

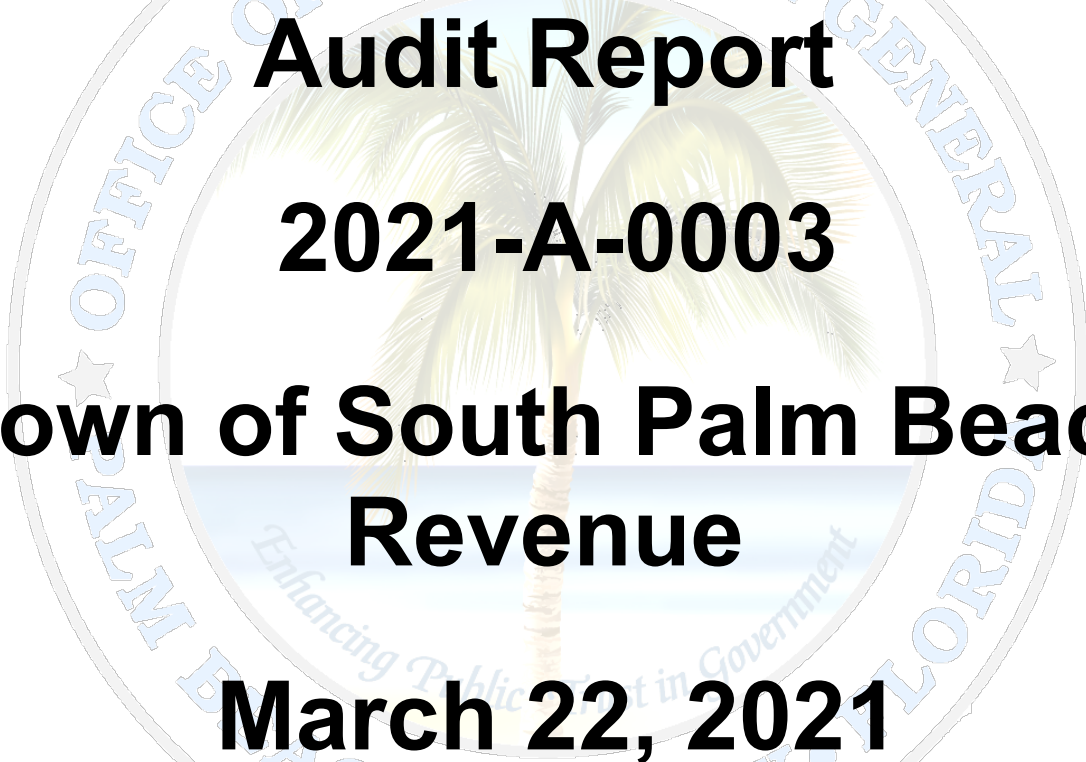
John A. Carey  
Inspector General

## OFFICE OF INSPECTOR GENERAL PALM BEACH COUNTY



Inspector General  
Accredited

*“Enhancing Public Trust in Government”*



# **Audit Report**

## **2021-A-0003**

### **Town of South Palm Beach**

### **Revenue**

### **March 22, 2021**



John A. Carey  
Inspector General

# OFFICE OF INSPECTOR GENERAL PALM BEACH COUNTY

## AUDIT REPORT 2021-A-0003

DATE ISSUED: MARCH 22, 2021



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### TOWN OF SOUTH PALM BEACH REVENUE

#### SUMMARY

##### WHAT WE DID

We conducted a revenue audit of the Town of South Palm Beach (Town). This audit was performed as part of the Office of Inspector General, Palm Beach County (OIG) 2020 Annual Audit Plan.

Our audit focused on revenue and related cash receipt activities that occurred during Fiscal Year (FY) 2017 through FY 2019 (October 1, 2016 – September 30, 2019).

##### WHAT WE FOUND

We found control weaknesses for the Town's revenue and financial operations processes. In most instances, the Town's employees carried out their work using established processes; however, some activities were not sufficiently documented or lacked sufficient written guidance to ensure consistency in performance, standards, and expectations. Our audit identified over-billings totaling \$170,071.94 that were included in the total questioned costs<sup>1</sup> of **\$204,512.18**. While these are questioned costs, we found no

indication of willful misconduct. We found **\$1,796.23** in identified costs.<sup>2</sup> All of these identified costs were in under-collected fees.

##### Sewer Revenue Process

We found that the Town did not notify customers of the annual sewer rate increase through the billing process or the date, time, and place of the annual meeting at which the increase was considered, as required by section 180.136, Florida Statutes.

Additionally, the sewer rates billed in FY 2017 and 2018 did not comply with Town Resolution No. 431.

As a result, the Town over-billed customers a total of **\$170,071.94** for FY 2017 and 2018 sewer fees. This is considered a questioned cost. As of FY 2019, the Town took corrective action to cease over-billings.

<sup>1</sup> Questioned costs are costs or financial obligations that are questioned by the OIG because of: an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, other agreement, policies and procedures, or document governing the expenditure of funds; a finding that, at the time of the OIG activity, such cost or financial obligation is not supported by adequate documentation; or, a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable. As such, not all questioned costs are indicative of potential fraud or waste.

<sup>2</sup> Identified costs are costs that have been identified as dollars that have the potential of being returned to the entity to offset the taxpayers' burden.

## **Controls for Financial Operations and Reporting**

We made several observations regarding the Town's financial operations and safeguarding of cash receipts:

- The Town did not provide adequate supporting documentation for three (3) general fund bank reconciliation variances totaling \$1,931.09.
- The Town did not perform a bank reconciliation for the sewer fund cash account for three (3) of the nine (9) months tested, as required by the Town's Adopted Accounting Procedures.
- The Town did not document the monthly reconciliations performed for the three (3) investment bank accounts.
- The Town did not have a process for the independent review and approval of monthly bank reconciliations.
- The Town did not follow its Adopted Accounting Procedures guidance for the receipt and safeguarding of cash and checks prior to bank deposit.
- The Town lacked adequate written guidance for cash and check payments received through the mail.
- The Banking and Cash Receipts sections of the Town's Adopted Accounting Procedures conflicted regarding the frequency of check deposits.

Additionally, the Town did not provide supporting documentation for 24 adjustment transactions totaling \$32,306.75 that reduced revenue or

reversed revenue entries. As a result, we could not determine if those adjustments were appropriate and reasonable.

The variances totaling **\$1,931.09** between the general fund bank statements and general ledger cash accounts, and the adjustment transactions totaling **\$32,306.75** are considered questioned costs because the Town lacked sufficient documentation to explain the variances and support the adjustment transactions.

