



John A. Carey  
Inspector General

OFFICE OF INSPECTOR GENERAL  
PALM BEACH COUNTY



Inspector General  
Accredited

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*“Enhancing Public Trust in Government”*

**Audit Report**

**2018-A-0010**

**Town of Ocean Ridge  
Capital Assets**

**June 12, 2018**



OFFICE OF INSPECTOR GENERAL  
PALM BEACH COUNTY



John A. Carey  
Inspector General

AUDIT REPORT  
2018-A-0010

DATE ISSUED: JUNE 12, 2018

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TOWN OF OCEAN RIDGE – CAPITAL ASSETS

SUMMARY

WHAT WE DID

We conducted a capital assets audit of the Town of Ocean Ridge (Town). The audit included a review of the capital assets process. This audit was performed as part of the Office of Inspector General, Palm Beach County (OIG) 2018 Annual Audit Plan.

Our audit focused on the capital assets process and controls. The scope included capital assets that were recorded in the financial system as of the Fiscal Year (FY) 2017 year end.

WHAT WE FOUND

We found generally adequate controls for the capital assets process and physical controls for safeguarding the capital assets. The insurance coverage appears to be adequate based on the Town's risk acceptance levels and the capital asset list provided to the insurance company.

We found weaknesses when testing for capital asset existence, incomplete Town records for capital assets, and non-conformance with written procedures for

the receipt of assets. Our audit identified **\$432,283** in questioned costs.<sup>1</sup>

**Capital Asset Existence**

The Town was not able to locate five (5) of the sample of 92 (5.43%) capital assets recorded in the Town's records; therefore, we were not able to verify the existence of those capital assets. Since we could not verify those capital assets exist, the documented cost of the assets is questioned and totaled **\$161,998**.

**Incomplete Town Capital Asset records**

The Town's Purchasing Policy requires that the Town Treasurer record all capital assets \$5,000 or greater for inventory and depreciation purposes, and the Governmental Accounting Standards Board (GASB) Statement 34 requires that capital assets be recorded with accuracy and with proper detail.

The Town's insurance policy schedule listed six (6) assets valued at **\$270,285**, which are questioned costs that were not found in the Town's capital asset records. This error is a violation of the Purchasing Policy and GASB 34.

<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.

**Operations are Inconsistent with Written Procedures for the Receipt of Items, including Capital Assets**

The Town did not follow its written procedures for the receipt of items, including capital assets. The Town's Internal Control Procedures required department heads to acknowledge in writing when an item has been received and exceeds \$10,000; however, in practice, department heads only verbally acknowledge receipt of assets. Written procedures for the receipt of procured goods and services were not adequately enforced. This increases the risk that the Town is paying for capital assets that may not have been received.

**WHAT WE RECOMMEND**

Our report contains three (3) findings and offers eight (8) recommendations. Implementation of the recommendations will 1) assist the Town in strengthening internal controls, 2) facilitate having accurate records for capital assets, and 3) resolve potential insurance issues.

The Town concurred and accepted six (6) recommendations.

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

**BACKGROUND**

In 1931, the Town of Boynton Beach (now called the Town of Ocean Ridge) was incorporated under Chapter 15088, 1931 Laws of Florida. Due to confusion caused by the similarities between its name and of the Town of Boynton, the Town of Boynton Beach changed its name to the Town of Ocean Ridge in 1939.

The Town is governed by a Town Commission comprised of five (5) members elected at large. There is an annual election held in March each year to fill any vacancies caused by term expiration or early termination of any Commissioner. The Mayor and Vice Mayor are members of the Commission and are selected annually by the Commission. The Town Manager is the Chief Administrative Officer and is responsible for the day-to-day operations.

The Town is a small coastal community with land area of approximately two (2) square miles, of which 0.9 square miles is land and 1.1 square miles is water. The Town has a population of approximately 1,786 residents.

