



John A. Carey
Inspector General

OFFICE OF INSPECTOR GENERAL
PALM BEACH COUNTY



Inspector General
Accredited

“Enhancing Public Trust in Government”

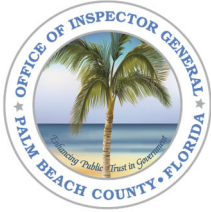
Audit Report

2022-A-0001

**City of South Bay
Resurface Rock Island Road
Construction Contract**

October 5, 2021

Insight – Oversight – Foresight



OFFICE OF INSPECTOR GENERAL
PALM BEACH COUNTY



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DATE ISSUED: OCTOBER 5, 2021

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CITY OF SOUTH BAY RESURFACE ROCK ISLAND ROAD CONSTRUCTION
CONTRACT

SUMMARY

WHAT WE DID

We conducted an audit of the City of South Bay (City) construction contract related to the Resurface Rock Island Road Project (Agreement) with Weekley Asphalt Paving, Inc.¹ (Contractor) dated June 17, 2019. This audit was performed as part of the Office of Inspector General Palm Beach County (OIG) 2021 Annual Audit Plan.

Our audit focused on the procurement, accounts payable, and contract administration processes and documentation related to the Agreement.

WHAT WE FOUND

We found the City did not manage the Agreement in accordance with Agreement terms and conditions and applicable

written guidance. We also found control weaknesses for the City's review and oversight of the payment process and vendor master file. Our audit identified **\$69,855.00** in questioned costs² and **\$21,750.00** in avoidable costs.³

Non-Compliance with the Agreement and the City's written guidance

We found the City did not adequately monitor and oversee the Contractor's progress, follow payment terms and conditions, nor provide deliverables specified in the Agreement. Additionally, the City did not follow its written purchasing and payment processing guidance nor the Florida Prompt Payment Act when issuing the payment related to the Agreement.

We considered the Agreement price of **\$69,855.00** a questioned cost because the

¹ The Agreement identifies the Contractor as Weekley Asphalt and Paving, Inc., which appears to be a transcription error.

² Questioned costs are costs or financial obligations that are questioned by the OIG because of: an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, other agreement, policies and procedures, or document governing the expenditure of funds; a finding that, at the time of the OIG activity, such costs or financial obligation is not supported by adequate documentation; or, a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable. **As such, and as in this case, not all questioned costs are indicative of potential fraud or waste.**

³ Avoidable costs are costs an entity will not have to incur, lost funds, and/or an anticipated increase in revenue following the issuance of an OIG report. The maximum period for calculating Avoidable Costs shall typically be three years from the issuance of the OIG report, except in instances where it involves a contract with a specified contract period.

City and Contractor did not comply with key Agreement terms, and because the City did not follow its own written purchasing and payment processing guidance and the Florida Prompt Payment Act. The audit identified **\$21,750.00** in avoidable costs for the taxpayer funds lost because the City did not deduct liquidated damages from the final payment when the Contractor did not complete the work within the Agreement specified time.

Lack of Controls Over the Payment Process and the Vendor Master File

We found that the City lacked sufficient segregation of duties and a consistent vendor numbering convention for the vendor master file, increasing the risk of duplicate, erroneous, and potentially fraudulent vendor records and payments.

We observed that the Finance Director has the ability to control the procure to pay process from start to finish. Mitigating controls exist but are not required in the Purchasing Policy and Procedures nor the Accounting Procedures Manual, exposing the City to an increased risk for fraud and abuse.

We analyzed 1,143 vendors considered active⁴ in the City's financial system and found 689 of the 1,143 (60%) active vendor records had no payment activity in over 2 years. Records without any payment activity for an extended period increase the risk of erroneous and unauthorized payments.

WHAT WE RECOMMEND

Our report contains two (2) findings and seven (7) recommendations. Implementation of the recommendations will 1) assist the City in strengthening internal controls, 2) help the City ensure compliance with its policies and procedures, and 3) help the City ensure compliance with construction contract requirements.