## **General Revenue Process**

Of the 104 general fund revenue account entries tested, we found:

- One (1) transaction in the amount of \$13,603.95 for water utility taxes; four (4) transactions totaling \$24,572.98 for electric, gas, and solid waste franchise fees; and two (2) sewer administrative charges totaling \$1,000.00 that lacked sufficient supporting documentation.
- The Town incorrectly calculated one (1) permit fee amount causing the permit fee and surcharge amounts to be under collected by \$1,752.42 and \$43.81,<sup>3</sup> respectively.

We compared the revenues stated in the Town's Annual Financial Reports submitted to the Department of Financial Services (Department) to the general ledger and revenue source documentation, and found four (4) revenue sources were coded to the incorrect UAS revenue account code.

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<sup>3</sup> The surcharge amount was calculated using the correct building surcharge rates in accordance with sections 468.631 and 553.721, F.S., but was based on the incorrect permit fee amount.

In reconciling the Town's general ledger to the Permit Log<sup>4</sup> and Auditor Log<sup>5</sup> used to manually record and track building permit fee and receipt information, we noted 23 discrepancies totaling \$5,293.13. One (1) of the 23 discrepancies totaling \$204.40 was for building permits recorded on the Permit Log that could not be traced to a corresponding cash receipt/revenue on the general ledger.

The building permit and associated surcharge fee that were under collected resulted in an identified cost totaling **\$1,796.23**.<sup>6</sup> The building permit fee of **\$204.40** was considered a questioned cost because the Town potentially lost building permit revenue.

### IT Policies and Procedures

This audit included review of data reliability and integrity of computer systems related to revenue and permits. We found that the Town does not have written Information Technology (IT) policies for any of their IT processes. Lack of written guidance increases the risk of inconsistent operations and unauthorized or inappropriate access to the Town's computer systems.

### Corrective Actions

The Town's staff was proactive and took corrective action during the audit to address issues that were brought to their attention. In October 2019, the Town implemented independent review and approval of monthly general fund bank reconciliations. In February 2021, the Town submitted corrected Annual Financial Reports to the Department for the revenue sources that were coded to the incorrect UAS revenue account codes. Additionally, the Town installed a combination safe where staff now store cash receipts between bank deposits as required by the Town's Adopted Accounting Procedures.

### WHAT WE RECOMMEND

Our report contains four (4) findings and offers nineteen (19) recommendations. Implementation of the recommendations will 1) assist the Town in strengthening internal controls and 2) help ensure compliance with the Town's written guidance and regulatory requirements.

The Town is taking corrective action to implement the recommendations.

We have included the Town's management response as Attachment 1.

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<sup>4</sup> The Permit Log included information such as the building permit number, location, work performed, value of work performed, permit fee, and surcharge fee.

<sup>5</sup> The Auditor Log included information such as the building permit number, financial system cash receipt number, and amounts collected for permit and surcharge fees.

<sup>6</sup> Permit fee of \$1,752.42 + surcharge fees of \$43.81 = \$1,796.23

## BACKGROUND



The Town of South Palm Beach was incorporated in 1955. The current Charter of the Town was adopted by Ordinance No. 201 on February 8, 2000, and by referendum on March 14, 2000. This Charter supersedes in its entirety the former Charter, adopted by Ordinance No. 79 on July 22, 1980, and by referendum on November 4, 1980. The Town is a small community on one of South Florida's barrier islands located on US Highway A1A.

The Town has five (5) council members, including the Mayor, who are elected by the voters at large and which exercise the legislative powers of the Town. Town Council members are elected for terms of four (4) years each and serve until their successors are qualified. The Mayor is recognized as the official head of the Town for all ceremonial purposes. The Town Council selects in March of each year a Vice-Mayor. The Town Manager serves as the chief administrative and executive officer of the Town, responsible for the administration of all Town affairs.

The main sources of revenue for the Town are ad valorem taxes, utility taxes, building permits, franchise fees, and state shared revenue. The 2020 population was approximately 1,460.<sup>7</sup>

The OIG 2020 Annual Audit Plan had multiple entities selected for revenue audits. The Town was selected for audit since it had not been previously audited by the OIG.

The FY 2017 revenues totaled \$2,325,325 and expenditures totaled \$1,941,387, the FY 2018 revenues totaled \$2,268,005 and expenditures totaled \$1,922,952, and FY 2019 revenues totaled \$1,919,824 and expenditures totaled \$1,609,035.

## OBJECTIVES, SCOPE, AND METHODOLOGY

The overall objectives of the audit were to determine if:

- Revenue controls were adequate for revenue and/or cash intake/receipt activities;
- Revenues were recorded appropriately and accurately in compliance with financial requirements;
- Cash receipts were accurately and timely recorded; and
- The Town made efficient use of revenue through investments.

The scope of the audit included, but was not limited to, revenue and related cash receipt activities that occurred during the period of October 1, 2016 through September 30, 2019.

The audit methodology included, but was not limited to:

- Completion of data reliability and integrity assessment of revenue and related computer systems;

<sup>7</sup> [http://edr.state.fl.us/Content/population-demographics/data/2020\\_pop\\_estimates-Revised-v2.pdf](http://edr.state.fl.us/Content/population-demographics/data/2020_pop_estimates-Revised-v2.pdf)

- Review of revenue/cash receipt policies and procedures;
- Review of banking and accounting records;
- Review of potential investment written guidance;
- Interviews of appropriate personnel;
- Review of revenue and investment related reports and contracts/agreements; and
- Detailed testing and reconciliation of selected revenue and cash receipt transactions.

As part of the audit, we completed a data reliability and integrity assessment for the financial computer systems used by the Town for revenue and cash intake activities. We determined that the computer-processed data contained in the financial computer system (Asyst) was sufficiently reliable for purposes of the audit.

We conducted this audit 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.



FINDINGS AND RECOMMENDATIONS

Finding (1): The Town did not provide proper notice of sewer rate increases to customers and did not bill sewer customers in accordance with the Resolution providing such fee.

Section 180.13(2) Florida Statutes (F.S.), states,

Administration of utility; rate fixing and collection of charges. — The city council, or other legislative body of the municipality, by whatever name known, may establish just and equitable rates or charges to be paid to the municipality for the use of the utility by each person, firm or corporation whose premises are served thereby; and provided further, that if the charges so fixed are not paid when due, such sums may be recovered by the said municipality by suit in a court having jurisdiction of said cause or by discontinuance of service of such utility until delinquent charges for services thereof are paid, including charge covering any reasonable expense for reconnecting such service after such delinquencies are paid, or any other lawful method of enforcement of the payment of such delinquencies.

