OFFICE OF INSPECTOR GENERAL
PALM BEACH COUNTY

John A. Carey
Inspector General

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"Enhancing Public Trust in Government"

Audit Report

2015-A-0003

Audit of the South Central Regional Wastewater Treatment and Disposal Board

September 22, 2015

Insight – Oversight – Foresight

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AUDIT REPORT: 2015-A-0003
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SUMMARY RESULTS AT A GLANCE

What We Did

We conducted an audit of the South Central Regional Wastewater Treatment and Disposal Board (Board). The cities of Boynton Beach and Delray Beach established the Board in 1974 as a special district for the treatment and disposal of wastewater.

We conducted this audit after an anonymous complaint came into the Office of Inspector General (OIG) alleging Board employees were retaining proceeds from scrapping of copper wire owned by the Board. The Governing Board[1] requested our audit services. Additionally, we referred the complaint to the State Attorney's Office.

Our audit focused on selected financial and administrative activities to include contracting, credit card usage, payroll, fixed assets, scrapping, fuel operations, accounting procedures and employee benefits. We reviewed activities from October 1, 2013 through December 31, 2014. During the audit we extended the scope and testing on credit cards and other selected transactions.

What We Found

We found significant control weaknesses in all areas we reviewed. Our audit identified $2,247,519 in questioned costs[2] and $61,274 in identified costs[3] for potential return.

In addition to the above questioned and identified costs, we referred questionable transactions involving expenditures of approximately $145,000 to the State Attorney's Office for further consideration in their investigation.

During the course of our audit, we found that the Governing Board and the interim Executive Director have been proactive in improving internal controls. Several corrective actions were implemented and others are in the process of being implemented.

[1] The Governing Board consists of five members from both the City Commission of Boynton Beach and the City Commission of Delray Beach.

[2] Questioned cost can include costs incurred pursuant to a potential violation of a provision of law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds, and/or a finding that such costs are not supported by adequate documentation, and/or a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable in amount. As such, not all questioned costs are indicative of potential fraud or waste.

[3] Identified costs are those dollars that have a potential of being returned to offset the taxpayers' burden.

Contracting

We found contracts and service agreements valued at $11,808,269 entered and/or renewed over the last 17 years that had not been competitively procured in accordance with the Board's policies, as well as other contracting deficiencies.

Credit Cards

We identified over $17,800 in credit card purchases that lacked receipts and $14,849 in credit card purchases that appeared personal in nature, including meals, travel and merchandise.

Payroll Processing

We questioned $196,304 in payroll and employee benefit transactions including improper payments of unused vacation leave and overtime, duplicate salary payments, bonuses paid in violation of Florida Statute and several other payroll irregularities. Additionally, we found that the Board's policies on nepotism and, in one instance Florida Statutes and County policy, may have been violated with the hiring of relatives for part time summer work. We referred this matter to the Palm Beach County Commission on Ethics.

Pension

The Pension Plan Advisory Committee was made up of three Board employees. Controls over pension fund transactions were weak. As a result, numerous hardship withdrawals by the former Executive Director, including multiple withdrawals within the same year, contrary to Pension Plan rules, were approved by employees under his direct supervision.

Fixed Assets

We identified deficiencies related to fixed assets including incorrect accounting entries, inaccurate valuations, no annual inventory process and inadequate procedures for disposal of assets.

Scrapping

The Board did not have procedures in place for controlling and accounting for material to be scrapped and the proceeds received from scrapping.

We identified numerous deposits that were made to an employee activity bank account from scrapping of Plant materials totaling over $13,000. This included four deposits in 2008 totaling $5,422 that were used to fund a $1,000 cash gift to an employee and a $4,415 catered retirement party, including an open bar, for the prior Executive Director who retired in 2008.

Fuel And Vehicle Operations

We found discrepancies in the fuel log which resulted in unaccounted fuel valued at $1,295. Related to this, the former Executive Director was assigned a vehicle that was only to be used for official business and commuting. Our analysis of the 31,575 miles driven revealed that, only 16,397 (53%) could be accounted for in round trip mileage from his home to the Board office. Additionally, this benefit was not properly administered under IRS income tax rules by the Board.

Accounting Procedures

We identified several accounting deficiencies. Further, we assessed that the Board uses accounting software that does not adequately capture the financial activities of the Board.

Non Plant Activity

We discovered that Board employees were servicing the Oceanfront Park Treatment Plant, which is owned by the City of Boynton Beach. However, there was no agreement in place between the Board and Boynton Beach for this service. Documented expenditures over a two year period, not including labor, were approximately $32,597. Additionally, we found safety and maintenance issues with the Plant as well as the Oceanfront Park Plant.

The Governing Board provided limited oversight over the Board's business activities. Our review of the 25 quarterly Board meetings scheduled between October 20, 2011 and March 26, 2015, revealed only 17 (68%) took place.

The conditions we identified during this audit were the result of a very weak control environment. There were several significant segregation of duties weaknesses, transactions lacking adequate documentation, noncompliance with policies and procedures and an overall lack of sound fiduciary responsibility.

What We Recommend

In addition to our referrals to the State Attorney's Office, we made 40 recommendations to strengthen internal controls over the financial and administrative operations of the Board and to better protect resources from fraud, waste, and abuse. This included a recommendation that the Governing Board re-evaluate the current organizational structure and determine if there is a more effective way to provide oversight to the operations of the Board. The interim Executive Director has already taken or begun to take action on a number of the deficiencies we identified.

Our report contains 20 findings and 40 recommendations. In its response, Board management concurred with 40 recommendations and agreed to take corrective action on all recommendations. We would like to acknowledge that management has been proactive in taking corrective actions as matters were brought to their attention. As a result, their response indicates that 21 recommendations have already been implemented. We have included the Board's response in its entirety as Attachment 1.

BACKGROUND

South Central Regional Wastewater Treatment and Disposal Board (Board) was established in 1974 as an Independent Special District pursuant to Section 163.01 of the Florida Statutes and the Florida Interlocal Cooperation Act of 1969. The interlocal agreement was established as a joint venture between the cities of Boynton Beach, Florida and Delray Beach, Florida. The Board operates a regional wastewater treatment facility (Plant).

Ownership of the Board is vested proportionately with the cities in accordance with the capital investments of each city, which to date are approximately 50% each. The Board is governed by a body composed of the five Commission members from each city. Pursuant to the Interlocal Agreement, the Board has the authority to accept and disburse funds, transact business, and enter into contracts for budgeted items. The Board charges each city for its share of the operating expenses based on the percentage of flow of wastewater from each city. The Board's budget for the fiscal year ended September 30, 2014 was $7,231,199.

OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of the audit were to determine whether:

1. Internal controls were in place to adequately safeguard the assets of the Board.

2. Selected financial and administrative activities complied with such controls, including whether expenditures have a clear public or business purpose.

We conducted this audit after an anonymous tip came into the OIG alleging that employees of the Board removed copper wire from the property, sold it for scrap and did not deposit the proceeds into the Board's bank account. The Governing Board requested our audit services. We subsequently referred the complaint to the State Attorney's Office, Public Corruption Unit. The State Attorney's Office is investigating allegations that the former Executive Director embezzled proceeds in excess of $40,000 from the scrapping of copper wire owned by the Board.

Our audit focused on the financial operations of the Board to include selected financial transactions. Activities reviewed occurred between October 1, 2013 through December 31, 2014. Selected financial and administrative activities included contracting, payroll, credit card usage, scrapping, the pension plan, fixed assets and accounting procedures. Our audit procedures included but were not limited to:

- Evaluating internal controls;
- Interviewing Board personnel in order to gain an understanding of the controls and ascertain operational compliance;
- Evaluating compliance with applicable policies and procedures;

- Selecting various samples of payroll, credit card charges, fixed asset transactions; and,
- Reviewing supporting documentation, and in some cases pursuing relevant documentation 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.

FINDINGS AND RECOMMENDATIONS

CONTRACTS

Finding (1): CONTROLS WERE INADEQUATE TO ENSURE THAT CONTRACTS ARE COMPETITIVELY PROCURED, PROPERLY APPROVED AND EFFECTIVELY MANAGED

During our review of the contract list which was provided by the Executive Assistant, we identified the following deficiencies in the Board contracting practices:

- Payments were made on contracts without proper Board approval and contracts were not competitively procured as required by the Board's Procurement Policy.
- Payments were made that were in excess of maximum contract amounts.
- Change orders on construction contracts were not approved and/or the change order was out of the scope of work of the contract.
- Contracts were not monitored resulting in overcharges.

Payments made since inception of the contracts totaled $11,808,269. Payments made related to these contract deficiencies during the audit scope totaled **$1,953,080** and have been included as questioned costs in this report. The following discussion summarizes the contracts we identified with one or more of these deficiencies.

Payments Made to Companies Without Being Competitively Procured and Without Written Contracts Setting Forth the Terms and Conditions

Grit Hauling

The Board requires the services of a company to haul grit[4] from its plant location after processing. Beginning in 1997, Humpty Dumpster, Inc. initially provided the service. However this service was not competitively procured nor was there a written contract.

[4] Grit is the settlement of sand, gravel, food waste and heavy solid materials derived from the wastewater treatment screening process.

After several company mergers and a final acquisition another company continued to provide grit hauling services. The Board's procurement policy states, "for purchases and contracts in excess of $25,000, the Executive Director or authorized individual shall publicly solicit sealed bids."

Since 1997 through December 31, 2014, there was no documentation or notice to the Board to substantiate having performed a competitive procurement process. Additionally, there was no written contract or agreement in place. The Finance Administrator concurred that there was no contract and that the vendor had been a service provider at the City of Delray Beach as justification for the purchase.

The former Executive Directors did not follow the Board's procurement policy. Both former Executive Directors continued to do business with these companies without benefit of an agreement or contract. Since inception the Board has spent $1,742,235 on grit hauling services and **$214,094** in questioned costs during the scope of the audit.

Technology Services

The Board has been doing business with a technology equipment and support services provider since 2002. These services were not competitively procured nor were quotes or proposals received to show due diligence in the pricing of products and services. Management did not follow its own procurement policy.

In one isolated instance, the Board purchased 12 laptops for which the Finance Administrator had acquired six equipment quotes. Of the six quotes received only two quotes had comparative specifications. Of the two comparative quotes for the laptops the Board purchased the more expensive laptops from the equipment provider. No documentation exists as to why that purchase decision was made. The Board paid an additional $744 for the laptops.

The Board paid a total of $322,302 for services since 2002 of which **$35,151** was expended from October 1, 2013 through December 31, 2014.

Contracts Not Competitively Procured

In order to operate the Plant a large quantity of chemicals and supplies; such as polymers, salt and gasoline are required. We noted that all three of these chemical purchases were not competitively procured, as required by the Board's procurement policy for purchases in excess of $25,000. Based on the vendor history of payments to these companies since inception a total of $4,823,646 was paid without being competitively procured. The total amount paid on these three purchases under the audit scope was **$680,212**, and is included as questioned costs.

Insurance Coverage

In 2007, the Executive Director at the time severed ties with the insurance agency providing insurance coverage to the Board and chose to purchase numerous insurance policies, such as commercial property and general liability with another insurance agency.

There were no requests for proposal (RFP) nor were any pricing proposals requested. The Board has continued to do business with the same insurance agency without benefit of a competitive procurement process.

The total amount of dollars expended with this insurance agency since 2007 was $1,840,717, the amount of questioned costs expended without being competitively procured during the audit scope was **$484,580** in questioned costs.

Landscaping Contract

The former Executive Director entered into a contract with a landscaping company for services within the North and South areas of the plant. The contract was for one year and could be extended by the Board for two additional one year terms. On April 6, 2010 there was clarification of the procurement policy; "as to purchases of $10,000-$25,000 although Board approval is not required the Executive Director shall report all such purchases to the Board at the Board's next regularly scheduled meeting." There was no documentation of any authorized contract extensions. Payments to the vendor continued through February 2012. The Vendor was paid approximately $17,000 annually. There was no record in the meeting minutes to document, that the former Executive Director reported these purchases to the Governing Board.

The contract expired in February 2012, and the former Executive Director entered into an agreement to extend the contract for a period of 24 months. This agreement was documented in a letter signed by the former Executive Director and dated August 7, 2012. The new expiration date noted in this letter was March 2014. The Board continued to use the services of the vendor without obtaining at least three price quotes and without notifying the Board of the purchase as is set forth in the Board's Statement of Procurement Policy, Section II. Procurement Authority and Administration, (E).