The City concurred and accepted the recommendations.

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

⁴ Vendor records considered "active" are in a state that is readily available to financial system users for entering current Accounts Payable transactions. Conversely, "inactive" vendor records have been deactivated and are unavailable for use in current transactions; thereby restricting use of outdated or erroneous vendors and vendor information.

BACKGROUND



The City of South Bay was incorporated in 1941. The latest Charter of the City was adopted by Resolution No. 25-2010 on February 16, 2010 and by referendum on March 9, 2010. The City is located on the southeastern shore of Lake Okeechobee. The City's 2020 population was approximately 5,271.

The City operates under a City Commission form of government. The City Commission is comprised of five (5) members vested with all powers of the City not expressly delegated within the City Charter. The City Commission members are elected at-large on a non-partisan basis for three-year terms. The Commission appoints one Commission member as the Mayor and another member as the Vice Mayor. The City Manager is appointed by the City Commission and is the Chief Administrative Officer responsible for running day-to-day operations of the City.

Infrastructure Surtax

Section 212.055, Florida Statutes (F.S.), states,

(2) LOCAL GOVERNMENT INFRASTRUCTURE SURTAX.

(a)1. The governing authority in each county may levy a discretionary sales surtax of 0.5 percent or 1 percent. The levy of the surtax shall be pursuant to ordinance enacted by a majority of the members of the county governing authority and approved by a majority of the electors of the county voting in a referendum on the surtax. If the governing bodies of the municipalities representing a majority of the county's population adopt uniform resolutions establishing the rate of the surtax and calling for a referendum on the surtax, the levy of the surtax shall be placed on the ballot and shall take effect if approved by a majority of the electors of the county voting in the referendum on the surtax.

...

(d) The proceeds of the surtax authorized by this subsection and any accrued interest shall be expended by the school district, within the county and municipalities within the county, or, in the case of a negotiated joint county agreement, within another county, to finance, plan, and construct infrastructure...

1. For the purposes of this paragraph, the term "infrastructure" means:
 - a. Any fixed capital expenditure or fixed capital outlay associated with the construction, reconstruction, or improvement of public facilities that have a life expectancy of 5 or more years, any related land acquisition, land improvement, design, and engineering costs, and all other professional and related costs required to bring the public facilities into service.

On May 17, 2016, the Palm Beach County Board of County Commissioners approved Ordinance No. 2016-032 imposing a countywide local government infrastructure surtax of one percent (1%), as authorized by section 212.055(2), F.S., on all authorized taxable

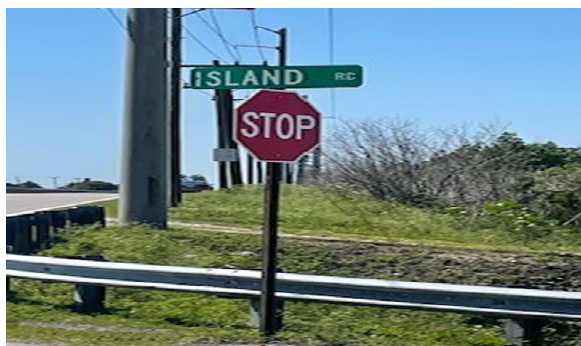
transactions occurring within Palm Beach County effective January 1, 2017, contingent upon voter approval of a Countywide referendum. The ordinance states that the moneys received from the local government infrastructure surtax may be utilized by the County, the Municipalities, and the School Board to finance, plan, construct, reconstruct, renovate and improve needed infrastructure. The ordinance also requires the establishment of independent Citizen Oversight Committees to provide for public review of expenditure of surtax proceeds and serve as advisory and reporting bodies for each entity.

On November 8, 2016, the majority of Palm Beach County residents approved the local government infrastructure surtax (i.e. One-Penny Sales Surtax) referendum.