For FY 2017, the Town had a budget of \$6,411,192. As of September 30, 2016, the Town had \$17,294,996 in capital assets recorded in their financial statements. The Town considers a capital asset to be a tangible or intangible asset with a cost of \$5,000 or more and will be used to benefit the Town for more than one fiscal year.

The OIG 2018 Annual Audit Plan had multiple entities selected for capital asset audits. The Town was selected for a capital assets audit because it has not been previously audited by the OIG.

## OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of the audit were to determine if:

- Capital asset controls were adequate to safeguard government resources;
- Capital assets were properly reported and recorded in the financial system; and
- Capital asset processes were working efficiently and effectively.

The scope of the audit included, but was not limited to, capital assets that were recorded in the financial system at the FY 2017 year end.

The audit methodology included, but was not limited to:

- Review of capital asset policies and procedures;
- Review of capital asset master records and annual review of existence;
- Performance of physical observation of capital assets;
- Interview of appropriate personnel; and
- Performance of detailed testing on selected transactions and invoices.

As part of the audit, we completed a data reliability assessment for the computer systems used by the Town related to administering and reporting of the capital assets process. We determined that the computer-processed data contained in these computer systems were sufficiently reliable for the purposes of the audit.

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.

## FINDINGS AND RECOMMENDATIONS

**Finding (1): The existence of certain recorded capital assets could not be confirmed.**

We selected a sample of 92 capital assets recorded in the Town's records to determine if the capital assets exist. The sample consisted of all active capital assets recorded on the Town's Capital Asset records with the exception of capital assets located underground (i.e. capital assets classified as drains). We verified the existence of the selected capital assets through physical observation. The Town could not specifically locate 5.43% (5 of 92) of the capital assets selected; therefore, we could not verify those assets exist. Additionally, the Town provided no documentation for these capital assets to show the capital assets ever existed. We are questioning the cost of assets that could not be located, totaling **\$161,998**.

Capital Asset Description	Questioned Cost <sup>2</sup>
Street Carryforward <sup>3</sup>	\$18,380
Bicycle Paths (Entire Town) <sup>4</sup>	\$97,402
Steel Plates for Inlet <sup>5</sup>	\$10,321
Entry Signs (for the Town) <sup>6</sup>	\$7,619
Water Distribution System Carryforward <sup>7</sup>	\$28,276
<b>Total Questioned Costs</b>	<b>\$161,998</b>

The Town did not perform a periodic physical review of the capital assets recorded in the Town's records, and this may be a potential cause for the errors noted above. An

<sup>2</sup> Historical (acquisition) cost was used for questioned costs because we were unable to determine when the asset went missing or was destroyed/disposed. The Town was unable to provide documentation to support the existence of these capital assets and/or for the disposal of the capital assets. Based on a lack of documentation, we were unable to determine that these capital assets ever existed; therefore, the historical (acquisition) cost was used.

<sup>3</sup> The street carryforward could not be identified by the Town. Town Administration confirmed the asset will be removed from the Town's records of active assets because the Town could not verify its existence. Subsequent to the draft audit report being issued to the Town Administration for response, the Town Administration decided to leave this capital asset in its Town's capital asset records.

<sup>4</sup> The bicycle paths could not be identified by the Town. Town Administration confirmed that the Town does not have bicycle paths because they were physically disposed under past Administration, and that the assets will be removed from the Town's records of active assets.

<sup>5</sup> The steel plates for the inlet could not be identified by the Town. Town Administration confirmed that the Town does not have the steel plates because they were physically disposed under past Administration, and that the assets will be removed from the Town's records of active assets.

<sup>6</sup> The Town entry signs could not be identified by the Town. Town Administration confirmed that the signs were disposed by prior Administration after a vehicle struck them causing irreparable damage, and that the assets will be removed from the Town's records of active assets.