After the March 2014 agreement expired the Board continued to pay for services from the vendor without receiving three price quotes as is required by Board's procurement policy.

While the total amount paid under this contract since inception is $99,895, we are reporting questioned costs of **$29,757** during the time frame of this audit.

Board Approval of Contract Change Order Previously Competitively Bid

In 2007, the Board finalized the procurement process on the 24 million gallons per day (MGD) expansion project. The contract was awarded for $9,912,500. In 2005, an integral scope of work for this contract, the filter influent supply pipeline was bid out separately. The engineering firm recommended that the Governing Board award the construction contract for $718,778 but the award was never made nor was the construction work performed.

At a January 2008 Governing Board meeting on the consent agenda, the filter influent supply pipeline scope of work was presented as a change order to the existing 24 MGD expansion construction contract and approved by the Board for $994,278. Over two years elapsed between the award recommendation for $718,778 and the change order for $994,278. The integral scope of work was not included in the 24 MGD expansion project bid. The scope of work was not re-bid nor was the work awarded to the original construction company. There was no documentation available to verify that the original construction company was contacted to ask about its interest to perform the work. There was no evidence to verify that the Board was fully informed on the procurement of this change order. We are questioning the cost of **$275,500**, the difference between the original bid and the change order amount.

Renewal and Replacement Construction Contract with Multiple Deficiencies

On April 18, 2013 the Governing Board authorized the former Executive Director to enter into a contract in the amount of $1,895,000 for the Plant "B" Secondary Clarifier Rehabilitation Project (Clarifier Project). The contract was competitively procured through the sealed bid process.

During the same meeting a $175,000 administrative contingency account was approved in connection with the Clarifier Project. The Governing Board's direction stated the contingency account "may be used in whole or in part or not used as may be determined in the sole judgment of the executive director." The former Executive Director presented to the Governing Board that this contingency fund "allows us to get a much more honest bid." The bids had already been received before this contingency fund was approved. This contingency fund presents the risk that the Board's procurement policy will not be followed and that additional non competitive contracts and purchases are made without the governing board's knowledge or approval. Of the $175,000 contingency fund, $90,195 was expended with $9,595 of that amount being spent on unrelated purchases to the Clarifier Project. A total of **$80,600** was spent on services and work that were not part of the original construction bid. None of these services were competitively procured, and therefore, questioned costs.

In July 2014, Change Order No. 3 was added to the contract for $47,605 of which $27,522 was for a stucco renovation to the Administration Building. Stuccoing the Administration Building did not have any remote relationship to the Clarifier Project. The stucco contract was unrelated to the contract work and deemed to be out of the scope of the Clarifier Project contract (later mentioned in Finding 14, the stucco work performed under this contract was not inspected). The Board's Procurement Policy, Section X addresses change orders or contract modifications. Part B of Section X states that if the change order will increase the contract price by over $25,000, the Executive Director shall have the approval of the Board. The change order was not approved by the Governing Board. Additionally, Change Order No. 4 to the contract for $33,213 was not approved by the Board. The Board was not in compliance with its own policy and we are questioning the costs of both change orders, totaling **$80,818**.

A One Year Contract Renewal For Engineering Services Was Not Approved By The Board

The Board has had an active contract with an engineering firm since October 2004. In 2010 a request for qualifications was issued for engineering services. As a result of the procurement process the same engineering firm was awarded the contract. On January 20, 2011 there was an authorization to enter into an agreement for a period of three years with the option to renew the agreement on an annual basis for up to three additional years with written notice of the Board's election to do so.

The three year contract expired on January 31, 2014. There is no authorization or documentation from the Board to renew the contract for an additional one year period. The Board continued to pay the engineering firm without an approved renewal. The amount paid to the engineering firm from February 2014 through December 31, 2014 was **$72,368.**

A lack of monitoring controls contributed to contract expiration and the unapproved contract renewal option. Proper contract monitoring would have provided a time line indicating that the contract expired on January 31, 2014 and was up for renewal.

Lack of Contract Monitoring Resulted in Over Payments of Tipping Fees

The Plant has the capacity of producing dewatered wastewater sludge. The sludge is required to be removed from the plant site and disposed of at approved locations. On September 1, 2014, the Board entered into the third year of a three year contract renewal option, with a company for sludge removal and hauling. The new contract price is $10.54 per cubic yard for sludge disposal services. As noted in the agreement the potential for dewatered wastewater sludge production is approximately 19,000 wet tons per year. Tipping fees are paid directly to the disposal site by the Board.

It was noted by Plant staff on numerous occasions that there was residual sludge in the bottom of the trucks prior to being refilled. Tipping fees at the disposal site are charged by truck weight going into the disposal site net of the vehicle weight. The dewatered sludge accumulated as a residual product in the bottom of the hauling trucks and as a result was weighed and included in the tipping fee assessed. Tipping fees on that residual sludge would continue to be paid until the sludge had been cleaned out of the carrier. The amount of excess tipping fees cannot be quantified.

The residual sludge should have been cleaned out regularly rather than left to accumulate. Section N of the contract, states that the Contractor's trucks will be cleaned as often as necessary and cleaning would not be limited to external surfaces. The former Executive Director was designated as being the representative of the Board in all matters relating to this contract. Not only did the former Executive Director not properly monitor this contract, he did not remediate the situation by deeming the situation unsuitable, rejecting the practice or requesting the situation be corrected.

All of the contract deficiencies we identified during this audit point to the need for the Board to establish an effective contract monitoring and contract administration system to better track and manage contracts. This should include identifying when contracts are expiring or payments could exceed maximum contract amounts, monitoring and evaluating contract deliverables, and properly reviewing and approving requests for payment on contracts.

Recommendations:

We recommend that:

(1) The Board establish policies and procedures for contract monitoring and contract administration that provide guidance on contract activities; such as monitoring of progress, and inspection and acceptance of work performed prior to payment. An effective contract monitoring process could help prevent payments in excess of the maximum contract amounts or payments made for services rendered after contracts have expired.

(2) The Board review the scope of work in Board's contracts, contract deliverables and types of services allowable under established contracts. This would help ensure that payments are not made for goods or services that are outside the scope of the contract.

(3) The Board ensures that competitive procurement is utilized in compliance with the adopted procurement policies. Without the competitive procurement process there is no assurance that the lowest and best price has been received for goods and services.

(4) Management review its procurement policy as it relates to continuous service contracts. Without the competitive procurement process there is no assurance that the lowest and best price is being expended to acquire goods and services.

(5) The Board ensure that management adheres to the appropriate procurement process for the dollar amount of the purchase and competitively procure a contract for fuel.

Summary of Management Response:

(1) The current financial software package used by the Board does not contain components to allow the effective monitoring of contracts and purchase orders. The software is in the process of being replaced with a full function accounting and project management package. It is expected that the new software will be fully implemented by March 2016. Interim solutions have been implemented.

(2) A full review of all existing contracts was conducted in January 2015 and all contracted work has been reviewed and approved using the process

outlined in recommendation #1. This work was completed in March 2015. All future contracts will be established within the approved procurement policy.

(3) Staff completed a full review of all current contractor activities in January 2015. The Board reviewed and approved new contracts that were competitively procured in compliance with the Board's procurement policy. All of the new contracts were in place by July 2015.

(4) Staff completed a full review of all current continuous service contracts in January, 2015. Based on staff's review, the Board reviewed and approved new continuing services contracts that were competitively procured in compliance with the Board's procurement policy. All of the new contracts were in place by July 2015. A database has been established which includes all annual contracts along with expiration dates to ensure new contracts are competitively procured in a timely manner.

(5) The new management team reviewed the existing fuel procurement and disbursement policy and procedures in January 2015 and found that the previous management staff was not following current procurement policy for fuel purchases and there were no staff controls in place to verify fuel was being used for Board purposes. Starting in January 2015, all fuel purchases were bid and the lowest most responsive bidder was awarded in compliance with the procurement policies. Staff also implemented a fueling procedure that requires verification by multiple staff members when dispensing fuel for Board equipment and vehicles. This work was completed in February 2015. The Board awarded a long-term fuel procurement contract in August 2015 utilizing the State of Florida contract which was competitively procured. A long-term project has been scheduled to automate fueling to ensure that all use is verifiable and auditable. This project is scheduled for completion in March 2016.

PAYROLL AND EMPLOYEE BENEFITS

Payroll for the 23 employees was prepared in house on a weekly basis. Payroll was processed and funds were directly deposited into employees' bank accounts. Manual checks could be prepared and required two signatures, that of the Finance Administrator and the former Executive Director. The former Executive Director would often request a manual check instead of direct deposit. The Board has established payroll definitions, rules, principles and procedures that are to be followed by Board personnel and are located in its Policy Manual.

Finding (2): NON-SHIFT EMPLOYEES WERE PAID FOR EIGHT HOURS OF WORK PER DAY WHILE ONLY WORKING SEVEN AND A HALF HOURS PER DAY

The interim Executive Director told us that non-shift administration, laboratory and maintenance employees were being paid for eight hours daily but only were working seven and a half. This was confirmed by the Executive Assistant and Finance Administrator, the individuals that prepare the weekly payroll. The schedules and timecards confirmed that operating hours were 8 hours including a half hour for lunch.

Using payroll records that included the number of employees, their hire date, and hourly pay rate for the fiscal years 2013, 2014 and for the partial year 10/1/2014 through 12/31/2014, we calculated each employee's number of workdays for that time period and reduced the total for vacation, sick and other personal days. For the time period October 1, 2012 through December 10, 2014, we calculated that **$106,813** of unearned pay was paid to employees. The interim executive director has changed the work day to 7 A.M. to 3:30 P.M. to reflect the half hour per day extension to account for a half hour lunch.

Recommendations:

(6) We recommend that management review all operational activities and manuals to assess current compliance with established payroll and employees benefits. During the audit the interim Executive Director took corrective action and changed the hours of operation for the various Boards' departments to ensure that each employee works and is compensated for a full eight hour work day.

Summary of Management Response:

(6) Immediately upon appointment by the Board, the Interim Executive Director took immediate steps in December 2014 to ensure all Board personnel policies and procedures were followed by all staff. The work hours for staff were immediately changed to ensure a full eight-hour work day was performed by all staff. Meetings were held with all staff members to reinforce the Board's current personnel policies to ensure compliance.

Finding (3): EMPLOYEE PAYMENTS FOR ACCUMULATED VACATION LEAVE WERE NOT IN COMPLIANCE WITH THE PERSONNEL POLICY

Under Rule IX, Section 4 of the personnel policies and rules, (April 21, 2005) "An employee may take up to 80 hours of vacation time in the form of a cash-out, once in a Fiscal Year, providing the employee has accumulated an excess of 96 hours in their vacation bank." Subsequently, this section was revised on July 2013, to state that "an employee may take up to 120 hours of vacation time in the form of a cash-out in a Fiscal Year providing the employee has accumulated an excess amount of hours in their vacation bank." The revision increased the allowable vacation cash out hours by 40 and does not limit the cash out to once in a fiscal year.

We tested 59 vacation cash out transactions from the period October 2008 to September 2014. We identified 42 transactions; a total of **$35,187** was paid in non compliance with the vacation cash-out policy, as such are questioned costs. There were 35 instances of employees receiving more than one vacation cash out in any given fiscal year. The other seven instances of non compliance resulted in taking vacation cash-out and not being eligible to do so either by accumulated hours or not having one year of continuous service as stated in the policy.

Recommendations:

(7) We recommend that management review the vacation cash-out policies and procedures to ensure that the vacation payment is correct. A procedure should be established to review and approve all individual vacation cash-out requests for accumulated hours, and frequency of occurrence.

Summary of Management Response:

(7) Since January 2015, all individual cashout requests are reviewed by the human resource staff and the Interim Assistant Executive Director to ensure compliance with the current policy. The Personnel Policy has been reviewed and a revised policy is being developed to clearly address all personnel policies and procedures to ensure that actions are in the best interest of the Board and the utility customers that are served. The new policy will be reviewed and approved by the Board in March 2016.

Finding (4): BONUSES WERE ISSUED TO EMPLOYEES IN NON COMPLIANCE WITH THE FLORIDA STATUTES; Section 215.425

The Governing Board did not establish a "bonus" policy nor notify all employees of the Board's performance standards and evaluation process for which a bonus would be awarded.