Section 180.136, F.S., states,

Water or sewer utilities; notice. — Before a local government water or sewer utility increases any rate, charge, or fee for water or sewer utility service, the utility shall provide notice of the proposed increase to each customer of the utility through the utility’s billing process. The notice shall state the date, time, and place of the meeting of the governing board of the local government at which such increase will be considered. The notice required in this section is in addition to any notice and public meeting requirements for ordinance adoption as provided by general law.

The Town Code of Ordinances Section 50-33. – Rates and Payments, states,

The monthly charge for each sewer outlet as defined in section 50-32 shall be as established by a resolution of the town council and shall be payable as provided in section 50-34; the current resolution providing for such fees is Resolution No. 431, adopted on January 24, 2006, or as such resolution may be amended in the future.

The Town’s Resolution No. 431, adopted on January 24, 2006, states,

Section 1: The Town Council of the Town of South Palm Beach, Florida, hereby adopts a revised monthly charge pursuant to Sec. 50-33. Rates and payment. of the Town Code of Ordinances for each sewer outlet in the amount as set forth below; which charge shall hereafter read as follows:

Monthly charge for sewer outlets as defined in Sec.50-32. Sewer outlet designations.  
Charge for each sewer outlet.....\$1.45\$1.25/mo.

Section 2: The monthly charge for sewer outlets as defined in Sec. 50-32. and set forth hereinabove will be increased or decreased October 1, of each year, effective with the utility billing for October, 2007, with such charge to reflect any percentage increase or decrease in the previous calendar year in the published U.S. Urban Consumer Price Index.

We found that the Town did not meet the statutory requirement to notify each customer of the utility of any increases in a rate, charge, or fee through the billing process. The City did not notify customers of annual sewer rate increases nor the date, time, and place of the annual meeting at which the increases were considered.

Additionally, the Town's ordinances provided that the monthly rate for each sewer outlet would be established by resolution. Resolution No. 431 set forth the monthly charge for each sewer outlet and provided that the rate would increase or decrease on October 1, with such charge to reflect the percentage increase or decrease in the previous calendar year in the published U.S. Urban Consumer Price Index. Resolution No. 431, as approved, by the Council was silent regarding the requirement to provide notice to customers of annual sewer rate increase.

We recalculated the sewer rate established in Resolution No. 431 for each fiscal year during the audit period (see "Rate per Resolution No. 431" in Chart 1) and compared it to the sewer rate billed to customers (see "Rate Billed" in Chart 1) to determine whether the rates charged to customers were in compliance with the applicable written guidance. The sewer rates billed in FY 2017 and 2018 did not comply with Resolution No. 431.

Chart 1:

Sewer Rate						
FY	Billing Period	Rate Billed	Total Revenue <sup>8</sup>	Rate per Resolution No. 431 <sup>9</sup>	Total Revenue per Resolution No. 431	Amount Over-Billed
2017	October 1, 2016 – March 31, 2017	\$ 2.09	\$ 188,713.20	\$ 1.75	\$ 158,014.50	\$ 30,698.70
2017	April 1, 2017 – September 30, 2017	\$ 2.09	\$ 189,186.14	\$ 1.75	\$ 158,266.50	\$ 30,919.64
2018	October 1, 2017 – March 31, 2018	\$ 2.38	\$ 215,185.32	\$ 1.78	\$ 160,936.92	\$ 54,248.40
2018	April 1, 2018 – September 30, 2018	\$ 2.38	\$ 215,013.96	\$ 1.78	\$ 160,808.76	\$ 54,205.20
		<b>Total</b>	<b>\$808,098.62</b>		<b>\$638,026.68</b>	<b>\$170,071.94</b>

<sup>8</sup> The number of sewer outlets billed for each billing period respectively was 15,049; 15,073; 15,069; and 15,057.

<sup>9</sup> Rate per Resolution No. 431 was calculated based on the Town's initial charge for each sewer outlet of \$1.45, effective October 1, 2007, increased or decreased in each subsequent fiscal year for the corresponding percentage increase or decrease in the published U.S. Urban Consumer Price Index.



In addition, the Town did not retain documentation to substantiate sewer rate increases billed in FY 2017 and 2018, nor did it have any policies or procedures to provide staff with guidance on how to implement and document sewer rate increases. As of FY 2019, the Town took corrective action to cease over-billings.<sup>10</sup>

As a result, the Town did not comply with Section 180.136, F.S., and over-billed customers a total of **\$170,071.94** for FY 2017 and 2018 sewer fees. This amount is considered a questioned cost

### Recommendations:

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- (1) The Town refund or credit customers the total amount over-collected for FY 2017 and 2018 sewer charges.**
- (2) The Town determine if sewer customers were over-billed prior to FY 2017 (after the adoption of Resolution No. 431) and refund or credit customers the amount over collected, if applicable.**
- (3) The Town comply with Section 180.136, F.S., and properly notify customers of any sewer rate increases and the date, time, and place of the meeting at which any increase will be considered.**
- (4) The Town develop policies and/or procedures to provide staff with guidance on how to implement and document annual sewer rate increases, including notification to customers.**

### Management Response:

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Even though the Town complied with Resolution 431 for increasing sewer rates annually and notice of the increase was provided to residents by newsletter and the public notice of the Town's budget hearing, we could find no formal notice that residents were notified as required by Section 180.136 F.S.

As a result of your findings, the Town reviewed the over-billing from 10/1/16 through 4/1/18 and determined that \$169,578.37 should be refunded to residents' sewer bills for that period. In addition, the Town reviewed its sewer billing from 10/1/18 through 10/1/20 and determined that \$285,430.92 was over charged due to failing to properly notice residents of an increase in sewer bills, resulting in a total of \$455,009.29. The Town administration will be recommending to the Town Council that the total of \$455,009.29 be credited to the residents' sewer bills in the next two billing cycles (4/1/21 and 10/1/21) by providing a credit in the over-collected amount to each bill. We expect formal approval at the Town Council Meeting on April 13, 2021.

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<sup>10</sup> The Town's Resolutions 13-2018 and 03-2020 establish the monthly charge for sewer outlets for FY 2019 and 2020 forward, respectively.

**In the future, the Town will comply with Section 180.136 F.S. and notify residents of any proposed sewer increase. Furthermore, procedures have been established to implement and document notice of increases to residents.**

**Finding (2): The Town did not follow its accounting procedures, lacked sufficient controls for financial operations and safeguarding of cash receipts, and lacked sufficient supporting documentation for adjustments to revenue.**

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Section 218.33(3), Florida Statutes, effective July 2019, states:

Each local governmental entity shall establish and maintain internal controls designed to:

- (a) Prevent and detect fraud, waste, and abuse as defined in s. 11.45(1).
- (b) Promote and encourage compliance with applicable laws, rules, contracts, grant agreements, and best practices.
- (c) Support economical and efficient operations.
- (d) Ensure reliability of financial records and reports.
- (e) Safeguard assets.