The City's allocated Fiscal Year (FY) 2017 surtax revenue totaled \$125,286 and there were no expenditures; the FY 2018 surtax revenue totaled \$240,004 and there were no expenditures; the FY 2019 surtax revenue totaled \$240,319 and expenditures were \$69,855;⁵ and the FY 2020 surtax revenue totaled \$226,059 and there were no expenditures.

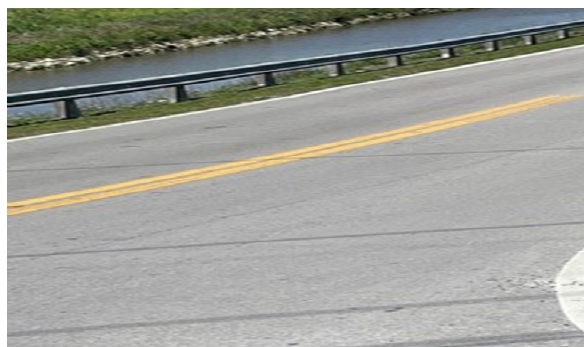
Resurface Rock Island Road Project

On May 8, 2019, the City issued Invitation to Bid (ITB) 02-2019 for milling and resurfacing rock on Island Road. The City received three (3) bids: Contractor for \$69,855.00, Miguel Lopez Jr. Inc. for \$101,781.25, and R&D Paving, LLC for \$81,269.00.



On June 4, 2019, the City Commission passed and adopted Resolution 17-2019 to execute an agreement with Contractor as the lowest responsive and responsible bidder. The Agreement was signed on June 18, 2019.

On July 30, 2020, the Palm Beach County League of Cities Infrastructure Surtax Citizen Oversight Committee reported that the City's FY 2019 expenditure of surtax proceeds for the Resurface Rock Island Road Project was consistent with the requirements of section 212.055(2), Florida Statutes and the City's approved surtax proceeds project list.



⁵ Expenditures totaling \$69,855 consisted of one lump sum payment for the Resurface Rock Island Road Project.

The OIG FY 2021 Annual Audit Plan had multiple entities selected for Construction Contract audits. The OIG selected the City for audit because it has not been audited since FY 2014.

OBJECTIVES, SCOPE, AND METHODOLOGY

The overall objectives of the audit were to determine if:

- Internal controls were adequate to effectively manage construction contracts;
- Control procedures were adequate to ensure that construction contracts were competitively procured and managed effectively in accordance with construction contract terms and conditions;
- Invoices were properly documented and approved to avoid possible fraud, waste, and abuse; and
- City received agreed upon deliverables.

The scope of the audit included but was not limited to the period of the Resurface Rock Island Road Project and related construction contracts.

The audit methodology included but was not limited to:

- Completion of data reliability and integrity assessment of related computer systems;
- Review of policies, procedures, and related requirements;
- Completion of process walk-throughs;
- Review of internal controls related to the management of the construction contracts and related expenditures;
- Interview of appropriate personnel;
- Review of records, reports, contracts, and agreements; and
- Detailed testing of selected transactions.

As part of the audit, we completed a data reliability and integrity assessment for the financial computer system used by the City for construction contract activities. We determined that the computer-processed data contained in the City's Cougar Mountain system was sufficiently reliable for purposes of the audit.

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

FINDINGS AND RECOMMENDATIONS

Finding (1): The City did not manage the Agreement in accordance with the Agreement terms and conditions and applicable written guidance.

The Agreement states,

ARTICLE 2 SCOPE OF WORK



2.1 CONTRACTOR shall furnish all of the materials, tools, supplies, and labor necessary to perform all of the work described in the Bid Project Number ITB 02-2019, a copy of which is attached hereto and specifically made a part of this Agreement as Exhibit "A"⁶ and in accordance with the prices set forth in Exhibit "B", which is based on the Bid Drawing and Specifications in Exhibit "C", attached hereto.

2.2 CONTRACTOR shall abide by all specifications outlined in the Notice of Bid Invitation.

...