<sup>7</sup> The water distribution system carryforward could not be identified by the Town. Town Administration confirmed that the prior Administration physically disposed the asset, and that it will be removed from the Town's records of active assets. Subsequent to the draft audit report being issued to the Town Administration for response, the Town Administration decided to leave this capital asset in its Town's capital asset records.

additional cause may be that the capital asset descriptions in the Town's records are unclear or do not contain enough information to locate or recognize the capital asset.

The Town's capital asset records and financial statements may be misrepresented if the capital assets are not properly recorded and updated timely.<sup>8</sup> Additionally, incomplete and inaccurate capital asset records may expose the Town to risk of loss or theft going unnoticed.

### Recommendations:

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- (1) **Capital assets that could not be located should be found or written off from the Town's Capital Asset records.**
- (2) **The Town implement a process to periodically review and update its capital asset records to ensure that all capital assets exist and records contain a clear description of the capital asset, including the current location.**

### Management Response Summary:

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- (1) **The Town partially concurs with the recommendation, except for the street carryforward and water distribution system. The Town has removed the capital assets from the Town's Capital Asset records.**
- (2) **The Town concurs with the recommendation and will conduct an annual review and revise the capital asset records to clarify descriptions and location of capital assets by the end of FY 2018.**

### Finding (2): The Town's records did not include capital assets, as required by GASB 34 and the Town's Purchasing Policy.

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GASB Statement 34 requires that public entities maintain capital asset records that are complete, accurate, and detailed. The Town's Purchasing Policy states that the Town Treasurer **shall** record all capital assets in the amount of \$5,000 or greater for inventory and depreciation purposes in the Town's capital asset records.

We compared the Town's insurance policy schedules of insured assets to the Town's capital asset records to determine the accuracy of the insurance policy schedules and to verify capital assets were adequately insured and properly recorded in the Town's capital asset records. We found six (6) capital assets on the insurance policy schedule that were not recorded in the Town's capital asset records.

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<sup>8</sup> This capital assets audit was a performance audit, not an audit of the financial statements. However, our findings may have an impact on the financial statement audit. Therefore, this audit report will be referred to the Town's external auditors for review.

Asset Description	Questioned Cost <sup>9</sup>
Gazebo	\$12,000
Parking Area Lights	\$70,000
Magnum Mobile Generator	\$41,250
230 KW Generator	\$76,565
911 System	\$50,000
Crown Victoria Police Vehicle	\$20,470
<b>Total Assets Not Recorded</b>	<b>\$270,285</b>

The Town notified the insurance company of new capital assets, at the time of purchase, to be added to the policy. However, there was no periodic review and comparison of the insurance policy schedules to the assets recorded in the Town's capital asset records. During the audit, the Town was unable to provide documentation to show the capital assets noted in the chart were recorded on the Town's capital asset records as individual capital assets or as part of other capital assets. Additionally, the Town provided no documentation to show or support why these capital assets were not on the Town's capital asset records.

The insurance policy schedule listed six (6) items valued at a total of **\$270,285** that were not recorded in the Town's capital asset records. The questioned costs are based on the purchasing policy violation and violation of GASB 34 that requires capital assets be recorded with accuracy and proper detail.

This error caused the capital assets reported in prior year financial statements to be inaccurate.<sup>10</sup> Additionally, having capital asset records that are not up-to-date and are inaccurate increase the risk that property insurance coverage is not adequate.

### **Recommendations:**

- (3) The Town record the capital assets that are in existence and not listed in the Town's capital asset records, if applicable.**
- (4) The Town review and resolve any additional potential discrepancies in the Town's capital asset records to ensure the capital asset list is complete, accurate, and up-to-date based on additional review of insurance documentation.**
- (5) The Town provide the insurance company an up-to-date and accurate list of the actual capital assets.**

<sup>9</sup> We used the insured value amount listed on the insurance policy schedules as the amount for the questioned cost because the capital asset was not listed in the Town's capital asset records at the historical / purchase cost with the exception of the Crown Victoria Police Vehicle. The Crown Victoria Police Vehicle is listed in the chart at the historical / purchase cost.

