



John A. Carey  
Inspector General

OFFICE OF INSPECTOR GENERAL  
PALM BEACH COUNTY



Inspector General  
Accredited

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*“Enhancing Public Trust in Government”*

**Audit Report**

**2018-A-0001**

**City of Lake Worth  
Water Utility Services**

**December 18, 2017**

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**Insight – Oversight – Foresight**



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AUDIT REPORT  
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CITY OF LAKE WORTH – WATER UTILITY SERVICES

SUMMARY

WHAT WE DID

We conducted an audit of the City of Lake Worth's (City) Water Utilities Department. The Water Utilities Department includes the water system, local sewer system, and the regional sewer system. This audit was performed as part of the OIG 2017 Annual Audit Plan.

Our audit focused on selected water utility operations including billing and revenue collections, rate setting, compliance with policies and procedures, and selected financial transactions. We reviewed activities that occurred during Fiscal Year (FY) 2016 from October 1, 2015 – September 30, 2016. Based on observations and exceptions noted during the planning of the audit and testing, we expanded the original scope of the audit to include review of warehousing and inventory issuance (FY 2013 – FY 2017), contracts (FY 2008 – FY 2017), and inter-fund loans (FY 2011 – FY 2017).

WHAT WE FOUND

We found significant control weaknesses and operational areas that need improvement for both the City and the Water Utilities Department. Our audit identified **\$7,174,036** in questioned costs,<sup>1</sup> **\$36,151** in identified costs<sup>2</sup> for potential return, and **\$1,526,104** in avoidable costs.<sup>3</sup>

During the course of our audit, we found that the City's Finance Department has been working to establish stronger internal controls.

**Inter-Fund Loans**

On September 30, 2011, the former Finance Director transferred \$6,000,000 from the City's Water Utility (Enterprise) Fund (\$4,000,000) and the City's Self-Insurance Fund (\$2,000,000) investment accounts as an inter-fund loan to the

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

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

<sup>3</sup> 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.

Casino Building<sup>4</sup> Fund to pay for redevelopment construction of the Casino Building. At the time of such transfer, the City's Investment Policy did not allow or authorize the use of investment funds for inter-fund loans. On September 11, 2012, Resolution No. 43-2012 amended the City's investment policy to authorize the earlier transfer and to ratify the inter-fund loan.

The City did not pay the full amount of interest due on the loan as provided by Resolution No. 43-2012. The total amount of interest was **\$15,888** for the years that interest was not paid. This amount is classified as an identified cost.

We found that for three of the four loan repayment years, the City's actual cash payments towards the loan principal were less than the contemplated loan payment amount.

We are questioning the entire loan amount of **\$6,000,000**. The inter-fund loan was originally made without proper authority. Although the City Commission subsequently revised its Investment policy and ratified the inter-fund loan, the City did not uphold the terms of the original loan.<sup>5</sup>

### Utility Fund Contributions

The City annually establishes a "contribution percentage" that is applied to all Utility funds (Electric, Water, Local Sewer, Refuse, and Stormwater) to

compensate for lost revenue. However, the City did not have written policies and procedures to establish the annual Utility Funds' contribution rate.<sup>6</sup> In FY 2016, the five Utility funds<sup>7</sup> paid the General Fund a total of \$6,630,532, which is a contribution percentage of 9.3%.

In addition, a FY 2016 contribution totaling \$670,896 was incorrectly paid to the General Fund by two of the Utility Funds (Refuse Fund and Stormwater Fund) that do not charge a utility tax to their customers. This resulted in **\$670,896** of questioned costs.

In FY 2017, the Refuse Fund and Stormwater Fund are incorrectly budgeted to pay \$608,056 in contributions that should not be paid to the General Fund because the Refuse Fund and Stormwater Fund are not charging their customers a utility tax. The amount of **\$608,056** is considered avoidable costs.

### Credit Card Convenience Fees

The City adopted City Resolution 45-2015, effective October 1, 2015, that sets forth a comprehensive fee and charges schedule for FY 2016. The Schedule of Fees and Charges included a provision that required that all credit card payments for utilities tendered through the City's internet payment portal or via telephone be surcharged a 1.2% credit card convenience fee. The City did not collect this fee. We calculated the total in

<sup>4</sup> The Casino Building was a redevelopment project; the name "Casino" remains as a reminder of the history and importance. There is no gambling at the new building.

<sup>5</sup> Concerns regarding several accounting transactions related to this loan have been referred to the City's external auditors for review in conjunction with the FY 2017 CAFR.

