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December 18, 2024

Honorable Richard Wolff
Mayor, City of Mexico Beach
201 Paradise Path
Mexico Beach, Florida 32456

Dear Mayor Wolff:

Enclosed is a list of nine (9) preliminary and tentative audit findings and recommendations that may be included in a report to be prepared on our operational audit of the City of Mexico Beach.

Pursuant to Section 11.45(4)(d), Florida Statutes, you are required to submit within thirty (30) days after receipt of this list a written statement of explanation concerning all of the findings, including therein your actual or proposed corrective actions. If within the 30-day period you have questions or desire further discussion on any of the preliminary and tentative audit findings and recommendations, please contact this Office.

Your written explanation should be submitted electronically in source format (e.g., Word) and should be accompanied by a cover letter with your digitized signature. For quality reproduction purposes, if you are not submitting your response in source format, please convert your response to PDF and not scan to PDF. If technical issues make an electronic response not possible, a hard copy (paper) response will be acceptable.

Please e-mail this Office at flaudgen_audrpt_lg@aud.state.fl.us to indicate receipt of the list of preliminary and tentative audit findings and recommendations. Absent such receipt, delivery of the enclosed list is presumed, by law, to be made when it is delivered to your office.

Sincerely,

A handwritten signature in blue ink that reads "Sherrill F. Norman".

Sherrill F. Norman

SFN/bk

Enclosure

c: Councilmembers
Chris Truitt, City Administrator

**PRELIMINARY AND TENTATIVE AUDIT FINDINGS
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SUMMARY

This operational audit of the City of Mexico Beach (City) focused on selected City processes and administrative activities. Our audit disclosed the following:

Finding 1: The City experienced significant turnover in key management positions from January 2020 through August 2024.

Finding 2: The City did not timely provide for and submit required annual audited financial statements and annual financial reports to the Auditor General and Department of Financial Services, respectively, for the 2020-21 through 2022-23 fiscal years. Consequently, through June 2024, the Department of Revenue withheld from the City \$37,137 in combined half-cent sales tax and municipal revenue sharing revenues.

Finding 3: City controls related to competitive selection procurements need improvement.

Finding 4: City purchasing controls need enhancement to ensure that purchases exceeding \$10,000 are approved by the City Council, purchase orders are used for purchases exceeding \$20, and City records evidence receipt of goods and services.

Finding 5: City controls need enhancement to prevent duplicate payments.

Finding 6: The City continued paying the City Accountant after the contract for services expired, and City records did not demonstrate the basis for classifying the contracted City Accountant as an independent contractor for Internal Revenue Service reporting purposes.

Finding 7: City controls related to application security management need improvement to ensure that access privileges are necessary and appropriate.

Finding 8: Access privileges to information technology resources were not always promptly disabled when no longer necessary.

Finding 9: The City had not established policies and procedures for communicating, investigating, and reporting known or suspected fraud.

BACKGROUND

The City of Mexico Beach (City) was created in 1967 pursuant to Chapter 67-1717, Laws of Florida. The City is located in eastern Bay County along the Gulf of Mexico and has an estimated population of 1,285.¹ The City operates water, sewer, and sanitation utilities and provides services including community enrichment and development, law enforcement and fire safety, and general administration.

¹ University of Florida, College of Liberal Arts and Sciences, Bureau of Economic and Business Research, *Florida Estimates of Population by County and City 2023*.

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The City had a Mayor-Council form of government until April 16, 2024, when the City elected, through a referendum, to change to a Council-Administrator form of government. The change in the form of government removed the Mayor’s ability to act as the City’s chief elected administrative and fiscal official. In addition, on that same date, the City elected to add the position of City Administrator to the City Charter.² The City Administrator is appointed by the City Council and is responsible for the City’s administration. Elections for the Mayor and Council members are held annually in April with the Mayor and Council Groups 2 and 3 elections in even years and Council Groups 4 and 5 in odd years.

FINDINGS AND RECOMMENDATIONS

Finding 1: Management Turnover

The City Administrator, department heads, and other key management positions in the City are responsible for designing and implementing effective internal controls and ensuring consistent application of City policies and procedures. The implementation and consistent application of policies and procedures can be particularly challenging when significant turnover in key management positions is experienced.

As illustrated in Table 1, our examination of City records and discussions with City personnel disclosed that the City experienced significant turnover in certain key management positions during the period January 2020 through August 2024.

**Table 1
Turnover in Key Management Positions
For the Period January 2020 Through August 2024**

Position	Number of Resignations/ Terminations	Number of Times Position was Vacant	Number of Days Position was Vacant
City Administrator	3	3	78
City Clerk	2	-	-
City Accountant ^a	3	2	495

^a Based on our review of City records in August 2024.

Source: City records.

Our review of City personnel records associated with recent resignations and inquiry of City personnel in May 2024 disclosed instances of allegations of a negative workplace environment and personality

² The Office of City Administrator was established in the City of Mexico Beach Code of Ordinances in 2005; however, the Council-Administrator form of government was not established until the April 2024 charter amendment.