ARTICLE 3 TIME FOR COMPLETION AND LIQUIDATED DAMAGES

3.1 CONTRACTOR shall commence work in accordance with a project timeline to be provided to CONTRACTOR by the CITY. **CONTRACTOR shall complete all work in a timely manner, but no later than AUGUST 4, 2019**, as stated in Exhibit "A" to this Agreement. [Emphasis added]

3.2 It is mutually agreed that time is of the essence for this Contract and **should the CONTRACTOR fail to complete the work within the specified time**, or any authorized extension thereof, **there shall be a deduction from the compensation otherwise to be paid to the CONTRACTOR**, and the CITY will retain as liquidated damages **the amount of Two Hundred Fifty Dollars (\$250.00) per calendar day for each calendar day elapsing beyond the specified time for completion** or any authorized extension thereof, which sum shall represent the actual damages which the CITY will have sustained by failure of the CONTRACTOR to complete the work within the specified time... [Emphasis added]

...

ARTICLE 5 CONTRACT SUM

5.1 The CITY hereby agrees to pay CONTRACTOR for the faithful performance of this Agreement, for work completed in accordance with its response to Invitation

⁶ Exhibit A consisted of Addendum #1 to Invitation to Bid No. 02-2019 that was issued by the City to clarify questions asked during the mandatory pre-bid meeting and set specifications for the road striping plan.

for Bid Project Number ITB 02-2019 for Construction Services. Prices for work completed by the CONTRACTOR shall be reflected in CONTRACTOR's response for Construction Services made a part hereof as Exhibit "A" and in accordance with the prices set forth in Exhibit "B", which is based on the Bid Drawing and Specifications in Exhibit "C", attached hereto.

...

5.3 Payment to the CONTRACTOR for all tasks and charges under this Agreement shall be in accordance with the schedule set forth in Exhibit "B" hereto and the following conditions:

...

B. Payment Schedule. Invoices received from CONTRACTOR pursuant to this Agreement will be reviewed by the appropriate City Department. If services have been rendered in conformity with the Agreement, the invoice will be sent to the City's Finance Department for payment.

...

5.4 The making and acceptance of the final payment shall constitute a waiver of all claims by the CITY other than those arising from unsettled liens, or from requirements of the specifications...

ARTICLE 12 TERM AND TERMINATION

12.1 This agreement shall commence upon the effective date stated in a Notice to Proceed issued by the City Manager or his designee, and shall remain in effect for until August 4, 2019.

The City of South Bay Purchasing Policy and Procedures, revised April 2017, states,

Purchasing Policies

...

The current primary method of purchasing a product or services for the City is through a purchase order. A purchase order is intended to provide some assurance proper procedures and approvals have been obtained **prior** to placing the order for the product or service. In general, purchases are made through a purchase requisition, which is then processed into a purchase order. Certain items do not require a purchase order and are listed under the section "Exceptions to the use of Purchase Orders."

...

Invoice Attest:

The primary responsibility for the validity of an invoice rests with the department. Specific responsibility should be assigned for the verification and accuracy of invoices....

The department's signature of approval on an invoice signifies that:

1. The goods or services covered by the invoices were delivered in proper condition or **services were satisfactorily performed and in conformity with the terms and conditions of the contract between the parties**. Questionable charges must be resolved before invoices are forwarded to Finance for payments. [Emphasis added]
...
8. Invoices must be property [sic] stamped & signed. This is the proof that invoice has been properly attested.
...
11. Final payment or retention release should not be approved until the department is satisfied that all the contractor's obligations have all been met.

Invoice Approval:

The Finance Director or the City Manager is responsible for the approval of the invoice after it process [sic] by AP⁷ and proper supporting documentation [sic]

The City of South Bay Accounting Procedures Manual states,

CASH DISBURSEMENTS

...

- All the payments are required to have a check request form.
- Check request form is required to be completed and contains proper approval of department head, object code, vendor information, due date, description, and accompanied with supporting documents such as original invoice, purchase order, and receiving report, if applicable.