<sup>6</sup> The contribution is considered a payment in lieu of taxes (in accordance with Governmental Accounting Standards Board 34) to recover the utility tax revenue lost for city owned buildings that pay for utility services but are tax exempt per Florida Statute. As a result, the funds for services that charge a utility tax should make a contribution (i.e. Electric Fund, Water Fund, and Local Sewer Fund), and the Refuse Fund and Stormwater Fund that do not charge a utility tax should not make a contribution.

<sup>7</sup> The five Utility funds are the Electric Fund, the Water Fund, the Local Sewer Fund, the Refuse Fund, and the Stormwater Fund.

convenience fees that the City could have collected to be \$306,016 for FY 2016. We estimate that in three years the City will be able to collect approximately \$918,048 in credit card convenience fees. This resulted in questioned costs of **\$306,016** for FY 2016 and an estimated **\$918,048** in avoidable costs for future years of potential collection.

### **Contracts**

Our review of water utility contracts identified a total of **\$86,997** in questioned costs because the City made payments to an engineering contractor for services that were not approved in accordance with the City's Procurement Code.

### **Warehouse and Inventory**

The City's Utility warehouse lacks written policies and procedures that address the warehouse staff activities, issuance of inventory, and the maintenance and tracking of inventory. The inventory control system to account for parts, supplies, and equipment lacked management oversight. During our review, we identified \$41,456 in inventory issued by staff no longer employed by the City. The City was unable to identify the use of these parts or supplies. This resulted in **\$41,456** of questioned costs.

### **Utility Billing Changes**

The City adopted City Resolution 45-2015, effective October 1, 2015, which included new fire line rates. The new rates were not updated in the City's billing system. The City corrected the error on November 24, 2015. The error resulted in uncollected fire line revenue of **\$1,101** which we have identified as questioned costs. Additionally, in our review there

were three under-billed utility accounts, which resulted in **\$67,570** of questioned costs and **\$20,263** in identified costs that the City may be able to recover.

### **Late Fees and Deposit Refunds**

Our review of customer accounts identified that both the late fee penalty process and the utility deposit refund process were not consistent with City resolutions or other City documents.

## **WHAT WE RECOMMEND**

Our report contains eight findings and 21 recommendations. Implementation of these recommendations will 1) assist the City and the Water Utilities Department in strengthening internal controls, 2) save approximately **\$1,526,104** in avoidable costs, and 3) comply with the City Ordinances and Resolutions.

The City and the Water Utilities Department concurred and accepted 21 recommendations and has taken corrective actions that have resolved 12 recommendations.

We have included the City and the Water Utilities Department's management response as Attachment 1.<sup>8</sup>

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<sup>8</sup> The City of Lake Worth's management included references to additional documents in their management response. These documents are voluminous, as such, are not included in this report.

## BACKGROUND



The City of Lake Worth (City) was incorporated as a municipality under the laws of the State of Florida in 1913. It is a coastal city of approximately 38,000 residents and seven square miles. The City operates under a Commission–Manager form of government. On February 17, 2015, the City passed and enacted Ordinance No. 2015-03, adopting a new Chapter 18, “Utilities” to set forth the administrative and regulatory requirements of the Water, Sewer, Stormwater and Electric Utility systems. The City owns and operates the Tom G. Smith Municipal Power Plant (electric supply) and the Reverse Osmosis Water Treatment Plant (water supply).

Public utilities are typically large sources of revenue and have multiple stakeholders. There are risks related to complex operating environments, billing, and regulatory compliance. The City’s Water Utilities operating revenue for fiscal year 2016 was \$13,960,788.

The 2016 Audit Plan had several utility audits scheduled, and the survey work began in FY 2016. The City of Lake Worth was selected for an audit and the audit continued as part of the 2017 Audit Plan Multiple Entities – Utilities Audit.

## OBJECTIVES, SCOPE, AND METHODOLOGY

The overall objectives of the audit were to determine whether:

- Water utility services were provided in an economical, efficient and effective manner;
- Internal controls were adequate;
- Customers were properly billed for water utility services; and
- Water utility activities were in compliance with applicable agreements, municipal ordinances and resolutions, and Florida Statutes.

Our audit focused on the financial operations of the City’s Water Utility to include detailed testing on selected financial transactions. The initial scope included, but was not limited to activities that occurred during the period October 1, 2015 through September 30, 2016. Selected financial and administrative activities included billing and revenue collection, rate setting practices, and financial transactions.

The audit methodology included but was not limited to:

- Reviewing water utility policies, procedures and compliance requirements;
- Reviewing utility billing, collection and rate setting practices;
- Performing detail testing on selected financial transactions; and
- Interviewing appropriate utility personnel.