According to the Town's Adopted Accounting Procedures, the Town utilizes the following processes,

## **2. Banking**

**Monies** received by a Town employee must be paid into a Town bank account and banked as soon as **practicable on or after the day of receipt** (in the intervening periods between banking, monies received will be deposited in the safe). Detailed records of all banking activities must be kept and **reconciled to the bank statements with receipts**.

...

## **3. Cash Receipts**

The Town's primary types of cash receipts include: utility payments, franchise fees and building permits. Ad valorem taxes and state revenues are directly deposited into the Town's bank account via ACH or EFT. The Town has implemented an Online Check Deposit Program which electronically deposits **all checks received daily**.

Cash receipt transactions shall be initiated with pre-numbered receipt forms prepared by the Permit Clerk, Deputy Town Clerk or Town Clerk. All monies received shall be recorded by an entry for each individual transaction. The payer shall be issued a receipt upon request. The receipt shall indicate the mode of payment, i.e. check, cash, etc. [Emphasis added]

We made several observations regarding the Town's financial operations and safeguarding of cash receipts:

- Three (3) of the nine (9) month end general fund cash account balances (33%) did not reconcile to the bank statements.<sup>11</sup> The Town did not provide adequate supporting documentation for these variances, which totaled \$1,931.09.<sup>12</sup>
- The Town did not provide documentation to show that it performed a bank reconciliation for the sewer fund cash account for three (3) of the nine (9) months (33%) tested,<sup>11</sup> as required by the Adopted Accounting Procedures.
  - There was no variance between the bank statement balance and the general ledger balance for two (2) of the three (3) months that lacked documentation of a reconciliation.
  - The Town did not provide us with documentation of the general ledger balance for one (1) of the three (3) months that lacked documentation of a reconciliation.
- The Town did not document monthly reconciliations performed for the three (3) investment bank accounts, as required by the Adopted Accounting Procedures.<sup>10</sup>
- The Town's written guidance did not require and the Town did not have a process for the independent review and approval of monthly bank reconciliations.
- The Town's Administrative Assistant receives and records cash and check payments when the Permit Clerk is absent; however, the Adopted Accounting Procedures do not authorize the Permit Clerk to do so.
- Cash was stored in a lockbox located in a file cabinet in the Town Clerk's office<sup>13</sup> and not in a safe, as required by the Adopted Accounting Procedures.
- The Town lacked adequate written guidance for cash and check payments received through the mail, for which the Town followed a modified process from the Adopted Accounting Procedures.<sup>14</sup>
- The Adopted Accounting Procedures state deposits must be made "as soon as practicable on or after the day of receipt" in the Banking section while the Cash Receipts section states the implementation of the Online Check Deposit Program electronically deposits all checks received daily. These two directives are inconsistent.

The Town did not follow its Adopted Accounting Procedures guidance regarding the reconciliation of Town banking records to the bank statements and the receipt and safeguarding of cash and checks prior to bank deposit. The Town informed us that they

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<sup>11</sup> We randomly selected a sample of three (3) months of bank reconciliations from each fiscal year during the audited period for a total of nine (9) sample bank reconciliations.

<sup>12</sup> The same variance of \$260.87 was carried forward in two (2) of the three (3) general fund bank reconciliations tested but was only counted once to avoid duplication.

<sup>13</sup> During the day, the cash was accessible to all individuals working in the Town Hall. The cash was appropriately safeguarded overnight.

<sup>14</sup> The Town's process for cash and check payments received through the mail included an additional internal control, which should be documented, whereby the Town Manager opens the mail and provides any customer payments received in the mail to the Permit Clerk to enter into the Town's financial system.

do not document reconciliations for the investment bank accounts because no checks are issued from them and only a few transactions occur throughout the month. The Town is exposed to an increased risk for fraud, waste, and abuse when written guidance is not followed.

The Town lacked sufficient controls to comply with Florida Statutes for the receipt and safeguarding of cash and checks and reconciliation of investment bank accounts, and lacked adequate review and oversight for the bank reconciliation process.

A lack of sufficient and consistent controls for the receipt and safeguarding of cash and checks and bank accounts, and a lack of adequate review and oversight for the bank reconciliation process increases the risk for non-compliance with Florida statutory requirements and written guidance, fraud or theft, and errors going unnoticed.

Additionally, we selected 24 adjustment transactions<sup>15</sup> that reduced revenue or reversed revenue entries and reviewed related supporting documentation to determine if the adjustments were sufficiently supported and appropriate based on the supporting documentation. The Town did not provide supporting documentation for 10 of the 24 (42%) adjustments, which totaled \$32,306.75. Therefore, we could not determine if the adjustments were appropriate and reasonable.

Chart 2:

Revenue Account	Count	Total Adjustments
Building Permits & Re-inspection	2	\$22,636.54
Sewer Charges	1	\$4,041.64
Utility Taxes - Water	2	\$3,564.70
Franchise Fees - Water	2	\$1,309.41
Miscellaneous Income (Sewer)	1	\$643.46
Miscellaneous Income (General)	2	\$111.00
<b>Total</b>	<b>10</b>	<b>\$32,306.75</b>

The Town could not locate support for the adjustments. The adjustments were made during a prior Town Manager's tenure and before the current Town Accountant's employ and such records were not maintained in a centralized location for ease of location notwithstanding personnel changes. The Town's Adopted Accounting Procedures do not address adjustment transactions such as voids, credits, and reversals or the review and approval of such transactions. As a result, adjustment transactions lacked sufficient review and oversight, which exposes the Town to risk of errors, fraud, waste, and abuse.

The variances which totaled **\$1,931.09** between the general fund bank statements and general ledger cash accounts and the adjustment transactions which totaled **\$32,306.75**

<sup>15</sup> We selected all adjustment transactions that reduced revenue or reversed a revenue entry and occurred in the one (1) month randomly selected from each fiscal year during the audited period: October 2016, April 2018, and September 2019.

are considered questioned costs because the Town lacked sufficient documentation to explain the variances and support the adjustment transactions.

### **Corrective Actions**

In October 2019, the Town implemented independent review and approval of monthly general fund bank reconciliations. Additionally, the Town installed a combination safe during the audit where they now store cash receipts prior to bank deposits.