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conflicts among management and elected officials, as well as additional work responsibilities resulting from Hurricane Michael.³

Significant turnover in key management positions results in the loss of institutional knowledge and impacts the oversight and consistent application of established policies and procedures, may lead to inefficient operations and reduced service quality, and contributed, in part, to the other findings in this report. Accordingly, any actions that may increase management turnover require careful consideration, including documented assessments of the effects of such actions and strategies to limit any negative effects.

Recommendation: To promote efficient operations, deliver high-quality services to residents, and consistently apply City policies and procedures, the City should develop policies and programs that foster a positive work environment and promote stability in key management positions.

Finding 2: Financial Audits and Annual Financial Reports

Pursuant to State law,⁴ the City is required to obtain a financial audit of its accounts and records by an independent certified public accountant (CPA). The resulting audit report must be filed with the Auditor General within 45 days after delivery of the audit report to the governing body of the City, but no later than 9 months after the end of the City's fiscal year.⁵ State law⁶ also requires the City to submit a copy of its audit report and annual financial report (AFR) to the Department of Financial Services (DFS) within 45 days of the completion of the audit report but no later than 9 months after the end of the fiscal year.

Our discussions with City personnel and examination of Auditor General and DFS records disclosed that:

- The City filed its 2020-21 report with the Auditor General in December 2022, 173 days late and filed the 2021-22 report in June 2024, 362 days late. As of August 2024, the 2022-23 fiscal year audit report had not been filed and was approximately 2 months late.
- The City filed its 2020-21 and 2021-22 fiscal year AFRs with the DFS in January 2023 and June 2024, 197 and 362 days late, respectively. As of August 2024, the 2022-23 fiscal year audit report had not been filed and was approximately 2 months late.

According to City personnel, employee turnover in certain key positions, including the City Clerk, City Accountant, and City Administrator positions contributed to delays in financial statement preparation, which resulted to the audit report delays. As of August 2024, the City had a City Clerk and a City

³ Hurricane Michael made landfall on October 10, 2018, as a Category 5 hurricane, causing catastrophic damage from wind and storm surge in the Florida Panhandle, particularly in the Panama City Beach to Mexico Beach to Cape San Blas areas.

⁴ Section 218.39(1)(b), Florida Statutes, provides that any municipality with revenues or total expenditures and expenses in excess of \$250,000, as reported on the fund financial statements, is required to obtain a financial audit of its accounts and records by an independent CPA.

⁵ Section 218.39(7), Florida Statutes.

⁶ Section 218.32(1)(d), Florida Statutes.

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Administrator in place; however, the City Accountant position had been vacant since August 2023. In August 2024, the City advertised for a Finance Director to perform the same job functions as the City Accountant, and the City Council hired someone for the position in December 2024.

Timely audits are necessary to provide accountability and assurance to citizens and those charged with governance; help ensure that management and those charged with governance are promptly informed of financial concerns (e.g., deteriorating financial conditions), control deficiencies, and financial-related noncompliance; and allow for timely review by appropriate Federal, State, and county oversight agencies. Failure to timely submit audit reports has resulted in the DOR and DFS withholding certain sales tax and revenue sharing funds and the potential loss of those funds. For example, according to Legislative Auditing Committee records, as of August 2024, the Department of Revenue (DOR) had withheld from the City \$29,166 in half-cent sales tax and \$7,971 in municipal revenue sharing revenues for the untimely filed 2021-22 fiscal year audit report. Additionally, as the DFS uses AFR information to prepare a verified report pursuant to State law,⁷ failure to timely file AFRs with the DFS may result in financial data not being available to interested parties.

Recommendation: The City should enhance efforts to comply with State law and ensure that annual financial audit reports and AFRs are timely completed and filed with the Auditor General and the DFS.

Finding 3: Competitive Procurement

Included in the City Council's stewardship and fiduciary responsibilities associated with managing public resources is the responsibility to ensure that City controls provide for the effective and efficient procurement of contractual services in accordance with applicable laws, contracts, grant agreements, and City ordinances, policies, and procedures. The Legislature has recognized in State law⁸ that fair and open competition is a basic tenet of public procurement, and that competition reduces the appearance and opportunity for favoritism and inspires public confidence that contracts are awarded equitably and economically. An effective procurement process for contractual services typically requires documented requests for proposals, consideration of the qualifications of the service providers that respond to the requests, and selection of the service provider that submits the best proposal.

City ordinances⁹ require expenditures of \$15,000 or more with some exceptions, such as emergency purchases and sole source items, to be made pursuant to bids, requests for proposals (RFP), or requests for qualifications (RFQ). In addition, City ordinances¹⁰ require three written quotes for purchases in excess of \$8,000 but less than \$15,000. City ordinances¹¹ also require competitive bids to be solicited

⁷ Section 218.32(2), Florida Statutes.

⁸ Section 287.001, Florida Statutes.

⁹ Section 30.01, City of Mexico Beach Code of Ordinances, *Expenditure of City Funds by Competitive Bids*.