Our initial audit engagement was to review water utility operations. One of the first steps in the audit is the planning phase. We reviewed the Comprehensive Annual Financial Reports (CAFR) for FY 2011 through FY 2016. As a result, we noted a large advance ('loan to') on the balance sheet. In order to understand the source and purpose of the transaction, we expanded the scope of the audit to include review of information and materials relevant to the advance. We determined that the advance was a transfer of (\$4,000,000) in cash from the City's Water Utility (Enterprise) Fund's investment account in FY 2011 to the City's Casino Building Fund. Additionally, we discovered that another contemporaneous advance to the City's Casino Fund was made from the City's Self-Insurance Fund (\$2,000,000) investment account in FY 2011.

Additionally, we gained an understanding of the utility operations by reviewing the City's policies and procedures and by interviewing utility staff. We expanded the scope of the audit to include a review of utility warehouse operations and warehouse and inventory processes. The scope of the audit was expanded to FY 2017 to obtain information that was more relevant and current. On certain utility inventory items, we traced purchases back to 2013 in order to be able to follow the purchase, issuance, value, and price of the inventory item.

Last, we reviewed whether water utility activities were in compliance with applicable agreements. We noted that an engineering firm has provided services to the City since 2008 on various projects, initially starting with projects for Water and Wastewater. Since 2008, the vendor was paid \$628,000, and the City was only able to produce contracts for a portion of the total paid. Upon noting this deficiency, the scope of the audit was expanded to include review of all payments to this vendor from 2008 to the present.

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



## FINDINGS AND RECOMMENDATIONS

**Finding (1): The City established an inter-fund loan without initial authorization and did not uphold the terms of the original loan.**

In FY 2011, the City transferred \$4,000,000 from the Water Utility (Enterprise) Fund's Investment Account and \$2,000,000 from the Self Insurance Fund Investment Account, establishing inter-fund loans (i.e. Advance to Other Funds) to the Casino Building Fund<sup>9</sup> to pay for expenditures related to the redevelopment construction project at the Lake

Worth Casino. The \$6,000,000 was transferred and expended without a City policy in place allowing the transaction and without guidelines for establishing an inter-fund loan. This transaction was in violation of the Investment Fund Policy, which did not allow for inter-fund loans from Investment Accounts.

Approximately, one year later on September 11, 2012, after most of the \$6,000,000 was expended, the City approved Resolution 43-2012 amending the City's Investment Policy and ratifying the inter-fund loan for the Casino building construction. The ratification of the loan does not resolve the issue because the City did not uphold the terms of the original loan.

After the City Commission's approval of the Resolution, for three of the four loan repayment years (FY 2013, 2015, and 2016), the City's actual cash payments towards the loan principal were less than the original contemplated principal payment amounts. As of September 30, 2016, the unpaid principal in the short-term inter-fund receivable account for the Water Utility Fund was \$332,500 and the Self Insurance Fund was \$167,500. The \$500,000 was transferred to a fund account titled "Due to/from Other Funds."<sup>10</sup>

The use of the Investment Funds for the Casino Construction Project and failure to pay down the principal as contemplated increased the risk that the Water Utility Fund would have insufficient revenue for enterprise operations, capital expansion, or the ability to meet reserve percentages required by City debt covenants. This could result in the need to increase water rates due to insufficient funds. Similarly, by borrowing from the Self-Insurance Fund there may not be sufficient reserves to finance the insurance plan or

<sup>9</sup> The Casino building fund was used to account for all of the costs involved in redeveloping the City's casino building on the beach. The new casino building remains true to the original 1920's architecture, and while there is no gambling at the new building, the name "Casino" remains as a reminder of the history and importance of the building.

<sup>10</sup> These loan transactions were referred to the City's external auditors for further assessment and review in conjunction with the 2017 CAFR.

cover future losses. In both cases, the City may be placed in a compromising situation with insufficient funds to cover financial or property claims.

As a result, the **\$6,000,000** loan used to pay for the Lake Worth Casino redevelopment is a questioned cost.

#### **Recommendations:**

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- (1) City staff should follow applicable ordinances, resolutions, and policies and procedures relating to the management of public funds of Lake Worth.**
- (2) City staff should perform a review of all transactions using investment funds to ensure that the transactions are authorized under the current investment policy.**
- (3) City staff should develop and implement a due diligence process for the use of City investment funds to ensure that funds identified for designated purposes (or that are reserved funds) are not used without proper approval.**

#### **Management Response:**

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**Management accepts the findings and recommendations.** The City Staff has updated applicable resolutions, policies and procedures relating to the management of public funds of Lake Worth. The City's Independent External Auditors are documenting the actual inter-fund cash payments towards the loan principal, budgeting practice using investment funds is taking place following applicable ordinances, resolutions and policies, in accordance with Policy direction and proper approval of the City Commission at Public Hearings.