### **Recommendations:**

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- (5) The Town comply with its Adopted Accounting Procedures guidance for the reconciliation of bank statements and the receipt and safeguarding of cash and checks prior to bank deposit.**
- (6) The Town reconcile all bank accounts, including investment bank accounts, to the Town's records.**
- (7) The Town research the 24 adjustment transactions that lacked supporting documentation to determine if they are appropriate and make correcting adjustments, if necessary.**
- (8) The Town revise its Adopted Accounting procedures guidance to ensure that internal controls are properly established and consistent for the receipt, safeguarding, and deposit of cash and checks, as required by Florida Statutes. At a minimum, the Town should specify the procedure for the receipt of cash and checks via the mail; require that cash and checks are deposited in a consistent, specified, and timely manner; and require that monthly bank reconciliations for all Town bank accounts are independently reviewed and approved.**
- (9) The Town implement and update the Adopted Accounting Procedures for a documented review and approval process of adjustment transactions including, but not limited to, adjusting journal entries and reversals.**

### **Management Response:**

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As it is noted in the report, the Town's Staff has been proactive and has already taken corrective action on a number of items brought to our attention during the audit.

The Town will adhere to Adopted Accounting Procedures of reconciling monthly bank statements, investment accounts, adjusting journal entries and reversals, safeguarding cash and checks prior to deposit.

**The Town shall research the 24-adjustment transaction identified in the report that lacks the proper documentation and make correcting adjustments, if necessary.**

**Finding (3): General revenue amounts collected were not accurate; lacked sufficient documentation, reconciliation, and oversight; and were not posted to the appropriate account.**

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Section 218.33(2), Florida Statutes, states,

Each local governmental entity shall follow uniform accounting practices and procedures as promulgated by rule of the department [of Financial Services] to assure the use of proper accounting and fiscal management by such units. Such rule shall include a uniform classification of accounts.

Pursuant to section 218.33, the Department promulgated rule 69I-51.0012, Florida Administrative Code, which authorized a uniform classification of accounts for use by local governmental entities. Rule 69I-51.0012 indicates that the uniform classification of accounts, as organized under the Department's Uniform Account Systems Manual (UAS),<sup>16</sup> 2014 Edition, provides guidance to reporting entities regarding the reporting of their assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, and expenditures. The UAS mandates that reporting units use the UAS Chart of Accounts as the standard for recording and reporting to the State of Florida.

According to the UAS Manual, which is in accordance with generally accepted accounting principles, revenues of a local government should be classified by fund and source to provide the information necessary to (1) prepare and control the budget, (2) record the collection of revenues, (3) prepare financial statements and schedules, and (4) prepare financial statistics. The manual defines each revenue account code and the local government is responsible for recording and reporting each revenue item in the revenue account titles as prescribed therein.

### **Utility Tax Revenue**

The Town's Code of Ordinances states,

#### **ARTICLE II. - PUBLIC SERVICE (UTILITY) TAX**

##### **Sec. 42-21. - Imposition of tax.**

(a) In accordance with F.S. § 166.231, in addition to all other taxes of every kind now imposed, there is hereby levied by the town on each and every purchase in the town a tax on payments received by the sellers of the following goods and services:

(1) At a rate of ten percent: Electricity.

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<sup>16</sup> The Uniform Accounting System Manual was developed by the State of Florida Department of Financial Services and was recently updated for the FY 2019-2020 and 2020-2021 Editions.



- (2) At a rate of five percent:
  - a. Metered or bottled gas (natural liquefied gas or manufactured);
  - b. Water.

...

Sec. 42-23. - Conditions; collection; fees and records required.

...

- (d) The purchaser is required to pay the public utility tax to the seller, as agent for the town, at the time of the payment of each such bill. The seller is required to collect the public utility tax from such purchaser at the time of the payment of each such bill and to remit the same to the town pursuant to this section.
- (e) Revenues derived from this tax shall be deposited with the general funds of the town and used with other general funds for such purposes as may be set forth in the annual operating budget.
- (f) For the purpose of compensating the seller of services, the seller shall be allowed one percent of the amount of the tax collected and due to the town in the form of a deduction from the amount collected for remittance. The deduction is allowed as compensation for keeping of records and collection and remittance of the tax.
- (g) Every seller is hereby required to execute and file not later than the 20th day of each month, at the town administrator's office, a statement setting forth the amount of this tax to which the town became entitled under this section on account of bills paid by purchasers during the preceding fiscal month. Annual adjustments will be made at the anniversary of this agreement and any funds due to the town will be made at that time.

**Permitting Revenue**

Town Resolution No. 01-2012, Exhibit A (Town Rates, Fees, and Charges Schedule), effective from March 27, 2012 to August 20, 2018, states,

**B. BUILDING PERMIT FEES**

...

The following three (3) fees are cumulative for all projects requiring a building permit:

- 1. Standard fee - for cost valuation of project up to and including \$1,600.00..... \$75.00
- 2. Additional fee - for cost valuation of project \$1,601.00 up to and including \$100,000.00... 2.25%
- 3. Additional fee - for cost valuation of project \$100,001.00 and over..... 1.5%

## **Franchise Fee Revenue**

The Town's Resolution No. 378, adopted on April 22, 2003, approved and authorized the Franchise Agreement between the Town and Florida Public Utilities Company (FPUC), which renewed and updated the gas franchise grant to FPUC, and which states,

**SECTION 7:** Within thirty (30) days after the first anniversary date of this grant and within thirty (30) days after each succeeding anniversary date during the existence of this grant, the GRANTEE, its successors and assigns, shall pay or have paid to the GRANTOR or its successors a privilege tax equal to the amount by which six percent (6%) of its gross revenues (gross revenues being the amount billed less charge-off for uncollectible accounts and adjustments) from the sale of gas to residential and general service customers within the corporate limits of GRANTOR for the twelve calendar months preceding the applicable anniversary date, shall exceed the amount of any other taxes, licenses or other impositions levied or imposed by GRANTOR against GRANTEE'S property, business or operations for the tax year preceding the beginning of the applicable privilege tax year, but not including any public service tax levied on the purchase of metered or bottled gas pursuant to §166.231, Florida Statutes. Payment shall be made quarterly on or before the final day of each three calendar month period based on one-fourth (1/4) of the total payments made in the preceding privilege tax year, except for the first privilege tax year where each quarterly payment shall equal one and one half percent (1.50%) of gross revenues from the sale of gas to residential and general service customers for the twelve calendar months preceding the effective date of this agreement. At the close of each fiscal tax year, an accounting shall be made to determine whether GRANTEE owes additional monies, which shall be paid not less than thirty (30) days after the close of said fiscal tax year, or whether GRANTEE is owed a refund, which shall be collected by offsetting the total amount of the refund from the next succeeding quarterly payment made to the GRANTOR.