¹⁰ Section 30.04, City of Mexico Beach Code of Ordinances, *Quotes Required*.

¹¹ Section 30.01, City of Mexico Beach Code of Ordinances, *Expenditure of City Funds by Competitive Bids*.

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by advertisement in a local or area newspaper of general circulation. This procedure may be supplemented by direct mailings, posted notices, or other advertising means when practical.

As part of our audit, we evaluated City competitive procurement processes and noted instances in which, although required, a competitive selection process was not used; the City lacked documentation that bid requests and RFPs were advertised as required; and respondent bid tabulation forms were not properly maintained. To determine whether goods and services were properly procured in accordance with City ordinances, we selected for examination City records for 23 payments made from October 2022 through January 2024 totaling \$7.6 million associated with purchases of goods and services costing in excess of \$8,000 that were not exempt from competitive selection.

Use of Competitive Selection Process. Our examination of City records disclosed noncompliance with City ordinances associated with 5 purchased goods and services each costing \$15,000 or more and totaling \$564,092 during the period October 2022 through January 2024, as shown in Table 3.

**Table 3
Purchased Goods and Services Exceeding \$15,000
Not Competitively Selected
During the Period October 2022 Through January 2024**

Purchased Goods and Services	Amount Paid
Disaster debris removal and disposal	\$250,000
Fuel	130,772
Yard waste collection	110,260
Software	58,060
Paving	15,000
Total	<u>\$564,092</u>

Source: City records.

Specifically, the City did not use a competitive selection process to procure:

- Fuel with costs totaling \$130,772. In response to our inquiries, City personnel stated that the City had been purchasing fuel from the local vendor for at least 19 years. In May 2024, subsequent to our examination, the City adopted a *Purchasing and Procurement Policy Manual*, which exempts fuel purchases from competitive procurement.
- A \$15,000 paving project. According to City personnel, a former employee authorized the purchase, and the City accepted the only quote that was documented. In response to our inquiries, City personnel provided evidence that one quote was obtained and indicated that a second quote was obtained but it could not be located and a third quote was requested but had not been received.
- An enterprise resource planning application,¹² for which the City paid \$58,060.

¹² Springbrook Software was implemented by the City on October 1, 2008.

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- Disaster debris removal and disposal services and yard waste collection services projects, costing \$250,000 and \$110,260, respectively. City personnel did not respond to our inquiry as to why the purchased services were not competitively selected, but indicated that the purchases were not emergency purchases, such as would be made in accordance with a Governor-declared state of emergency.

Absent documentation supporting proper solicitation of bids and RFPs, City records do not demonstrate that goods and services were selected at the lowest cost commensurate with acceptable quality.

Also, City records did not evidence, as required by City ordinance, that three written quotes were used to select vendors associated with two purchased services, costing \$8,000 or more but less than \$15,000. Specifically:

- The City performed culvert work at the request of property owners in the amount of \$10,950. In response to our inquiry, City personnel indicated that, because the property owners agreed to reimburse (and did reimburse) the City for the cost of materials, City personnel did not obtain written quotes for the materials.
- Although we requested, City personnel did not provide evidence that three written quotes were obtained for pickleball and basketball court improvements costing \$9,900. City personnel indicated that they only received one quote, because other vendors were not interested in a small job.

As shown in Table 4, in total, the City paid the respective vendors \$20,850 during the period October 2022 through January 2024.

**Table 4
Purchased Services Without Required Three Written Quotes
During the Period October 2022 Through January 2024**

Purchased Goods and Services	Amount Paid
Fill and topsoil for culverts	\$10,950
Pickleball and basketball court	9,900
Total	<u>\$20,850</u>

Source: City records.

Absent the quotes required pursuant to City ordinances, City records do not demonstrate that the City obtained the services at the lowest cost commensurate with acceptable quality.

Evidence of Advertisements. City records did not evidence advertisement for competitive sealed bids or RFPs for five purchased services, each costing more than \$15,000. As shown in Table 5, in total, the City paid the respective vendors \$977,280 during the period October 2022 through January 2024, contrary to policies and procedures.¹³

¹³ City of Mexico Beach Accounting Policies, Procedures and Forms, Section 4.1.A., *Purchase of Commodities*. This section applied to purchased services as well as commodities.

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**Table 5
Procurements Without Evidence of Advertising
During the Period October 2022 Through January 2024**

Purchased Goods and Services	Amount Paid
Marina and boat ramp repairs	\$369,406
Professional engineering services	355,368
Disaster recovery administrative services	177,715
Professional floodplain management services	43,301
Audit services	31,490
Total	<u>\$977,280</u>

Source: City records.

In response to our requests, City staff indicated that they could not locate the advertisements. Absent evidence of advertising, the City cannot demonstrate that City policies and procedures were followed. The lack of advertisement for competitive sealed bids and RFPs may result in fewer responses from qualified respondents.

