statements when making an evaluation of the City's financial condition.

**Recommendations**

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- (11) The City Manager should ensure that the Finance Department takes appropriate action to resolve the lack of compliance in the City's financial statements with governmental accounting standards.
- (12) The City Manager should ascertain that the Finance Director is appropriately accounting for additions or dispositions of assets related to the City's infrastructure.

## Management Response

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- (11) The City Manager has instructed the Finance Director to ensure City compliance by year-end 9/30/2014.
- (12) The Finance Director will account for infrastructure assets according to GASB 34 and City policy.

## HUMAN RESOURCES & PAYROLL

### **Finding (6): THE CITY'S TERMINATION OF TWO EMPLOYEES WAS INCONSISTENT WITH CITY POLICY**

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During the course of this audit we were informed by City staff that there were several questionable personnel actions taken by the former City Manager. According to the former City Manager's contract, the City Manager has the authority over City employee personnel matters including such action as hiring and terminations, but must follow City Employee Handbook policy<sup>6</sup> in such matters.

We noted that the former City Manager did not follow City policy in the termination of two employees in November 2012. Both employees were terminated by phone calls from the former City Manager. We were informed by the Director of Human Resources that documents of alleged improper conduct were placed in the employees' files by the former City Manager after the employees' terminations. We noted that the documents, signed by the former City Manager, were undated. In neither case were the two employees offered a pre-termination meeting as provided for in City policy:

*“Pre-termination meetings are scheduled for terminating employees with the Director of Human Resources. The pre-termination meeting affords the employee an opportunity to be heard with respect to the reasons and or facts the employee believes do not support a termination of employment. If the Director of Human Resources finds that the termination should proceed, she/he shall issue the Notice of Termination. If the Director of Human Resources believes the facts and circumstances do not support a termination she/he shall provide a written recommendation to the City Manager indicating the facts and circumstances supporting an action less than termination and a recommendation for lesser disciplinary actions, if any.”*

Following a review of the circumstances of these terminations, City staff and the City Attorney recommended reinstatement. The two former employees were reinstated by the Acting City Manager in December 2012.

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<sup>6</sup> City of South Bay Employee Handbook, Chapter XIV, Sections C-M, pages 66-73

## Recommendations

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**(13) The City Manager should ensure that employee terminations follow the City's policies.**

## Management Response

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**(13) The City Manager and Human Resources Director will ensure terminations are consistent with City policy and State Statute. Corrected 4<sup>th</sup> quarter 2012.**

## Finding (7): EMPLOYMENT AND COMPENSATION OF A FORMER DIRECTOR OF CODE ENFORCEMENT WAS NOT CONSISTENT WITH CITY POLICIES AND WE COULD NOT SUBSTANTIATE A MEASURABLE BENEFIT TO THE CITY

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On May 18, 2009, the former City Manager hired an individual as South Bay's Director of Code Enforcement and Compliance at the rate of \$15/hour. The cost to the City of that individual was as follows:

Fiscal Year	Pay	Benefits	Total
2009	\$12,750	\$3,521	\$16,271
2010	3,494	2,169	5,663
<b>Total</b>	<b>\$16,244</b>	<b>\$5,690</b>	<b>\$21,934</b>

Based on our interviews of City personnel and review of documentation, we noted that code enforcement related activity was almost non-existent during the period of employment, and the individual was very rarely seen in South Bay. The former City Manager did not require the former Director of Code Enforcement to personally complete and sign a record of time worked as required by City policy. We found that the former Director of Code Enforcement only signed 13% of his timesheets. The only documentation the City could provide relative to outcomes of code enforcement work was ten Code Compliance notices sent to one owner of a business all on the same date.

Likewise, we noted that the former Director of Code Enforcement was hired as "full-time" status and therefore received full City benefits as provided for in City policy. However, the former Director's weekly timesheets averaged 20.3 hours. The part-time status should have resulted in termination of full-time benefits. Related to this, we noted that in July 2010, the former City Manager authorized a payment of 80 hours of unused accrued vacation time to the former Director of Code Enforcement. The payment was part of a final payout to the former Director of Code Enforcement who resigned his employment with the City on June 26, 2010. As a part time employee, the Former Director would not be entitled to paid vacation time.