Section 218.735, F.S., Timely payment for purchases of construction services, states,

- (1) The due date for payment for the purchase of construction services by a local governmental entity is determined as follows:
...

⁷ AP is an abbreviation for Accounts Payable.

- (b) If an agent need not approve the payment request or invoice submitted by the contractor, payment is due 20 business days after the date on which the payment request or invoice is stamped as received as provided in s. 218.74(1).

A local governmental entity shall identify the agent or employee of the local governmental entity, or the facility or office, to which the contractor may submit its payment request or invoice. This requirement shall be included in the contract between the local governmental entity and contractor, or shall be provided by the local governmental entity through a separate written notice, as required under the contract, no later than 10 days after the contract award or notice to proceed.⁸

...

- (2) If a payment request or invoice does not meet the contract requirements, the local governmental entity must reject the payment request or invoice within 20 business days after the date on which the payment request or invoice is stamped as received as provided in s. 218.74(1). The rejection must be written and must specify the deficiency and the action necessary to make the payment request or invoice proper.

We reviewed the Agreement and related procurement and payment documentation; relevant City resolutions, policies, and procedures; applicable statutory requirements; and interviewed City personnel to determine if requirements were met.

We found the following instances in which the City and Contractor did not comply with key terms and conditions of the Agreement and key requirements of the Purchasing Policy and Procedures, Accounting Procedures Manual, and the Florida Prompt Payment Act:

Agreement

- The City did not provide the Contractor with a project timeline, as required in the Article 3, section 3.1 of the Agreement.
- The City Manager or his designee did not issue a Notice to Proceed, as required in Article 12, section 12.1 of the Agreement. The City Manager stated that the Agreement, once approved by the City Commission, was the Notice to Proceed.
- The Contractor did not complete the work by August 4, 2019, as required by Article 3, section 3.1 of the Agreement. The Public Works Director notified the City Manager that the work was not complete on August 15, 2019 because the road striping plan that was specified in Exhibit "A" of the Agreement had not been completed.
- The City paid the Contractor the full amount of the Agreement, totaling \$69,855.00, on October 8, 2019, prior to completion of all work. Article 5, sections 5.1 and 5.3 of the Agreement provided that payment would be made for work completed in

⁸ No agent was identified in the Agreement, and the City did not provide us with a separate written notice identifying the agent.

accordance with the schedule set forth in Exhibit “B” of the Agreement. The Public Works Director notified the City Manager and City Engineer⁹ that the work was not complete on August 15, 2019. The City Engineer signed the Contractor’s Application for Payment on August 27, 2019 certifying that the work was completed. Then, the City Manager notified the Contractor in writing that the road striping plan had not been completed as of October 25, 2019. It appears the City relied on the City Engineer’s approval of the Contractor’s Application for Payment when issuing payment to the Contractor. The City provided documentation that the road striping plan was scheduled to be completed on October 31, 2019, but could not provide documentation showing when the project was actually completed.¹⁰

- The City did not deduct \$250.00 per day-liquidated damages from the Contractor’s compensation for failing to complete the work within the specified timeframe, as detailed in Article 3.2 of the Agreement. Based on the dates for which the work remained incomplete, August 5, 2019 through October 30, 2019¹¹ (87 days), the City lost at least \$21,750 (87 x \$250) in liquidated damages not deducted from the final payment for the incomplete work. The City waived all claims other than those arising from unsettled liens or from requirements of the specifications when it issued the Contractor payment in full on October 8, 2019.

Purchasing Policy and Procedures

- The Contractor’s invoice lacked a department’s signature of approval to signify that services were satisfactorily performed and in conformity with the terms and conditions of the Agreement, as required by the City’s Purchasing Policy and Procedures.
- The City did not issue a purchase order to process its payment of the Contractor’s invoice, as required per the Purchasing Policy and Procedures. The Finance Director advised that a purchase order was not issued, as the purchase was authorized by the Commission when it passed and adopted Resolution 17-2019.¹² Although the Purchasing Policy and Procedures noted that certain items do not require a purchase order as listed under the section “Exceptions to the use of Purchase Orders” referenced in the “Purchasing Policies,” such section does not exist.