#### **Finding (2): The City did not pay interest due on the loan for three of the four years in which interest accrued.**

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Repayment of the inter-fund loan to the Casino Building Fund began in FY 2013, approximately two years after the original transaction. There was no accrued interest calculated for FY 2012.

For those years in which interest was due and payable, the City did not pay the full amount of interest due on the loan as provided by Resolution No. 43-2012. The City's failure to pay the interest due at an annual rate equivalent to the rates earned on other City investments was contrary to the authority granted by Resolution No. 43-2012.

The City did not pay **\$15,888** of interest. The amount still owed to the two investment funds (i.e. Water Utility Fund and Self-Insurance Fund) for FY 2012 through FY 2016 is classified as an identified cost.



**Recommendation:**

- (4) The Casino Fund should pay the Water Utilities and the Self Insurance Fund the unpaid interest of \$15,888 and adhere to the payment schedule for the loan.**

**Management Response:**

**Management accepts the findings and recommendations.** The City will pay the unpaid interest in the amount of \$15,888 to the Water Utilities and the Self Insurance Fund. Any additional unpaid interest due on the loan will be verified by the City's Independent External Auditors to insure adherence to the loan payment schedule.

**Finding (3): The City did not have written policies and procedures to establish the annual Utility Funds' contribution rate.**

Generally, the City levies utility taxes on water services to its customers. These tax revenues are eventually deposited into the City's General Fund. The City, however, does not collect tax revenue for water utility services provided to city-owned buildings or properties. Additionally, the City does not levy utility taxes on its customers for stormwater and refuse management services.

The City's Finance Department annually establishes a "contribution percentage" that it applies to all Utility funds (Electric, Water, Local Sewer, Refuse, and Stormwater) to compensate the City for lost general tax revenue that it does not collect for utility services provided to City-owned properties. City staff defined the contributions from the Utility Funds to the General Funds as "payment in lieu of taxes (PILOT).<sup>11</sup> The City did not have a municipal resolution or ordinance setting forth a clear policy or authoritative guidance for the transfer of monies from those funds to the General Fund. Staff relied upon an outside contractor to determine the contribution rate and was unsure as to how the contribution rate was calculated and what factors were used to establish the rate.

In FY 2016, the total contribution amount from these Utility funds to the General Fund was \$6,630,532. In FY 2016, a total of \$670,896 was contributed from the Refuse Fund (\$489,631) and the Stormwater Fund (\$181,265). Based upon our review of the documents provided by the City, it does not appear that the rate was based upon the amount of lost revenue to the City for taxes that would have been collected from City-owned properties had they not been exempted from taxation. Although the contribution rate was applied to the Refuse Fund and Stormwater Fund, the City does not collect taxes from any customers for Refuse and Stormwater Management services. Thus, the \$670,896 transferred in FY 2016 should not have been contributed to the General Fund for payments in lieu of taxes. As a result, **\$670,896** is considered questioned costs.

For FY 2017, the City calculated a contribution amount of \$608,056 from the Refuse Fund (\$450,752) and Stormwater Fund (\$157,304). The amount of **\$608,056** is considered

<sup>11</sup> A PILOT is a payment in lieu of taxes made to compensate a local government for some or all of the tax revenue lost due to tax-exempt ownership of properties, Governmental Accounting Standards Board definition.

avoidable costs because the General Fund should not receive these contributions when no taxes are being charged.

Finance staff was not aware that contributions were being made on services for which taxes were not charged, which resulted in payments that should not have occurred. If this practice is continued, it will result in future lost revenue for the Refuse and Stormwater funds.

### Recommendations:

- (5) **The City should develop written policies and procedures for the contribution rate calculation and obtain appropriate approval for the contribution rate.**
- (6) **City management should review regulations, accounting rules, and legal guidance when establishing the contribution rate percentage and comply with all requirements.**
- (7) **City staff should assess the reasonableness of the percentage used and further compare it to the actual tax loss for services provided to City owned property.**

### Management Response Summary:

**Management accepts the findings and recommendations.** For Fiscal Year 2017-2018 the City Commission approved by motion the FY 2018 Administrative Charge for Services and the FY 2018 Contributions from the Enterprise Operations. The Policies and Procedures were developed and approved at the appropriate approval authority, to insure compliance with all requirements.

### Finding (4): The credit card convenience fees of 1.2% were not collected on payments as directed by City Resolution 45-2015.