Bonuses in the amounts of $500 and $250 were awarded to two employees in June 2014. A memorandum was written indicating that the award was an incentive for identifying a cost savings to the plant. Additionally, in November 2014 the Finance Administrator received a bonus of $1,000. However, there was no documentation to validate the reason for the award. The bonuses were not included in the employees' payroll records as additional income nor were IRS 1099 tax forms issued for prizes or awards. We are questioning these costs of **$1,750.**

Florida Statutes Section 215.425 states that no extra compensation shall be made to any employee unless a policy is designed notifying all employees of the policy;

describing the performance standards, evaluation process for the award and basis of work performance.

Recommendations:

We recommend that:

(8) Management design the "bonus" program, notifying all employees of the program, the performance standards and the evaluation process if it intends to continue the bonus awards.

(9) Management review the IRS reporting requirements related to bonuses. Employee bonuses are taxable and should be included in the employee's wages and W2.

Summary of Management Response:

(8) The Board did not establish a "bonus" program for employees. Bonuses were paid to employees by the former Executive Director in violation of Board policy and without Board knowledge including bonuses to the former Executive Director. These activities were immediately halted with the appointment of the Interim Executive Director in December 2014. If the Board considers a performance bonus program in the future, it will be designed to comply with all Local, State and Federal requirements.

(9) If a bonus program is established, the policy will ensure proper IRS reporting.

Finding (5): THE BOARD VIOLATED ITS OWN POLICY BY HIRING SEVERAL RELATIVES OF EMPLOYEES

We identified that the Board had employed several relatives of employees in 2014. During that year the Board had also changed Rule XVI - Employment of Relatives. In review of the employee relationships, work responsibilities and the Employment of Relatives Policy in effect at the time of their employment, we identified two incidents where relatives were employed in non-compliance with the Board's Employment of Relatives Policy.

The former Executive Director employed his niece. Her responsibilities were administrative in nature and she assisted in the preparation of the Board's agenda packages. Board meeting agendas were one of the former Executive Director's job responsibilities. The Employment of Relatives policy in effect states, a person who is a relative of a Board official or employee may not be employed if the related Board official or employee would be the person's supervisor or otherwise regulate the duties and responsibilities of the person. The hiring of the former Executive Director's niece did not comply with this policy.

The Chief of Operations' daughter was employed to assist in scanning files. She was hired under the prior "Employment of Relatives" policy where no two people who are relatives of each other will be hired or allowed to work for the Board. As a result, in both cases the Board was not in compliance with its own policy. The Board no longer employs either of the aforementioned relatives.

We referred these two employment hires to the Palm Beach County Commission on Ethics for further review as conflict of interest issues. After review of the information the Palm Beach County Commission on Ethics closed the inquiry stating the Commission on Ethics has never obtained jurisdiction over the Board or its staff by way of an interagency agreement. "Therefore there is no legal sufficiency to open an investigation into this matter."

Recommendations:

We recommend that:

(10) Board management adhere to its own policy in the Personnel Manual Rule XVI – Employment of Relatives.

(11) Board management making hiring and termination decisions take a training class in current regulatory employment procedures, rules and regulations, including the State Code of Ethics, Chapter 112.

Summary of Management Response:

(10) The former Executive Director apparently approved the temporary employment of relatives in violation of current Board policy. This practice was stopped in November 2014 with the appointment of the Interim Executive Director. The current rules are in review and potential revisions will be addressed in the revised Personnel Policy and Procedures Manual currently in development and scheduled for review and approval by the Board in March 2016.

(11) The new Board Attorney has utilized the services of a firm that specializes in regulatory employment rules and procedures and training classes have occurred for management staff as suggested and will continue to ensure all management decisions adhere to Board Policy and the State Code of Ethics. Board staff is also required to read the Palm Beach County Code of Ethics, receive training on the requirements of the Code of Ethics and sign an acknowledgement form. All employees will complete this training by October 2015.

Finding (6): THE FORMER EXECUTIVE DIRECTOR RECEIVED PAYROLL PAYMENTS FOR WHICH HE WAS NOT ENTITLED

During our audit we identified that the former Executive Director received payroll payments for which he was not entitled such as:

- Duplicate payroll payments which included a 10% pension contribution totaling $4,948;
- Payments for overtime totaling $42,191;
- Sick leave payment of $3,308;
- Emergency related overtime $2,107; and,
- Vacation cash-outs.

We reviewed the former Executive Director's payroll records from January 1, 2012 through December 31, 2014. The former Executive Director had an employment agreement with the Board and was classified as an exempt employee. The Board Personnel Manual - Rule IV Compensation Plan, Section 6 Overtime states "exempt employees are not eligible for overtime pay, but will receive compensatory time off."

The results of our review revealed the following:

- From January 2013 through November 2014, we identified that the former Executive Director was paid for 627 hours of overtime resulting in total payments of $42,191.

- From January 2012 through November 2014, the former Executive Director received two duplicate payments totaling 72 hours and **$4,498** and a 10% match pension contribution of **$450** was made on his behalf.

- In 2012, the former Executive Director gave notice of his resignation, and requested and received 60 hours of pay in the form of the sick leave payout. The value of the payout was **$3,308**. The former Executive Director did not in fact resign, nor did he return the funds to the Board.

- An emergency weather event was declared in 2014. Double time was allowable under the definitions in the Personnel Manual and was paid to the former Executive Director as permitted. In addition for the same weather event the former Executive Director was paid for 22 hours of overtime which he was not entitled totaling **$2,107.**

As mentioned in Finding 3, vacation cash-outs for employees, the former Executive Director received vacation cash-outs along with other employees that were not in compliance with the current vacation cash-out policy.

Recommendations:

(12) We recommend that management seek to determine the basis for the costs incurred by the Board with respect to the former Executive Director and consult with the Board attorney on recovering any inappropriate costs.

Summary of Management Response:

(12) The Board is pursuing all legal means of recovery and the Board expects full restitution of all costs to the Board that were caused by inappropriate decisions by the former Executive Director. Nevertheless, the matter has been referred to the State Attorney's office and its actions, and the Board's reaction to such, may impact any attempt to "recover" any costs or expenditures found to be inappropriate or illegal. This work is scheduled to be completed by December 2015.

Finding (7): POLICIES AND PROCEDURES ESTABLISHED FOR THE BOARD'S MONEY PURCHASE PENSION PLAN ("PLAN") WERE NOT BEING FOLLOWED

The Board has a retirement plan which is a defined contribution 401 (a) plan. The Board and the employees contribute an amount equal to 10% and 6% respectively, of the employee's base salary each month. An Advisory Committee has been appointed with at least three members to assist in the administration of the Plan. Section 9.05 states, "the Advisory Committee shall review, not less often than annually, all pertinent employee information and Plan data in order to establish the funding policy of the Plan and to determine the appropriate methods of carrying out the Plan's objective."

Pension Committee

Pension committee meetings were not scheduled on a regular basis. Two and a half years went by between the March 2007 meeting and the September 2009 pension committee meeting. Two meetings were held in 2010, to adopt amendments to the plan and no meetings were held until 2015. There was no evidence that meeting notices were posted and there were no minutes. Plan business addressed at these meetings would cover such topics as retirement distributions, hardship withdrawals or investment results. During the time period September 2012 to December 2014 there were eight withdrawals or plan terminations. Approvals of the pension committee or the pension advisory committee would be required. There is no record of any meetings taking place to discuss and approve these distributions. Lack of pension committee meetings allow for retirement plan activities to go unchecked.

Hardship Withdrawals

In accordance with Amendment Two, dated July 15, 2010, "Participant Contribution Withdrawal," a plan participant may withdraw all or any part of her/his participant Thrift Contributions Account prior to termination of employment with the employer if the withdrawal was necessary to satisfy a hardship. Hardship events included medical expenses; purchase of a principal residence; post secondary education tuition; satisfaction of foreclosure or eviction on principle residence; casualty loss; or funeral or burial expenses. The Advisory Committee may require written documentation as it deems necessary to sufficiently document the existence of a proper hardship event.

Amendment Three dated October 21, 2010 added section (h) "Any other financial hardship, with the approval of the Advisory Committee. Approval of the hardship distribution will be based on the facts and circumstances of the financial hardship." Amendment Three section (h) further stated that the "Advisory Committee will exercise a full and prudent review of the facts and circumstances of the hardship request."

During the time period September 2012 and March 2014, the former Executive Director requested and received three hardship distributions. As mentioned above, there is no record of an advisory committee meeting to review and approve these disbursements. While the Plan attorney responded when asked by the Finance Administrator, that two of the hardship requests met the definition in Amendment Two of the Plan, there is no documentation of review and approval by the Advisory Committee.

The Plan withdrawal and distribution form submitted to the Plan Trustee for processing requires two Advisory Committee members signature of approval. Specific to one hardship distribution, an Advisory Committee member stated that "upon review of the document, the signature on the distribution request was not his signature." Further he stated that none of the distributions were ever brought to his attention as a committee member. We are questioning the costs related to all three hardship distributions of **$36,058**.

Quarterly Reconciliations

There were no quarterly reconciliations of Plan investment activity. The Finance Administrator did not perform any reconciliation between the plan contributions made to the Plan and the quarterly statement of the Plan Trustee. No review of investment activity was performed by Finance Administrator or by the Pension Board.

Recommendations:

We recommend that:

(13) All policies and procedures related to the pension plan are followed to ensure that the pension committee fulfills its fiduciary responsibility to the Plan and the Plan participants.

(14) Written procedures are developed to provide guidance in the Plan activities and recordkeeping to ensure that documents, contributions and pension investment values are being accounted for properly.

(15) Regularly scheduled quarterly Pension committee meetings occur to ensure proper oversight of Plan activities. Pension meetings enable the pension board to review quarterly activities, third party provider services and investment results.

Summary of Management Response:

(13) The former Pension committee included the former Executive Director, Finance Administrator and Chief of Operations. This committee was disbanded by the Board in February 2015 and a new Pension committee established that includes two Board members (one from each Member City) and three employees elected by all employees. The Pension Committee conducts regularly scheduled advertised meetings with an agenda. The committee reviews and approves all pension changes, withdrawals and retirement requests and reviews and consents to the financial reporting from the Pension Fund. The Committee also develops draft policy and financial recommendations to present to the Board for review and approval. The Interim Executive Director and Finance Administrator serves as staff to the Committee but do not have any approval authority over any pension issue.

(14) These activities have been assigned to the Pension Committee and all activities are reviewed and approved by the Board.

(15) The Board established a Pension Committee with regularly scheduled meetings beginning in February 2015. The committee reviews quarterly activities, third party provider services and investment results and makes recommendations to the Board. The committee also reviews and approves all pension withdrawal requests to ensure compliance with the Pension Policy.

CREDIT CARDS

Finding (8): POLICIES AND PROCEDURES ESTABLISHED FOR CONTROL OVER CREDIT CARDS WERE NOT BEING FOLLOWED

The Board had a Purchasing Card and House Charge Policy in place to establish procedures for the use of house credit accounts and purchasing cards, (credit accounts). We found that these guidelines were not being consistently followed, including the key controls of review of monthly cardholder statements and submission of supporting receipts. These deficiencies significantly weaken the internal controls designed to adequately safeguard the expenditure of funds through the use of credit cards. We identified the following areas where controls were not working as intended.

Lack of Supporting Documentation for Credit Card Purchases

Of the 591 business credit card transactions we selected for review we found 220 transactions (37%) totaling **$15,499** that did not have receipts or invoices submitted to substantiate the charges. Likewise, in our sample of 256 store credit card transactions we found 19 transactions (7%) totaling **$2,344** that did not have receipts or invoices to substantiate the charges. In one business credit card purchase on November 20, 2014, the former Executive Director used his credit card to pay for automobile repairs at the Ford dealership. The repairs totaling $2,163 were a result of an automobile accident in which he was involved. The accident was not reported to the Police nor was it reported to the insurance company. The Board was not notified of this accident as is required by the Board's employment rules and disciplinary procedures section; Rule XII, Section 2, Number 10. No receipt was submitted to Finance.

The Board's Purchasing Card and House Charge Policy details the responsibilities of the cardholder and the Finance Department. The cardholder is to collect, save and submit sales receipts. In turn, the Finance Department is to match and review approved receipts to monthly statements. These responsibilities were not being carried out.

Paying Exempt Sales Tax and Finance Charges

We noted that State of Florida sales tax was paid on both credit card and store credit card transactions. We identified a total of $57 paid in Florida sales tax. In those instances where receipts were not submitted by the cardholders, we cannot determine whether sales tax was unnecessarily paid. On the instances where sales tax was paid on transactions, no documentation exists to verify that the Finance Department was not alerting cardholders that they were improperly paying sales tax.

