



John A. Carey  
Inspector General

## OFFICE OF INSPECTOR GENERAL PALM BEACH COUNTY

*“Enhancing Public Trust in Government”*

# **Audit Report 2015-A-0002 January 21, 2015**

*“Provide leadership in the promotion of accountability and  
integrity of Government in Palm Beach County”*



**OFFICE OF INSPECTOR GENERAL  
PALM BEACH COUNTY  
CITY OF RIVIERA BEACH  
AUDIT OF CASH DISBURSEMENTS  
AUDIT REPORT: 2015-A-0002**

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*"Enhancing Public Trust in Government"*

**SUMMARY RESULTS AT A GLANCE**

**What We Did**

We audited cash disbursement controls at the City of Riviera Beach (the "City"). Our audit procedures included sampling 194 check transactions totaling over \$9.4 million, Purchasing Card (P-Card) expenditures totaling \$68,639 and Corporate credit card charges totaling \$37,375 during fiscal year ended September 30, 2013 (FY2013). We also reviewed the City's fuel depot which had recorded 16,383 fuel transactions during this same period valued at \$696,204.

**What We Found**

The City's internal controls need improvement in all areas we tested. We identified deficiencies related to contracting, small purchases, use of purchase requisitions and purchase orders, P-Card and credit card programs, segregation of duties, accounting and payment processing controls, and operations at the City's fuel depot.

During the course of our audit, we did find that the City has been proactive in improving internal controls. The City recently hired an internal auditor and a contract administrator and is in the process of purchasing a new automated fuel management system. These actions and others the City is taking will help improve the overall internal control environment.

Our audit identified total questioned costs<sup>1</sup> of \$880,504. Additionally we determined that by taking action on our recommendations, the City can potentially avoid costs of up to \$1,040,084 over the next three years.

The following is a summary of what we found during our audit:

**Contracts**

We identified several areas where contracting activities need improvement. We found payments that exceeded maximum contract amounts; payments made for work performed after contracts expired and payments that were not approved by the City Manager or City Council.

We also found that the City Manager awarded contracts that exceeded her authority. The current City Ordinance, which has not been updated since 1957, limits the City Manager's authority to

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<sup>1</sup> Questioned costs can include costs incurred pursuant to a potential violation of a provision of law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds, and/or a finding that such costs are not supported by adequate documentation, and/or a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable in amount. As such, not all questioned costs are indicative of potential fraud or waste.

\$1,500 before seeking City Council approval.

Questioned costs identified in our review of City contracts totaled \$571,082.

### **Requisitions and Purchase Orders**

We found that City departments are making purchases directly with vendors and by-passing the City's electronic requisition system. Over 40% of purchases we tested did not have approved requisitions or purchase orders.

### **Segregation of Duties**

The City's management position, Director of Purchasing and Information Technology, creates a segregation of duties conflict. The duties and responsibilities of this position create a situation where one individual has sole charge of transactions from beginning to end.

### **P-Card and Credit Card Programs**

We found that key controls, such as review and approval of cardholder's monthly statements, were not adequately performed. From our samples of P-Card and Corporate Card transactions, we identified \$28,819 that we questioned as having a valid public or business purpose. This included \$15,208 in monthly rental car payments by a department head who was assigned a City vehicle. We referred this matter to our Office of Investigations.

### **Store Credit Cards**

The City does not have written policies and procedures on the use and control of store credit cards. In addition, we found

13 store credit cards in the name of employees that were no longer employed by the City.

### **Finance Department Payment Processing**

We found that recurring expenses, such as utility bills, were not being adequately monitored by the Finance Department. We also found that monthly bank reconciliations were not being properly performed.

### **Fuel Program**

We reviewed controls over the City's fuel program including operation of the fuel depot. Our analysis of fuel transactions for FY2013 identified questionable fuel transactions totaling 53,983 gallons costing \$196,718. The absence of written policies and procedures, poor fueling practices and insufficient transaction monitoring all contributed to a weak control environment.

### **What We Recommend**

Our report contains 15 findings and 38 recommendations to assist the City in improving controls over expenditures and ensuring assets are adequately safeguarded. The City concurred with 12 findings and agreed to take corrective action on 32 recommendations. The City did not concur with 3 findings and 6 recommendations. We have included the City's response as Attachment 1.

**BACKGROUND**

The City of Riviera Beach is located in Palm Beach County. Its eastern boundary lies along the shores of the Atlantic Ocean and is the easternmost municipality in the South Florida metropolitan area. The City is a municipal corporation organized under Florida Statutes. The City operates under the Council-Mayor-Manager form of government. The City Council is responsible for legislative and fiscal control of the City. The City expenses for the fiscal year ended September 30, 2013 were \$82.4 million.

Our audit identified total questioned costs of \$880,504 related to these deficiencies. It is important to point out that not all questioned costs are indicative of fraud or waste. Questioned costs can include costs incurred that violate a law, regulation or terms of a contract and/or lack adequate supporting documentation. In this audit we identified significant payments related to contracts that lacked adequate documentation of review and approval of the work performed. We also identified contracts awarded by the City Manager that exceeded her authority in violation of the City Ordinance. Questioned costs represent funds that are at greater risk for fraud or waste. It is important that control weaknesses identified in this report that resulted in questioned costs are corrected to adequately safeguard the City's funds from potential fraud, waste or abuse.

**OBJECTIVES, SCOPE, AND METHODOLOGY**

The objectives of the audit were to determine whether:

1. Internal controls were in place to adequately safeguard cash disbursements made by City check, credit card, wire transfer and petty cash.
2. Determine whether cash disbursements complied with such controls, including whether expenditures have a clear public or business purpose.

Cash disbursement transactions selected for review occurred between October 1, 2012 and September 30, 2013. The total value of our sampled checks was \$9,414,912 and included 194 transactions. In addition, we sampled \$68,639 in P-Card expenditures and \$37,375 in "Corporate" credit card charges. We also reviewed fuel transactions which during our audit period totaled 16,383 fuel transactions valued at \$696,204. Our audit procedures included but were not limited to:

- Evaluating the internal control procedures over monitoring and approving cash disbursements;
- Interviewing City personnel in order to gain an understanding of the controls and ascertain operational compliance;
- Evaluating compliance with applicable policies and procedures;
- Selecting various samples of cash disbursements, P-Card expenditures and credit card charges from City records; and
- Reviewing any available supporting documentation, and in some cases pursuing relevant documentation from third parties.

Payroll was excluded from our scope.

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

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

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During our review of check disbursements we selected contract payments totaling \$7,413,610 made on 35 City contracts. For 11 of these 35 contracts (31%) we identified the following deficiencies in the City's contracting practices:

- Payments were made on contracts without proper City Council or City Manager approval and contracts were not competitively procured.
- The City Manager approved contracts that exceeded her authority (\$1,500) under Section 2-176(a) of the City Code of Ordinances. This section of the City Ordinance has not been updated since 1957.
- The Director of Purchasing awarded a sole source contract that did not meet the criteria in the City's Ordinance.
- The City Manager executed an emergency procurement that did not meet the criteria in the City Ordinance.
- The Finance Department made payments on invoices which had no evidence of review or payment approval.
- Payments were made that were in excess of maximum contract amounts.
- Multiple consulting contracts were issued to one vendor with numerous deficiencies such as; payments exceeding the maximum contract amount; payments made without a contract; contracts not approved by City Council; and contracts not competitively procured.

Payments made related to these contract deficiencies totaled **\$571,082** and have been included as questioned costs in this report. The following discussion summarizes the contracts we identified with one or more of these deficiencies.

**Contract Payments Without City Council or City Manager Approval**

A competitive contract was awarded in the amount of \$858,795, for materials and supplies related to the City Marina project. The City Council authorized the contract by resolution for an amount not to exceed \$945,000. This Included \$86,205 for change orders which the City Manager was authorized to approve. Three change orders totaling \$93,267 were submitted and paid on this contract. However, they were not approved by the City Manager as required; therefore we have included the **\$93,267** as questioned costs. The three change orders also resulted in total payments that exceeded the maximum contract amount by \$7,062. This excess amount should have been authorized by the City Council.



**Contracts Exceeding City Manager Authority and Payments Exceeding Contract Amounts**

- An independent contractor was hired by the City under a Personal Services Agreement to perform accounting, financial functions and other special projects from October 22, 2012 to April 30, 2013. The contract was authorized by the City Manager for an amount not to exceed \$15,000. This exceeds the City Manager's authority of \$1,500 currently authorized in the City's Code of Ordinance Sec.2-176(a). This Section states in part, **"No contract in excess of \$1,500.00...shall be let except by City Council."** When we discussed this with the Purchasing Director, he stated that the City Manager's authority is \$25,000 and is implied by the City's purchasing guidelines. However, the City Ordinance is the governing document; therefore contracts approved by the City Manager in excess of \$1,500 are in violation of the City Ordinance. The need to address this is discussed further on page 10 of this report.