Resolution 45-2015 was executed by the City Commission on September 15, 2015, with an effective date of October 1, 2015, for the Schedule of Fees and Charges for Services. The document requires that “all credit card payments for utilities tendered through the City’s internet payment portal or via telephone, will be surcharged a 1.2% credit card convenience fee.” (emphasis added) This fee is to offset fees the City must pay for acceptance of this payment method. Section 215.322 (5), Florida Statutes,<sup>12</sup> provides that local governments are authorized to accept payment by use of credit cards, charge cards, bank debit cards, and electronic funds transfer for financial obligations and to surcharge an amount sufficient to pay the service fees charges by the financial institution or credit card company for such service.

<sup>12</sup> Florida Statutes 215.322 (5) – “A unit of local government, including a municipality...is authorized to accept payment by use of credit cards...for financial obligations that are owing to such unit of local government and to surcharge the person who uses a credit card...an amount sufficient to pay the service fee charges by the financial institution...”

In our audit sample, we found that 38% of the customers paid by credit card. None of the credit card payments included the 1.2% convenience fee, as provided under Resolution 45-2015. We requested and received the daily utility receipts reports and summarized all of the credit card payments from October 1, 2015 through September 30, 2016. The report showed a total of \$25,501,322 in credit card payments through the City's internet payment portal or via telephone.

By not collecting the 1.2% credit card convenience fee on the report total amount of \$25,501,322, the City lost the benefit of approximately **\$306,016** in reimbursable amounts. This amount is considered questioned costs.

Additionally, if the City collects the 1.2% convenience fee, we estimate that it will collect in three (3) years approximately **\$918,048** (\$306,016 x 3) in avoidable costs.

### **Recommendations:**

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**(8) The City collect the 1.2% convenience fee, as provided in Resolution 45-2015.**

**(9) City management should train all staff processing utility payments on the applicable Schedule of Fees and Charges for Services and notify them of any future revisions or updates.**

### **Management Response Summary:**

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**Management accepts the findings and recommendations.** Staff processing utility payments has been trained on updates to the Fees and Charges. Resolution 45-2015 is currently under review as there are system issues preventing the effective and efficient collection and accounting of the 1.2% convenience fee.

### **Finding (5): The City paid an engineering contractor for services that were not approved in accordance with the City's Procurement Code.**

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During our review of the Water Utility contracts, we identified that the City entered into multiple professional consulting arrangements with a utility engineering firm engaged as a consultant to the City. The initial professional services agreement in 2008 was for a water/wastewater utility rate study.

From 2008 through November 29, 2016, the City engaged the engineering firm to provide various services totaling \$628,376. We reviewed the agreements with the engineering firm provided by the City and requested the related invoices and verification of payment from the Finance Department. We used the City's Procurement Policy as the guidance for our evaluation and audit testing. During our review, we determined that the City paid the firm \$23,313 for services that had not been approved by the City Manager and \$63,684 for services that had not been approved by the City Commission, as required by the City's Procurement Code.

<b>Lack of Proper Approval Summary</b>	
Written authorization by City Commission was not obtained, as required in the City's Procurement Code	\$63,684
The City paid for services without City Manager approval, as required by the City's Procurement Code	\$23,313
<b>Total Questioned Costs</b>	<b>\$86,997</b>

City staff did not follow or comply with the City's Procurement Policies and Procedures, which resulted in **\$86,997** in questioned costs.

### Recommendations:

- (10) All agreements should be approved in accordance with the City's Procurement Code.
- (11) Expenditures should not be processed for payment without the proper approval, review, and/or supporting documentation.

### Management Response:

**Management accepts the findings and recommendations.** Checks and Balances are in place to insure that agreements are approved in accordance with the City's Procurement Code, including proper approval, review and supporting documentation.

### Finding (6): The City's Utility warehouse inventory operations lacked adequate management oversight.



#### Inventory Issuance

We reviewed copies of inventory information prepared by the IT Department related to items received and issued. We noted that the issuance field – “inventory issued” listed two former employees. The last day of employment for these former employees was September 30, 2016 and November 8, 2016. The records provided to our office showed that inventory costing \$41,456 had been issued by former employees between October 1, 2016 and February 10, 2017. The City was unable to determine to whom the items were issued, why the items were issued, for which projects the items were issued, or the intended purpose for their issuance.