Respondent Bid Tabulation Forms. City records did not evidence that respondent tabulation forms were completed, or were properly signed by a City employee,¹⁴ to document that responses to three RFPs were evaluated and scored in accordance with the RFP criteria. As shown in Table 6, the amount paid, in total, for the three purchases totaled \$2.74 million during the period October 2022 through January 2024

**Table 6
Purchases Without, or With Unsigned, Bid Tabulation Forms
During the Period October 2022 Through January 2024**

Purchased Goods and Services	Amount Paid
Canal dredging	\$2,557,074
Professional engineering services for pier design, bidding services and construction	98,982
Legal services	80,000
Total	<u>\$2,736,056</u>

Source: City records.

Although we requested, City personnel did not provide the forms or explanations as to why the forms were unavailable or were not signed. Absent properly completed bid tabulation forms, City records do

¹⁴ The *Bid Tabulation* form, which is to be completed for every competitively selected purchase, requires the signature of a City employee.

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not demonstrate that responses received by the City were evaluated and scored in accordance with the RFP criteria and, consequently, do not evidence that the vendors with the best responses were selected.

Recommendation: The City should enhance procurement policies and procedures to ensure:

- **Competitive procurement of goods and services in accordance with City ordinances.**
- **Maintenance of records to evidence all aspects of competitive procurements, including advertisements, RFP responses and quotes, and bid tabulation forms.**

Finding 4: Purchase and Receipt of Goods and Services

Properly written contracts protect contracting party interests, establish the responsibilities of contracting parties, define the services to be performed or goods to be provided, and provide a basis for payment. Effective contract monitoring includes procedures to ensure that contractors comply with applicable contract terms and conditions and satisfactory receipt of goods or services is documented before payments are made.

Regardless of whether a written contract or purchase order is properly executed, the City is responsible for ensuring that desired goods and services are received at agreed-upon rates and that payments for goods and services are adequately supported by detailed records. Consequently, City personnel are responsible for monitoring purchasing activities to ensure that deliverables are appropriately provided and related payments are adequately supported.

City ordinances¹⁵ require all purchases, contracts, and agreements for work or service be “executed by a properly authenticated purchase order” but also provide that the City Council may authorize expenditures with values of \$20 or less without executing a purchase order. Additionally, City ordinances¹⁶ specify that the City Administrator has the authority to make purchases of \$10,000 or less, as long as the purchases are consistent with the City’s approved annual budget and require City Council approval for purchases above \$10,000. Approved purchase orders serve to document management’s authorization to acquire goods and services, document the specifications and prices of the goods and services ordered, and authorize vendors to provide the goods and services.

As part of our audit, we requested and examined City records supporting 30 payments to vendors for purchases individually exceeding \$10,000, and totaling \$8.3 million, selected from the population of 59 vendors receiving payments totaling \$9 million for the period October 2022 through January 2024. Specifically, we examined City records to determine whether:

- The City Council approved purchases exceeding \$10,000 in accordance with City ordinances.
- Purchase orders were issued in accordance with City ordinances.

¹⁵ Section 30.03, City of Mexico Beach Code of Ordinances, *Purchase Orders*.

¹⁶ Section 30.02, City of Mexico Beach Code of Ordinances, *Purchasing*.

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- City records evidenced satisfactory receipt of goods and services.
- City personnel reviewed invoices for billing accuracy prior to approving payment.
- For purchased services, the City entered into contracts to increase assurance that desired goods and services were received at agreed-upon rates.

City Council Approval of Purchases Exceeding \$10,000. Our examination disclosed 9 selected payments related to 9 purchases totaling \$1 million that lacked evidence of City Council approval, including:

- Four contracts for bridge repairs, yard waste removal, disaster debris removal and disposal services, and professional services, totaling \$729,900. In response to our inquiries, City personnel indicated that they could not locate supporting documentation to evidence City Council approval.
- Four purchases of vehicles and heavy equipment totaling \$266,479 made during the first quarter of the 2022-23 fiscal year and paid to four vendors. According to City personnel, if a purchase is approved as part of the annual budget, the City Council is not required to separately approve the purchase. Notwithstanding, City ordinances require City Council approval of purchases exceeding \$10,000, and our examination of the 2022-23 fiscal year budget disclosed that, although “machinery & equipment” was budgeted for various departments, the budget did not include any detail regarding the specific types of machinery and equipment approved to be purchased.
- A purchase of \$10,950 for fill and topsoil. City personnel indicated that the materials were purchased per the request of property owners, and City records demonstrated that the property owners reimbursed the City.

Notwithstanding City personnel explanations, City ordinances require City Council approval for purchases exceeding \$10,000. Absent documentation of such approval, the risk increases that the City could make purchases contrary to City Council intent.

Purchase Orders. As shown in Table 9, our examination disclosed that, contrary to City ordinances,¹⁷ the City did not issue purchase orders for the purchases of goods and services paid with 18 selected payments totaling \$1.8 million.

¹⁷ Section 30.03, City of Mexico Beach Code of Ordinances, *Purchase Orders*.