We have identified the total cost to the City of \$21,934 as a questioned cost. The OIG referred this matter to the State Attorney's Office.

### Recommendations

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- (14) The City Manager should seek to determine the basis for the costs incurred by the City with respect to the former Director of Code Enforcement, and consult with the City Attorney on recovering any inappropriate costs.**

### Management Response

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- (14) The City Manager and Human Resources Director will ensure employee compensation and benefit payouts are consistent with City policy and State Statute. A debt collection policy is under review by the City Commission and staff is seeking approval in February 2014.**

### **Finding (8): THE CITY DID NOT PERFORM ADEQUATE CHECKS TO DETECT THAT THE FORMER CITY MANAGER WAS DRIVING A TAKE-HOME CITY VEHICLE ON A SUSPENDED LICENSE**

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During our review of City procedures concerning vehicles used by employees on City business, we requested documentation of driver's license status. In the case of the former City Manager, we were provided a copy of a State of Florida identification card. When we brought to the City's attention that the card was for identification and was not a driver's license, it was discovered that the City had not collected and verified license information. According to Florida Department of Highway Safety and Motor Vehicle records, the former City Manager had a suspended driver's license at the time he was hired. His license was suspended for the first 14 months of his employment and again for approximately two months toward the end of his employment. Throughout his employment, the former City Manager used a take-home City vehicle that was driven in excess of 60,000 miles.

The former City Manager's driver's license status was not detected by the City through pre and post hiring procedures. The City had inadequate procedures to verify licensing prior to allowing employees to drive City-owned vehicles on City business.

In addition to the former City Manager driving without a valid driver's license, the City was exposed to the potential for liability by providing a take-home City vehicle to an employee who did not possess a valid driver's license. We have identified the value of fuel charges to the City Manager's fuel account, \$11,885, as a questioned cost.

## Recommendations

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- (15) The City should perform timely driver's license verification and obtain and review a driving record report for any employees who may operate a City or private vehicle on City business. This should occur at the time of pre-employment screening and periodically during employment.
- (16) Human Resource review and retention of a copy of the driver's license and driving record should be added to the New Employee Checklist.
- (17) The City should consider seeking reimbursement from the former City Manager for misuse of City property.

## Management Response

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- (15) The City's Human Resources Department will perform driver's license verification before employment and every six (6) months on current employees. It is the employee's responsibility to notify Human Resources of a suspended license per City policy.
- (16) The City has modified the new and current employee checklists to include driver's license verification.
- (17) The City will consider all amounts that may be owed to the City by the former employee for collection. A debt collection policy is under review by the City Commission and staff is seeking approval in February 2014.

## Finding (9): TIMESHEETS ARE NOT ALWAYS SIGNED BY THE EMPLOYEE AND APPROVED/SIGNED BY THE EMPLOYEE'S SUPERVISOR

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The City uses a combination of the PayPunch Time System to record employee work time and outsourced payroll processing by Automatic Data Processing, Inc. (ADP) to administer its weekly payroll (see "Attachment 2" flowchart).

We sampled three sets of timesheets and payroll records for four randomly selected employees each year for a period of two years (24 timesheets). We identified a lack of supervisor review of weekly reports (employee timesheets). We found that 17 of 24 (71%) of timesheets were not signed by the supervisor to indicate review/approval. We also found that 8 of 24 (33%) of timesheets were not signed by the employee. There were 3 of 24 (13%) of timesheets that were not signed by either the supervisor or the employee.

Our results show that supervisor approval of employee timesheets is not being consistently performed and timesheets are not always signed by the supervisor or the employee. This is due in part to the fact that there are no written procedures to



document the process and identify the duties and responsibilities of supervisors, employees and the timekeeper. Documentation of the timekeeping/payroll process is an important internal control that helps ensure that each employee involved in the process is aware of and understands the requirements.