The city lacked adequate procedures or guidance to monitor the issuance of inventory and for timely reviewing the accuracy of records relating to such issuance. As a result of the lack of management oversight, the inventory information inaccurately reflects that employees who had been terminated were issuing inventory. Thus, the identity of the person actually issuing the inventory is unknown. The lack of controls related to inventory authorization and issuance privileges creates a risk to the City and its ability to safeguard

its assets/inventory from theft and fraudulent activities. As a result, we consider **\$41,456** -- the cost of the issued inventory -- questioned costs because these costs were not supported by adequate documentation.

### **Work Order System**

The City did not use its automated work order system to capture the parts and material used on projects. The automated system has the capability to record work order information for all the utilities maintenance and repair functions, including the parts, materials, and labor used for each project.



Despite having an automated system, the City staff did not record how much copper wire was used for utility work. For example, the City used copper wire from a spool, but did not record the amount used for the project or the amount that remained on the spool after the project was completed. The spool remained on the utility truck, and the City did not account for subsequent uses of the wire on that particular spool. Instead, the City tracked the amount of copper wire remaining at the end of the year, but did not track how, where, and why the copper wire had been used throughout the year. The inventory value of copper wire spools ranged from \$1,000 to \$25,626 depending on the thickness and type. Lack of controls and records exposed the City to loss and theft.

### **“Free Pick Area” Inventory**

Inventory was issued and placed in a “free pick area”.<sup>13</sup> The utility repair trucks would take items needed for the day’s repairs based on the work orders from the “free-pick area”. Inventory and supplies used from the “free-pick area” were not identified with specific repair jobs. The unused supplies remained in the trucks and were used as needed without documentation for the specific jobs.

Lack of proper controls regarding the use of City inventory increases the risk of theft, waste or abuse of inventory.

### **Recommendations:**

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**(12) The City management should monitor the issuance and use of inventory to ensure that it is issued to authorized employees and that it is used for proper purposes. When City employees separate employment, City management and the IT Department should work collaboratively to update systems to delete the former employees’ authorization privileges. Such practice will decrease the risk to unauthorized inventory issuance and improve the accuracy of records tracking inventory issuance.**

**(13) Written policies and procedures should be updated and/or developed to ensure:**

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<sup>13</sup> The free pick area is a gated section of the warehouse. Regularly used parts and supplies were issued from inventory and placed in the free pick area for easy accessibility by all utility work staff.



- a. There is proper guidance for accounting, monitoring, and general oversight of the warehouse operations;
  - b. The system tracking inventory issuance is updated to accurately reflect new hires and remove terminated employees, and tracks inventory issuance; and
  - c. Work-orders are matched and verified with the disbursement of inventory removed from the “free-pick area” and warehouse areas.
- (14) Work orders should be used for managing/tracking inventory with a reconciliation performed of inventory purchased, issued, and used.
- (15) Issuance and usage variance reports for work orders and inventory should be reviewed and discrepancies resolved prior to management sign off on the reports.

### Management Response:

**Management accepts the findings and recommendations.** City Management and IT Staff are working collaboratively, with the goal of bringing in assistance of an outside warehouse inventory specialist, to update policies and procedures, develop proper accounting, monitoring and oversight of the warehouse to manage/track inventory and more fully coordinate with the work order system. The types of materials and quantities of materials placed in the free pick area will be reviewed and reassessed for practicality and proper control.

### Finding (7): The City Utilities do not have any documented processes for review or supervision of utility billing changes and/or errors.

#### New Billing Rates

New fire line<sup>14</sup> rates were effective on October 1, 2015 for the FY 2016 and were not properly updated in the billing system. The City Utilities did not correct the error until November 24, 2015, resulting in uncollected fire line revenue of \$1,101.



The Water Systems Policies and Procedures Manual does not address the process or procedure for rate changes or designate which department is responsible. The loss of revenue resulted in **\$1,101** of questioned costs.

#### Utility Meter Change-Outs

Interviews with staff revealed that the Utility Service Department (Electric & Water) lacks standard operating procedures for meter readers. Since there was no written step-by-step information on how to perform the meter reading duties, each employee used personal judgment in planning routes, reading meters, and resolving issues on exception reports.

<sup>14</sup> A fire line is a separate water line used only for fire purposes. This includes fire services, automatic fire sprinkler systems, and fire hydrants. All buildings requiring the fire line service are required to pay an additional fire line fee.

During our audit, there were three under-billed locations with the same systemic issue. In each case, we determined that the meters had been either replaced or repaired/turned off. Thereafter, new meters or newly turned on meters were not activated with the correct billing multiplier. The billing code was not reviewed or approved prior to re-engaging the meters. As a result, there was an error in the billing amounts, creating an under-billing in three instances.

In these three instances, lack of utility work review resulted in an under-billing in each account. The total amount of the under billing for the three locations was \$87,570. The City settled with the utility customer on an amount and was able to recover \$20,263, which we classified as identified costs. The balance of the under-billed amount of \$67,570, is considered questioned costs.