<sup>10</sup> See footnote 8.



- (6) **The Town develop and implement a process to verify the insurance policy schedule agrees to the Town's records to ensure the accuracy and adequacy of insurance coverage.**

#### **Management Response Summary:**

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- (3) **The Town partially concurs with the recommendation, except for the Gazebo, Parking Lights, and 911 System. Research is being conducted to determine the owner of the 911 System. The Town has added the capital assets to the Town's capital asset records.**
- (4) **The Town concurs with the recommendation. The Town will conduct an annual review to ensure that the insurance records are in agreement with the capital asset records.**
- (5) **The Town concurs with the recommendation. The Town already provides the insurance company a list of capital assets annually.**
- (6) **The Town concurs with the recommendation and already completes an annual review.**

#### **Finding (3): Written procedures for the receipt of items, including capital assets, are inconsistent with operations.**

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The Town has Internal Control Procedures that summarize the process and requirements for the receipt of procured goods and services, including capital assets. Our review found the actual practice for this process was different than the written guidance provided in the Town's Internal Control Procedures.

The Internal Control Procedures require that department heads sign receipts for items purchased and delivered for \$10,000 or above and forward them to the Deputy Town Clerk for payment. In practice, the department heads verbally acknowledge receipt of purchases to the Deputy Town Clerk. The actual process does not conform to the written Internal Control Procedures requirement.

Non-conformance with written procedures increases the risk for errors and, in this instance, increases the risk that the Town pays for capital assets not received. The actual process for receipt of items should match the written guidance.

#### **Recommendations:**

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- (7) **The actual process for receipt of items, including capital assets, be consistent with the written guidance.**
- (8) **Staff should be trained on the written guidance and process.**

**Management Response Summary:**

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The Town acknowledged that the Internal Control Procedure provided to the external auditor is inaccurate and will change the narrative to properly reflect the Town's Purchasing Policy (actual process).

- (7) The Town does not concur with the recommendation. The Town follows the Town's Purchasing Policy.
- (8) The Town does not concur with the recommendation. The Town follows the Town's Purchasing Policy.

**OIG Comment:**

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At the audit exit conference with Town Administration, the Town Administration reported that the document provided earlier to the OIG auditors as the Town's Internal Control Procedures was not the Town's formal procedures. Instead, the Town provided the external auditors the document to be used as a procedure "narrative." While we accept the Town's explanation that the document was not its formal procedures, we suggest the Internal Control Procedure be formalized as the Town's written procedures and consistent with the Town's Purchasing Policy.

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

**Questioned Costs**

Finding	Description	Questioned Costs
1	Existence could not be confirmed	\$161,998
2	Town records did not include assets	<u>270,285</u>
	<b>TOTAL QUESTIONED COSTS</b>	<b>\$432,283</b>

**ATTACHMENT**

Attachment 1 – Town of Ocean Ridge’s Management Response, pages 11-15

**ACKNOWLEDGEMENT**

The Inspector General’s audit staff would like to extend our appreciation to the Town of Ocean Ridge 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 Director of Audit, by email at [inspector@pbcgov.org](mailto:inspector@pbcgov.org) or by telephone at (561) 233-2350.*

## ATTACHMENT 1 – TOWN OF OCEAN RIDGE'S MANAGEMENT RESPONSE

**TOWN OF OCEAN RIDGE**

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TOWN MANAGER

TRACEY L. STEVENS  
TOWN CLERK / TREASURER



JAMES A. BONFIGLIO  
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COMMISSIONERS  
PHIL BESLER  
STEVE COZ  
KRISTINE DE HASETH  
DON MAGRUDER

June 5, 2018

John A. Carey, Inspector General  
Office of Inspector General  
Palm Beach County  
P.O. Box 16568  
West Palm Beach, FL 33416-6568

RE: Town of Ocean Ridge, Florida – Capital Assets – Draft Audit report Response

Dear Mr. Carey:

Please find the Town of Ocean Ridge's response to the Capital Asset Draft Audit Report. The report included three (3) findings with eight (8) recommendations. The findings and recommendations are separately addressed below:

***Finding #1: The existence of certain recorded capital assets could not be confirmed.***

The Town does not entirely concur with Finding #1.