### Recommendations

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- (18) The City Manager should ensure that the employee signs his/her weekly timesheet and his/her supervisor approves by signature the weekly timesheet.**
- (19) The City Manager should ensure that written procedures are developed and communicated to each employee that document the timekeeping/payroll process.**

### Management Response

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- (18) Employees will be required to sign for time they are submitting for payroll and the employee's supervisor will be required to review and approve the employee's timesheet. Human Resources verify the payroll and final approval is by the City Manager on a weekly basis. A Commission-approved Accounting Policy is in place that ensures that payroll documents are reviewed and the Payroll compilation sheet is approved by the City Manager.**
- (19) Supervisors have been provided with updated requirements.**

### Finding (10): EMPLOYEE PERFORMANCE EVALUATIONS WERE NOT PERFORMED ACCORDING TO POLICY

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The City's policy, as stated in the Employee Handbook, requires a documented annual performance evaluation for each employee<sup>7</sup>. We found that 4 of 5 employees in our sample did not have an annual performance evaluation performed as required. Only the former City Manager's evaluation, conducted by the Commission, was completed according to the requirement. It is our understanding from discussion with the Human Resources Director and review of files that the former City Manager reviewed and signed few performance evaluations.

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<sup>7</sup> City of South Bay Employee Handbook, Chapter V, Section C, page 24

Exceptions to City policy in our sample were as follows:

Employee Sample #	Most Recent Performance Evaluation
1	3/31/2009
2	9/30/2010
3	3/10/2011
4	None

Performance evaluations are a tool to enhance employee performance and add value to the City. Failure to provide a timely performance evaluation deprives employees of formalized constructive feedback on where to improve performance and continue good performance.

### Recommendations

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**(20) The City Manager should ensure that performance evaluations are performed on a timely basis in accordance with the City's policy.**

### Management Response

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**(20) The City Manager and department heads conducted evaluations of all City staff in August 2013. The City Manager and Human Resources will ensure that evaluations are performed in accordance with the Employee Handbook.**

## CASH DISBURSEMENTS

### **Finding (11): THE CITY DOES NOT INVEST A SIGNIFICANT PORTION OF ITS CASH FUNDS, THEREBY NOT MAXIMIZING INTEREST REVENUE**

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During our roll-forward of cash disbursements made by City check for the nine months subsequent to the period addressed in our prior audit report, we reviewed three months of City bank statements. We noted that the City maintained cash balances, in excess of \$1 million on a combined basis, which were not invested in interest bearing accounts or instruments. The City has thirteen bank accounts, seven of which are non interest bearing.

Section 218.415(17), Florida Statutes allows for a municipality to invest its public funds in certain authorized investments even when no written policy exists.

We analyzed the City's cash balances at prior fiscal year ends 2010-2012, and included the balances as of June 30, 2013. The estimated amount of interest revenue that could have been earned by the City based on the average rates available from the Florida Local Government Surplus Trust Fund (an investment option authorized by statute) is outlined below:

Period Ended	Total Cash Balance <sup>8</sup>	Estimated Interest Revenue Lost
September 30, 2010	\$728,019	\$1,972
September 30, 2011	\$868,047	\$2,022
September 30, 2012	\$1,242,952	\$3,228
June 30, 2013	\$1,151,801	\$2,115
	<b>Total</b>	<b>\$9,337</b>

We estimate that had the City invested these funds, \$9,337 in additional revenue could have been earned. The lack of a process to invest funds has resulted in lost revenue.

### Recommendations

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**(21) The City Manager and City Treasurer should present a proposed written investment policy to the Commission for consideration.**

### Management Response

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**(21) The Commission adopted Resolution 68-2013 on December 3, 2013, for the creation and implementation of an Investment Policy based on current City's financial conditions of obligated funds.**

### Finding (12): THE CITY MANAGER WAS PROVIDED A TEMPORARY LOAN IN VIOLATION OF CITY POLICY AND THE FLORIDA CONSTITUTION

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In our review of cash disbursements, we noted that the City Manager was provided a loan from the City for \$6,300 that was repaid the next day.

In our prior audit report<sup>9</sup> we stated the following, where we reported loans to an employee and advances to Commissioners:

*“These transactions were inappropriate, and contrary to Article VII, Section 10 of the Florida Constitution, which states, in part: “Pledging credit; Neither the state nor any county, school district, municipality, special district, or agency of any of them, shall become a joint owner with, or stockholder of, or give, lend or use its taxing power or credit to aid any corporation, association, partnership or person...”*

The City Manager informed us that this transaction was conducted to enable him to obtain a credit card account for use by the City where he was in the position of

<sup>8</sup> In non-interest bearing accounts; balance at June 30, 2013 includes only General Fund, Sanitation and Water and Sewer cash balances.