There did not appear to be adequate monitoring and documentation of work performance to ensure the meter readers were doing what was required in the most efficient manner and that meters were properly activated. As a result of no Standard Operating Procedures with the key elements of review and oversight of work activities, there could be over or under billing, which would go undetected.

### Recommendations:

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- (16) The Water Systems Policies & Procedures Manual should be updated and clearly identify the employee responsible for rate changes in the billing system and include a verification prior to relying on revisions.**
- (17) City management update their policies and procedures to incorporate on-going testing and management oversight, especially related to residential and commercial new/changing utilities rates (i.e. new meters, meter activation and testing / monitoring, validation of calculations, significant variances, and fire line charges).**
- (18) Documented review and approval processes should be established to oversee all activities of the Utility Department related to meter billing, utility exception reports, and meter repairs and change outs.**

### Management Response:

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**Management accepts the findings and recommendations.** The Water Systems Policies and Procedure Manual will be updated in next revision to more clearly identify employees responsible for rate changes in the billing system, including a verification prior to relying on revisions. This includes new/changing rates and a documented review and approval process related to meter billing, utility exception reports, and meter repairs and change outs.

**Finding (8): The City's Policies and Handbooks have not been updated to be consistent with the Schedule of Fees and Charges for Services adopted in City Resolution 45-2015.**

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**Utility Late Fees**

As part of our review of customer accounts, we identified that late fee penalties were not charged on six of the 20 customer accounts that were paid late, as authorized by City Resolution 45-2015.<sup>15</sup>

There were three City documents referencing late payments and the late fee process:

- Comprehensive Financial Policies – Utilities Accounts,
- Water Systems Policies and Procedures, Section 4.11, and
- Water Utility Public Services Customer Handbook.

Each document detailed a different late fee policy. The documents related to the late fee process were inconsistent.

**Utility Deposit Refunds**

City Utility documents addressing the utility refund deposit process were inconsistent. City Resolution 70-2013 stated the deposit would be returned after a continuous 25 months provided that the customer had a satisfactory payment record and had not had one late payment in the previous 12 months.

The City's utility application stated the City would refund the utility deposit to the customer provided if the customer had received continuous service for at least 25 months and had not had a late payment more than two times in the previous 12 months. The Utility Customer Service Department followed the process on the customer application rather than the City Resolution 70-2013.

**Recommendations:**

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- (19) City management should revise the policy manuals and application to comply with the governing City Resolution including, but not limited to: the assessment of "Late Fee" calculations.**
- (20) City management should review and update the automated late fee calculation to ensure that it is consistently applied and is properly calculating the late fees on the delinquent utility bill balance.**
- (21) Staff should be trained on the proper policy.**

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<sup>15</sup> Resolution 45-2015, Exhibit B, Section 8. Late Fees. ... "shall charge a late fee to any customer whose payment is not received on the due date and to whom a reminder notice is mailed. The late fee shall be assessed and added to the bill at the time the notice is sent."

**Management Response:**

**Management accepts the findings and recommendations.** City Policy Manuals have been updated to comply with the governing City Resolution including Late Fee calculations. Staff has been trained on the proper policy.

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

**Questioned Costs**

<b>Finding</b>	<b>Description</b>	<b>Questioned Costs</b>
1	Internal Loans Improperly Completed	\$6,000,000
3	Lack of Policies and Procedures – Utility Contributions	670,896
4	Uncollected Credit Card Convenience Fees	306,016
5	Inadequate controls over contracts	86,997
6	Inventory operations lacked management oversight	41,456
7	Fire Line Billing Error	1,101
7	Billing Rate Errors	67,570
	<b>TOTAL QUESTIONED COSTS</b>	<b>\$7,174,036</b>

**Identified Costs**

<b>Finding</b>	<b>Description</b>	<b>Identified Costs</b>
2	Internal Loan Interest	\$15,888
7	Billing Rate Errors.	20,263
	<b>TOTAL IDENTIFIED COSTS</b>	<b>\$36,151</b>

**Avoidable Costs**

<b>Finding</b>	<b>Description</b>	<b>Avoidable Costs</b>
3	Utility Contributions	\$608,056
4	Collection of Credit Card Convenience Fees	918,048
	<b>TOTAL AVOIDABLE COSTS</b>	<b>\$1,526,104</b>