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**Table 9
Purchased Goods and Services Without Purchase Orders
During the Period October 2022 Through January 2024**

Purchased Goods and Services	Amount Paid
Canal dredging	\$500,000
Stormwater collection system repairs	450,031
Disaster debris removal and disposal services	250,000
Dredge equipment	200,000
Artificial reef project	120,000
Equipment	54,835
Sunset Park renovations	36,940
Software	26,889
Professional engineering services for pier design, bidding services, and construction	25,562
Professional services	24,760
Disaster recovery administrative services	17,426
15 th Street bridge repairs	14,272
Audit services	10,000
Vehicles	9,984
Pickleball and basketball court enhancements	9,900
Professional floodplain management services	8,904
Accounting services	8,658
Legal services	5,000
Total	<u>\$1,773,161</u>

Source: City records.

Absent properly authenticated purchase orders, the City was not in compliance with its ordinances, and the lack of purchase orders may have contributed to the duplicate payment disclosed in Finding 5. In response to our inquiry, City staff responded that purchase orders are not issued for purchases made as part of a contract. Subsequent to our inquiries, in May 2024, the City Council adopted the *Purchasing and Procurement Policy Manual*,¹⁸ which requires purchase orders for all purchases over \$3,500, unless the procurement of goods or services is governed by a written contract. Notwithstanding, insofar as City ordinances require a purchase order for each purchase exceeding \$20, the *Manual's* purchase order exemption for purchases of \$3,500 or less is not consistent with City ordinances.

Evidence of Goods and Services Received. City policies and procedures¹⁹ require the receiving department, upon receipt of materials, to inspect the shipment and note any variations in quantity on the

¹⁸ Section 6.2.5. *Purchasing Department*, Purchasing and Procurement Policy Manual.

¹⁹ Sections 10, *Inspection, Testing, and Receiving*, and Section 11, *Invoices and Receiving Reports*, Accounting Policies, Procedures and Forms.

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receiving report. Our examination disclosed that payments were not always supported by records evidencing the satisfactory receipt of the goods and services. Specifically, we found:

- A payment of \$250,000 to a vendor for disaster debris removal and disposal services, which was a partial payment of a \$1,254,090 invoice. The contract specified that invoices would be reviewed and approved by the City Administrator's office, indicating that services had been rendered. Although we requested in June 2024, City personnel did not provide records evidencing receipt of the services and instead stated that "the invoice itself was the backup per the contract."
- A payment of \$200,000 in June 2023 to a vendor for services related to fabrication of dredge equipment. In response to our inquiries, City personnel stated that this payment was made according to the contract payment plan and that no goods were received in advance of the payment. Notwithstanding, the contract payment plan was not signed and there was no evidence of verification of the status of the equipment fabrication prior to payment. In September 2024, City personnel provided us with photographic evidence that the equipment exists.
- A payment of \$65,683 to a vendor for construction equipment. An unsigned delivery report was provided; however, insofar as the report was not signed, City records did not evidence that the equipment was actually received. In response to our request, in September 2024, City personnel provided us with photographic evidence that the equipment exists.

Absent evidence that goods and services were received prior to payment, there is an increased risk that the City will pay for unsubstantiated or improper expenditures.

Recommendation: City personnel should:

- **Obtain and document City Council approval for all purchases exceeding \$10,000, as required by City ordinances.**
- **Use purchase orders for purchases of goods and services exceeding \$20, in accordance with City ordinances.**
- **Prior to payment goods and services, document verification that goods or services were satisfactorily received in accordance with contract and purchase order terms.**

Finding 5: Duplicate Payment

Invoice matching, sometimes referred to as purchase order matching, is the process of comparing the details on the invoice and purchase order (and other supporting documents) to verify that the information is consistent and accurate prior to payment. Invoice matching reduces the chances of errors in the payment process by identifying duplicate invoices and vendor overcharges.

During the period October 2022 through January 2024, the City expended \$2.8 million for four construction projects. To evaluate City construction administration processes and controls, we examined City records supporting all City expenditures for the four construction projects during that period.

Our examination disclosed that the City made two identical payments in the amount of \$450,031 to the same vendor for stormwater collection system repairs. The City Administrator approved the contractor's September 25, 2023, invoice for payment on September 26, 2023, and again on November 8, 2023. The

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City did not establish a corresponding purchase order for the contract and, as a result, the City did not have a purchase order to match to the invoice and did not detect that the invoice was already paid. In addition, the City did not have an invoice cancellation procedure to mark invoices as “paid.” City personnel indicated that this duplicate payment was made during management turnover and was an oversight.

Absent a purchase order, as required by City ordinances,²⁰ to match with the invoice and invoice cancellation procedures, there is an increased risk that the City may make an incorrect or duplicate payments. Subsequent to receiving the duplicate payment, the contractor notified the City of the overpayment and on December 13, 2023, refunded the City \$328,964, the amount of the duplicate payment less \$121,067 for retainage.²¹

Recommendation: The City should follow its ordinances by issuing purchase orders for all purchases, contracts, and agreements for work or service and establish policies and procedures requiring invoices be matched to purchase orders and invoices be canceled at the time of payment to prevent incorrect and duplicate payments.