The vendor history shows total payments to this contractor of \$17,033 through the contract expiration date of April 30, 2013. This exceeded the maximum contract amount by \$2,033. In addition, the City continued to pay this contractor an additional \$20,954 for services rendered **after the contract expired** without benefit of an amendment or contract extension. We also noted that three written quotes were not obtained for this personal services contract, as required by the City's Procurement Code for purchases between \$2,500 and \$25,000. The total amount paid on this contract was **\$37,987** and is included as questioned costs.

- In July, 2011 the City solicited bids for washing and detailing the City's Police Vehicles. Only one vendor responded and the professional services contract was awarded to that vendor for an amount not to exceed \$9,999. The City subsequently entered into two new one year contracts, each for an amount not to exceed \$25,000 without a competitive procurement. The three contracts together covered a period from November 7, 2011 through April 14, 2014. All three contracts were awarded by the City Manager, thus exceeding her authority which is limited to \$1,500. Additionally, in reviewing total payments made under each of the three contracts, we identified payments totaling \$11,515 that were in excess of contract maximum amounts.

Lastly, as previously mentioned, only one vendor responded when the first contract was competitively solicited in July 2011. Considering this and the fact that two new one year contracts were awarded, each for an amount not to exceed \$25,000 (more than double the amount of the initial contract) the City may have benefited from a competitive procurement for those two additional contracts.

Due to three contracts being awarded in excess of the City Manager's authority and the lack of competitive procurement, we have included the total amount of all three contracts, **\$71,515** as questioned costs.

- The City entered into two separate non competitive contracts six weeks apart, each for an amount not to exceed \$25,000. The first contract was for website design, development and content management. The second contract was for software installation and maintenance. Both of these contracts were awarded by the City Manager without City Council approval. The City Manager exceeded her authority of \$1,500. In addition, a minimum of three written quotes were not obtained for purchases between \$2,500 and \$25,000 as required by the City's Procurement Code. We have included the total of **\$42,501** paid under these two contracts as questioned costs.
- On May 4, 2011, the City entered into an agreement with a vendor to provide Citywide Heating, Ventilation, and Air Conditioning (HVAC) Services. The contract was for two years with an option to renew for three additional one year periods. The City Council authorized the contract through Resolution No. 56-11 for an amount not to exceed \$50,000 annually. During the first year, the contractor was paid \$53,354 which exceeded the maximum contract amount by \$3,354. During the second year, the contractor was paid \$79,837 of which \$29,837 exceeded the contract maximum of \$50,000. For the two contract years, a total of **\$33,191** was paid to the contractor in excess of the contract amount, which we are including as questioned costs.

In addition, for most transactions related to this contract, invoices were forwarded to the Finance Department without proper review or approval. Finance processed these invoices and paid the vendor. We did not find evidence that the respective department heads or their staff were involved in actively monitoring the contract and reviewing the invoices to verify work performed prior to payment.

#### **Sole Source Contract Award Not In Compliance with City Ordinance**

A network computer agreement for \$42,351 was designated by the Purchasing Director as a sole source procurement. The City's Procurement Code, Section 16.5-65, states that a sole source contract may be awarded when the Purchasing Director documents in writing that there is only one source for the service after conducting a review of available sources. There is no documentation that a review of available sources was performed. When we inquired as to the justification for sole source, the Purchasing Director responded that the vendor has an understanding of the City's network cabling and phone system. This does not meet the City's requirements for a sole source procurement. We have included the **\$42,351** paid under this contract as questioned costs.

#### **Emergency Procurement Not In Compliance With City Ordinance**

We identified a transaction totaling \$6,500 for the purchase of appraisal services for City marina property. The purchase order had special instructions noting that the purchase was at the request of the City Manager and was an emergency procurement. The City's Procurement Code Section 16.5-66 Emergency Procurements, authorizes the City Manager to make emergency procurements, "when there exists a threat to public health, welfare or safety." However, when we requested documentation supporting the



emergency, the Deputy City Manager stated that it was not an emergency procurement. If this was not in fact an emergency procurement, then the City Council should have approved the purchase because it exceeded the City Manager's \$1,500 contracting authority. Also, as a small purchase requiring a competitive procurement under Section 16.5-64 of the City's Procurement Code, the City would have been required to obtain no less than three quotes. We have included the **\$6,500** as questioned costs.

### **Inadequate Review or Approval on Contract Payments**

- A contract payment of \$61,966 was made on a contract related to the Marina Construction Project. The payment was for work performed pursuant to a change order for the installation of a paver walkway as part of the existing marina contract. A change order is a written order agreed to by the contractor and owner that changes the scope of work in the original contract. It is not a document to request payment or an invoice for services rendered. The change order form was accepted as an invoice by the Department Head in charge of the contract and forwarded to the Finance Department for payment. No invoice was submitted by the contractor and no appropriate construction documentation exists to validate the review and acceptance of the work performed. The Finance Department paid the amount on the change order request as if it was a construction invoice. We have included the **\$61,966** as questioned costs.
- A contract payment of \$110,679 was made to a marina construction contractor on April 4, 2013. The payment was for two separate payment application requests for retainage on two interim phases of the overall Marina Construction Project. Retainage is a sum of money withheld from the total contract price as a reserve until the construction project is complete. One of the two contractor's applications for payment of \$55,340 (approximately one half of the total amount of the April 4th payment) was submitted to the Finance Department. This unsigned application did not show any evidence of having been adequately reviewed or approved by City staff and was not certified by the construction contractor or the project engineer. We also noted that the retainage was not properly paid. Retainage amounts of \$110,679 were paid in April 2013 and the certificate of completion for that phase of the marina construction was not issued until July 3, 2014. Retainage should not be paid until the certificate of completion is issued; otherwise the City loses leverage with the contractor if a deficiency in the work subsequently appears. The payment of **\$55,340** which had no approval to pay documentation is included as questioned costs.
- An invoice for architectural design services was submitted for payment to the Finance Department without being reviewed and approved for payment. The invoice did not have an approval signature or any indication that the invoice had been reviewed for services rendered. The Finance Department paid the company \$46,984 based on the invoice submitted. In addition, the purchase order was not signed by the Purchasing Director. We are questioning the payment amount of **\$46,984** for lack of documentation authorizing payment.

**Consulting Contracts with Multiple Deficiencies**

Since October 2011, a consulting group has been awarded multiple contracts and payments to work on projects associated with the renovation and reconstruction of the marina. Contracts awarded and payments made to this consulting group that we reviewed during our audit identified the following deficiencies:

- Payments were made to the consulting group without a contract.
- Contracts were awarded that were not approved by the City Council.
- Two contracts were executed by the City Manager that exceeded her authority.
- Services provided under multiple contracts were not competitively procured.

The City entered into a contract with the consulting group on August 1, 2012 for an amount not to exceed \$25,000. The contract provided for seven monthly payments of \$3,571. The contract was for ongoing services related to accounting for grant expenditures and reimbursements as well as tracking of matching funds. On November 30, 2012 the City made a payment of \$12,285 to this consulting group. We were originally told that this payment was part of the August 1, 2012 contract. However, upon further review we determined that this payment was not part of that contract. All seven monthly payments of \$3,571 had been made on the August 1, 2012 contract. The \$12,285 payment was for development of a financial projection model to examine the marina's financial operations. It was not supported by any contract and there were no competitive quotes obtained. We have included this **\$12,285** payment as questioned costs.

After the August 1, 2012 contract expired on December 31, 2012 and all payments had been made, the Marina Director entered into a Memorandum of Understanding, ("MOU") with the consulting group on January 31, 2013, for an amount not to exceed \$15,000. The Marina Director had no authority to enter into this contract. However, the City paid the consulting group under this "MOU contract" and continued to pay the consulting group after the \$15,000 MOU limit was reached, all without City Council authorization. The total amount paid from February 15, 2013 through August 9, 2013 without a valid contract and without City Council authorization was **\$35,720** and has been included as questioned costs.

In August 2013, the City entered into another contract (authorized by City Council) with this same consulting group to provide services through July 31, 2014 for a fixed fee of \$5,000/month up to a maximum of \$60,000. During this time, under a separate contract executed by the Deputy City Manager, the City made a payment to the consulting group in the amount of **\$6,475** for a report entitled, "Third-Party Management Company Marina Operations Management Analysis." The Deputy City Manager did not have authority to enter into this contract, the contract was not brought to the City Council for authorization and no competitive quotes were obtained. Therefore, we have included this amount as questioned costs.

Lastly, on August 1, 2014, another contract was executed with this consulting group by the City Manager for an amount not to exceed \$25,000. The City Manager exceeded

her authority by entering into this contract for an amount in excess of \$1,500 and we have included the **\$25,000** as questioned costs.

Altogether, for the period August 1, 2012 through August 1, 2014, contracts were awarded and/or payments were made to this consulting group totaling \$165,020. None of the services associated with this amount were competitively procured. In some instances payments were made without a contract, or for services rendered after contracts had expired. Contracts were executed by City staff without proper authority or by the City Manager for amounts that exceeded her authority and contracts were awarded and/or payments made without City Council authorization.