A total of $575 was paid in finance charges and late fees related to the former Executive Director and Finance Administrator's business credit card. We reviewed 56 monthly statements for those two credit cards and noted that 10 of the statements had incurred monthly finance charges (18%). One of the store credit cards had also incurred late fees of $158. Of the 26 monthly statements reviewed there were 5 statements that generated late fees (19%).

Finding (9): CREDIT CARD PURCHASES LACKED A CLEAR PUBLIC OR BUSINESS PURPOSE

As part of our review of credit card purchases we selected transactions for the period October 2012 to January 2015. From our sample of 701 credit card transactions we identified $14,849 in purchases that we questioned as having a clear public or business purpose. The following is a summary of the transactions we questioned:

Bank Credit Card and Store Credit Card Transactions

As part of the Purchasing Card and House Charge Policy there is a credit card employee agreement that is to be read and signed by all cardholders. The signers attest to following the policies and procedures designated to credit cardholders.

Paragraph Number 2 of the Agreement states that under no circumstances will the credit accounts be used for personal or unauthorized purchases. Additionally, if any of the terms of the Agreement are violated, the cardholder will be subject to disciplinary action up to and including termination of employment and will reimburse the Board for all incurred charges.

We identified $3,067 in travel expenses related to destinations such as Chicago, Illinois, and several trips to Orlando and Ft. Lauderdale, Florida. The public or business purpose of these travel events was not clearly documented. We included this amount in identified costs.

We identified $1,779 in automobile rentals, car repairs and maintenance and fuel. Local auto rentals could not be identified as public purpose expenditures for the Board. Auto repairs were not for vehicles assigned to the Board's fleet. Fuel purchases for personal autos were made without approval or authorizations. We have included the total amount in identified costs.

We identified $2,525 in credit card purchases for telephones, video cameras, Sirius radio, video services and an income tax software program. No public purpose was documented and we included these purchases in identified costs.

We identified $7,498 spent for numerous food and dining purchases, pharmacy purchases, landscaping, gift cards and picture frames of which we included $2,694 as identified costs and **$4,784** as questioned costs.

The purchases we identified as questioned costs and identified costs clearly point to the need for a thorough review and reconciliation of the credit card and store card credit card purchases. Most of these purchases were executed by management. Review of the monthly cardholder statements for these individuals is within their area of responsibilities. It may be necessary to assign someone to review the monthly cardholder statements and bring any items to the Executive Director's attention that need further review or justification.

Recommendations:

We recommend that:

(16) Management ensure that the established credit card procedures are consistently followed by both cardholders and responsible management officials. The Board should expand the responsibilities of the cardholders and the Finance Department as stated in the Purchasing Card and House Card Policy, Section Five, Responsibilities. Key controls such as the review and approval of monthly cardholder statements by a responsible official need to be performed timely and consistently. Supporting documentation such as receipts and/or invoices should accompany each purchase.

(17) The Finance Administrator develop a process for documenting and notifying the Executive Director and the Board of recurring violations of the Purchasing Card and House Charge Policy. As provided for in the Employee Agreement disciplinary action should be taken when appropriate, for a violation of the procedures.

(18) Management remind all cardholders of the requirements in the credit card policy to ensure that no sales tax is charged on credit card purchases and all credit card purchases must have a clear public or business purpose. The Finance Administrator should regularly review monthly cardholder's statements and supporting documentation and notify cardholders and responsible officials when sales tax has been improperly charged.

Summary of Management Response:

(16) Due to the inability to effectively monitor and audit the existing credit card program, the management staff cancelled all Board-owned credit cards by the end of January 2015. A new policy was developed and approved by the Board in February 2015 that established a purchasing card program utilizing a secure auditable program offered to municipal government agencies by the Board's current bank. This program provides procurement cards that can be used for procuring Board supplies, materials and services under $2,000 in accordance with the new procurement card policy. The program contains multiple tools for use by management to ensure compliance with the policy including card limits, store restrictions, receipt requirements, improper tax payment auditing, and multiple approval steps by responsible authorities. This program provides daily, monthly and yearly reports that can be reviewed by the Interim Executive Director and the Board to ensure compliance and requires all receipts and documentation to be stored digitally with the transaction detail for review. In order to provide controls, the card program manager does not have access to the cards and provides key review responsibilities to ensure that program policies are followed. This program provides all necessary tools to ensure that the issued procurement cards are used in the best interest of the Board and comply with all Board Policies.

(17) The new procurement card policy was reviewed and approved by the Board in February 2015 and includes required action if procedures are violated.

(18) The new procurement card policy was reviewed and approved by the Board in February 2015 and the program that was implemented allows a full review of all charges including sales tax that was improperly charged so correction can be initiated.

Finding (10): THE BOARD DID NOT HAVE ANY RAW MATERIALS DISPOSAL (SCRAPPING) POLICY AND PROCEDURES

Work performed by Plant employees, includes at times, the collection of various raw materials or metal scraps from rehabilitation projects or other activities. These materials are eventually sold to scrap dealers, a practice commonly referred to as "scrapping." In December 2014, the State Attorney's Office briefed us on their investigation into allegations that the former Executive Director embezzled proceeds in excess of $40,000 from the scrapping of copper wire owned by Board.

The Board had no written procedures or controls over the process from scrapping raw materials. The absence of procedures and controls the process that evolved left this activity highly vulnerable to theft. Control weaknesses included:

- No process to account for the accumulation of materials to be sold for scrap;
- No policy or procedure to record and account for the disposal and sale of scrap;
- No list of acceptable vendors to use for scrapping; and,
- Inadequate segregation of duties in that a single employee could remove scrap material, transact the sale of scrap and receive the proceeds for the sale.

Recommendations:

(19) We recommend that the Board develop written policies and procedures for scrapping.

Policies and procedures should include at a minimum:

- **How scrap material is accumulated and accounted for;**
- **The process for disposal and sale of scrap;**
- **A list of acceptable scrapping companies;**
- **How proceeds from scrap sales are documented and accounted for; and,**
- **The establishment of adequate segregation of duties between removal, sale and receipt of proceeds.**

Summary of Management Response:

(19) A new policy and procedure was approved by the Board in January 2015 which includes all of the recommendations provided by the Office of Inspector General. Prior to approval, the Board requested a review by the OIG and modified the policy based on the input received. A scrap metal vendor was selected through a competitive process in compliance with the Board's procurement policy which will be responsible for legal disposal of scrap metal and all proceeds will be returned to the Board as revenue based on the contract values. The asset control documentation was updated to include the process of documenting the disposal

methods for an asset. The Chief of Maintenance was assigned the responsibility of declaring an asset as scrap and the Finance Administrator was assigned the responsibility of documenting the disposal methods and value. The Interim Executive Director is required to approve the disposal documentation and large items are placed on the Consent Agenda for Board approval.

Finding (11): AN EMPLOYEE ACTIVITY BANK ACCOUNT WAS ESTABLISHED WITHOUT AUTHORIZATION BY THE INTERLOCAL AGREEMENT OR APPROVED POLICY BY THE GOVERNING BOARD

We identified an “employee activity bank account” which did not appear on the accounting books of the Board. The bank account was in the name of the entity identified by the entity’s federal tax identification number. Our review identified proceeds from scrapping activities were deposited into the account as well as vending machine sales. Disbursements from the bank account were for various items, such as restocking the vending machines, annual holiday bonuses for the employees, a $4,415 catered retirement party and a $1,000 cash gift.

The total deposits, $36,134 received from 2007 through 2014, consisted of **$13,821** in questioned costs from metal recycling and $22,313 from vending machines sales.

Each holiday season from 2007 through 2013, Board employees were given holiday bonuses from this account in amounts varying from $195 to $50 each. A total of **$13,090** in questioned costs was paid to employees over this time period.

In April of 2008, an Executive Director announced his resignation effective June 1, 2008. In her memorandum for the record dated May 21, 2008, the Executive Assistant wrote that the Chairman of the Governing Board told her and the Operations Manager, “to use Board monies to provide Mr. Hagel, (the retiring Executive Director) with “a very nice retirement party,” and “to write a check for $1,000 as a gift.” The retirement party took place on May 31, 2008 at a cost of **$4,415** with an additional **$1,000** cash gift using the funds from the employee activity bank account.

In our telephone conversation with the former Chairman of the Governing Board on April 28, 2015 he stated that he did attend the retirement party however did not recall his conversation concerning the party arrangements or the retirement gift.

During our audit we were provided with copies of two checks payable to two Board employees from a recycling company for $8,090 and $928, respectively. Neither of the checks were deposited into the Board’s bank accounts. We referred a total amount of $9,018 to the State Attorney’s Office and included this in our identified costs.

Recommendations:

(20) We recommend that the South Central Regional Wastewater Facility Employee Activity Fund bank account be closed. Proceeds from Board owned vending machines could be used solely for restocking the machines. Since the machines are owned by the Board, prices for sodas and snacks could be set at a price close to replacement cost. Significant profits would not be generated by the vending machine sales.

Summary of Management Response:

(20) The account in question has not been used for any purchases since March 2015. It is assumed that Board funds purchased the vending machines for employee use and this account was used for supplying the machines. Since it is difficult to separate Board funds from different sources that were previously deposited in the account, the account will be closed and all funds deposited in the Board general operating account and accounted for as revenue. The Board will seek a third party utilizing the current procurement policy to provide vendor services for employees which removes the Board from this activity. The existing machine will be surplused and any funds from the disposal of the machine will be deposited into the Board's General Operating account. This new policy will be implemented in October 2015.

Finding (12): THE BOARD MONITORED AND PERFORMED SMALL REPAIR JOBS AT THE CITY OF BOYNTON BEACH OCEANFRONT PARK SEWER PLANT WITHOUT AN AGREEMENT OR WITHOUT BEING REIMBURSED FOR SERVICES RENDERED

The City of Boynton Beach owns a secondary waste water treatment plant at the City's Oceanfront Park. In 2013, the Board began performing lab tests and monitoring the City's treatment plant at that location and kept track of the costs associated with the monitoring. The documented total for supplies, repairs, and testing is **$32,597** in questioned costs.

There is no interlocal agreement between the two entities to identify the services to be provided and no understanding between the two entities for reimbursement and payment of expenses related to monitoring and repairs at the sewer treatment plant.

Recommendations:

(21) We recommend that the Board and the City of Boynton Beach enter into an interlocal agreement. This agreement should outline and define each entities responsibilities as well as any financial reciprocation to each other.

Summary of Management Response:

(21) In September 2015, the City of Boynton Beach has retained a third party contractor for operations and maintenance of the Beachfront Park WWTP. The Board is no longer involved in the operations of the plant. The City also assumed all operating cost for the Plant including all lab costs in May 2015.

Finding (13): SAFETY ISSUES WERE IDENTIFIED AT THE BOARD THAT PRESENT POTENTIAL SAFETY HAZARDS

On the Board's property, gasoline powered equipment was stored in an airtight storage container. Gasoline fumes were prevalent when the container doors were opened by an employee that had a lit cigarette in his hand. The six inch vent we observed seemed inadequate for venting fuel vapors. We immediately notified the interim Executive Director of our discovery.

A formal safety and maintenance inspection program did not exist to identify and address these issues. We were informed that in response to this finding management is taking various actions.

We observed other safety discrepancies at the Oceanfront Park which we referred to management for appropriate action.

Recommendations:

We recommend that:

(22) Management conduct a formal evaluation of the condition of all plant properties to determine the need for repairs, and/or securing the property from access.

(23) Management implement a formal on-going safety inspection and maintenance program for the Board's plant and properties.

Summary of Management Response:

(22) Formal evaluations are conducted by the Palm Beach County Health Department on a reoccurring basis as part of the Wastewater Plant's Operating Permit. This inspection identifies all components of the plant that are not being maintained within standards and the Board is responsible for completing repairs within a standard timeframe. The Board has received outstanding inspection reports which demonstrate the quality of maintenance at the plant. This is an on-going task and is

the responsibility of the management team to ensure compliance with the operating permits.

(23) The formal program was implemented in January 2015 and includes formal inspection walk-throughs by the management team, established deadlines for any required repairs or upgrades, safety discussions with staff at routine safety meetings and assignments of responsibility to the Chief of Operations as the safety officer for the plant.