<sup>9</sup> Audit Report 2013-A-0006, Finding 5

guarantor on the account. He stated that the City was otherwise unable to obtain a credit card account due to the City's state of financial emergency designated by the State. See Finding 13.

### Recommendations

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**(22) The City should comply with State prohibitions against loans to employees.**

### Management Response:

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**(22) In an effort to correct the OIG findings in the first phase of the audit the City applied for credit with many financial institutions and received an offer from a bank with the direct assistance of the City Manager when several banks and American Express declined to provide a credit card to the City.**

**The City will comply with City policy and Florida Constitution.**

### Finding (13): A CREDIT CARD ACCOUNT WAS ESTABLISHED FOR USE BY CITY EMPLOYEES WITH THE CITY MANAGER AS PERSONAL GUARANTOR

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In our previous report<sup>10</sup> we reported that the American Express credit card account used by City employees was subject to substantial abuse and lack of control. We also reported that the cards which were in the name of the former City Clerk, continued to be used after the former City Clerk was no longer employed with the City. The credit card account has since been replaced with new credit cards issued on a new account by Bank of America. The credit cards were distributed by the City Manager for his use and that of the Finance Director and Town Clerk. However, we were informed that due to difficulties experienced by the City in trying to obtain City credit cards, the new credit card account is guaranteed personally by the City Manager.

We recognize that the City Manager was attempting to take action to correct the conditions cited in our previous report by closing the previous inappropriate credit card account and establishing a new credit card account. However, it is not appropriate for the City to establish a credit card to be used for City business that is attached to the personal guarantee of a City employee. In this case, having the City Manager as the guarantor of the account creates an inherent conflict in that the City Manager reviews and approves expenditures on the credit card. If the card were misused by a City employee and the transaction needed to be disapproved for payment by the City Manager, he would be personally liable for making payment on that transaction. Also, all City credit card activity accrues to the City Manager's personal credit record.

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<sup>10</sup> Audit Report 2013-A-0006

## Recommendations

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- (23) The City Manager should work with the Finance Director to identify alternative means to pay for goods and services where use of a credit card is beneficial. This may include use of purchasing cards and City credit cards with control features and transaction volume benefits such as rebates that accrue to the City.

## Management Response

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- (23) In an effort to correct the OIG findings in the first phase of the audit the City applied for credit with many financial institutions and received an offer from a bank with the direct assistance of the City Manager when several banks and American Express declined to provide a credit card to the City. This was always established for the City to develop a positive relationship and credit history with the issuing bank; therefore, the City issued credit card has no personal guarantor.

## Office of Inspector General Comment

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We requested that the City provide us documentation that the personal guarantee has been removed from the credit card account; however, we have not been provided the documentation.

## QUESTIONED COST AND COST AVOIDANCE <sup>11</sup>

### Questioned Costs:

Unspecified Assets Written-off	\$315,859
Lost Rent Revenue	60,000
Unsubstantiated pay and benefits	21,934
Improper City Vehicle Use - Fuel	11,885
Lost interest income	<u>9,337</u>

**Total Questioned Cost      \$419,015**

**Cost Avoidance:** **\$1,142,025**<sup>12</sup>

## ATTACHMENTS

Attachment 1-      Complete Management Response  
Attachment 2-      Payroll Process Flowchart

## ACKNOWLEDGEMENT

The Inspector General's audit staff would like to extend our appreciation to the City employees for their assistance in the completion of this audit.

*This report is available on the OIG website at: <http://www.pbcgov.com/OIG>. Please address inquiries regarding this report to Dennis Schindel, Director of Audit, by email at [inspector@pbcgov.org](mailto:inspector@pbcgov.org) or by telephone at (561) 233-2350.*

<sup>11</sup> Please see [www.pbcgov.com/OIG](http://www.pbcgov.com/OIG) for description

<sup>12</sup> During a post review an error in the calculation of the cost avoidance was noted. This error does not affect any finding or the audit conclusion (corrected 8/14/15).