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

Additionally, as previously mentioned, the City Code of Ordinances Sec. 2-176-Powers and Duties, limits the City Manager's authority to enter into contracts to \$1,500 before requiring approval of the City Council. Specifically that section of the Ordinance states in part, **"No contract in excess of \$1,500.00 and no contract for new construction shall be let except by City Council."** That section of the Ordinance has not been updated since 1957. The City Manager has regularly been awarding contracts without City Council approval for amounts up to \$25,000. When we discussed this with the Purchasing Director, he stated that the City Manager's authority is \$25,000 and is implied by the City's Purchasing guidelines. However, the City Ordinance is the governing document for the City. A significant number of contracts are issued regularly by the City in amounts exceeding \$1,500. Requiring approval by the City Council for all contracts exceeding \$1,500 may not be practical. If the intent of the City Council is to delegate a higher level of contracting authority to the City Manager, they need to amend the City Ordinance in order to give the City Manager authority to legally execute contracts above \$1,500.

Lastly, in reviewing the City Code of Ordinances we also observed that it contains the following clause in Sec. 16.5-63 *Contracting for designated professional services*.

*"(d) Contracts for other services. Notwithstanding the foregoing, the City Council may authorize the procurement of other services, **such as social services**, by negotiating with organizations selected or recommended by the City Manager or designee on the basis of experience and skill."*

While the clause uses the phrase, "such as social services", it is ambiguous and can be subject to interpretation, including the non-competitive procurement of any professional services based on the recommendation of the City Manager or designee. Such non-competitive procurements may not ensure that the City is getting the best value and are

contrary to a basic tenet of public policy in Florida. Section §287.001, Florida Statutes includes the following language:

*"Legislative Intent- The Legislature recognizes that fair and open competition is a basic tenet of public procurement; that such competition reduces the appearance and opportunity for favoritism and inspires public confidence that contracts are awarded equitably and economically; and that documentation of the acts taken and effective monitoring mechanisms are important means of curbing any improprieties and establishing public confidence in the process by which commodities and contractual services are procured."*

### **Recommendations:**

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- (1) The City should establish policies and procedures for contract monitoring and contract administration that provide guidance on contract activities; such as monitoring of progress, and inspection and acceptance of work performed prior to payments.**
- (2) The City should establish a position under the Director of Purchasing to oversee all contracting activities. Centralized contract management would aid the City in improving its management oversight of City contracts. Also, an effective monitoring process would help prevent payments in excess of the maximum contract amounts or payments made for services rendered after contracts have expired.**
- (3) The Finance Department should review invoices and payment requests for proper review and approval by the originating department. The originating department should document their review and approval process with a signature. In the absence of this documentation the Finance Department should not process the invoice for payment.**
- (4) City staff should become knowledgeable as to the scope of work in City contracts, contract deliverables and types of services allowable under established contracts. This would help ensure that payments are not made for goods or services that are outside the scope of the contract.**
- (5) The City Manager should work with the City Council to determine what level of contracting authority should be delegated to the City Manager. If the Council votes to delegate a higher level of authority to the City Manager than the \$1,500 currently established, the City Ordinance should be amended accordingly.**
- (6) The City Council should reassess Sec. 16.5-63 of the City's Procurement Code to ensure that it encourages the use of competitive procurement whenever possible.**

**Management Response:**

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The City concurs with Finding (1) and will take the following actions to address recommendations (1) through (6):

- (1) The City has hired a Contract Administrator. The primary task of this position will be the monitoring and administration of all contracts. This individual has been tasked with writing policies and procedures regarding contracting activities. In addition the Contract Administrator will conduct in house training to ensure compliance with the Procurement Policies and Procedures.
- (2) The City previously identified the need for a Contract Administrator. Funding was included in the current budget and the position has been filled effective December 1 2014.
- (3) The Finance Department staff reviews every invoice presented for payment. Staff has been retrained in which sign-offs are essential to obtain prior to issuing a payment.
- (4) The reporting and contract monitoring provided by the newly hired Contract Administrator will provide staff with a referencing tool in order to review contracts for payment. A contract administrator sign-off has been added to the required approvals.
- (5) The City holds the position that section 2-176(a) of the Code of Ordinances has been superseded by the Procurement Code. However, the City will make the appropriate modifications to the Code to provide clarity for the future.
- (6) The City has adopted the American Bar Association Model Procurement Code. The City does not believe that changes need to be made to the Procurement Code regarding the use of competitive procurement.

**OIG Comment**

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**Recommendation (5)** In the City Manager's cover letter as well as in the specific response to this recommendation, the City maintains that Section 2-176(a) of the Code of Ordinances, which limits the City Manager's contracting authority to \$1,500, has been superseded by the City's Procurement Code, Ordinance 4010 adopted in 2012. This is based on a provision in Ordinance 4010 which states that any existing ordinance or resolution in conflict with its provisions is repealed with respect to the conflict. Notwithstanding this the City did agree to make appropriate modifications to the Code.

While we welcome the City's agreement to appropriately modify its Code to resolve this concern, the City's legal analysis is incorrect. That is because, with limited exception, there is no conflict between the City's Procurement Code,



Ordinance 4010, and Section 2-176(a) of the Code. The City's Procurement Code does not establish a general dollar level for the City Manager's contracting/purchasing authority. Therefore, there is no conflict between those provisions and the provision elsewhere in the Code which clearly and specifically limits the City Manager's authority to no more than \$1,500. Our position remains that any contracts awarded by the City Manager in excess of \$1,500 discussed in this report, are in violation of the City Ordinance.

**Recommendation (6)** In its response to this recommendation, the City states that it has adopted the American Bar Association Model Procurement Code and does not believe that changes are needed regarding competitive procurement. While we agree that the City's Procurement Code is comprehensive and overall it provides good guidance on competitive procurement, our recommendation was directed specifically at Section 16.5-63 *Contracting for designated professional services*. This section generally requires a competitive procurement process for designated professional services consistent with competitive procurement requirements in other sections of the Code. However, for legal services (paragraph (d)) and medical services (paragraph (c)) this section allows for direct negotiation with lawyers and doctors for services without a competitive procurement. This is followed however, by paragraph (d) *Contracts for other services* which as written, can be interpreted to allow for direct non-competitive negotiations for any other professional services. If the intent of Section 16.5-63 was to exempt only two specific professional services from competitive procurement, paragraph (d) may negate that intent. We reiterate that the City could benefit from a review of this section of the Procurement Code to encourage competitive procurement for most other professional services.

### **Purchasing Policies, Procedures and Controls**

#### **Finding (2): THE CITY IS NOT CONSISTENTLY OBTAINING QUOTES ON PURCHASES UNDER \$25,000 AS REQUIRED BY CITY ORDINANCE**

The City's current Procurement Code was adopted through Ordinance No. 4010 on January 18, 2012. It establishes the requirements to solicit quotes on purchases between \$2,500 and \$25,000. Specifically, Section 3-104(2) addresses small purchases over \$2,500 as follows:

*"Insofar as it is practical for small purchases in excess of \$2,500, no less than three businesses shall be solicited to submit quotations. The process of soliciting quotation requires the requesting department to submit to the Director of Purchasing a requisition with a sufficient description of the services or goods required, and the Purchasing Department shall obtain the necessary quotes. Awards shall be made to the business offering the lowest acceptable quotation."*



From our sample of check transactions we identified 14 small purchases between \$2,500 and \$25,000 that were not made through formal written contracts. We found that for 5 out of the 14 purchases (36%) totaling \$40,212, the City did not obtain the required three competitive quotes. Also, only one of the five purchases had documentation indicating that a price had been obtained from the vendor prior to making the purchase.

We also identified three purchases outside our sample, for which the City did not obtain the three required quotes. The purchases, totaling \$13,062 were for new air conditioning units from a vendor who had an existing City contract for HVAC maintenance and repairs. The City should have made these purchases by obtaining three written quotes, as is required under the Procurement Code for purchases over \$2,500.

While the Procurement Code states that the Purchasing Department shall obtain the necessary quotes, the Senior Procurement Specialist Desk Manual (2011), states that the departments may submit the quotes. Likewise, the City's Requisition Procedure Manual (rev. 4/2013) states that departments may secure and submit written quotes or recommend vendors. Delegating this responsibility to the individual City departments does not comply with the City's Procurement Code and the Purchasing Department is not effectively monitoring this activity to ensure that City departments comply.

Also, City departments, when making a purchase, did not always submit a purchase requisition to the Purchasing Department as required in the City's Procurement Code and its Requisition Procedure Manual. City departments were making purchases directly with vendors, thus by-passing the Purchasing Department. The Purchasing Department did not make the ultimate purchase decision nor could they review proposed purchases to determine if quotes were obtained and were reasonable to ensure the best possible price.

In total, we identified eight purchases that did not have the required three quotes prior to purchase, resulting in total questioned costs of **\$53,274**.