**ATTACHMENT**

Attachment 1 – City of Lake Worth’s Management Response, page 19 - 21

**ACKNOWLEDGEMENT**

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

## ATTACHMENT 1 – CITY OF LAKE WORTH'S MANAGEMENT RESPONSE



Lake Worth, Florida. The Art of Florida Living.<sup>SM</sup>

**FINANCIAL SERVICES**

7 North Dixie Highway  
Lake Worth, FL 33460  
**561.586.1654**

**MEMORANDUM**

TO: John Carey, Inspector General  
Megan Gailard, Director of Audit  
Office of the Inspector General

FROM: Marie W. Elianor, CGFO, CPPT, Financial Services Director *MW*

CC: Michael Bornstein, City Manager  
City of Lake Worth

SUBJECT: City of Lake Worth Management Response  
Draft Audit Report, City of Lake Worth, Audit of Water Utility Services

DATE: December 12, 2017

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Attached is our management response. Our response covers the eight (8) findings and twenty-one (21) recommendations noted in the draft audit report.

The response is provided by the approved extension response date of Tuesday, December 12, 2017.

Please feel free to contact the Finance Department at 561-586-1654 if you have any questions.

CC: Donna M. Wisneski, CPA, Office of Inspector General  
Juan Ruiz, Assistant City Manager, City of Lake Worth  
Brian Shields, Water Utility Director, City of Lake Worth  
Edward Liberty, Electric Utility Director, City of Lake Worth  
Corinne Elliott, Assistant Finance Director, City of Lake Worth



Lake Worth, Florida. The Art of Florida Living.<sup>SM</sup>

**FINANCIAL SERVICES**

7 North Dixie Highway  
Lake Worth, FL 33460  
**561.586.1654**

Finding 1, Recommendations 1, 2, and 3

Management Response:

Management accepts the findings and recommendations. The City Staff has updated applicable resolutions, policies and procedures relating to the management of public funds of Lake Worth. The City's Independent External Auditors are documenting the actual inter-fund cash payments towards the loan principal, budgeting practice using investment funds is taking place following applicable ordinances, resolutions and policies, in accordance with Policy direction and proper approval of the City Commission at Public Hearings.

Finding 2, Recommendation 4

Management Response:

Management accepts the findings and recommendations. The City will pay the unpaid interest in the amount of \$15,888 to the Water Utilities and the Self Insurance Fund. Any additional unpaid interest due on the loan will be verified by the City's Independent External Auditors to insure adherence to the loan payment schedule.

Finding 3, Recommendations 5, 6, and 7

Management Response:

Management accepts the findings and recommendations. For Fiscal Year 2017-2018 the City Commission approved by motion the FY 2018 Administrative Charge for Services and the FY 2018 Contributions From the Enterprise Operations. Attached is the Agenda Packet Face Sheet and the Items. The Policies and Procedures were developed and approved at the appropriate approval authority, to insure compliance with all requirements.

Finding 4, Recommendations 8 and 9

Management Response:

Management accepts the findings and recommendations. Documentation is included in this response related to the waiver of credit card convenience fees as provided in the Resolution. Staff processing utility payments has been trained on updates to the Fees and Charges. Resolution 45-2015 is currently under review as there are system issues preventing the effective and efficient collection and accounting of the 1.2% convenience fee.

Finding 5, Recommendations 10 and 11

Management Response:



Lake Worth, Florida. The Art of Florida Living.<sup>SM</sup>

**FINANCIAL SERVICES**

7 North Dixie Highway  
Lake Worth, FL 33460  
**561.586.1654**

Management accepts the findings and recommendations. Checks and Balances are in place to insure that agreements are approved in accordance with the City's Procurement Code, including proper approval, review and supporting documentation.

Finding 6, Recommendations 12, 13, 14 and 15

**Management Response:**

Management accepts the findings and recommendations. City Management and IT Staff are working collaboratively, with the goal of bringing in assistance of an outside warehouse inventory specialist, to update policies and procedures, develop proper accounting, monitoring and oversight of the warehouse to manage/track inventory and more fully coordinate with the work order system. The types of materials and quantities of materials placed in the free pick area will be reviewed and reassessed for practicality and proper control.

Management 7, Recommendations 16, 17 and 18

**Management Response:**

Management accepts the findings and recommendations. The Water Systems Policies and Procedure Manual will be updated in next revision to more clearly identify employees responsible for rate changes in the billing system, including a verification prior to relying on revisions. This includes new/changing rates and a documented review and approval process related to meter billing, utility exception reports, and meter repairs and change outs.

Finding 8, Recommendations 19, 20 and 21

**Management Response:**

Management accepts the findings and recommendations. City Policy Manuals have been updated to comply with the governing City Resolution including Late Fee calculations, Staff has been trained on the proper policy.