Finding 6: City Accountant Employment Contract

Internal Revenue Service (IRS) regulations require employers to determine whether a worker is an employee or independent contractor for income tax reporting purposes. This distinction is important because employees and independent contractors are treated differently for Federal income tax reporting purposes. For example, compensation to independent contractors is not subject to income tax withholding or payment of employment taxes.

To assist employers in making employee or independent contractor determinations, the IRS has established certain guidelines that contain a list of factors to consider. The factors are listed in three categories:

- Behavioral – Does the employer control or have the right to control what the worker does and how the worker does his or her job?
- Financial – Are the business aspects of the worker’s job (e.g., how the worker is paid, whether expenses are reimbursed, and who provides supplies) controlled by the payer?
- Type of relationship – Are there written contracts or employee benefits?

If after reviewing the factors in these categories, it is still unclear whether a worker is an employee or independent contractor, an employer may file Form SS-8, *Determination of Worker Status for Purposes of Employment Taxes and Income Tax Withholding* (Form SS-8) with the IRS for the determination.

²⁰ Section 30.03, City of Mexico Beach Code of Ordinances *Purchase Orders*.

²¹ The retainage of \$121,067 was the total amount for Phase I and Phase II of the stormwater collection system construction services contract.

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The City hired a City Accountant in October 2020 pursuant to a “seasonal employment agreement” (agreement). The agreement required the City Accountant to perform the functions of City Accountant as specified in City ordinances and the job description. Those functions included, for example, preparing the annual financial report, maintaining the general ledger, and executing employee payroll. The effective date of the agreement was October 13, 2020, and the agreement expired on April 12, 2021, 6 months later. The agreement indicated that the “salary was \$4,000 per month payable in installments at the same time as other employees of the City are paid.” City employees are paid biweekly. The agreement also provided that “the City will withhold taxes from the salary pursuant to its standard rules” and indicated that, as a seasonal employee, the City Accountant was not eligible for any benefits from the City, including sick leave, annual leave, health and life insurance, and retirement plan participation.

Contrary to the agreement, the City did not withhold any employment taxes from the City Accountant’s pay. Also, although the City paid the contracted City Accountant through its payroll system, and the agreement language is indicative of an employment relationship, rather than issuing IRS Form W-2²² to the IRS for the 2022 and 2023 calendar years, the City issued Form 1099-Misc²³ to the City Accountant and the IRS for both years.

In response to our inquiries as to why the City treated the City Accountant as an independent contractor for IRS reporting purposes when the agreement indicated that the City Accountant was a City employee and she was paid through the City payroll system, City personnel indicated that the City Council and City Administrator at that time made that decision. Although we requested, we were not provided records evidencing the basis for classifying the City Accountant as an independent contractor for IRS reporting purposes. Without sufficient information of record to evidence the relevant factors and circumstances considered when classifying workers as employees or independent contractors, there is an increased risk that the City may misclassify employees as independent contractors and be subject to employment taxes and penalties.

In addition, although the agreement specified April 12, 2021, as the expiration date and indicated that a new signed agreement was required if an extension of accounting services was necessary, our examination of City records disclosed that the same individual provided City Accountant services continuously from October 2020 through August 2023. Although we requested in March 2024, City personnel did not provide any agreement signed subsequent to April 12, 2021, or any other records that indicated that the City Council and City Administrator authorized the City Accountant to continue providing accounting services.

²² Form W-2, *Wage and Tax Statement*, is a document an employer sends to each employee and the IRS showing the income earned and amount of taxes withheld from the employee’s paychecks.

²³ Form 1099-MISC, *Miscellaneous Income*, is an IRS form used to report certain types of miscellaneous compensation, including compensation to self-employed individuals and independent contractors.

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We examined City payroll records for payments made to the City Accountant during the period September 2022 through August 2023. As shown in Table 10, our examination disclosed that, during that period, the City Accountant was paid a total of \$45,280 for accounting services provided and received travel reimbursements totaling \$3,351 without a signed agreement with the City.

**Table 10
Payments to City Accountant**

For the Period September 2022 Through August 2023

Pay Period	Payment Type	Amount
09/21/22 - 10/04/22	Accounting Services	\$2,000
10/05/22 - 10/18/22	Accounting Services	2,000
10/19/22 - 11/01/22	Accounting Services	2,000
11/02/22 - 11/15/22	Accounting Services	2,000
11/16/22 - 11/29/22	Accounting Services	2,000
11/16/22 - 11/29/22	Travel Reimbursement	1,815
11/30/22 - 12/13/22	Accounting Services	2,000
12/14/22 - 12/27/22	Accounting Services	2,000
12/28/22 - 01/10/23	Accounting Services	2,000
01/11/23 - 01/24/23	Accounting Services	2,000
01/25/23 - 02/07/23	Accounting Services	2,000
02/08/23 - 02/21/23	Accounting Services	2,000
02/22/23 - 03/07/23	Accounting Services	2,000
03/08/23 - 03/21/23	Accounting Services	2,000
03/22/23 - 04/04/23	Accounting Services	2,000
04/05/23 - 04/18/23	Accounting Services	2,000
04/19/23 - 05/02/23	Accounting Services	2,000
05/03/23 - 05/16/23	Accounting Services	2,000
05/03/23 - 05/16/23	Travel Reimbursement	1,536
05/17/23 - 05/30/23	Accounting Services	2,000
05/31/23 - 06/13/23	Accounting Services	2,000
06/14/23 - 06/27/23	Accounting Services	2,000
06/28/23 - 07/11/23	Accounting Services	2,093
07/12/23 - 07/25/23	Accounting Services	1,612
07/26/23 - 08/08/23	Accounting Services	825
08/09/23 - 08/22/23	Accounting Services	750
Total		<u>\$48,631</u>