#### **Recommendations:**

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- (7) The City Manager should ensure compliance with the City's Procurement Code that requires obtaining competitive quotes on small purchases between \$2,500 and \$25,000.**
- (8) The Director of Purchasing should initiate a review of all current City purchasing guidelines to ensure that guidance that conflicts with the City Procurement Code is identified and corrected.**

**Management Response:**

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The City concurs with finding (2) and will take the following actions to address recommendations (7) and (8).

(7) The City is committed to, and has already begun the retraining of staff related to the specifics of the Procurement Code. All purchases for goods and services will go through the Procurement office.

(8) With the adoption of the new Procurement Code, discrepancies exist with the policies and procedures manual. A review and rewrite has been initiated.

**Finding (3): THE CITY DEPARTMENTS ARE MAKING PURCHASES THAT BY-PASS THE ELECTRONIC REQUISITION SYSTEM**

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Of the 194 check transactions we selected for review, 116 were for payments on purchases that were required to be submitted through the City's Electronic Requisition System ("requisition system"). Of those 116 transactions, we found that 48 purchases (41%) were made by City departments directly with vendors who then sent invoices to the departments for payment. Since no requisition/purchase order was entered in the requisition system, departments used manual check requests to submit requests for vendor payments.

This method of purchasing is due in part to conflicting guidance related to the use of the check request. The City's Senior Procurement Specialist Desk Manual (2011), ("Desk Manual") states, *"any order above \$999 requires a Purchase Order prior to purchasing, failure to do so is an unauthorized purchase. The requisition is returned to the department and the department is instructed to process via a check request."* Similarly, the Requisition Procedure Manual (rev. 4/2013) states, *"if requisitions are received indicating the order was placed before the requisition was generated, the requisition and invoice will be returned as an unauthorized purchase to be processed via check request."* While both manuals state that these are "unauthorized purchases," the manuals appear to condone such purchases by further stating that they are, ... "to be processed via check request."

As a result, it has become a routine practice for Departments to make purchases that by-pass the requisition system resulting in no purchase order being created and approved and payments being made via check requests. The departments indicated that they were by-passing the requisition system to shorten the time it takes for purchase and delivery of goods.

Allowing City staff to by-pass the requisition system weakens the internal controls over purchasing and increases the opportunity for fraud, waste or abuse. Also, the requisition system reserves budgeted amounts and ensures that funds are available to make the purchase.

**Recommendations:**

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- (9) The City Manager should direct City staff to utilize the requisition system to procure goods and services.**
- (10) The Purchasing Director should review the City's procedural manuals that provide guidance on use of the requisition system and clarify guidance that requires staff to submit requisitions for all purchases.**

**Management Response:**

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**The City concurs with Finding (3) and will take the following actions to address recommendations (9) and (10).**

- (9) The revision of the policies and procedures manual will state the required use of requisitions. The City Manager has stressed this requirement in Department Staff meetings. The City Manager will continue to ensure enforcement of this requirement through a follow-up memorandum and reiterate the requirement in future Department Staff meetings as is deemed necessary.**
- (10) The policies and procedures manual will provide guidance in the use of requisitions.**

**Finding (4): WE IDENTIFIED SEVERAL PROCEDURAL DEFICIENCIES IN PROCESSING PAYMENTS FOR PURCHASES**

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Out of the 194 transactions selected, we identified 18 transactions where payments were made without the correct documentation required to validate the purchase.

- We identified eight payments totaling \$622,742 where purchase orders were not signed showing authorization by the Purchasing Director or where check requests were not approved by the department head.
- We identified eight payments totaling \$232,568 where the purchase order or check request did not match the invoice. For seven of the eight payments the dollar amounts did not match. For the remaining payment, the description of the item purchased did not match the invoice.
- We identified two payments involving travel, one where there were no receipts attached for \$3,659 in reimbursed travel expenses and one where the travel authorization did not have the proper department approval.

The Purchasing Director should approve all purchase orders as evidence of proper authorization. Check requests should be approved by the department head as

evidence of proper authorization for payment. All documents submitted in support of purchases should match invoices submitted by the vendor to ensure proper billing. Requests for travel reimbursements should have evidence of supervisory approval and supporting receipts. In the absence of any of these requirements, payments should not be processed by the Finance Department. We have included the **\$3,659** in travel expenditures with no supporting receipts as questioned costs.

#### **Recommendations:**

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- (11) The City Manager should ensure that purchase orders, check requests and travel requests are not processed for payment without the proper approval and adequate documentation to support the payment.**
- (12) City departments need to ensure that all purchasing documents, such as purchase orders and check requests, have descriptions and amounts that match the invoice being submitted for payment.**

#### **Management Response:**

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**The City concurs with Finding (4) and will take the following actions to address recommendations (11) and (12).**

- (11) As stated in recommendation (3), the Finance Staff reviews all invoices. Staff has been retrained in which sign-offs are required prior to issuing a payment.**
- (12) The revised policies and procurement manual will contain a statement that all purchasing documents have descriptions and amounts that match the invoice submitted for payment.**

#### **Finding (5): THE CITY'S MANAGEMENT POSITION, DIRECTOR OF PURCHASING AND INFORMATION TECHNOLOGY CREATES A SEGREGATION OF DUTIES RISK**

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Sound internal control principles suggest that the key purchasing functions of requisitioning, purchasing, and receiving goods and services be properly segregated. In the City of Riviera Beach, the Purchasing Director is also the Director of Information Technology (IT). This results in the same individual having authority over all three functions.

As Director of IT, this individual is responsible for determining what type and amount of IT hardware, software and services are needed and as Purchasing Director can determine how and from whom such items are purchased. As Director of IT, this same individual also has authority over the receipt of IT goods and services. This significantly weakens internal controls over purchasing of computer equipment and services. There

should be an appropriate division of responsibilities and segregation of duties to reduce the opportunity for fraud and manipulation.

In our various samples of transactions selected during this audit, we identified several transactions that are illustrative of the risks associated with one individual assigned as both the Director of Purchasing and Information Technology. For example, in our sample of P-Card and Corporate Card transactions, we selected 20 purchases of computer equipment totaling \$20,736 that were made by the Director of Purchasing/IT. On 7 of those purchases totaling \$13,557, the Director exceeded his single purchase credit card limit of \$1,000. As part of his authorities as Director of Purchasing he can approve increases to cardholder spending limits. For those 7 purchases of computer equipment, which he made as Director of IT, he increased his own single purchase credit limit under his authority as Director of Purchasing.

In another IT purchase, which we discussed previously in Finding (1), the Director of Purchasing/IT purchased \$42,351 in network computer services through a sole source procurement which did not meet the requirements for sole source procurement as established in the City's Procurement Code. In addition, no formal contract was executed. We included this as a questioned cost under Finding (1).

We also identified 40 cell phones and nineteen 19 iPads assigned to City staff without a clear demonstrated need, which represents potential wasteful spending. The purchase and assignment of the cell phones and iPads are the responsibility of the Director Purchasing/IT.

The City has a Cellular Phone and Pager Policy (2/1/2005) administered by the Purchasing Department. The policy states that cell phones are to be automatically issued to elected officials, City management, and department heads. Cell phones can be issued to City staff with a demonstrated need, however only after City Manager approval of the cell phone request form. We reviewed the City's cell phone list provided by the Purchasing Department. Of the 200 cell phones listed, 174 were required to have the approved request form. However, only 25 (14%) had an approved request form. The 40 cell phones we identified as potential wasteful spending were assigned to City staff with administrative in-office duties with land line phones installed at their desks.

With regard to the iPads, the City's IT Department is responsible for the purchase and issuance of iPads to City staff. However, unlike cell phones, there is no request form or requirement for City Manager approval for assigning iPads. As we did with cell phones, we reviewed a list of iPads assigned to City employees. Of the 73 employees issued iPads, we identified 19 employees with administrative in-office duties and desktop computers who did not have a demonstrated need for an iPad. Eleven of the 19 employees were issued iPads that had data plans for which the City was paying a monthly service charge.

We further selected three high volume users of City owned iPads who also had a high usage outside of normal work hours. We inquired how they were using the iPad in their City related work. While one individual indicated some usage as personal, another individual indicated usage for City related research. For this individual, the bills showed midnight and early morning usage. The last individual did not respond to our inquiry. The estimated service cost for the 40 cell phones and 19 iPads is **\$20,444** annually and we have included this amount as questioned costs.

### **Recommendations:**

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- (13) The City Manager should separate the duties of managing the City's information technology operations and the City's purchasing operations. If this is not practical, additional mitigating controls need to be put into place such as additional levels of review and approval for IT purchasing.**
- (14) The appropriate City department should develop a current list of cell phones and iPads identified by serial number, service number if applicable, and name of staff assigned to the equipment.**
- (15) Approved cellular phone request forms demonstrating need should be on file for all City staff in accordance with the City policy. A formal request and approval form should be established for iPads.**

### **Management Response:**

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**The City concurs with Finding (5) and will take the following actions to address recommendations (13) through (15).**

- (13) On October 1, 2014, the City created two positions from the previous position, Director of Purchasing and Information Technology.**
- (14) An updated listing of cell phones and iPads was developed as a result of a change in telecommunication providers in May 2014.**
- (15) The City has revisited Phone and iPad authorizations. A complete file of the authorizations is maintained by both the Purchasing office and the City Administrator.**



## **Procurement and Credit Card Programs**

The City established a Procurement Card Program effective December 1, 2005 to improve efficiency in processing purchases for materials, supplies and other items needed for City operations. The Procurement Card ("P-Card") Program has 33 cardholders. For the period October 1, 2012 to September 30, 2013, P-Card purchases totaled \$228,418.