Finding (14): THE ADMINISTRATION BUILDING WAS REMODELED WITHOUT FOLLOWING PROPER STATE AND LOCAL MUNICIPAL BUILDING CODES, BOARD PROCUREMENT POLICIES, OR ACCOUNTING PROCEDURES

In October 2013, the Board began construction on a remodeling project of the Administration Building. The scope of work consisted of moving and framing walls; moving electrical conduit and light switches, adding stucco to the building exterior and adding awnings to the building. The remodeling project was not competitively procured as a construction contract but rather pieced together from various sources with most of the interior work performed by Board staff.

The City of Delray Beach, the municipal jurisdiction for the Board adopted the Florida Building Code as their Building Regulations, (City of Delray Code of Ordinances, Title 15 Building Regulations; Chapter 151, Article 7.1, Section 7.1.3(a)). The Florida Building Code, Chapter 1, Part 2, Section 110 addresses inspections, it states "Construction or work for which a permit is required shall be subject to inspection by the building official."

Construction work under this project would have required building inspections performed by the City of Delray Beach Building Division. We inquired with the City of Delray Beach Building Permits Division if the Board had requested permits for this work. The City's building administrator indicated that no permits were pulled for this scope of work at this location. Inspections did not take place upon completion of the electrical work; stucco contract or the awnings.

The costs for the building stucco work was paid for under an unrelated construction contract and added to the contract as a change order. No competitive procurement took place. The Board engineer stated that the engineering firm was not responsible for that work and to his knowledge it was not inspected. This issue was discussed further in the contract section of this report on page 8.

A contingency fund for $175,000 was established to facilitate additional expenditures related to the Clarifier B Rehabilitation Project. This was also discussed in the contract section of this report on page 8. A total of **$9,595** in questioned costs was spent related to the Administration Building. Items such as awnings, signs and landscaping were purchased. There was no documentation, quotes or proposals to show that the purchases were competitively procured in accordance with the Board's procurement policy.

The former Executive Director chose to use Board employees to assist in the Administration Building project. Employees performed the remodeling construction work which was outside the scope of their Plant job responsibilities. The employees were paid overtime for work performed on this project, which was approved by the former Executive Director. The amount for internal labor posted to the Administration Building Capital Project was $27,267. We reviewed the administration building overtime payroll reports and we identified a total of $33,124 in paid overtime. The internal labor journal entry was incorrect resulting in the capital asset cost being understated on the fixed asset report by $5,857.

Recommendations:

(24) We recommend that management review regulations, policies and procedures related to construction projects to ensure that all regulations are followed and that proper policies and procedures affecting the construction process are in compliance.

Summary of Management Response:

(24) The Board's Procurement Policy was reviewed and updated in January 2015 to ensure compliance with State Statutes. All new construction projects will be competitively procured and managed in accordance with this policy.

Finding (15): POLICIES OR PROCEDURES DID NOT EXIST FOR FIXED ASSET PURCHASES, ANNUAL FIXED ASSET INVENTORY, OR DISPOSALS OF FIXED ASSETS

Capital Assets

The Florida Statutes Title XVIII, Chapter 274 provides guidance on the supervision and control of tangible personal property owned by local governments. Fixed asset management is an accounting process that seeks to track fixed assets for the purpose of financial accounting, preventive maintenance and theft deterrence. The Board has not adopted policies and procedures addressing the capitalization of fixed assets, depreciation estimates, disposal of fixed asset or annual performed procedures such as inventory control. While the policies and procedures were never adopted, the audited financial statements disclose capital asset definitions in the notes to the basic financial statements.

In order to test the Board assets currently on the books we selected a sample of 42 fixed assets with a total cost basis of $190,230. We verified that items were under Board control and were properly accounted for in the financial records. Our audit procedures included an existence test on selected fixed assets. We identified that maintenance and operation equipment did not have any fixed asset inventory tags to allow for asset identification to the fixed asset records. We subsequently matched serial numbers on the fixed assets to the assets we selected.

We selected 12 laptops for review and found 4 laptops were missing. The Finance Administrator believes that 2 laptops are in the possession of the former Executive Director and 2 laptops are unaccounted for. The total value related to the 4 missing laptops is **$2,884.**

We reviewed the golf cart fixed asset category in the Fixed Asset listing report. The result was that two more golf carts appeared on the listing report than were physically counted. The Finance Administrator stated that a cart was stolen a few years ago. We requested a copy of a police report and was told that a report was never filed. That golf cart was subsequently written off as a disposal after our discovery. The other golf cart remained on the fixed asset listing and was being used for parts. The value of these two golf carts was $5,922.

Fixed Asset Records

The lack of adequate record keeping and accounting greatly increased the risk of errors and misappropriation of assets. In review of the fixed asset records we identified a 1995 Ford F150 truck that had been sold on December 20, 2010 which was still listed on the detail vehicle fixed asset report. This created an overstatement of $12,259 on the Board's fixed asset list.

We compared the detail fixed asset totals to the audited financial statements for the fiscal year end 2013. The assets we identified above as sold, stolen and improperly reported resulted in the value of the fixed assets being overstated by $21,065. The Finance Administrator is not reporting fixed asset transactions as they occur.

Fixed Asset records should be complete and accurate for fixed assets of significant value and are fundamental to sound financial management. The responsibility involved in safeguarding a large public investment is of the utmost importance. This responsibility can only be discharged effectively through adequate fixed asset accounting and control.

Recommendations:

We recommend that:

(25) The Board establish policies and procedures for the proper accounting of capital assets and the disposal of assets.

(26) The Board establish a policy and procedures for conducting periodic physical inventories of fixed assets, at least on an annual basis. The

procedure should include location, identification, and condition of the asset.

(27) Management ensures that accounting for assets is performed accurately and on a timely basis.

(28) Management requires that the Finance Administrator review asset records to identify assets that were unaccounted and would support seeking recovery.

Summary of Management Response:

(25) The Board used this chapter (Florida Statutes Title XVII, Chapter 274) as guidance when the asset control documentation was updated in March 2015 to include the process of documenting the disposal methods for an asset. The Chief of Maintenance was assigned the responsibility of declaring an asset as scrap and the Finance Administrator was assigned the responsibility of documenting the disposal methods and value. The Interim Executive Director is required to approve the disposal documentation and large items are placed on the Consent Agenda for Board approval.

(26) Beginning in FY 2015-2016, the Board will conduct an annual fixed asset inspection to document the location, identification and condition of each asset included in the asset management system. It is expected that this work will be completed by March 2016.

(27) The management team has revised the asset management forms to require timely accounting and review by the Interim Executive Director. The asset management system is not adequate to fully account for assets and produce reports. The Board is seeking new technology to replace this system with an integrated accounting system designed for government agencies and it is expected the new system will be fully implemented in March 2016. The new system will improve the accuracy and timeliness of recording Board assets.

(28) The Board is pursuing all legal means of identifying unaccounted for assets and the Board expects to utilize all legal means toward an equitable outcome for the Board with regard to such assets. This work is scheduled to be completed by December 2015.

OIG Comment

Recommendation (25) In the Board's management response for this recommendation, the Board stated that Chapter 274 appears to apply only to governmental units such as "Counties, Taxing Districts, and Sheriffs". In our report we stated that the Florida Statutes Title XVIII, Chapter 274 provides

guidance related to tangible personal property. In the absence of any other fixed asset management guidance this would provide an initial starting point. We are cognizant of the statutory definition of "governmental unit" in Section 274.01, Florida Statutes.

Finding (16): POLICIES AND PROCEDURES FOR THE OPERATION OF THE FUEL DEPOT DID NOT EXIST

Employees were allowed to fuel the Board owned vehicles when necessary and then record the gasoline meter readings on a manual log. We reviewed the log for the period under audit and identified 32 errors in the recording of gasoline usage. For each use, the beginning fuel meter reading numbers were not correctly recorded by the employee. A total of 366 gallons of fuel costing **$1,295** was dispensed in this manner.

A monthly reconciliation usage report was not prepared in order to review fuel usage and assist in the timely reordering of fuel. No monitoring of the fuel usage or fuel transaction data was performed. On the manual log vehicles that were being fueled have abbreviated names and on numerous occasions were identified with generic names such as vehicles, trucks, or cans. This practice does not enable proper identification of the vehicle or equipment being fueled.

Sound internal control principles include having adequate written policies and procedures that document how a program's activities are carried out, monitored and controlled. The Board did not have any written policies and procedures to govern the operation of the Board fuel program.

Policies and procedures should be comprehensive; to thoroughly describe how the process works; the rules governing the fueling of various assets such as vehicles, equipment and containers, and the process for monitoring fuel transactions and reconciling monthly fuel usage by department. Duties and responsibilities for managing the program and using the fuel depot should be clearly defined. Once adequate policies and procedures are in place they should be communicated to all employees that manage or have access to the fuel.

Recommendations:

We recommend that:

(29) The Board ensure that employees enter the correct fuel tank meter reading for fuel transactions.

(30) The Board provide for the development and regular review of fuel transactions which identify the vehicle and fuel usage.

(31) The Board develop policies and procedures to govern the plant's fuel depot and once established, they should be clearly communicated.

Summary of Management Response:

(29) As stated previously, Staff has implemented a fueling procedure that requires verification by multiple staff members when dispensing fuel for Board equipment and vehicles. This work was completed in February 2015. The forms used to document the amount of fuel disbursed is reviewed monthly by the Interim Executive Director to ensure dispensed fuel was reasonable and used for Board Activities. A project has been scheduled to automate fueling to ensure that all use is verifiable and auditable. This project is scheduled for completion in March 2016.

(30) As stated previously, Board management staff has implemented new policies to accurately record fuel disbursements and verify that the fuel was used for Board activities. This change was implemented in February 2015.

(31) The new management team reviewed the existing fuel procurement and disbursement policy and procedures in January 2015 and found that the previous management staff was not following current procurement policy for fuel purchases and there were no staff controls in place to verify fuel was being used for Board purposes. Staff implemented the above-referenced fueling procedure that requires verification by multiple staff members when dispensing fuel for Board equipment and vehicles. This work was completed in February 2015. A project has been scheduled to automate fueling to ensure that all use is verifiable and auditable. This project is scheduled for completion in March 2016.

Finding (17): THE FORMER EXECUTIVE DIRECTOR'S EMPLOYMENT AGREEMENT WAS NOT IN COMPLIANCE WITH IRS FRINGE BENEFIT RULES FOR THE USE OF A COMPANY VEHICLE

The former Executive Director's employment agreement entitled him to use the Board owned automobile for commuting between home and work. The former Executive Director agreed by signing the employment agreement that the vehicle would not be used for personal or private purposes.

The Internal Revenue Service counts fringe benefits, goods, services and experiences given to employees in addition to standard wages as a form of taxable income. IRS Publication 15-B, "*Employer's Tax Guide to Fringe Benefit"* defines personal use of a company car, commuting to and from work, as a taxable fringe benefit. The former Executive Director's use of the company car was in compliance with the employment agreement. However, the Executive Director's employment agreement was not in compliance with Internal Revenue Service guidance on fringe benefits. No dollar amount for this fringe benefit was included in the former Executive Director's wages or reimbursed by the employee.

In January 2014, the Board purchased a new Ford Taurus for the former Executive Director's use. We calculated the total number of miles driven from date of purchase through November 21, 2014, his last date of employment as 31,574.90 miles. The commuting miles during this time period was 16,396.80 which was based on the commuting distance and his payroll records. The balance of miles 15,178.10 were other miles. The former Executive Director's employment agreement stated that he could not use the automobile for personal use. His job duties required minimal business travel on behalf of the Board. Personal use of the Board's vehicle would be in violation of his employment agreement. Personal use of company vehicles are a taxable event as defined by the IRS's Publication 15-B noted above. The fringe benefit amount should have appeared on his W2 for the calendar year 2014. We further calculated the Ford Taurus miles per gallon and the average price per gallon of gas for the time period. The cost of gasoline for those other miles was **$2,944**. We are questioning those costs.

Recommendations:

We recommend that:

(32) The Governing Board have an employment law attorney review any employment agreements that the Board may enter into in the future to ensure compliance with all federal and state regulatory laws, rules, and guidelines.

(33) The Governing Board seek to determine the basis for the vehicle costs incurred by the Board with respect to the former Executive Director and consult with the Board's attorney on recovering any inappropriate costs.

Summary of Management Response:

(32) The new Board Attorney has been assigned the responsibility of retaining an Employment Law Attorney on behalf of the Board to review all future employee agreements and potential employment changes with existing Board management personnel.