Note: The \$2,000 biweekly payments were for 5 hours of accounting services each week and were consistent with the terms in the expired agreement.

Source: City records.

As shown in Table 10, for the biweekly periods ending October 4, 2022, through June 27, 2023, the City paid the City Accountant \$2,000 every two weeks which agreed to the terms in the expired agreement.

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However, the City made four additional payments totaling \$5,280 for accounting services performed subsequent to June 27, 2023. Those payments were for 3.9 hours worked at the rate of \$200 per hour²⁴ (\$780) and 60 hours at a rate of \$75 per hour (\$4,500). The City Administrator approved the July 2023 payments in August 2023 and the City Clerk approved the \$825 August 2023 payment. The City Council approved the \$750 August 2023 payment at the August 2023 regular Council meeting where “a not to exceed one-time payment of \$1,000” for accounting services was authorized. In response to our inquiry as to why a new agreement was not executed, City personnel indicated that the City Council and the City Administrator at that time allowed the City Accountant to continue her services without a new agreement. City personnel also indicated that the former City Administrator negotiated the rate change from \$200 to \$75 per hour prior to leaving the City on June 28, 2023.

In addition to a salary, the City reimbursed the City Accountant \$3,351 for travel costs. We noted that travel reimbursements were not included as part of the compensation package in the expired agreement. According to City personnel, the reimbursements were made pursuant to a verbal agreement between the former City Administrator and the City Accountant.

Absent properly executed contractual agreements and effective contract monitoring controls to ensure payments made are consistent with agreement terms, there is limited assurance that services are obtained consistent with City Council intent and that such services are received at agreed-upon rates.

Recommendation: The City should establish policies and procedures for determining whether workers should be classified as employees or independent contractors and document such determinations. In addition, the City should enhance agreement monitoring controls to ensure that a valid agreement is properly executed prior to payment and that payments are consistent with agreed-upon compensation terms.

Finding 7: Application Security Management

Effective application security management provides a framework for managing risk, developing policies, and monitoring the adequacy of application-related controls. As part of application security management, a comprehensive, documented security design ensures, through the identification of sensitive transactions and separation of duties, that security roles are defined appropriately so that users are not granted excessive or inappropriate access. Access controls are intended to protect data and information technology (IT) resources from unauthorized disclosure, modification, or destruction. Effective access controls include granting employees and contractors access to IT resources based on a demonstrated need to view, change, or delete data and restricting employees and contractors from performing incompatible functions or functions outside of their areas of responsibility. Periodic reviews of access privileges, including those associated with security roles, help ensure that the access privileges remain appropriate and necessary.

²⁴ The \$200 per hour rate was the hourly rate specified in the expired agreement.

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The City uses Springbrook²⁵ to process and report finance and human resources information. User access privileges within Springbrook are controlled by assigning permissions directly to employees or to groups that may be assigned to employees with similar duties. Our review of City records and inquiry of City personnel disclosed that the City's management of Springbrook access privileges need improvement. Specifically, as of August 2024:

- The City had not established policies and procedures for documenting authorization for and granting user access privileges in Springbrook. Our inquiries and review of City records disclosed that access authorizations were not documented for 6 employees who were hired between January 2022 through August 2023, 1 employee who was hired in July 1983 and transferred to a new position in October 2022, and 2 consultants hired in May 2020 and November 2023, respectively. According to City management, user access privileges were granted based on verbal communications.
- The City had not established procedures for, and had not performed, periodic evaluations of Springbrook access privileges assigned to groups and user accounts. Assignment of access privileges to groups allows the City to add and move users within one or more groups and grant the users the ability to update information in Springbrook. Our review of the Springbrook System Wide Access User Permissions Report (Report)²⁶ as of June 2024, disclosed that eight groups had been created for user assignment. However, in subsequent inquiries, City personnel were unable to explain or provide documentation for the process used to create the groups. Consequently, an effective evaluation of the groups to review for appropriate user access privileges could not be performed.
- The Report identified 18 user accounts assigned access privileges within Springbrook. Access privileges for 1 employee and 3 Federal Emergency Management Agency (FEMA) consultants were unnecessary for their assigned job responsibilities and contractual responsibilities, respectively. Specifically, the City Clerk had the ability to update bank information for customer payments received and the utility billing, capital assets, accounts payable, and accounts receivable modules. In addition, the 3 consultants had the ability to update utility billing records. In response to our inquiries, City personnel agreed that the update access for these 4 users was unnecessary.