The Town concurs with the removal of the following items from the Town's Capital Asset Records:

1. Bicycle Paths (Entire Town)
2. Steel Plates for Inlet
3. Entry Signs

As per discussion with the Town's Auditor, these capital assets were disposed of as part of the Town's Audit for the year ended September 30, 2017. The disposal of these capital assets amounted to a decrease of \$5,710 or .03% in the total net book value of the Town's Capital Assets.

The Town does not concur with the removal of the following item from the Town's Capital Asset Records:

**Street Carryforward**

As per discussion with the Town's Auditor, this capital asset remains in the capital asset records as noted in the Town's Audit for the year ended September 30, 2017 issued in May 2018.

According to GASB #34, the Town is a Phase 3 government and was not required to record any infrastructure capital assets at the time of implementation of GASB #34. The Town Administration decided to carryover these pre GASB #34 infrastructure capital assets even though the Town was not required to by GASB #34.

The Town's Auditor concurs with the Town that this cost represents the historical cost of the streets and will not be removed from the Town's capital assets records. In accordance with GASB #34 Paragraph 21, "Capital assets should be depreciated over their estimated useful lives unless they are either inexhaustible or are infrastructure assets reported using the modified approach". The Town selected the option of depreciating infrastructure capital assets over their estimated useful.

The Town does not concur with the removal of the following item from the Town's Capital Asset Records:

**Water Distribution System Carryforward**

As per discussion with the Town's Auditor, this capital asset remains in the capital asset records as noted in the Town's Audit for the year ended September 30, 2017 issued in May 2018.

According to GASB #34, the Town is a Phase 3 government and was not required to record any infrastructure capital assets at the time of implementation of GASB #34. The Town Administration decided to carryover these pre GASB #34 infrastructure capital assets even though the Town was not required to by GASB #34.

The Town's Auditor concurs with the Town that this cost represents the historical cost of the water distribution system and will not be removed from the Town's capital assets records. In accordance with GASB #34 Paragraph 21, "Capital assets should be depreciated over their estimated useful lives unless they are either inexhaustible or are infrastructure assets reported using the modified approach". The Town selected the option of depreciating infrastructure capital assets over their estimated useful life.

As noted in the draft audit report, page 5 of 9 footnotes #3 and #7, the footnotes state "the Town will remove the "Street Carryforward" and the "Water Distribution System Carryforward", however, upon discussions with the Town's Auditor and the issuance of the Audit for the year ended September 30, 2017 these capital assets will remain in the capital asset records.

***Recommendations (Included with Finding #1):***

1. Capital assets that could not be located should be found or written off from the Town's Capital Asset records.

The Town concurs with the recommendation, except for capital assets noted above.

2. The Town implement a process to periodically review and update its capital asset records to ensure that all capital assets exist, and records contain a clear description of the capital asset, including the current location.

The Town concurs with the recommendation.

**Estimated Completion Date - Finding #1:**

Recommendation #1:

The Town has removed the capital assets as noted above and retained the capital assets as noted above as of the Town's annual audit for the year ended September 30, 2017, issued in May 2018.

Recommendation #2:

The Town will conduct an annual review and revise the capital asset records to clarify descriptions and location of capital assets by the end of the fiscal year September 30, 2018.

***Finding #2: The Town's records did not include capital assets, as required by the GASB and the Town's Purchasing Policy.***

The Town does not entirely concur with Finding #2.