Guidelines for the use of P-Cards are established in the City's Procurement Card Manual. The City requires P-Card holders to sign the City's Procurement Card Agreement acknowledging that they have received and read the P-Card policy and agree to comply. Dollar limits are established for each cardholder. The single purchase limit is set at \$1,000 and the monthly limit is set at \$2,500. Requests for spending limit changes must be initiated by the Department Head and approved by the Director of Purchasing.

A key control within the P-Card program is the review and reconciliation of each cardholder's monthly billing statements. Signed receipts are to be attached to each cardholder's Monthly Reconciliation Report ("monthly report") which must be approved and signed by the department head and forwarded to the Finance Department before the 25<sup>th</sup> of each month. Both the cardholders and the department head should ensure that no sales tax is paid on items purchased. The City also has a "Corporate" credit card program which operates as a commercial credit card for executive management and the City Council. There are 9 Corporate cardholders. For the period October 1, 2012 to September 30, 2013, Corporate Card purchases totaled \$57,309.

The City Purchasing Department manages the Corporate Card in the same manner as the P-Card and uses the P-Card Manual as the guide. The P-Card Manual, Section C—Public Official Duties and Responsibilities, outlines the requirements for submission of credit card receipts and P-Card monthly reports.

### **Finding (6) POLICIES AND PROCEDURES ESTABLISHED FOR CONTROL OVER P-CARDS AND CORPORATE CARDS ARE NOT BEING FOLLOWED.**

Although the City has adequate guidelines in place to control and govern the P-Card and Corporate Card programs, we found that these guidelines were not being consistently followed, including the key controls of review and reconciliation of monthly cardholder statements and submission of supporting receipts. Taken together these deficiencies significantly weaken the internal controls designed to adequately safeguard the expenditures of funds through the use of P-Cards and Corporate Cards. We identified the following areas where controls were not working as intended.

#### **Inadequate Review and Reconciliation of Monthly Cardholder Statements**

We found that review and reconciliation of monthly cardholder statements were not always being performed or performed timely for both P-Cards and Corporate Cards. In our sample of 96 P-Card transactions, we requested 69 monthly reports related to those

transactions. We found that 18 of the 69 monthly reports (26%) were not submitted timely (by the 25<sup>th</sup> of the month) to the Finance Department. Monthly reports were submitted anywhere from one to eleven months late. Two out of 69 monthly reports were never submitted. Another 6 monthly reports were not dated and we could not determine if they were submitted timely.

Likewise, for our sample of 110 Corporate Card transactions, we found that 12 of 60 monthly reports (20%) were submitted anywhere from two to eight months late. Nine of 60 were never submitted. We also found that 13 monthly reports were not dated and therefore we could not determine if they were submitted timely. The procedure and timeline established in the Procurement Card Manual for submission of the monthly reconciliation reports is not being followed. In addition, the manual provides for disciplinary actions for these types of violations; however no disciplinary actions were taken.

This appears to be an ongoing problem. We found that on September 30, 2013, the City had an account balance of \$111,562 in an “un-reconciled credit card charges” account of which \$64,309 was attributable to P-Card purchases and \$47,253 was attributable to Corporate Card purchases. When we inquired about this account, we were told by Finance Department staff that this account is used as a holding account for P-Card and Corporate Card charges for which Finance pays the bill but has not received monthly reports or any other supporting documentation to enable them to post those expenditures to the appropriate account. The amount posted to this account represented 39% of the total credit card expenditures for FY2013 and is indicative of a lack of timely and effective reconciliation of monthly cardholder statements. We were told that after year end this account is eventually cleared out by Finance staff after obtaining sufficient documentation to post expenditures to the correct accounts. Paying the monthly credit card bills when 39% of the annual total transactions lack adequate or timely documentation of review and approval significantly increases the risk for misuse of the P-Cards and Corporate Cards.

#### **Lack of Supporting Documentation for P-Card and Corporate Card Purchases**

Of the 96 P-Card transactions we selected for review we found 8 transactions (8%) that did not have receipts or invoices submitted to substantiate the charges. Likewise, in our sample of 110 Corporate Card transactions we found 22 transactions (20%) that did not have receipts or invoices to substantiate the charges. In addition, as part of our review of cardholder monthly reports, we identified another 9 P-Card and 22 Corporate Card transactions outside our sample that did not have supporting receipts or invoices. It should be noted that these results are what we found after Finance has taken additional actions after year end to obtain supporting documentation in order to clear out the “un-reconciled credit card charges” account.

The City’s Procurement Card Manual provides that in instances where a cardholder does not have documentation to send with their monthly report, they are required to complete and submit a Missing Receipt Form. The Form requires detailed information on the item(s) purchased as well as an explanation for why there is no supporting

documentation. We saw only one instance where a Missing Receipt Form was provided for transactions where no receipt or invoice was submitted.

**Lack of Accountability Over Increases to P-Card and Corporate Card Dollar Limitations** We identified 18 P-Card transactions and 5 Corporate Card transactions which exceeded the single purchase limit of \$1,000. The Procurement Card Manual under Section IX- Dollar Limitations states, "Requests for spending limit changes must be initiated and authorized by the department head and approved by the Purchasing Director." We requested documentation of the change requests and the subsequent confirmation of the P-Card and Corporate Card limit changes from the banking institution. No documentation was available and no record exists of the limit changes. As a result, there are no controls in place and no accountability for increases to employees' P-Card dollar limitations. As we previously discussed under Finding (5), seven of the P-Card transactions that exceeded the \$1,000 single purchase limit involved the Director of Purchasing approving an increase to his own spending limit.

**Paying Exempt Sales Tax** We noted that State of Florida sales tax was frequently paid on P-Card and Corporate Card transactions. In our sample of 96 P-Card transactions we found that Florida State sales tax was paid on 35 transactions (36%) resulting in additional costs of **\$1,175<sup>2</sup>**. In our sample of 110 Corporate Card transactions we identified 15 transactions (14%) where Florida State sales tax was paid resulting in additional costs of **\$190<sup>2</sup>**. In those instances where receipts were not submitted by cardholders, Finance cannot determine whether sales tax was unnecessarily paid. There were also numerous instances where sales tax was paid on transactions where receipts were submitted. In those instances, the Finance Department was not alerting cardholders that they were improperly paying sales tax.

**Unauthorized Use of the Procurement Card** The P-Card Manual, Section IV- "Issuance and Control of the Procurement Card" states, "Only the authorized cardholder, whose name appears on the face of the procurement card, should purchase materials and supplies with the procurement card assigned." We noted 2 P-Card transactions that were transacted by a person other than the P-Card holder. One transaction was for the rental of a vehicle for a parade event and the other was the purchase of musical equipment.

**P-Cards Issued to Council Members** We found that four City Council members were issued both P-Cards and Corporate Cards. Section IV of the City's Procurement Manual does state that P-Cards may also be issued to Elected Officials. However, the introduction to the Manual also states, "The City of Riviera Beach Procurement Card Program is designed to improve efficiency in processing low dollar purchases for materials, supplies, and other items needed for daily operations." The Manual further states, "Procurement Cards will be issued to specific department staff as an alternative method for making purchases." City Council members are not involved in running the daily operations of the City and would not be involved in making purchases needed for

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<sup>2</sup> Sales tax paid on P-Card and Corporate Card transactions are included in the summary of Questioned Costs on Page 38 of this report.

daily City operations. Therefore, we question City Council members' need for P-Cards. In addition, we noted that while the P-Card monthly credit limit is \$2,500 for most City staff, the Council members' limit is \$3,000.