## ATTACHMENT 1 - Complete Management Response

**City of South Bay***Office of  
City Manager*

South Bay City Hall  
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South Bay, FL 33493  
Telephone: 561-996-6751  
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**Commission**

Esther E. Berry  
Mayor

Joe Kyles Sr.  
Vice Mayor

Taranza McKelvin  
Shanique S. Scott

Leondrae D. Camel  
City Manager

Jessica Figueroa  
City Clerk

Thomas Montgomery  
City Attorney

"An Equal Opportunity  
Affirmative Action Employer"

February 6, 2014

Dennis Schindel, Director of Audit  
Palm Beach County Office of Inspector General  
P.O. Box 16568  
West Palm Beach, FL 33416

RE: OIG Management Response Audit Report Property, Human Resources & Payroll

Dear Mr. Schindel,

The City of South Bay has reviewed the DRAFT findings for the OIG report concerning the City of South Bay Property, Human Resources and Payroll.

Based upon previous events the OIG initiated an audit during the last quarter of 2012 and concluded during the last quarter of 2013. This audit was done in two phases; the initial report was released in May 2013. This is the second phase of the report which encompasses the same time frame as the initial report.

The City of South Bay during this administration has implemented many of the recommendations in the OIG findings prior to the issuance of this report. Management will continue improving internal control process in order to operate the City in a very efficient manner.

The City of South Bay appreciates the opportunity to comment on the draft audit report. Our detailed response is attached.

Sincerely,

Leondrae D. Camel  
City Manager

**ATTACHMENT 1 (continued) - Complete Management Response****Finding (1): CITY ASSETS WERE NOT PROPERLY CONTROLLED AND ACCOUNTED FOR****Management Response:**

Implemented 1<sup>st</sup> quarter 2012

1. The City Manager will ensure that the Finance Department conducts a physical inventory of all City assets at least once per year.
2. The City fixed asset policy adopted in Resolution 13-2012 requires accounting for all changes to fixed assets. The City Manager will ensure that the Finance Department is accounting for fixed assets on a timely basis.
3. The City Manager will request that the Finance Department continue developing a list of written-off assets and related documentation for Commission consideration.

**Finding (2): CITY PROPERTIES ARE IN A STATE OF DECAY AND PRESENT POTENTIAL SAFETY HAZARD TO CITIZENS****Management Response:**

Implemented 3<sup>rd</sup> quarter 2013

4. All City properties have been evaluated as of 1<sup>st</sup> quarter of 2013. The following properties noted in the report were scheduled for demolition that started in 2<sup>nd</sup> quarter of 2013 and is continuing through completion in the 2<sup>nd</sup> quarter 2014.
5. The Public Works Department has implemented a routine, on-going inspection program starting July 2013 the results of which are documented and reviewed by the Director of Public Works, HR Director/ Risk Manager and, periodically, by the City Manager.
6. A grant in the amount of \$450,000 will be used to rehab City owned property. The City Manager will ensure that staff reviews the availability of other grants and/or request Commission consideration for allocation of budget resources.

**Finding (3): THE CITY SHOULD INCREASE ITS REVENUE AND REDUCE EXPENSES BY REDUCING THE NUMBER OF CITY OWNED PROPERTIES****Management Response:**

7. The Commission has reviewed a comprehensive proposal for disposition of various properties and approved by motion on January 2014 approving staff to begin marketing of surplus City Owned Surplus Real Estate.

**Finding (4): THE CITY DOES NOT COLLECT LEASE PAYMENTS ON A PROPERTY OCCUPIED BY A COMMERCIAL OPERATION THEREBY LOSING REVENUE****Management Response:**

8. The City Manager will verify that all properties occupied by third parties are covered by a lease agreement, except for the property noted in this finding. All other properties are under current leases.
9. This property case was recently decided upon by the 4<sup>th</sup> District Court of Appeals in favor of the City of South Bay after a lengthy legal proceeding. The tenant is being removed from the property.



**ATTACHMENT 1 (continued) - Complete Management Response**

10. The City Commission is reviewing a debt collection policy and staff is seeking approval in February 2014; should Counsel indicate that the City can successfully collect compensation for the occupancy of the City land it would be pursued according to the policy.