The Town's Ordinance No. 274, adopted on November 18, 2014, grants Florida Power & Light Company (FP&L) a 30-year electric franchise and states,

Section 5. Fees and Charges. As a consideration for this franchise, the Grantee shall pay to the Grantor, commencing 90 days after the effective date hereof, and each month thereafter for the remainder of the term of this franchise, an amount which added to the amount of all licenses, excises, fees, charges and other impositions of any kind whatsoever (except ad valorem property taxes and non-ad valorem tax assessments on property) levied or imposed by the Grantor against the Grantee's property, business or operations and those of its subsidiaries during the Grantee's monthly billing period ending 60 days prior to each such payment will equal 6.0 percent of the Grantee's billed revenues, less actual write-offs, from the sale of electrical energy to residential commercial and industrial customers (as such customers are defined by FPL's tariff) within the incorporated areas of the Grantor for the monthly billing period ending 60 days prior to each such payment,

and in no event shall payment for the rights and privileges granted herein exceed 6.0 percent of such revenues for any monthly billing period of the Grantee.

The Solid Waste and Recycling Collection Franchise Agreement between the Town and Waste Management, Inc. of Florida (Contractor), commenced on October 1, 2015 and expiring on September 30, 2025 states,

#### **Article 5: Payment and Billing**

The Contractor agrees to provide the services described in Article 3 to the Town of South Palm Beach and the Town agrees that the Contractor will bill customers directly at the rates shown on Exhibit I, which is attached and made part of this Agreement.

...

Contractor shall pay to the Town an amount equal to 4% of revenue collected pursuant to this Agreement for franchise fees, payable quarterly within 30 days of the end of the calendar quarter.

We selected a sample of 104 general fund revenue account entries<sup>17</sup> and reviewed related supporting documentation to determine if revenue was adequately supported and posted to the appropriate general ledger period and accounts and for the appropriate amount. We found:

- One (1) transaction in the amount of \$13,603.95 for water utility taxes lacked sufficient documentation to support the amount posted to the general ledger.
- Four (4) transactions that totaled \$24,572.98 for electric, gas, and solid waste franchise fees lacked sufficient documentation to determine if the revenue amount was accurate based on their respective franchise agreements.
- Two (2) sewer administrative charges totaling \$1,000.00 lacked sufficient documentation to support the revenue amount, e.g. an invoice, fee schedule, etc.
- Two (2) building permit fees that totaled \$150.00 were miscoded to miscellaneous income. The revenue should have been coded to Building Permits under UAS revenue account code 322.000.
- The Town incorrectly calculated one (1) permit fee amount causing the Town to under-collect the permit and surcharge fee amounts by \$1,752.42 and \$43.81,<sup>18</sup> respectively.

We compared the revenues stated in the Town's Annual Financial Reports submitted to the Department to the general ledger and revenue source documentation, and found four (4) revenue sources were coded to the incorrect UAS revenue account codes.

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<sup>17</sup> We randomly selected one (1) month of revenue entries from high volume and/or high risk revenue sources from FY 2017 and 2018 that were \$500.00 or more in amount for transactional testing: April 2018 and September 2019. This resulted in 104 sample transactions.

<sup>18</sup> The surcharge amount was calculated using the correct building surcharge rates in accordance with sections 468.631 and 553.721, F.S., but was based on the incorrect permit fee amount.

Chart 3:

Revenue Source	Count <sup>19</sup>	Total Amount	Revenue Account Code Used (What is)	UAS Revenue Account Code (What should be)
Fuel Tax Refund	5	\$837.07	312410 First Local Option Fuel Tax	335490 State Revenue Sharing - Other Transportation
Fuel Tax Refund	7	\$1,239.42	312100 Local Option Taxes	335490 State Revenue Sharing - Other Transportation
First Local Option Fuel Tax	24	\$13,133.73	312100 Local Option Taxes	312410 First Local Option Fuel Tax
Second Local Option Fuel Tax	12	\$3,032.81	312410 First Local Option Fuel Tax	312420 Second Local Option Fuel tax
Second Local Option Fuel Tax	24	\$6,090.92	312100 Local Option Taxes	312420 Second Local Option Fuel tax
Florida Department of Law Enforcement Grant	1	\$1,000.00	337200 Local Government Unit Grant - Public Safety	334200 State Grant - Public Safety
<b>Total</b>	<b>73</b>	<b>\$25,333.95</b>		

We also reconciled the Town's general ledger to its Permit Log<sup>20</sup> and Auditor Log<sup>21</sup> for three (3) sample months<sup>22</sup> to determine if the building permit receipts and revenue were accurate and complete. The Permit and Auditor Logs are separate worksheets of one Excel workbook maintained by the Permit Clerk and used to manually record and track building permit fee and receipt information. We noted the following discrepancies between the general ledger and the Permit and Auditor Logs:

Chart 4:

Discrepancy	Count <sup>23</sup>	Total Amount
Building permit fee receipt/revenue not located on general ledger	1	\$202.40
Building permit fee receipt/revenue not located on Permit Log	1	\$809.60
Building permit fee receipt/revenue not located on Auditor Log	2	\$247.89
Re-inspection fee receipt/revenue not located on Auditor Log	12	\$660.00
Building permit fee amount was misstated on Permit Log	6	\$3,034.55
Plan revision receipt/revenue not located on Auditor Log	1	\$50.00
<b>Total</b>	<b>23</b>	<b>\$5,004.44</b>

<sup>19</sup> Count of transactions for the revenue source.

<sup>20</sup> The Permit Log included information such as the building permit number, location, work performed, value of work performed, permit fee, and surcharge fee.

<sup>21</sup> The Auditor Log included information such as the building permit number, financial system cash receipt number, and the amount collected for the permit fee and surcharge fees.

<sup>22</sup> We randomly selected one (1) month from each fiscal year during the audited period: October 2016, April 2018, and September 2019.

<sup>23</sup> Count of transactions with discrepancy.

The Town did not provide us with the monthly tax statement for the Town's utility tax payment nor supporting documentation for the calculation of the selected franchise fee payments. The Town's franchise agreements do not require contractors to provide the Town with any documentation to support the amount of each franchise payment. However, the Town could be losing utility tax and franchise fee revenue because there is no review of the supporting tax statement or franchise fee calculation that is the basis for the payment.

The Town could not locate supporting documentation for the two sewer administrative charges.

It appears the Town did not independently review revenue transactions for accuracy or proper general ledger account coding prior to the current Town Accountant's employ. The Town's Adopted Accounting Procedures did not require an independent review.

The Town also did not review permit fees charged for accuracy. Permit fees were manually calculated until August 2019 when the Town Accountant developed a permit fee calculator for the Permit Clerk to utilize in determining the permit and related surcharge fees.