### **Finding (7): WE IDENTIFIED P-CARD AND CORPORATE CARD PURCHASES THAT DID NOT HAVE A CLEAR PUBLIC OR BUSINESS PURPOSE**

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As part of our review of the P-Card and Corporate Card programs we selected a judgmental sample of purchases from both cards for the period October 1, 2012 to September 30, 2013. From our sample of 96 P-Card transactions totaling \$68,639 we identified \$18,958 (28%) in purchases that we questioned as having a clear public or business purpose. From our sample of Corporate Card transactions totaling \$37,375, we identified \$9,861 (26%) in purchases that we questioned as to public or business purpose. The following is a summary of the transactions we questioned:

#### **P-Card Transactions**

- We selected five P-Card transactions paid to Enterprise Rent-A-Car ("Enterprise") totaling \$17,544. Of this amount, we questioned \$15,208 as lacking a valid business purpose. All of the payments were in excess of the single purchase limit of \$1,000. Upon further review we determined that the charges were all made by one Department Head. When we pulled the vendor history we determined that the Department Head rented vehicles from Enterprise continuously from April 2013 through January 2014. The total P-Card charges, including periods outside our scope, were \$23,889. Vehicles rented included a Chevy Camaro; Buick Enclave and GMC Yukon. The Department Head has a City fleet vehicle assigned to him. We referred this matter to our Office of Investigations for further review. We have not included any of the \$23,889 in P-Card charges as questioned cost in this report, pending the outcome of the Investigation.<sup>3</sup>
- A Department Head used the P-Card to purchase 44 tickets totaling \$2,488 for a City sponsored outing to a Miami Dolphins football game; 4 tickets at \$100 each and 40 tickets at \$52 each plus an \$8 handling charge. We requested the roster for the game event and noted that 28 individuals were listed on the roster as participating. We checked with the Miami Dolphins ticket office and verified that 37 tickets were scanned in at the game including the 4 tickets costing \$100 each. We were told by City staff that the roster represented all the individuals that participated in the City sponsored event. We are questioning the cost of **\$832** for the 16 game tickets that were not accounted for on the roster of attendees.
- We identified several P-Card transactions totaling \$689 dollars that involved lunches and dinners at local restaurants such as Duffy's Sports Grill and the

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<sup>3</sup> On December 30, 2014, the Investigations Division issued Case #2014-0011, which found that the Department Head misused his P-Card to lease vehicles for a total of 277 days. Of those 277 days, the Investigation revealed that 197 days could not be attributed to any valid business purpose. The Investigations Division Report included Identified Costs of \$15,852.53 and Questioned Costs of \$3,685.05.

Okeechobee Steakhouse and Lounge. Sufficient documentation was not provided to substantiate a clear business purpose. In addition, the City's P-Card manual, Section IX-Prohibited Uses of Procurement Cards, (B) states, "the following types of items may not be purchased with a procurement card, no matter the dollar amount (B) Food or beverages to be consumed away from City premises." We have included the **\$689** in food purchases as a questioned cost.

- We identified (7) P-Card transactions for various items such as phone apps; computer monitors; home décor and personal items for which we were not able to identify the clear public or business purpose. We have included these transactions totaling **\$1,054** as questioned costs.

### **Corporate Cards**

- We identified \$3,365 in travel expenses related to destinations such as South Africa, Washington D.C; and Atlanta, Georgia. Several of these trips involved City Council members. The purpose of the City Council member or City staff travel was unclear. For example, the trip to South Africa for which the City was charged \$124 was to attend the World Conference of Mayors. The trip to Washington D.C. was to observe oral arguments in a Supreme Court case involving a lawsuit filed by a citizen against the City of Riviera Beach. While the case directly impacted the City, we were told by the Director of Finance that a total of seven City staff and/or Council members attended. One Council member stayed at a hotel for \$506/night. We included the **\$3,365** as questioned costs.
- We identified **\$4,378** in miscellaneous items purchased for office supplies, back to school items, a payment to a bus company for a church outing, a safe and locks, and iPads. The public or business purpose for these items was not clearly documented. We included this amount as questioned costs.
- We identified Corporate Card purchases of **\$705** for holiday greeting cards which we have included as questioned costs. Section 286.27, Florida Statute states, "No State funds shall be expended for the purchase, preparation, printing or mailing of any card the sole purpose of which is to convey holiday greetings." While the City is not bound by State guidance for the expenditure of municipal funds, it provides a good frame of reference for determining whether the items meet the test of having an adequate public purpose.
- We identified **\$388** spent for several miscellaneous food purchases, staff t-shirts, plaques, and decorations for an employee year end social which we included as questioned costs.
- We identified **\$835** in purchases with missing receipts for which we were unable to verify the items purchased and therefore included as questioned costs.



The purchases we identified as questioned costs clearly point to the need for more careful review and reconciliation of P-Card and Corporate Card purchases. Most of these purchases were executed by department heads or City Council members. Review of the monthly cardholder statements for these individuals is the responsibility of the City Manager. We recognize that the City Manager has a broad scope of duties and responsibilities in managing the day to day operations of the City. It may be necessary to assign someone within the City Manager's office to review the monthly cardholder statements and bring any items to the City's Manager's attention that need further review or justification.

### **Recommendations:**

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- (16) The City Manager should ensure that established P-Card and Corporate Card procedures are consistently followed by both cardholders and responsible management officials. Key controls such as the review and approval of monthly cardholder statements by responsible officials need to be performed timely and consistently. Supporting documentation such as receipts and/or invoices should accompany each purchase and the requirement for completing a Missing Receipt Form should be enforced.**
- (17) The Finance Department should develop a process for documenting and notifying both the P-Card Administrator and the City Manager of recurring violations of the P-Card policy, such as not submitting monthly reports timely or not providing supporting documentation for credit card purchases. As provided for in the Procurement Card Manual, disciplinary action should be taken, when appropriate, for a violation of the procedures.**
- (18) The P-Card and Corporate Card administrator should develop formal policies and procedures for the increase and decrease of single purchase limits and cumulative monthly card limits. Increases and decreases to card limits should be adequately documented.**
- (19) The City Manager should remind all cardholders and responsible officials of the requirements in the Procurement Card Manual to ensure that no sales tax is charged on credit card purchases. The Finance Department and the P-Card Administrator should regularly review monthly cardholder's statements and supporting documentation and notify cardholders and responsible officials when sales tax has been improperly charged.**
- (20) The City Manager should evaluate whether there is a need for Council members to be issued both P-Cards and Corporate Cards.**
- (21) The City Manager should remind cardholders and responsible officials of the need to review all credit card purchases to ensure that they have a clear public or business purpose.**



**Management Response:**

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The City concurs with Finding (6). The City disagrees with Finding (7), with the exception of vehicle rentals. The City reviewed all of the items questioned for public purpose consideration. The City found no instances of expenditures that, in its opinion, did not meet the public purpose criteria. The City will take the following actions to address recommendations (16) through (21).

(16) (17) (18) (19) The City is in the process of selecting a new P-Card provider. At the time of the conversion, a new set of policies and procedures will be adopted providing more stringent controls.

(20) As a result of selecting a new P-Card provider, the need for Council Members having both a P-Card and corporate card will be evaluated.

(21) As stated in the response for recommendations (16) – (19) at the time of converting to a new P-Card provider, a new set of policies and procedures will be adopted providing more stringent controls.

**OIG Comment**

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**Recommendation (21)** The items we identified lack adequate documentation to support that they serve a clear public purpose or public benefit and the City would benefit from additional guidance in this area. Most of these purchases were executed by department heads or City Council members.

**Finding (8): THE CITY DOES NOT HAVE WRITTEN POLICIES AND PROCEDURES FOR STORE CREDIT CARDS**

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In addition to P-cards and Corporate Cards, the City uses store credit cards. There are store credit cards for 13 different stores, with Home Depot and Lowe's being the most widely issued store cards. We requested the list of cardholders for both Home Depot and Lowe's. There were 47 cardholders listed for Home Depot and 41 for Lowe's. The City does not have written policies and procedures for the use of store credit cards. We were told by the Director of Purchasing that the cards are primarily assigned for use by plumbers, carpenters and electricians.

We inquired as to the process for controlling the store cards. We were told that store cards are maintained in the Purchasing Department and sign out sheets are used to record employees' use of their cards. Employees are to provide an approved requisition when they sign out their store card and sign the card back in after making the purchase along with submitting the supporting store receipts. For the period under review, we were given 4 sign out sheets. Our review showed that the process described to us was not being consistently followed. We noted that in two incidents the store cards had been checked out for two months and in one incident the store card had been checked out for nine months, before being signed back in and returned to the Purchasing

Department. We also found from our sample of 194 check payments, there were three payments for transactions using Home Depot store cards. Two of the transactions were executed by one cardholder on different days in November 2012. The employee's supervisor signed the card out in April 2012. The sign out sheet shows that the employee's Home Depot card was not signed back in until January 2013. The third transaction was executed by another employee on November 18, 2012; however there are no entries on the sign out sheet documenting the use of this card.

We also compared the list of Home Depot and Lowe's cardholders to the actual cards maintained by the Purchasing Department. The two credit card lists did not reconcile to the actual credit cards issued. We found that there were cardholder names on the list that did not have an issued credit card and, in turn, issued credit cards for which the cardholders name did not appear on the credit card list. These credit cards were issued to City employees who have since departed the City. This issue is discussed further in Finding (9).

Additionally, in our test of check payment transactions we noted that a Department Head had signed up for a Costco Executive Business Membership with three additional memberships for Department staff and forwarded the invoice of \$275 to the Finance Department for payment. The purchase of these Costco cards by-passed the Purchasing Department's process, in that the cards were not issued and maintained by the Purchasing Department.