(33) The Board expects to utilize all legal means toward an equitable outcome for the Board for issues that were caused by the apparent inappropriate use by the former Executive Director. This work is scheduled to be completed by December 2015.

Finding (18): ACCOUNTING PROCEDURES AND INTERNAL CONTROLS WERE NOT BEING PROPERLY APPLIED AND MONITORED

The Board has established processes to facilitate the daily business activities of the Board. Several areas that need improvement were identified.

The Finance Administrator was listed as a signer on the Board's bank accounts as well as ordering and paying for purchases, posting accounting activity and recording all transactions to the Board's general ledger. There was no oversight as would be evidenced by a review and approval process of the accounting responsibilities under her charge.

Bank Accounts

We reviewed the Board's monthly bank reconciliation process. The bank reconciliation is the process of comparing the transactions in the accounting records against those presented on the bank statement. We found that the bank reconciliations are signed off as being completed, however, the process consists of just comparing the ending bank account balance amount with the general ledger account balance. This is not a true reconciliation process of clearing bank deposits and checks. For two of the five months we reviewed the Finance Administrator had not signed off verifying the completion of the bank reconciliation process. On the payroll bank account reconciliation we identified two monthly bank reconciliations that had unreconciled differences between the bank balance and the book balance. Unreconciled amounts for these months were overages of $3,504 and $1,885 (book balance over bank balance), respectively.

Of the eight quarterly IRS 941 payroll returns submitted to the IRS we identified three quarterly returns that had IRS notices sent to the Board indicating that the deposits were not submitted correctly. The three issues were resolved and there were no penalties assessed.

On the State Board of Administration investment account, three employees were authorized on the account to transact business in 2007. In November 2014 only one employee was left to authorize wire transfers from this account.

Accounting Software

The Board uses DataPro accounting software for its core general ledger and a Sage software module for its fixed assets. The DataPro accounting software and the Sage fixed asset module do not create an integrated system; each system is independent of one another. The DataPro software being used is not a government fund accounting software. In order to close out the fiscal year, the Finance Administrator creates several excel spreadsheets to replicate the government accounting model. Journal entries are prepared to line up the accounts in the appropriate funds. Upon completion, this process is not reviewed. Without a review and approval process errors may occur and go undetected.

Recommendations:

We recommend that:

(34) A third party review and approve the bank reconciliation process. This will ensure that all steps in the process were performed.

(35) Management establish a payroll tax recap process for all quarterly 941 payroll returns. This would identify any differences between the payroll deposits and the 941 report prior to submission to the IRS.

(36) An annual review of the banking services and signers on the account be performed to identify any changes that may need to occur. The Board should review the bank services annually at the beginning of the fiscal year or when an authorized signer leaves the Board.

(37) Management review the current accounting software to see if it meets the business needs of the organization. Technology that better suits the Board could allow for efficiency and reduce the risk of errors.

Summary of Management Response:

(34) The bank reconciliation process was revised in January 2015 to include a review by the Executive Assistant and review and approval by the Interim Executive Director. While this change added some control methodology to the process, the review is based on manual reconciliation records. In order to fully implement a process that will ensure all steps are followed and the information is accurate, new software is required. The reconciliation process will be improved upon the implementation of new financial accounting technology in March 2016.

(35) A new process is being developed to separate duties between staff members with a review by a Board accountant that is proposed in a new organizational structure. It is expected that the new process will be implemented by December 2015.

(36) This review will occur in October-November 2015 and will continue annually.

(37) An RFP has been published seeking new technology to assist the Board in managing Board business. It is anticipated that a new solution will be fully implemented by March 2016 which meets all requirements of the Board.

Finding (19): BOARD MEETINGS WERE NOT HELD IN COMPLIANCE WITH THE FREQUENCY AGREED UPON IN THE INTERLOCAL AGREEMENT

An interlocal agreement was signed on December 26, 1974 by the City of Delray Beach and the City of Boynton Beach. The purpose of this agreement was to create a legal entity composed of five member of the City Council of each of the two cities, (Boynton Beach and Delray Beach) to be known as the South Central Regional Wastewater Treatment and Disposal Board, (Board).

Pursuant to the agreement, "the Board shall meet at least quarter-annually or more often when necessary." A quorum for meetings was defined as consisting of not less than six members comprised of not less than three members each from the City Council of Boynton Beach and the City Council of Delray Beach.

The seventh amendment to the interlocal agreement dated November 8, 2012 changed the quorum requirement to not less than four members, with not less than two members from each City Commission.

During our review of the Board minutes from October 2011 through March 2015; only seventeen of the twenty five posted meetings had sufficient attendance to create a quorum. Eight meetings were cancelled. In fiscal year 2014, there were not sufficient Board meetings to meet the minimum annual meeting schedule as required in the interlocal agreement. In that fiscal year only three of the required four meetings took place.

Failure to hold minimum required meetings resulted in the Governing Board not providing optimal oversight. Governing Board oversight and involvement are critical to the operations of the Board.

Recommendations:

(38) We recommend that Board members provide proper oversight in the activities of the Board in accordance with the Interlocal Agreement. Scheduled meeting attendance enables the regular monitoring of fiscal operations. Meeting attendance will ensure that Board members perform key fiscal oversight responsibilities of a governing board such as, developing policies; monitoring fiscal operations and conducting audits.

Summary of Management Response:

(38) The Board has four quarterly meetings scheduled each year and all scheduled meetings have had a quorum since November 2014. The Board also conducts special meetings as necessary to review specific Board action items brought forward by the Interim Executive Director. Board members are also appointed by the Board to serve on selection committees for contracts that will be reviewed and approved by the

Board with all activities associated with these committees adhering to State and Local regulations including the Florida Sunshine Statutes.

Finding (20): MANAGEMENT DID NOT ADEQUATELY MONITOR AND CONTROL THE FINANCIAL ACTIVITIES OF THE BOARD

The Governing Board's responsibilities for internal control primarily involve oversight, authorization and ethical leadership. The governing board relies upon management, especially the Executive Director, to create the policies needed to ensure that services are provided effectively and assets safeguarded. The lack of the Governing Board's involvement contributed to an environment that resulted in significant issues described in this report.

Management must establish a positive "tone at the top" by conducting an organization's affairs in an honest and ethical manner and establishing accountability at all levels of the organization. If the Executive Director does not exhibit strong support for internal controls, the organization as a whole will be unlikely to practice good internal controls. Several instances noted in this report point to weaknesses that allowed for payments to the former Executive Director for which he was not entitled, along with numerous purchases in violation of the Board's own procurement policy.

Finance officers are instrumental in overseeing accounting and financial reporting controls. A finance officer's responsibilities for supervising the preparation of accounting records, producing financial reports and demonstrating compliance with State and federal laws are priority goals for local governments. Throughout this report we identified lack of documentation, improper expense payments, and payment of sales tax, late fees and finance charges. In addition there is a lack of policies and procedures to account for fixed asset transactions.

Recommendations:

We recommend that:

(39) The interim Executive Director work with the Governing Board to establish a Board meeting schedule and a standard format for regular financial reporting as part of the Board meeting agenda.

(40) The interim Executive Director review the organizational chart and operational activities of the Board and draft a presentation to the Board on options available to facilitate the operations and management of the Board.

Summary of Management Response:

(39) Beginning in November 2014, the Board has met regularly with Board staff to review Board activities and approve all human resource and financial decisions. A new agenda format was developed in February 2015 which includes the following financial information:

- **A purchase order report detailing all purchase orders issued for expenditures up to $25,000 procured in compliance with the Board's Procurement Policies**
- **A detailed purchasing card report for all purchasing card expenditures between $0.00 and $2,000**
- **A quarterly financial report which includes all revenue and expenditures by expense category along with a summary of the Board's financial position**
- **Individual purchase requisitions and bids above $25,000 for the Board's review and approval to ensure all Board Procurement Policies are met**

(40) A presentation was made to the Board in July 2015 which outlines multiple options to address the future organization. The Board directed staff to further develop two options to management Board activities for review by the Board. The current Interlocal Agreement has several management options available to the Board which are being further developed by staff. The Board is committed to developing an organizational structure that provides clear lines of responsibility with multiple financial and human resource controls in place to ensure that all Board activities adhere to all Board, County, State and Federal regulations with full transparency and open communication. This work is scheduled to be completed in the Fiscal Year 2015-2016 budget year.

SUMMARY OF POTENTIAL FINANCIAL AND OTHER BENEFITS IDENTIFIED IN THE AUDIT

EMPLOYEE GRIEVANCE PROCEDURES

During the course of our audit we reviewed the Board’s employee grievance procedures and appeal process. We noted that the grievance procedure includes reporting grievances concerning specific actions or omissions of the Executive Director. However, all of the appeal procedures include the participation of the Executive Director. We suggest that the Governing Board review this section of the policy as it relates to grievances directed specifically to the actions or omissions of the Executive Director to allow for all employees to have an alternative avenue to express their employment grievance.

Questioned Costs[5]

Finding	Description	Questioned Costs
1	Expenditures on contracts	$1,953,080
2	Non-Shift Employee 8-hour Day	106,813
3	Vacation Cash-Out	35,187
4	Non-Compliant Bonuses	1,750
6	Unentitled Payments to Former Exec. Director	10,363
7	Pension Hardship Distributions	36,058
8	Lack of Documentation for Credit Cards	17,843
9	Lack of Public Purpose for Credit Cards	4,784
11	Scrapping Deposits in Employee Acct	32,326
12	Oceanfront Park	32,597
14	Administration Building Remodeling	9,595
15	Policies & Procedures for Fixed Assets	2,884
16	Policies & Procedures for Fuel Depot Operation	1,295
17	Employment Agreement Non-Compliance	2,944
	TOTAL QUESTIONED COSTS	$2,247,519

Identified Costs[6]

Finding	Description	Identified Costs
6	Unentitled Payments to Former Executive Director	$ 42,191
9	Lack of Public Purpose for Credit Cards	10,065
11	Scrapping Deposits in Employee Bank Account	9,018
	TOTAL IDENTIFIED COSTS	$ 61,274

[5] Questioned costs can include costs incurred pursuant to a potential violation of a provision of law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds, and/or a finding that such costs are not supported by adequate documentation, and/or a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable in amount. As such, not all questioned costs are indicative of potential fraud or waste.

[6] Identified costs are those dollars that have a potential of being returned to offset the taxpayers' burden.

Potential Avoidable Cost[7]

Description	Avoidable Costs
Expenditures on Contracts	$ 1,390,087
Bonuses	4,770
Lack of Public Purpose for Credit Cards	13,038
Employee Bank Account	88,104
Oceanfront Park	88,843
Administration Building Remodeling	26,151
Fixed Assets	7,860
Fuel Depot Operations	3,530
Employment Agreement	8,024
TOTAL POTENTIAL AVOIDABLE COSTS	$ 1,630,407

ATTACHMENT

Attachment 1 – Complete Management Response

ACKNOWLEDGEMENT

The Inspector General's audit staff would like to extend our appreciation to the South Central Regional Wastewater Treatment and Disposal Board Management and 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 Eleanor Lisansky, Acting Director of Audit, by email at inspector@pbcgov.org or by telephone at (561) 233-2350.

[7]Avoidable costs is a value that represents the dollars an entity will not have to spend, and/or the increase in revenue over the next three years if the OIG's recommendations are implemented.

ATTACHMENT 1 – Management Response

SOUTH CENTRAL REGIONAL WASTEWATER
TREATMENT AND DISPOSAL BOARD

1801 North Congress Avenue • Delray Beach, Florida 33445

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City Commissioners of
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September 10, 2015

Office of Inspector General
Eleanor Lisansky, Acting Director of Audit
Post Office Box 16588
West Palm Beach, Florida 33416

Re: **Draft Audit Memo dated September 4, 2015**

Dear Ms. Lisansky:

On behalf of the South Central Regional Wastewater Treatment and Disposal Board (SCRWTDB), Mr. Krejcarek and I want to thank you and your staff for your work on the above-mentioned audit. The audit team was highly skilled and professional and we believe that your work will assist the Board in greatly improving the transparency, efficiency and effectiveness of the Board's activities.

It is unfortunate that the management team led by the former Executive Director appeared to abuse their authority and trust with the Board through apparent mismanagement of Board resources and personnel, as well as the apparent unethical behavior. The former Executive Director failed to follow Board policies and procedures and may have abused the Board's trust for personal gain. The former Executive Director's employment was immediately terminated by the Board when the Board was notified of the apparent mismanagement that was occurring and has directed the new management team to implement and/or update all management policies to ensure that Board activities are conducted ethically, transparently and above and beyond the requirements of Federal, State and Local rules and regulations.