By not having sufficient review and oversight processes, the Town is exposed to risk of fraud and errors. Errors may go unnoticed which could lead to inaccurate financial information and the Town losing revenue.

The Town's Adopted Accounting Procedures do not provide sufficient guidance for selecting the correct general ledger account code in accordance with the UAS Chart of Accounts when entering cash receipts. As a result, the Town reported inaccurate financial data to the Department.

It appears the Town did not reconcile the Permit and Auditor Logs to the general ledger to ensure building permit revenue on the general ledger and the Permit Log and Auditor Log were complete and accurate. Manually entered information maintained on Excel spreadsheets is prone to errors, omissions, and inaccuracies when it is not routinely reviewed and reconciled to the supporting documentation.

The building permit fee and associated surcharge fees calculated incorrectly and under-collected resulted in an identified cost totaling **\$1,796.23**<sup>24</sup> because the Town can potentially recoup the amount. We could not trace one (1) building permit fee of **\$204.40** from the Permit Log to a corresponding cash receipt due to a lack of sufficient documentation. Therefore, the amount is considered a questioned cost because the Town potentially lost building permit revenue.

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<sup>24</sup> Permit fee of \$1,752.42 + surcharge fees of \$43.81 = \$1,796.23

### **Corrective Action**

In February 2021, the Town submitted corrected Annual Financial Reports to the Department for the revenue sources that were coded to the incorrect UAS revenue account codes.

### **Recommendations:**

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- (10) The Town consider recouping the under-collected permit and surcharge fees that totaled \$1,796.23.**
- (11) The Town obtain and review supporting documentation for the Town's utility tax and franchise fee revenue to ensure the correct amount was received in accordance with the Town's Code of Ordinances and franchise agreements.**
- (12) The Town record/post revenue transactions in the proper revenue account based on UAS Account Classifications.**
- (13) The Town implement review and oversight processes to ensure revenue transactions are adequately supported and posted to the proper revenue account code in the financial system.**
- (14) The Town consider submitting corrected Annual Financial Reports to the Department for the revenue sources that were coded to the incorrect UAS revenue account codes.**
- (15) The Town develop and implement policies and procedures to provide sufficient guidance for UAS Account selections.**
- (16) The Town research and resolve building permit discrepancies between the general ledger and the Permit and Auditor Logs.**
- (17) The Town routinely reconcile the Permit and Auditor Logs to the general ledger building permit cash receipts/revenue.**

### **Management Response:**

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**As a result of these observations, the Town will review the under-collected permit and surcharge fees and consider recouping the under-collected amount of \$1,796.23. Controls have already been made by the Town to calculate permit fees and surcharges for all future building permits that are issued by the department. In the future, the Town will attempt to obtain the necessary supporting documentation to ensure that the proper amount of fees are being remitted in accordance with its franchise agreements. The Town will make the necessary changes to record and post revenue transactions so the proper accounts based on the UAS Account**



**Classifications. Policies will be implemented to ensure revenues are posted to the proper revenue account codes.**

**Finding (4): The Town lacks adequate written guidance for IT processes.**

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The audit included review of data reliability and integrity for the computer systems related to the revenue operations including the financial computer system, Asyst. We found that the Town has processes with controls to ensure the integrity of information in the computer systems; however, there are no written policies and procedures for any of the Information Technology (IT) processes such as granting and terminating user access, the use of unique IDs and passwords, and remote access. The Town stated that there are no written policies and procedures to provide guidance to new employees or system users for IT processes.

Basic computer system controls include:

- Written IT policies, procedures, and definitions that are clearly communicated;
- Access to and use of the system and records are reasonable and restricted to authorized individuals; and
- System users are granted only the access needed to perform their duties.

The Town has independent contractors/vendors that handle IT operations. Since the processes are in place and the Town outsources its IT functions, the Town had not developed written policies and procedures for their IT operations and employee use of Town IT assets.

Lack of written policies and procedures increases the risk of inconsistent operations and unauthorized access to system records.

**Recommendations:**

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- (18) The Town develop and implement written IT policies and procedures to ensure consistency of operations that provide guidance, at a minimum, for how to:**
- a. Assign and remove user rights and a reasonable time for removal when access is no longer appropriate,**
  - b. Authorize user access,**
  - c. Limit system access by requiring unique user IDs and passwords, and**
  - d. Provide for user change management (new and separated employees).**
- (19) The Town provide staff training for the IT policies and procedures, as needed.**

**Management Response:**

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**The Town shall develop an IT policy which includes the following: removal of access for individuals no longer needing access, providing access to authorized users, individual user ID's and passwords. Ongoing staff training will be provided.**

**SUMMARY OF POTENTIAL FINANCIAL AND OTHER BENEFITS  
IDENTIFIED IN THE AUDIT**

**Questioned Costs**

<b>Finding</b>	<b>Description</b>	<b>Questioned Costs</b>
<b>1</b>	Sewer charges over-billed	<b>\$ 170,071.94</b>
<b>2</b>	Adjustments lacked supporting documentation	<b>\$ 32,306.75</b>
<b>2</b>	Unsupported bank reconciliation variances	<b>\$ 1,931.09</b>
<b>3</b>	Building permit fee receipt/revenue not located on general ledger	<b>\$ 204.40</b>
	<b>TOTAL QUESTIONED COSTS</b>	<b>\$ 204,512.18</b>

**Identified Costs**

<b>Finding</b>	<b>Description</b>	<b>Identified Costs</b>
<b>3</b>	Permit and surcharge fees under-collected	<b>\$ 1,796.23</b>
	<b>TOTAL IDENTIFIED COSTS</b>	<b>\$ 1,796.23</b>

**ACKNOWLEDGEMENT**

The Inspector General's audit staff would like to extend our appreciation to the Town of South Palm Beach's staff for their assistance and support 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 the Director of Audit by email at [inspector@pbcgov.org](mailto:inspector@pbcgov.org) or by telephone at (561) 233-2350.*

**ATTACHMENT**

Attachment 1 – Town of South Palm Beach's Management Response



## TOWN OF SOUTH PALM BEACH

3577 South Ocean Boulevard, South Palm Beach, Florida 33480  
(561) 588-8889 • Fax (561) 588-6632

March 16, 2021

Palm Beach County Office of Inspector General  
PO Box 16568  
West Palm Beach, FL. 33416  
ATTN: John A. Carey, Inspector General  
RE: Audit Report 2021-A-0003 Town of South Palm Beach

Dear Mr. Carey:

In response to your Audit Report 2021-A-0003 outlined below is the Town of South Palm Beach response.