The Town concurs with the inclusion of the following items to the Town's Capital Asset Records:

1. Magnum Mobile Generator
2. 230 KW Generator
3. Crown Victoria Police Vehicle

These capital assets were added of as part of the Town's Audit for the year ended September 30, 2017. The inclusion of these capital assets amounted to no change in the total net book value of the Town's Capital Assets.

The Town does not concur with the inclusion of the following item from the Town's Capital Asset Records:

**Gazebo**

As per discussion with the Town's Auditor, this capital asset will not be added in the capital asset records as noted in the Town's Audit for the year ended September 30, 2017 issued in May 2018.

The Town does not concur with the inclusion of the following item from the Town's Capital Asset Records:

**Parking Area Lights**

As per discussion with the Town's Auditor, this capital asset will not be added in the capital asset records as noted in the Town's Audit for the year ended September 30, 2017 issued in May 2018.

The Town does not concur with the inclusion of the following item from the Town's Capital Asset Records:

**911 System**

The Town is still in the process of investigating the rightful owner of this capital asset (County or Town).

***Recommendations (Included with Finding #2):***

3. The Town record the capital assets that are in existence and not listed in the Town's capital asset records, if applicable.

The Town concurs with the recommendation, except for capital assets noted above.

4. The Town review and resolve any additional potential discrepancies in the Town's capital asset records to ensure the capital asset list is complete, accurate, and up-to-date based on additional review of insurance documentation.

The Town concurs with the recommendation.

5. The Town provide the insurance company an up-to-date and accurate list of the actual capital assets.

The Town concurs with the recommendation, and already provides the insurance company a list of capital assets annually.

6. The Town develop and implement a process to verify the insurance policy schedule agrees to the Town's records to ensure accuracy and adequacy of insurance coverage.

The Town concurs with the recommendation, and already completes an annual review.

**Estimated Completion Date - Finding #2:**

**Recommendation #3:**

The Town has added the capital assets as noted above and not added the capital assets as noted above as of the Town's annual audit for the year ended September 30, 2017, issued in May 2018.

**Recommendation #4:**

The Town will conduct an annual review to ensure that the insurance records are in agreement with capital asset records, except as noted above, by the end of the fiscal year September 30, 2018.

**Recommendation #5:**

The Town already provides the insurance company a list of capital assets annually.

## Recommendation #6:

As noted above for Recommendation 4, the Town will conduct an annual review to ensure that the insurance records are in agreement with capital asset records, except as noted above, by the end of the fiscal year September 30, 2018.

***Finding #3: Written procedures for the receipt of items, including capital assets, are inconsistent with operations.***

The Town does not concur with Finding #3.

The Internal Control Procedures document as referred to in the Capital Asset Draft Audit Report is a document that is only created for the Town's Auditors for informational purposes. This document is not distributed to the Town's employees.

The Town's employees adhere to the Town's Purchasing Policy and procedures in accordance with purchasing. The Town's Purchasing Policy does not state that "department heads sign receipts for items purchased for \$10,000 or above and delivered and forward them to the Deputy Town Clerk for payment". The department heads verbally acknowledge receipt of purchases to the Deputy Town Clerk, which is well within the range of the Town's Purchasing Policy.

As for the Internal Control Procedures narrative furnished to the Town Auditor, we will notify the Auditor and change the narrative to properly reflect the Town's Purchasing Policy.

***Recommendations (Included with Finding #3):***

7. The actual process for receipt of items, including capital assets, be consistent with the written guidance.

The Town does not concur with the recommendation. The department heads are properly following the Town's Purchasing Policy.

8. Staff should be trained on the written guidance and process.

The Town does not concur with the recommendation. The department heads are properly following the Town's Purchasing Policy.

**Estimated Completion Date - Finding #3:**

## Recommendation #7:

Recommendation not applicable, the department heads are properly following the Town's Purchasing Policy.

## Recommendation #8:

Recommendation not applicable, as the department heads are properly following the Town's Purchasing Policy.

Sincerely,



James S. Titcomb  
Town Manager