#### **Recommendations:**

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- (22) The City should develop written policies and procedures for the issuance and use of store credit cards. The procedures should include documented approval, review and monitoring of the procedures and processes to ensure the safeguarding of City's assets.**
- (23) The Purchasing Department should develop a current list of all authorized City store credit cards. This list should be reconciled at least annually to the actual credit cards or credit card authorizations at the retail store.**
- (24) The Purchasing Department should request the return of the Costco Card from the Department Head and City staff for safekeeping.**

#### **Management Response:**

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**The City concurs with Finding (8) and will take the following actions to address recommendations (22) through (24).**

- (22) As stated for Finding (8) policies and procedures for store credit cards will be included in the revision of P-Card policies and procedures.**
- (23) The City will prepare and reconcile a listing of store credit cards.**

- (24) The City will request that all cards held by departments be remitted to Finance for safekeeping.**

**Finding (9): STORE CREDIT CARDS ARE NOT BEING CANCELLED WHEN CITY EMPLOYEES TERMINATE**

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The City does not have a proper processing out function or notification process for the cancellation of store credit cards. In review of the City's store credit cards we noted credit cards in the name of employees that did not appear on the City's list of current employees. Twelve employees had departed in 2011 and one employee had departed in 2012. We inquired of the Purchasing Director why these cards still existed when the employees had left the City up to three years prior. He responded that the Purchasing Department probably was not notified. There are no written procedures on the collection and return of City owned assets. Department heads interviewed indicated that they use common sense in the return of assets.

Currently, Human Resources has a "Separation Checklist" which the department heads prepare and sign when processing out City employees. The notification to appropriate officials on return/cancellation of store cards and P-Cards and the return of iPads are not addressed. There are no written procedures on the collection and return of City owned assets.

**Recommendations:**

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- (25) The Purchasing Department should work with the Human Resources Department to provide written guidance on the collection of City owned assets when an employee is separating from the City.**
- (26) The separation checklist should include all City assets and provide for a notification process related to store credit cards, P-Cards, Corporate Cards, iPads and Cell Phones.**

**Management Response:**

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The City concurs with Finding (9) and will take further action as outlined in its response to recommendations (25) and (26).

- (25) (26) The City currently has a separation list to collect City-owned assets from terminating employees. Separation information will be shared with the Purchasing and Finance Departments to facilitate P-Cards and Corporate card control.**

## Finance Department Payment Processing Controls

### **Finding (10): THE CITY IS NOT EFFECTIVELY MONITORING RECURRING PAYMENTS FOR UTILITY BILLS**

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The City operates its own Utility District which is responsible for providing water and sewage service to City residents as well as to the City itself. The City receives monthly utility bills for its water usage from the Utility District and monthly electric bills from Florida Power & Light, ("FPL").

In reviewing 29 recurring utility bill payments that were included in our sample of 194 checks, we found that the City is not effectively reviewing and monitoring these monthly bills. We found that the City is paying a base rate for both electricity and water on City owned properties where the meters are showing zero usage. Our detailed review of selected utility bills showed the following:

- We selected FPL electric bills for three months in FY2013. We identified 13 City owned properties (with a total of 15 electric meters) where the City made base rate payments for electricity totaling \$292 but the meter reading showed zero usage for one or more months. We estimate that on an annual basis the City is making \$1,290 in base rate electric utility payments on these thirteen properties. After we brought this to the City's attention, City staff performed a review of zero usage meters from the March 2014 electric bill. They identified eight electric meters that should be removed, including five from our sample.
- We selected water bills from the City's Utility District for two monthly billing cycles in FY2013. As with the FPL bills, we identified 68 properties where the City made base rate payments totaling \$2,799 but the meter reading showed zero usage for both months. We estimate that on an annual basis the City is making \$16,796 in base rate water utility payments on these 68 properties. These billings could represent inactive City facilities for which water service should be disconnected. They could also include locations where City water meters are not functioning properly and water usage is not being recorded and billed. The Utility District has a procedure that requires that they conduct a review when there are two consecutive billing months where the meter shows zero usage. This was not being done in this case. The City has not provided us any information on whether they have identified any water meters that should be disconnected or need to be repaired.

When we discussed this with the Director of Finance, he indicated that Finance has been reviewing the City's water utility billings and correcting billing errors. To determine if this issue has been addressed, we reviewed the March 2014 water utility bill. We found that base rate payments were still being made on properties where the meter reading showed zero usage. In reviewing the March 2014 bill, we also noted that the City incurred late payment penalties totaling \$3,630.

In summary, from our review of selected monthly electric and water utility bills, we estimate that for FY2013 the City paid \$18,086 in base rate payments for meters showing zero usage. We also found that the City paid \$3,630 in late payment penalties for the March 2014 water utility bill. These amounts represent potentially unnecessary or wasteful expenditures. We have included these amounts, totaling **\$21,716**, as questioned costs.

#### **Recommendations:**

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- (27) The Utility District should generate and review exception reports in order to identify questioned meter readings or unusual usage. The reports and billing registers should be initialed and dated to document the review process.**
- (28) The Finance Department should review both the FPL utility bills and the water utility bills to ensure timely payment of the appropriate amount.**

#### **Management Response:**

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The City disagrees with Finding 10. The City staff reviews invoices in both the billing process and the payment process. A zero reading, does not necessarily equate to a problem. The City currently has in place a process to review zero read accounts. The City finds no further actions are required as suggested in recommendation (27) and (28).

#### **OIG Comment**

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**Recommendation (27)** The City in its response stated that it currently has in place a process to review zero read accounts. We can only conclude this process was not in place during our review period October 1, 2012 to September 30, 2013 or the process was not effective in identifying zero usage meters, hence our recommendation. As stated in our report, related to electric meters City staff performed a review of zero usage meters from the March 2014 electric bill. City staff identified 8 electric meters that should be removed, including 5 from our sample.

**Recommendation (28)** We identified that the City paid \$3,630 in late payment penalties for the March 2014 water utility bill. The City in its response stated that the City staff reviews invoices in both the billing process and the payment process. The City may benefit from a review of invoice processing to ensure timely processing and payment of invoices.

#### **Finding (11): MONTHLY BANK STATEMENTS ARE NOT PROPERLY RECONCILED**

As part of our audit process we reviewed the City's monthly bank reconciliation process. We also confirmed the City's bank account balances at September 30, 2013, with the financial institutions and the authorized signers on the City's bank accounts.

The bank reconciliation is the process of comparing the transactions in the accounting records against those presented on the bank statement. We found that the City's monthly bank reconciliations are prepared containing large un-reconciled balances between the City's bank statements and the City's book balances. The bank reconciliation is signed off as accepted and approved without resolving these un-reconciled balances. We reviewed bank reconciliations for the months of December 2012 and June and September 2013. Un-reconciled amounts for these months were overages of \$19,497 and \$70,237 (book over bank) and a shortage of \$30,404 (book under bank), respectively.

Bank reconciliations operate as a key internal control over cash. As a result of having un-reconciled amounts, errors could occur and be carried forward for some time without being resolved.

We also identified one bank account with Bank of America for which one of the authorized signers was an individual who no longer has authority to execute bank transactions on behalf of the City. Currently this bank account is used for automated payments to the City and checks cannot be written on this account. The authorized signer should be removed and replaced with the current authorized signer.

#### **Recommendations:**

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- (29) The City should ensure that bank statements are reconciled on a monthly basis to provide accurate accounting records and adequate internal control over the City's cash. The City should implement procedures to ensure that bank account activity is monitored routinely and potential errors and irregularities are addressed on a timely basis.**
- (30) The City should complete a new authorized signature card on the bank account and replace the individual who is no longer an authorized signer with the current authorized signer.**

#### **Management Response:**

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The City disagrees with Finding (11). The City reconciles bank accounts on a monthly basis. An unidentified transaction that is properly disclosed in the reconciliation, does not equate to "not properly reconciled". The City stated that no action is required for recommendation (29). The City agreed to take the following action for recommendation (30):

- (30) The City has contacted the financial institution and a new authorized signature card has been filed.**



**OIG Comment:**

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**Recommendation (29)** While we recognize that the City prepares monthly bank account reconciliations, the reconciliations in the three months we reviewed contained unresolved discrepancies. Not resolving variances identified during a monthly bank reconciliation does not constitute a completed bank reconciliation process. Transactions that make up the unresolved bank account amount should be specifically identified and resolved in a timely manner and not carried forward to a subsequent month.

### **FUEL PROGRAM**

As part of our audit, we reviewed controls over the City's fuel depot operation which is managed and operated by the Department of Public Works-Vehicle Maintenance. Fuel is delivered to the Public Works facility, dispensed directly into underground gas and diesel tanks by the City's fuel contractor, Port Consolidated. The City utilizes the TRAK Engineering, Inc. computerized fuel management system ("the System") to control and record the dispensing of both gasoline and diesel fuel. The System can be activated through two methods. One method is through the use of a fully automated SMARTag attached to the vehicle, which automatically records the vehicle identification and odometer reading. The other method is through the use of a portable "key fob" which will activate the pump and record the vehicle identification number but requires manual entry of the vehicle's odometer mileage. There are approximately 254 vehicles in the City fleet. The SMARTag is predominately used by the Police Department and Fire/Rescue Department vehicles.