### **Findings/Recommendations:**

#### **Finding 1/ Recommendations 1 through 4**

The audit covered FY 2017, 2018 and 2019. During FY 2017 and 2018 the audit identified \$170,071.94 in over-billings of sewer bills to Town residents. As you are aware, sewer rates are increased annually as outlined in Resolution 431. According to your report, Florida Statute Section 180.136 F.S. states:

**Water or sewer utilities; notice.** — Before a local government water or sewer utility increases any rate, charge, or fee for water or sewer utility service, the utility shall provide notice of the proposed increase to each customer of the utility through the utility's billing process. The notice shall state the date, time, and place of the meeting of the governing board of the local government at which time such increase will be considered. The notice required in this section is in addition to any notice and public meeting requirements for ordinance adoption as provided by general law.

Even though the Town complied with Resolution 431 for increasing sewer rates annually and notice of the increase was provided to residents by newsletter and the public notice of the Town's budget hearing, we could find no formal notice that residents were notified as required by Section 180.136 F. S.

As a result of your findings, the Town reviewed the over-billing from 10/1/16 through 4/1/18 and determined that \$169,578.37 should be refunded to residents' sewer bills for that period.

In addition, the Town reviewed its sewer billing from 10/1/18 through 10/1/20 and determined that \$285,430.92 was over charged due to failing to properly notice residents of an increase in sewer bills, (see attached worksheet) resulting in a total of \$455,009.29. The Town administration will be recommending to the Town Council that the total of \$455,009.29 be credited to the residents' sewer bills in the next two billing cycles (4/1/21 and 10/1/21) by providing a credit in the over-collected amount to each bill. We expect formal approval at the Town Council Meeting on April 13, 2021.

In the future, the Town will comply with Section 180.136 F.S. and notify residents of any proposed sewer increase. Furthermore, procedures have been established to implement and document notice of increases to residents.

#### **Finding 2/ Recommendations 5 through 9**

During the course of the audit, you discovered that the Town did not follow standard accounting procedures, lacked sufficient controls for financial operations and safeguards of cash receipts, and lacked supporting documentation for adjustments to revenue.

Section 218.33(3), Florida Statutes, effective July 2019, states:

Each local governmental entity shall establish and maintain internal controls designed to:

- (a) Prevent and detect fraud, waste, and abuse as defined in s. 11.45(1)
- (b) Promote and encourage compliance with applicable laws, rules, contracts grant agreements, and best practices
- (c) Support economical and efficient operations
- (d) Ensure reliability of financial records and reports
- (e) Safeguard assets

As it is noted in the report, the Town's Staff has been proactive and has already taken corrective action on a number of items brought to our attention during the audit.

The Town will adhere to Adopted Accounting Procedures of reconciling monthly bank statements, investment accounts, adjusting journal entries and reversals, safeguarding cash and checks prior to deposit.

The Town shall research the 24-adjustment transaction identified in the report that lacks the proper documentation and make correcting adjustments, if necessary.

#### **Finding 3/ Recommendations 10 through 17**

Section 218.33(2), Florida Statutes, states,

Each local governmental entity shall follow uniform accounting practices and procedures as promulgated by rule of the department [of Financial Services] to assure the use of proper accounting and fiscal management by such units. Such rule shall include a uniform classification of accounts.

According to the report, several transactions lacked supporting documentation to determine if revenue was adequately supported and posted to the proper general ledger account and in the

appropriate amount. In addition, a few revenue sources were coded to incorrect UAS revenue account codes.

According to the report, franchise fees collected lacked sufficient documentation to determine whether the proper amount was being remitted to the Town. In one instance, the report discovered that due to a miscalculation on a building permit, \$1,796.23 in building department revenue remains uncollected.

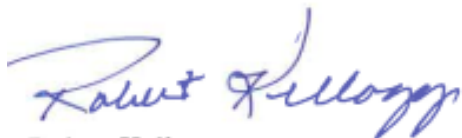
As a result of these observations, the Town will review the under-collected permit and surcharge fees and consider recouping the under-collected amount of \$1,796.23. Controls have already been made by the Town to calculate permit fees and surcharges for all future building permits that are issued by the department. In the future, the Town will attempt to obtain the necessary supporting documentation to ensure that the proper amount of fees are being remitted in accordance with its franchise agreements. The Town will make the necessary changes to record and post revenue transactions so the proper accounts based on the UAS Account Classifications. Policies will be implemented to ensure revenues are posted to the proper revenue account codes.

**Finding 4/ Recommendations 18 and 19**

The Town shall develop an IT policy which includes the following: removal of access for individuals no longer needing access, providing access to authorized users, individual user ID's and passwords. Ongoing staff training will be provided.

Finally, it is my understanding that no municipality in Palm Beach County has ever attempted to perform an audit of their franchise agreement holders to determine if the proper amount of fees are being remitted based on the agreement. I believe that the Palm Beach County Inspector General's Office not only has the experienced staff but would be performing an enormous public service for those communities and should consider undertaking such an endeavor.

Sincerely,



Robert Kellogg  
Town Manager



<b>Sewer Billing Summary - OIG</b>				
<b>Period</b>	<b>Original</b>	<b>Revised</b>	<b>Rebte</b>	<b>Rate Applied</b>
10/01/16	\$188,713.20	\$158,340.00	(\$30,373.20)	\$1.75
04/01/17	\$189,186.14	\$158,434.57	(\$30,751.57)	\$1.75
10/01/17	\$215,185.32	\$160,936.92	(\$54,248.40)	\$1.78
04/01/18	\$215,013.96	\$160,808.76	(\$54,205.20)	\$1.78
<b>Totals</b>	<b>\$808,098.62</b>	<b>\$638,520.25</b>	<b>(\$169,578.37)</b>	

<b>Sewer Billing Summary - Addt'l</b>				
<b>Period</b>	<b>Original</b>	<b>Revised</b>	<b>Rebte</b>	<b>Rate Applied</b>
10/01/18	\$220,610.16	\$165,457.62	(\$55,152.54)	\$1.83
04/01/19	\$220,610.16	\$165,457.62	(\$55,152.54)	\$1.83
10/01/19	\$234,858.96	\$175,212.24	(\$59,646.72)	\$1.88
04/01/20	\$234,858.96	\$175,212.24	(\$59,646.72)	\$1.88
10/01/20	\$234,496.08	\$178,663.68	(\$55,832.40)	\$1.92
<b>Totals</b>	<b>\$1,145,434.32</b>	<b>\$860,003.40</b>	<b>(\$285,430.92)</b>	

<b>Total Rebate</b>	<b>(\$455,009.29)</b>
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