We reviewed the "Questioned Costs" identified in the audit and agree that a majority of these costs may include costs incurred due to potential violations of current policies, regulations or cooperative agreements and most of the remaining "Identified Costs" are not supported by adequate documentation to fully determine that the expenditure of funds for the intended purpose was reasonable and in the best interest of the Board. While these costs to the Board are questionable because of the procurement methodology used or the lack of documentation, the Board received the goods and services identified in the specific projects. The Board will aggressively pursue recovery of the "Identified Costs" in the audit that have a potential of being returned to offset the rate payers' burden. We agree with the Inspector General that not all "Questioned Costs" are indicative of potential fraud or waste.

We have also reviewed the "Potential Avoidable Cost" chart and while these costs may have been spent if the questionable activities where continued, all of the questionable activities were immediately stopped when discovered, so a three-year projection and the associated saving may be inflated.

ATTACHMENT 1 – Management Response continued

The new management team has been working with the auditors from the Office of Inspector General over the last six months and has initiated and completed many changes within the Board's activities as they were identified during the audit and through management review of past and current practices. New policies have been developed and existing policies have been reviewed and revised where necessary and the Board has reviewed and adopted these changes as recommended. New controls have been initiated to address the concerns and problematic areas within the daily operation of Board activities. The financial and Board activity reporting systems have been revised to include detailed reports for all expenditures and activities for Board review and approval. Staff training and monitoring has been initiated to ensure all staff is responsible for compliance with all policies and procedures.

We have reviewed all of the findings in the Draft Audit Memo and generally concur with the recommendations. We have included each audit recommendation for ease of use and have documented the management response to each recommendation. We have also included completion dates for each item along with an explanation of actions that have been initiated and completed.

Again, on behalf of the Board, I want to thank you for your assistance in the review of Board activities and the excellent recommendations that have been forwarded.

Please let me know if you have any questions concerning our management response.

Sincerely

Colin D. Groff, P.E.
Interim Executive Director

Randal Krejcarek, P.E.
Interim Assistant Executive Director

Management Response to Draft OIG Memo Page | 2

ATTACHMENT 1 – Management Response continued

South Central Regional Wastewater Treatment & Disposal Board Management Response

(1) *The Board establish policies and procedures for contract monitoring and contract administration that provide guidance on contract activities; such as monitoring of progress, and inspection and acceptance of work performed prior to payment. An effective contract monitoring process could help prevent payments in excess of the maximum contract amounts or payments made for services rendered after contracts have expired.*

The Board concurs with this recommendation. The current financial software package used by the Board does not contain components to allow the effective monitoring of contracts and purchase orders. The software is in the process of being replaced with a full function accounting and project management package that will provide the Board effective contract monitoring with daily, weekly, monthly and closing documentation to ensure compliance with all contract requirements. It is expected that the new software will be fully implemented by March, 2016. As an interim solution, the new management team has implemented a manual process to monitor contracts and divided contract responsibilities between working divisions based on the type of work. All work progress and inspections are assigned to a staff project manager to work with the Board's Engineering Consultant if one is contracted for the project to ensure contract compliance. All payment requests are reviewed by the project manager and a recommendation is forwarded to either the Chief of Operations or Chief of Maintenance to review for compliance with the contract. If pay request is accurate and work complete, a recommendation for payment is forwarded to the interim Executive Director for approval. After review and approval, the payment request is forwarded to accounting for final review and payment. This process was implemented in January 2015.

(2) *The Board review the scope of work in Board's contracts, contract deliverables and types of services allowable under established contracts. This would help ensure that payments are not made for goods or services that are outside the scope of the contract.*

The Board concurs with this recommendation. A full review of all existing contracts was conducted in January 2015 and all contracted work has been reviewed and approved using the process outlined in recommendation #1. During this review, staff found several instances where services were obtained without meeting the requirements of the Board's Procurement Policy. Staff has either procured legal contracts for required work that contains a clear scope that is being monitored or has cancelled the work if it was no longer required. This work was completed in March 2015. All future contracts will be established within the approved procurement policy.

(3) *The Board ensures that competitive procurement is utilized in compliance with the adopted procurement policies. Without the competitive procurement process there is no assurance that the lowest and best price has been received for goods and services.*

The Board concurs with this recommendation. Staff completed a full review of all current contractor activities in January, 2015. Based on input from the Office of Inspector General and staff's review, the Board reviewed and approved new contracts that were competitively procured in compliance with the Board's procurement policy. All of the new contracts were in place by July 2015.

ATTACHMENT 1 – Management Response continued

(4) *Management review its procurement policy as it relates to continuous service contracts. Without the competitive procurement process there is no assurance that the lowest and best price is being expended to acquire goods and services.*

The Board concurs with this recommendation. Staff completed a full review of all current continuous service contracts in January, 2015. Based on staff's review, the Board reviewed and approved new continuing services contracts that were competitively procured in compliance with the Board's procurement policy. All of the new contracts were in place by July 2015. A database has been established which includes all annual contracts along with expiration dates to ensure new contracts are competitively procured in a timely manner.

(5) *The Board ensures that management adheres to the appropriate procurement process for the dollar amount of the purchase and competitively procures a contract for fuel.*

The Board concurs with this recommendation. The new management team reviewed the existing fuel procurement and disbursement policy and procedures in January 2015 and found that the previous management staff was not following current procurement policy for fuel purchases and there were no staff controls in place to verify fuel was being used for Board purposes. Starting in January 2015, all fuel purchases were bid and the lowest most responsive bidder was awarded in compliance with the procurement policies. Staff also implemented a fueling procedure that requires verification by multiple staff members when dispensing fuel for Board equipment and vehicles. This work was completed in February 2015. The Board awarded a long-term fuel procurement contract in August 2015 utilizing the State of Florida contract which was competitively procured. A long-term project has been scheduled to automate fueling to ensure that all use is verifiable and auditable. This project is scheduled for completion in March 2016.

(6) *We recommend that management review all operational activities and manuals to assess current compliance with established payroll and employee's benefits. During the audit the interim Executive Director took corrective action and changed the hours of operation for the various Board departments to ensure that each employee works and is compensated for a full eight-hour work day.*

The Board concurs with this recommendation. Immediately upon appointment by the Board, the Interim Executive Director took immediate steps in December 2014 to ensure all Board personnel policies and procedures were followed by all staff. The work hours for staff were immediately changed to ensure a full eight-hour work day was performed by all staff. Meetings were held with all staff members to reinforce the Board's current personnel policies with staff to ensure compliance.

(7) *We recommend that management review the vacation cashout policies and procedures to ensure that the vacation payment is correct. A procedure should be established to review and approve all individual vacation cashout requests for accumulated hours, and frequency of occurrence.*

The Board concurs with this recommendation. Since January 2015, all individual cashout requests are reviewed by the human resource staff and the Interim Assistant Executive Director to ensure compliance with the current policy. The Personnel Policy has been reviewed and a revised policy is being developed to clearly address all personnel policies and procedures to ensure that actions are in the best interest of the Board and the utility customers that are served. The new policy will be reviewed and approved by the Board in March 2016.

Management Response to Draft OIG Memo Page | 4

ATTACHMENT 1 – Management Response continued

(8) *Management design the "bonus" program, notifying all employees of the program, the performance standards and the evaluation process if it intends to continue the bonus awards.*

The Board concurs in principle with this recommendation. The Board did not establish a "bonus" program for employees. Bonuses were paid to employees by the former Executive Director in violation of Board policy and without Board knowledge including bonuses to the former Executive Director. These activities were immediately halted with the appointment of the Interim Executive Director in December 2014. If the Board considers a performance bonus program in the future, it will be designed to comply with all Local, State and Federal requirements.

(9) *Management reviews the IRS reporting requirements related to bonuses. Employee bonuses are taxable and should be included in the employee's wages and W2.*

The Board concurs with this recommendation. If a bonus program is established, the policy will ensure proper IRS reporting.

(10) *Board management adheres to its own policy in the Personnel Manual Rule XVI – Employment of Relatives.*

The Board concurs with this recommendation. The former Executive Director apparently approved the temporary employment of relatives in violation of current Board policy. This practice was stopped in November 2014 with the appointment of the Interim Executive Director. The current rules are in review and potential revisions will be addressed in the revised Personnel Policy and Procedures Manual currently in development and scheduled for review and approval by the Board in March 2016.

(11) *Board management making hiring and termination decisions take a training class in current regulatory employment procedures, rules and regulations, including the State Code of Ethics, Chapter 112.*

The Board concurs with this recommendation. The new Board Attorney has utilized the services of a firm that specializes in regulatory employment rules and procedures and training classes have occurred for management staff as suggested and will continue to ensure all management decisions adhere to Board Policy and the State Code of Ethics. Board staff is also required to read the Palm Beach County Code of Ethics, receive training on the requirements of the Code of Ethics and sign an acknowledgement form. All employees will complete this training by October 2015.

(12) *We recommend that management seek to determine the basis for the costs incurred by the Board with respect to the former Executive Director and consult with the Board attorney on recovering any inappropriate costs.*

The Board concurs with this recommendation. The Board is pursuing all legal means of recovery and the Board expects full restitution of all costs to the Board that were caused by inappropriate decisions by the former Executive Director. Nevertheless, the matter has been referred to the State Attorney's office and its actions, and the Board's reaction to such, may impact any attempt to "recover" any costs or expenditures found to be inappropriate or illegal. This work is scheduled to be completed by December 2015.

ATTACHMENT 1 – Management Response continued

(13) *All policies and procedures related to the pension plan are followed to ensure that the pension committee fulfills its fiduciary responsibility to the Plan and the Plan participants.*

The Board concurs with this recommendation. The former Pension committee included the former Executive Director, Finance Administrator and Chief of Operations. This committee was disbanded by the Board in February 2015 and a new Pension committee established that includes two Board members (one from each Member City) and three employees elected by all employees. The Pension Committee conducts regularly scheduled advertised meetings with an agenda. The committee reviews and approves all pension changes, withdrawals and retirement requests and reviews and consents to the financial reporting from the Pension Fund. The Committee also develops draft policy and financial recommendations to present to the Board for review and approval. The Interim Executive Director and Finance Administrator serves as staff to the Committee but do not have any approval authority over any pension issue.

(14) *Written procedures are developed to provide guidance in the Plan activities and recordkeeping to ensure that documents, contributions and pension investment values are being accounted for properly.*

The Board concurs with this recommendation. These activities have been assigned to the Pension Committee and all activities are reviewed and approved by the Board.

(15) *Regularly scheduled quarterly Pension committee meetings occur to ensure proper oversight of Plan activities. Pension meetings enable the Pension Board to review quarterly activities, third party provider services and investment results.*

The Board concurs with this recommendation. The Board established a Pension Committee with regularly scheduled meetings beginning in February 2015. The committee reviews quarterly activities, third party provider services and investment results and makes recommendations to the Board. The committee also reviews and approves all pension withdrawal requests to ensure compliance with the Pension Policy.

(16) *Management ensure that the established credit card procedures are consistently followed by both cardholders and responsible management officials. The Board should expand the responsibilities of the cardholders and the Finance Department as stated in the Purchasing Card and House Card Policy, Section Five, Responsibilities. Key controls such as the review and approval of monthly cardholder statements by a responsible official need to be performed timely and consistently. Supporting documentation such as receipts and/or invoices should accompany each purchase.*

The Board concurs in principle with this recommendation. Due to the inability to effectively monitor and audit the existing credit card program, the management staff cancelled all Board-owned credit cards by the end of January 2015. A new policy was developed and approved by the Board in February 2015 that established a purchasing card program utilizing a secure auditable program offered to municipal government agencies by the Board's current bank. This program provides procurement cards that can be used for procuring Board supplies, materials and services under $2,000 in accordance with the new procurement card policy. The program contains multiple tools for use by management to ensure compliance with the policy including card limits, store restrictions, receipt requirements, improper tax payment auditing, and multiple approval steps by responsible authorities. This program provides daily, monthly and yearly reports that can be reviewed by the Interim Executive Director and the Board to ensure compliance and requires all receipts and documentation to be stored digitally with the transaction detail for review. In order to provide controls, the card program manager does

ATTACHMENT 1 – Management Response continued

not have access to the cards and provides key review responsibilities to ensure that program policies are followed. This program provides all necessary tools to ensure that the issued procurement cards are used in the best interest of the Board and comply with all Board Policies.