Accounting Procedures Manual

The City did not utilize a check request form to process the payment to the Contractor, as required by the City’s Accounting Procedures Manual. The Finance Director informed us that the check request form is an Accounts Payable judgment call, and that since the Contractor had previously worked for the City, the Contractor was already set up as a vendor.

⁹ The City contracts with a private engineer outside the City for services.

¹⁰ We verified the road striping was complete during fieldwork.

¹¹ Since the City did not document the actual date the work was completed, we used October 30, 2019 as the last day the work was incomplete based on the scheduled completion date of October 31, 2019.

¹² Resolution 17-2019 authorized the Mayor and City Manager to execute the Agreement with the Contractor.

Section 218.735, F.S. – Florida Prompt Payment Act

- The City did not timely pay the Contractor's invoice (within 20 business days), as required by Section 218.735(1) (b), F.S. There were 37 business days between the invoice receipt date of August 15, 2019¹³ and the check date of October 8, 2019. The Finance Director stated that the payment was issued late because corrections needed to be made by the Contractor to the job.
- The City did not provide the Contractor a written rejection of the invoice for not meeting the Agreement requirements within 20 business days after the date stamp of the invoice, as required by Section 218.735 (2), F.S. The City Manager notified the Contractor in writing that the road striping plan had not been completed on October 25, 2019, 49 business days after the invoice was received.

The City did not manage the Agreement in accordance with the Agreement terms and conditions. The City did not adequately monitor and oversee the Contractor's progress, follow payment terms and conditions, nor provide deliverables specified in the Agreement.

Additionally, the City did not follow its written purchasing and payment processing guidance. The responsible department's invoice attestation required by the Purchasing Policy and Procedures is a key control to ensure that services were satisfactorily performed and in conformity with the terms and conditions of the Agreement prior to the City issuing payment for an invoice. The check request form required by the Accounting Procedures Manual contains the Department Director's written signature approval for the City to issue payment to a vendor.

We considered the Agreement price of **\$69,855.00** a questioned cost because the City and Contractor did not comply with the Agreement, and because the City did not follow its own written purchasing and payment processing guidance and the Florida Prompt Payment Act. A lack of sufficient monitoring and oversight of Agreement requirements increases the risk for non-compliance and could potentially increase of the taxpayer's burden. When policies and procedures are not followed, established controls are bypassed, and the City is exposed to an increased risk for fraud, waste, and abuse. Non-compliance with the Florida Prompt Payment Act may subject the City to unnecessary late payment interest charges.

Additionally, the audit identified **\$21,750.00** in avoidable costs for the taxpayer funds that were lost because the City did not deduct the \$250.00 per day liquidated damages from the final payment after the Contractor did not complete the work within the specified time, as stated in the Agreement.

Recommendations:

- (1) The City follow its Purchasing Policy and Procedures, its Accounting Procedures Manual, and the Florida Prompt Payment Act.**

¹³ The original invoice was dated 8/4/2019; however, it appears the City Manager did not receive the invoice until 8/15/2019. The invoice was received electronically via email.

- (2) The City update its Purchasing Policy and Procedures to include a section titled, “Exceptions to the use of Purchase Orders” or delete the reference to such section.
- (3) The City officials responsible for managing construction contracts become familiar with and follow contract terms and conditions.
- (4) The City implement a documented construction contract management process to ensure that the requirements of construction contracts are met and train responsible City officials.

Management Response:

Management concurs with this finding. All work required by the Agreement has already been performed. The City is now in the process of reviewing its financial purchasing policies and procedures and seeks to incorporate any revisions to its official purchasing code by December 2021. The City will ensure compliance of construction agreement by October 2021.

Finding (2): The City lacks sufficient controls over the payment process and the vendor master file.