Without appropriately restricted access privileges there is an increased risk of unauthorized modification, loss, and disclosure of City data and IT resources.

Recommendation: City management should enhance procedures to ensure that users are restricted from performing incompatible functions or functions outside their areas of responsibility. Such enhancements should include establishing procedures for authorizing user access and the performance of periodic evaluations of access privileges granted within

²⁵ Springbrook Software was implemented by the City on October 1, 2008.

²⁶ The Springbrook System Wide Access User Permissions report contained six columns: User Name, Access Level; Group/User Granting Access, System (a total of 13 Modules such as Accounts Payable, Accounts Receivable, Utility Billing, Cash Receipts, Utility Billing, etc.); Process (a total of 64 processes such as Purchase Orders, Timesheets, Invoices, Journal Entries, etc.); and Menu Items (a total of 467 Menu Items such as Edit Adjustments, Edit Employees, Redistribute Credit Balances, Create New Fiscal Year, etc.).

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Springbrook, including the access privileges granted to groups, to verify that the privileges are necessary and appropriate for each user's assigned responsibilities.

Finding 8: Timely Removal of IT Access Privileges

Inactive accounts and accounts for terminated individuals should be promptly disabled or removed when an employee is terminated or, for some other reason, is no longer authorized access to information resources.²⁷ However, we noted that the City had not established policies or procedures for removing user access privileges when no longer needed.

To determine whether the City promptly disabled the users' Springbrook access privileges upon separation from City employment, we examined City records for five users who separated from City employment during the period October 2022 through January 2024. We noted that the City Accountant had two Springbrook accounts²⁸ that were not disabled until 195 and 197 days, respectively, after the City Accountant's August 2023 separation date.

In addition, in June 2024, we examined reports provided by the City listing the log-in dates for all active Springbrook user accounts. Our examination disclosed that:

- Four user accounts had never been used, and City personnel could not determine when these accounts were created. One of the four user accounts was an administrator account created to be used by Springbrook personnel to assist City personnel with software issues. The other three accounts were assigned to a City Council member, an accounting consultant, and the Public Works Director.
- Two user accounts had not been used since 2021. Specifically, one account assigned to the contracted external financial statement auditor had not been used since November 2021, and the other account, assigned to the Code Enforcement Officer, had not been used since December 2021.
- One user account, assigned to a City Administrator who left City employment in April 2014, was still active until the account removal subsequent to our inquiry and approximately 10 years after he separated from City employment.

According to City personnel, the City Accountant was responsible for Springbrook user account access removal. However, when the City Accountant position became vacant in August 2023, the City designated the system administrator responsibilities, including responsibility for removing account access, to the Utility Billing Supervisor. According to City management, because the Utility Billing Supervisor had other full-time responsibilities, access was not consistently removed.

²⁷ Federal Information System Controls Audit Manual (FISCAM).

²⁸ According to City personnel, the City Accountant needed two accounts as one account was used to test her access.

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Absent prompt removal of Springbrook user access privileges when the access privileges are no longer required, there is an increased risk that the access privileges may be misused by current and former employees, elected officials, contractors, or others.

Recommendation: City management should enhance controls to ensure that Springbrook user access privileges are promptly removed when a user separates from employment or when access to Springbrook is no longer required.

Finding 9: Anti-Fraud Policy

Effective policies and procedures for communicating, investigating, and reporting known or suspected fraud are essential to aid in the mitigation, detection, and prevention of fraud. Such policies and procedures educate employees about proper conduct, create an environment that deters dishonesty, and establish controls that provide reasonable assurance of achieving management objectives and detecting dishonest acts. Specifically, anti-fraud policies and procedures identify actions constituting fraud, require individuals to report known or suspected fraud, provide guidance for incident reporting, establish responsibility and guidance for fraud investigation, and specify consequences for fraudulent behavior.

For example, effective incident reporting procedures allow individuals to anonymously report known or suspected fraud and provide an appropriate process for communicating known or suspected management fraud directly to those charged with governance or to an entity's legal counsel. Investigation procedures establish responsibility and the actions for investigating potential incidents of fraud, reporting evidence of such investigations and actions to the appropriate authorities, and protecting the reputation of persons suspected but determined not guilty of fraud.

Our review of City records and inquiries of personnel in September 2024 disclosed that the City had not adopted written policies and procedures for communicating, investigating, and reporting fraud or suspected fraud. Per City personnel, if there were suspected or confirmed acts of fraud, the City would turn that information over to the Bay County Sheriff's Office. However, the City had not trained or provided clear guidance to its employees on how to recognize and report potential acts of fraud.

Absent a comprehensive anti-fraud policy, there is an increased risk that potential acts of fraud may not be recognized, appropriately communicated and investigated, and reported to the appropriate authorities for resolution.

Recommendation: The City should develop and implement anti-fraud policies and procedures to aid in the mitigation, detection, and prevention of fraud.

End of Preliminary and Tentative Audit Findings.