(17) *The Finance Administrator develops a process for documenting and notifying the Executive Director and the Board of recurring violations of the Purchasing Card and House Charge Policy. As provided for in the Employee Agreement disciplinary action should be taken when appropriate, for a violation of the procedures.*

The Board concurs with this recommendation. The new procurement card policy was reviewed and approved by the Board in February 2015 and includes required action if procedures are violated.

(18) *Management remind all cardholders of the requirements in the credit card policy to ensure that no sales tax is charged on credit card purchases and all credit card purchases must have a clear public or business purpose. The Finance Administrator should regularly review monthly cardholder's statements and supporting documentation and notify cardholders and responsible officials when sales tax has been improperly charged.*

The Board concurs with this recommendation. The new procurement card policy was reviewed and approved by the Board in February 2015 and the program that was implemented allows a full review of all charges including sales tax that was improperly charged so correction can be initiated.

(19) *We recommend that the Board develop written policies and procedures for scrapping. Policies and procedures should include at a minimum:*

- *How scrap material is accumulated and accounted for;*
- *The process for disposal and sale of scrap;*
- *A list of acceptable scrapping companies;*
- *How proceeds from scrap sales are documented and accounted for; and,*
- *The establishment of adequate segregation of duties between removal, sale and receipt of proceeds.*

The Board concurs with this recommendation. A new policy and procedure was approved by the Board in January 2015 which includes all of the recommendations provided by the Office of Inspector General. Prior to approval, the Board requested a review by the OIG and modified the policy based on the input received. A scrap metal vendor was selected through a competitive process in compliance with the Board's procurement policy which will be responsible for legal disposal of scrap metal and all proceeds will be returned to the Board as revenue based on the contract values. The asset control documentation was updated to include the process of documenting the disposal methods for an asset. The Chief of Maintenance was assigned the responsibility of declaring an asset as scrap and the Finance Administrator was assigned the responsibility of documenting the disposal methods and value. The Interim Executive Director is required to approve the disposal documentation and large items are placed on the Consent Agenda for Board approval.

(20) *We recommend that the South Central Regional Wastewater Facility Employee Activity Fund bank account be closed. Proceeds from Board owned vending machines could be used solely for restocking the machines. Since the machines are owned by the Board, prices for sodas*

ATTACHMENT 1 – Management Response continued

and snacks could be set at a price close to replacement cost. Significant profits would not be generated by the vending machine sales.

The Board concurs in principle with this recommendation. The account in question has not been used for any purchases since March 2015. It is assumed that Board funds purchased the vending machines for employee use and this account was used for supplying the machines. Since it is difficult to separate Board funds from different sources that were previously deposited in the account, the account will be closed and all funds deposited in the Board general operating account and accounted for as revenue. The Board will seek a third party utilizing the current procurement policy to provide vendor services for employees which removes the Board from this activity. The existing machine will be surplused and any funds from the disposal of the machine will be deposited into the Board's General Operating account. This new policy will be implemented in October 2015.

(21) We recommend that the Board and the City of Boynton Beach enter into an Interlocal Agreement. This agreement should outline and define each entities responsibilities as well as any financial reciprocation to each other.

The Board concurs in principle with this recommendation. In September 2015, the City of Boynton Beach has retained a third party contractor for operations and maintenance of the Beachfront Park WWTP. The Board is no longer involved in the operations of the plant. The City also assumed all operating cost for the Plant including all lab costs in May 2015.

(22) Management conduct a formal evaluation of the condition of all plant properties to determine the need for repairs, and/or securing the property from access.

The Board concurs with this recommendation. Formal evaluations are conducted by the Palm Beach County Health Department on a reoccurring basis as part of the Wastewater Plant's Operating Permit. This inspection identifies all components of the plant that are not being maintained within standards and the Board is responsible for completing repairs within a standard timeframe. The Board has received outstanding inspection reports which demonstrate the quality of maintenance at the plant. This is an on-going task and is the responsibility of the management team to ensure compliance with the operating permits.

(23) Management implements a formal ongoing safety inspection and maintenance program for the Board's plant and properties.

The Board concurs with this recommendation. The formal program was implemented in January 2015 and includes formal inspection walk-throughs by the management team, established deadlines for any required repairs or upgrades, safety discussions with staff at routine safety meetings and assignments of responsibility to the Chief of Operations as the safety officer for the plant.

(24) We recommend that management review regulations, policies and procedures related to construction projects to ensure that all regulations are followed and that proper policies and procedures affecting the construction process are in compliance.

The Board concurs with this recommendation. The Board's Procurement Policy was reviewed and updated in January 2015 to ensure compliance with State Statutes. All new construction projects will be competitively procured and managed in accordance with this policy.

ATTACHMENT 1 – Management Response continued

(25) *The Board establish policies and procedures for the proper accounting of capital assets and the disposal of assets.*

The Board concurs with this recommendation, although Chapter 274 appears to apply only to governmental units such as "Counties, Taxing Districts, and Sheriffs". The Board used this chapter as guidance when the asset control documentation was updated in March 2015 to include the process of documenting the disposal methods for an asset. The Chief of Maintenance was assigned the responsibility of declaring an asset as scrap and the Finance Administrator was assigned the responsibility of documenting the disposal methods and value. The Interim Executive Director is required to approve the disposal documentation and large items are placed on the Consent Agenda for Board approval.

(26) *The Board establish a policy and procedures for conducting periodic physical inventories of fixed assets, at least on an annual basis. The procedure should include location, identification, and condition of the asset.*

The Board concurs with this recommendation. Beginning in FY 2015-2016, the Board will conduct an annual fixed asset inspection to document the location, identification and condition of each asset included in the asset management system. It is expected that this work will be completed by March 2016.

(27) *Management ensures that accounting for assets is performed accurately and on a timely basis.*

The Board concurs with this recommendation. The management team has revised the asset management forms to require timely accounting and review by the Interim Executive Director. The asset management system is not adequate to fully account for assets and produce reports. The Board is seeking new technology to replace this system with an integrated accounting system designed for government agencies and it is expected the new system will be fully implemented in March 2016. The new system will improve the accuracy and timeliness of recording Board assets.

(28) *Management requires that the Finance Administrator review asset records to identify assets that were unaccounted for and would support seeking recovery.*

The Board concurs with this recommendation. The Board is pursuing all legal means of identifying unaccounted for assets and the Board expects to utilize all legal means toward an equitable outcome for the Board with regard to such assets. This work is scheduled to be completed by December 2015.

(29) *The Board ensure that employees enter the correct fuel tank meter reading for fuel transactions.*

The Board concurs with this recommendation. As stated previously, Staff has implemented a fueling procedure that requires verification by multiple staff members when dispensing fuel for Board equipment and vehicles. This work was completed in February 2015. The forms used to document the amount of fuel disbursed is reviewed monthly by the Interim Executive Director to ensure dispensed fuel was reasonable and used for Board Activities. A project has been scheduled to automate fueling to ensure that all use is verifiable and auditable. This project is scheduled for completion in March 2016.

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ATTACHMENT 1 – Management Response continued

(30) *The Board provide for the development and regular review of fuel transactions which identify the vehicle and fuel usage.*

The Board concurs with this recommendation. As stated previously, Board management staff has implemented new policies to accurately record fuel disbursements and verify that the fuel was used for Board activities. This change was implemented in February 2015.

(31) *The Board develop policies and procedures to govern the plant's fuel depot and once established, they should be clearly communicated.*

The Board concurs with this recommendation. The new management team reviewed the existing fuel procurement and disbursement policy and procedures in January 2015 and found that the previous management staff was not following current procurement policy for fuel purchases and there were no staff controls in place to verify fuel was being used for Board purposes. Staff implemented the above-referenced fueling procedure that requires verification by multiple staff members when dispensing fuel for Board equipment and vehicles. This work was completed in February 2015. A project has been scheduled to automate fueling to ensure that all use is verifiable and auditable. This project is scheduled for completion in March 2016.

(32) *The Governing Board have an employment law attorney review any employment agreements that the Board may enter into in the future to ensure compliance with all federal and state regulatory laws, rules, and guidelines.*

The Board concurs with this recommendation. The new Board Attorney has been assigned the responsibility of retaining an Employment Law Attorney on behalf of the Board to review all future employee agreements and potential employment changes with existing Board management personnel.

(33) *The Governing Board seek to determine the basis for the vehicle costs incurred by the Board with respect to the former Executive Director and consult with the Board's attorney on recovering any inappropriate costs.*

The Board concurs with this recommendation. The Board expects to utilize all legal means toward an equitable outcome for the Board for issues that were caused by the apparent inappropriate use by the former Executive Director. This work is scheduled to be completed by December 2015.

(34) *A third party review and approve the bank reconciliation process. This will ensure that all steps in the process were performed.*

The Board concurs with this recommendation. The bank reconciliation process was revised in January 2015 to include a review by the Executive Assistant and review and approval by the Interim Executive Director. While this change added some control methodology to the process, the review is based on manual reconciliation records. In order to fully implement a process that will ensure all steps are followed and the information is accurate, new software is required. The reconciliation process will be improved upon the implementation of new financial accounting technology in March 2016.

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ATTACHMENT 1 – Management Response continued

(35) *Management establish a payroll tax recap process for all quarterly 941 payroll returns. This would identify any differences between the payroll deposits and the 941 report prior to submission to the IRS.*

The Board concurs with this recommendation. A new process is being developed to separate duties between staff members with a review by a Board accountant that is proposed in a new organizational structure. It is expected that the new process will be implemented by December 2015.

(36) *An annual review of the banking services and signers on the account be performed to identify any changes that may need to occur. The Board should review the bank services annually at the beginning of the fiscal year or when an authorized signer leaves the Board.*

The Board concurs with this recommendation. This review will occur in October-November 2015 and will continue annually.

(37) *Management review the current accounting software to see if it meets the business needs of the organization. Technology that better suits the Board could allow for efficiency and reduce the risk of errors.*

The Board concurs with this recommendation. An RFP has been published seeking new technology to assist the Board in managing Board business. It is anticipated that a new solution will be fully implemented by March 2016 which meets all requirements of the Board.

(38) *We recommend that Board members provide proper oversight in the activities of the Board in accordance with the Interlocal Agreement. Scheduled meeting attendance enables the regular monitoring of fiscal operations. Meeting attendance will ensure that Board members perform key fiscal oversight responsibilities of a governing board such as, developing policies; monitoring fiscal operations and conducting audits.*

The Board concurs with this recommendation. The Board has four quarterly meetings scheduled each year and all scheduled meetings have had a quorum since November 2014. The Board also conducts special meetings as necessary to review specific Board action items brought forward by the Interim Executive Director. Board members are also appointed by the Board to serve on selection committees for contracts that will be reviewed and approved by the Board with all activities associated with these committees adhering to State and Local regulations including the Florida Sunshine Statutes.

(39) *The interim Executive Director work with the Governing Board to establish a Board meeting schedule and a standard format for regular financial reporting as part of the Board meeting agenda.*

The Board concurs with this recommendation. Beginning in November 2014, the Board has met regularly with Board staff to review Board activities and approve all human resource and financial decisions. A new agenda format was developed in February 2015 which includes the following financial information:

- **A purchase order report detailing all purchase orders issued for expenditures up to $25,000 procured in compliance with the Board's Procurement Policies**
- **A detailed purchasing card report for all purchasing card expenditures between $0.00 and $2,000**

ATTACHMENT 1 – Management Response continued

- **A quarterly financial report which includes all revenue and expenditures by expense category along with a summary of the Board's financial position**
- **Individual purchase requisitions and bids above $25,000 for the Board's review and approval to ensure all Board Procurement Policies are met**

(40) *The Interim Executive Director review the organizational chart and operational activities of the Board and draft a presentation to the Board on options available to facilitate the operations and management of the Board.*

The Board concurs with this recommendation. A presentation was made to the Board in July 2015 which outlines multiple options to address the future organization. The Board directed staff to further develop two options to management Board activities for review by the Board. The current Interlocal Agreement has several management options available to the Board which are being further developed by staff. The Board is committed to developing an organizational structure that provides clear lines of responsibility with multiple financial and human resource controls in place to ensure that all Board activities adhere to all Board, County, State and Federal regulations with full transparency and open communication. This work is scheduled to be completed in the Fiscal Year 2015-2016 budget year.