Internal control objectives for information systems and technology include:

- Master files are monitored for integrity;
- Segregation of duties exists in functions related to the information systems;
- Performance of information system functions is independently verified; and
- System users are granted only the access needed to perform their duties.¹⁴

Segregation of duties is a control activity whereby management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions and handling any related assets so that no one individual controls all key aspects of a transaction or event. If segregation of duties is not practical within an operational process because of limited personnel or other factors, management designs alternative control activities to address the risk of fraud, waste, or abuse in the operational process.¹⁵

¹⁴ This best practice is provided by the Association of Government Accountants, Internal Controls - Information Systems & Technology: <https://www.agacgfm.org/Tools-Resources/intergov/Internal-Controls/Tools-by-Business-Process/Information-Systems-Technology.aspx>

¹⁵ This best practice is provided in The Government Accountability Office (GAO) Standards for Internal control in the Federal Government issued by the U.S. Comptroller of the Treasury dated September 2014.

During the construction contract process walk-through, the Finance Director informed us that all Finance personnel (Director, Assistant Director, and Accounts Payable Clerk) have the ability to set up vendors in the Cougar Mountain financial system. The Finance personnel are also responsible for processing payments to vendors. As a result, there is a lack of sufficient segregation of duties over the vendor master file that increases the risk of potentially fraudulent vendor records and payments. There appear to be mitigating controls built into the City's procure-to-pay process for the Assistant Director and AP Clerk that are outside of the financial system (e.g. manual reviews and approvals).

The Finance Director¹⁶ has the ability to control the procure to pay process from start to finish: enter and approve purchase orders in the system, setup vendors in the system, post invoices/check requests in the system, and manually approve payment of invoices/check requests.¹⁷ We verified the Finance Director provides a list of the City's cash disbursements by vendor name for the prior period to the City Commission at each public meeting, which is a mitigating control. Additionally, the City Manager stated he reviews and approves all check requests; however, this approval and the reporting of cash disbursements to the City Commission, while mitigating controls, are not required in the Purchasing Policy and Procedures or the Accounting Procedures Manual, which increases the risk for fraud and abuse.

The City does not have any standard procedure or numbering convention for vendor records, and the financial system lacks the ability to automatically generate vendor numbers for vendor records in the vendor master file. Vendors are identified by an abbreviation of the vendor name, which poses an increased risk of duplicate, erroneous, and potentially fraudulent vendors in the system.

Due to the increased risk of unauthorized and potentially fraudulent vendor records and payments, we performed additional procedures on the vendor master file and FY 2019 payment history as follows:

- We compared the vendor master file to the employee master file to identify any vendor records with an employee's name, street address, or last four digits of the Social Security Number (SSN) or Tax ID.¹⁸ We found no issues.
- We compared the vendor master file to the City's FY 2019 payment history to identify payees without an established vendor record with the City. None were identified.
- We reviewed the vendor master file for duplicate, outdated, and incomplete vendor records and found
- 689 of the 1,143 (60%) active vendor records had no payment activity in over two (2) years.¹⁹ Vendor records without any payment activity for an extended period increases the risk of erroneous and unauthorized payments.

¹⁶ The Finance Director is the administrator of the financial system, Cougar Mountain.

¹⁷ The Purchasing Policy and Procedures state, "The Finance Director and/or the City Manager is responsible for the approval of the invoice after it process by AP and proper supporting documentation."

¹⁸ The name, street address, and last four digits of SSN/Tax ID were the only available fields to compare on the employee and vendor master files.

¹⁹ There is no standard or authoritative guidance that provides a specific time period for determining outdated vendor information. The GAO Federal Information System Controls Audit Manual issued by the U.S. Government

The number of Finance personnel is limited which poses a challenge for implementing adequate segregation of duties. However, the City lacks sufficient alternative control activities and written guidance in place to prevent and detect erroneous, unauthorized, and potentially fraudulent vendor records and payments in the financial system.