**Finding (5): THE CITY HAS NOT ACCOUNTED FOR INFRASTRUCTURE ASSETS RESULTING IN FINANCIAL STATEMENTS THAT LACKS CONFORMITY WITH GOVERNMENTAL ACCOUNTING STANDARDS****Management Response:**

11. The City Manager has instructed the Finance Director to ensure City compliance by year-end 9/30/2014.
12. The Finance Director will account for infrastructure assets according to GASB 34 and City policy.

**Finding (6): THE CITY CONDUCTED TWO TERMINATIONS THAT WERE INCONSISTENT WITH CITY POLICY****Management Response:**

13. The City Manager and Human Resources Director will ensure terminations are consistent with City policy and State Statute. Corrected 4<sup>th</sup> quarter 2012.

**Finding (7): EMPLOYMENT AND COMPENSATION OF A FORMER DIRECTOR OF CODE ENFORCEMENT WAS NOT CONSISTENT WITH CITY POLICIES AND WE COULD NOT SUBSTANTIATE A MEASURABLE BENEFIT TO THE CITY****Management Response:**

14. The City Manager and Human Resources Director will ensure employee compensations and benefit payouts are consistent with City policy and State Statute. A debt collection policy is under review by the City Commission and staff is seeking approval in February 2014.

**Finding (8): THE CITY DID NOT PERFORM ADEQUATE CHECKS TO DETECT THAT THE FORMER CITY MANAGER WAS DRIVING A TAKE-HOME CITY VEHICLE ON A SUSPENDED LICENSE****Management Response:*****Implemented 3<sup>rd</sup> quarter 2013***

15. The City's Human Resources Department will perform driver's license verification before employment and every six (6) months on current employees. It is the employee's responsibility to notify Human Resources of a suspended license per City policy.
16. The City has modified the new and current employee checklists to include driver's license verification.
17. The City will consider all amounts that may be owed to the City by the former employee for collection. A debt collection policy is under review by the City Commission and staff is seeking approval in February 2014.

**ATTACHMENT 1 (continued) - Complete Management Response****Finding (9): TIMESHEETS ARE NOT ALWAYS SIGNED/APPROVED BY THE SUPERVISOR OR SIGNED BY THE EMPLOYEE****Management Response:**

18. Employees will be required to sign for time they are submitting for payroll and the employee's supervisor will be required to review and approve the employee's timesheet. Human Resources verify the payroll and final approval is by the City Manager on a weekly basis. A Commission-approved Accounting Policy is in place that ensures that payroll documents are reviewed and the Payroll compilation sheet is approved by the City Manager.
19. Supervisors have been provided with updated requirements.

**Finding (10): EMPLOYEE PERFORMANCE EVALUATIONS WERE NOT PERFORMED ACCORDING TO POLICY****Management Response:**

20. The City Manager and department heads conducted evaluations of all City staff in August 2013. The City Manager and Human Resources will ensure that evaluations are performed in accordance with the Employee Handbook.

**Finding (11): THE CITY DOES NOT INVEST CASH FUNDS, THEREBY LOSING THE OPPORTUNITY TO EARN INTEREST REVENUE****Management Response:**

21. The City Commission adopted Resolution 68-2013; on December 3, 2013 for the creation and implementation of an Investment Policy based on current City's financial conditions of *obligated funds*.

**Finding (12): THE CITY MANAGER WAS PROVIDED A TEMPORARY LOAN IN VIOLATION OF CITY POLICY AND THE FLORIDA CONSTITUTION****Management Response:***Necessary Corrective Action*

In an effort to correct the OIG findings in the first phase of the audit the City applied for credit with many financial institutions and received an offer from a bank with the direct assistance of the City Manager; when several banks and American Express declined to provide a credit card to the City.

22. The City will comply with City Policy and Florida Constitution.

**Finding (13): THE CREDIT CARD ACCOUNT WAS ESTABLISHED FOR USE BY CITY EMPLOYEES WITH THE CITY MANAGER AS PERSONAL GUARANTOR****Management Response:***Necessary Corrective Action*

In an effort to correct the OIG findings in the first phase of the audit the City applied for credit with many financial institutions and received an offer from a bank with the direct assistance of the City Manager; when several banks and American Express declined to provide a credit card to the City. This was always established for the City to develop a positive relationship and credit history with the issuing bank; therefore, the City issued Credit card has no personal guarantor.

**ATTACHMENT 2 – Payroll Processing Flowchart**