Recommendations:

- (5) The City revise the Purchasing Policy and Procedures and Accounting Procedures Manual to include the mitigating controls of the City Manager's review and approval of all invoice/check request payments and the reporting of prior period cash disbursements to the City Commission.**

- (6) The City establish a standard numbering convention for assigning vendor numbers and implement routine monitoring, review, and purging of the vendor master file to identify and resolve inactive, unauthorized, and erroneous vendor records.**

- (7) The City inactivate the 689 vendors without payment activity for over two (2) years.**

Management Response:

City concurs with finding and will update the accounting manual to include the City Manager or designee's authorization for approval in the disbursement process by November 2021, the Finance Department as corrected the AP vendor Masterfile as September 2021 to show active and inactive vendors and will periodically review the AP vendors listing for inactive accounts along with reviewing and implementing a procedure to assign a vendor number to new accounts payable vendors by November 2021 without purchasing expensive software.

Accountability Office dated February 2009 recommends that organizations review master data on a regular basis to identify and block unused data. We identified vendors that had not been used for two (2) years because there is an increased risk that the vendor information is no longer valid and accurate.

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

Questioned Costs

Finding	Description	Questioned Costs
1	Non-compliance with Agreement terms and conditions and applicable written guidance	\$69,855.00
	TOTAL QUESTIONED COSTS	\$69,855.00

Avoidable Costs

Finding	Description	Avoidable Costs
1	Liquidated damages not deducted	\$21,750.00
	TOTAL AVOIDABLE COSTS	\$21,750.00

ACKNOWLEDGEMENT

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

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

ATTACHMENT

Attachment 1 – City of South Bay's Management Response

ATTACHMENT 1 – CITY OF SOUTH BAY'S MANAGEMENT RESPONSE



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www.southbaycity.com

Commission

Joe Kyles Sr.
Mayor

Betty Barnard
Vice Mayor

Esther E. Berry
Treasurer

John Wilson

Taranza L. McKelvin

Leondrae D. Camel
City Manager

Natalie Malone
City Clerk

Burnadette Norris-Weeks
City Attorney

"An equal Opportunity
Affirmative Action Employer"

To: John A. Carey, Inspector General
Hillary Bojan, Director of Audit

From: Leondrae D. Camel, City Manager *LDC*

Date: September 29, 2021

Subject: Management Advisory Response
Resurface Island Road Construction Contract

The City of South Bay has reviewed the DRAFT Audit Report concerning the resurface project of Island Road.

Since 2013, the City of South Bay has implemented various policies and procedures that have increased public transparency. Additionally, since your reports several years ago, the City has taken aggressive efforts to improve the City's infrastructure by obtaining grant dollars and without raising property taxes.

The City of South Bay appreciates the opportunity to provide comment regarding your report. As we have previously discussed, the Palm Beach County Office of Inspector General's (OIG) Report is in no way related to claims of fraudulent activity. We are proud of the progress that we have made and will continue striving to improve our operations. To that end, management will continue to conduct policy and procedure review and implement best practices that will best service the residents of the City of South Bay.

The City concurs with the two (2) findings outlined by the OIG. However, the City also finds that the expenditures were necessary, reasonable and used for the intended purpose. By approval of the selected vendor, the City saved approximately Twenty Thousand (\$20,000).

Finding 1: The City did not manage the agreement in accordance with the Agreement terms and conditions and applicable written guidance.

1. Management concurs with this finding. All work required by the Agreement has already been performed. The City is now in the process of reviewing its financial purchasing policies and procedures and seeks to incorporate any revisions to its official purchasing code by December 2021. The City will ensure compliance of construction agreement by October 2021.

Finding 2: The City lacks sufficient controls over the payment process and the vendor master file.

City concurs with finding and will update the accounting manual to include the City Manager or designee's authorization for approval in the disbursement process by November 2021, the Finance Department as corrected the AP vendor Masterfile as September 2021 to show active and inactive vendors and will periodically review the AP vendors listing for inactive accounts along with reviewing and implementing a procedure to assign a vendor number to new accounts payable vendors by November 2021 without purchasing expensive software.