Detailed fuel transaction data was provided by the City's Vehicle Maintenance Division. The period under review was October 10, 2012 to September 30, 2013. There were 16,383 fuel transactions recorded during that period with total fuel consumption of 191,225 gallons valued at \$696,204.

We identified several weaknesses related to the controls over and recording of individual fueling transactions by City employees as discussed in the following findings. These weaknesses can increase the risk that theft of fuel could occur and go undetected.

#### **Finding (12): THE CITY IS NOT EFFECTIVELY UTILIZING THE TRAK SYSTEM TO MONITOR AND CONTROL FUEL TRANSACTIONS**

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Approximately \$58,017 in fuel transactions are recorded in the System each month. For each fuel transaction certain data is recorded and stored in a database such as:

- Vehicle ID
- Date/Time

- Transaction No.
- Gallons
- Odometer Mileage
- Fuel cost

Currently, the City does not perform any monitoring of fuel transaction data. The City does not utilize standard management “exception” type reports that can capture errors or unusual/unauthorized fueling activities. Such exception reports can include capturing high risk transactions such as fueling after hours or on weekends, fueling beyond a vehicle’s fuel tank capacity, usually low miles per gallon (mpg) between fill ups and obvious incorrect vehicle mileage entries.

We also noted the City does not utilize the SMARTag option for all of their City vehicles. The SMARTag system provides a more secure system of safeguarding against unauthorized fuel transactions. SMARTags are installed on the vehicle, are pre-coded with the vehicle ID and fuel type and are connected to the vehicle’s On-Board Diagnostic System. When the vehicle approaches the fuel depot, the vehicle ID and odometer reading are automatically recorded. In addition, the depot’s fuel pump nozzle is outfitted with a Trak Nozzle Pickup device which must be within a few inches of the vehicle’s SMARTag (located by the vehicle’s fill pipe) in order to allow fueling to be authorized. Thus the SMARTag option provides greater assurance that; 1) the vehicle being fueled is an authorized City vehicle; 2) the odometer mileage recorded is accurate and 3) fuel can only be dispensed into the vehicle and not into portable gas containers or other devices.

Of the 254 City vehicles in inventory as of September 30, 2013, only 145 were using the SMARTag option. The remaining 109 vehicles are fueled using the “key fob” option. Although the key fob is pre-coded with a vehicle ID, the System reads the vehicle ID from the key fob inserted in the pump. This does not ensure that the vehicle being fueled is an authorized City vehicle. The key fob option also requires the operator to manually enter the vehicle’s odometer mileage. The system as currently configured will accept any mileage entry even if it differs significantly from previous mileage entries from that vehicle.

We were told by City staff in Fleet Maintenance that the SMARTag system has been unreliable and prone to system malfunctions. When SMARTags installed on a vehicle stop working properly the City has been removing them and assigning that vehicle a key fob.

In analyzing the vehicle transaction data, we did identify SMARTag malfunctions. Of the 16,383 fuel transactions recorded during our review period, we identified system malfunctions attributable to the SMARTag fuel transactions of 30,993 gallons of fuel valued at \$113,841. The majority of this was attributable to a major single event in August 2013 where for 18 days the system did not record the type of vehicle fueling at the gas pumps. However, there were other system malfunction reads throughout the fiscal year wherein the SMARTag was repeating the same odometer reading from one

transaction to the next. In another instance the odometer reading for the vehicle was not consistently increasing from one fuel transaction to the next. These events went unnoticed by Public Works staff responsible for the fuel depot operations.

The City has not effectively worked with the vendor to resolve the SMARTag malfunctions. Converting vehicles with SMARTag malfunctions to key fobs puts those vehicles on a System option that provides fewer safeguards against unauthorized fuel transactions. As we discuss in the next finding, our detailed analysis of the City's fuel transaction data for FY2013 identified a significant number of fuel transactions, all using the key fob option, that appeared to involve entry of erroneous mileage data or other questionable fueling patterns.

We also noted that the City does not utilize multiple access features of the System such as the personnel card/badge system. This feature requires the entry of the employees' organization ID badge or a separate reader Card or Personal Identification Number-PIN assigned through the system. This enables the System to capture information on the specific employee executing the transaction. As currently configured the System's transaction data log does not identify the specific employee executing the fuel transaction.

Taken together, the lack of monitoring of fuel data or use of exception reporting, decreased use of the SMARTag and the inability to identify specific employees executing each fuel transaction, puts the City's fuel program at a significantly higher risk that theft of fuel could occur and go undetected.

### **Recommendations:**

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- (31) The City should utilize the features of the TRAK system, including production of exception reports to monitor fuel transactions. If the existing system cannot provide the appropriate functions for monitoring and control, management should evaluate the cost/benefit of replacing the system.**
- (32) The City should work with the vendor to resolve the problems with malfunctioning SMARTags and increase the use of the SMARTag option for access to the fuel depot.**
- (33) The City should consider utilizing the dual access options available in the System to identify the specific employee executing the fuel transaction.**

### **Management Response:**

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**The City concurs with Finding (12) and will take the following actions to address recommendations (31 through (33).**

(31) (32) The City is in the process of abandoning the TRAK system. The City acquired a new system in October 2014 and is waiting to fully address the new fuel management policy before implementing the fuel system in January 2015.

(33) The new fueling system purchased by the City in October 2014 provides for dual access control which will be fully implemented by the City in January 2015.

**Finding (13): WE IDENTIFIED A SIGNIFICANT NUMBER OF FUEL TRANSACTIONS WITH INCORRECT MILEAGE ENTRIES OR OTHER QUESTIONABLE FUELING PATTERNS**

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We identified a significant number of fueling transactions from our audit period that we considered to be questionable in nature. These transactions were all executed with vehicle key fobs. The majority of these transactions were the result of employees entering incorrect vehicle odometer (mileage) readings into the system in several different erroneous patterns. Other questionable transactions involved fueling beyond the vehicle's fuel tank capacity or fueling that was inconsistent with the miles driven. The following summarizes what we found which resulted in total questioned costs of **\$196,718**:

- Mileage entries were too high or too low based on prior entries for that vehicle or the same mileage number was entered for two or more consecutive fuel transactions. A total of 37,706 gallons of fuel costing **\$134,162** was dispensed in this manner.
- Fueling was initiated by entering a "0" or "1" rather than the vehicle's correct mileage. A total of 11,465 gallons of fuel costing **\$44,217** was dispensed in this manner.
- Vehicles were fueled in amounts beyond their fuel tank's capacity or in amounts inconsistent with the miles driven since the previous fuel transaction. A total of 4,812 gallons costing **\$18,339** was dispensed in this manner.

Without the correct mileage (odometer) entry, it is difficult to determine if the transaction was reasonable for the vehicle being fueled. Incorrect mileage entries can mask fuel being put into an unauthorized vehicle or container. Correct mileage provides a crosscheck to ensure that the fuel dispensed is being pumped into the appropriate vehicle; provides a record of a vehicle's historical fuel utilization and can be used to analyze whether a vehicle's mpg is reasonable as well as when scheduled maintenance should be performed.

Fueling transactions that are unusual, such as fueling beyond a vehicle's fuel tank capacity or fueling inconsistent with the miles driven can be indications of unauthorized or improper fueling. We noted in a number of these types of transactions that separate fuel transactions in different amounts occurred one right after the other for the same vehicle. This can also be an indication that other items, such as small equipment or

portable containers, are being fueled in addition to or in lieu of the vehicle. During our walkthrough, we were shown a separate key fob that was established for use in fueling small equipment and containers. We were told that separate key fobs for this purpose are programmed for different City departments. Employees are required to sign their department's key fob out when such fueling takes place. It appears that this process is not being consistently followed. Also, these key fobs are not programmed to limit the number of gallons that can be dispensed.

Fueling transactions of an unusual nature, such as we identified, need to be identified and reviewed by the City on a regular basis to determine if they are proper. As we discussed in Finding (12), without the use of exception reports programmed into the system to identify these types of transactions, the City's fuel program is at increased risk that theft of fuel could occur and go undetected.

### Recommendations:

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- (34) The City's Public Works Department should ensure that employees are properly trained on the importance of entering the correct mileage entry to initiate fuel transactions.**
- (35) The City should discontinue the practice of employees entering mileage readings of "0" or "1" to initiate fuel transactions.**
- (36) New key fobs should be added to the TRAK system specifically designed for fueling small equipment and containers. These fobs should be programmed with a gallon limit equal to the size of the small equipment or containers being used.**

### Management Response:

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**The City concurs with Finding (13) and will take the following actions to address recommendations (34 through (35). However the City does not believe that the \$196,718 in questioned cost was the result of any inappropriate, illegal or prohibited fueling activities.**

- (34) The City has purchased a new fueling system that will be fully implemented in January 2015. In conjunction with the acquisition of a new system, a new policy has been drafted. All staff utilizing the fuel depot will be trained on the new system and the corresponding Vehicle Fueling Policy.**
- (35) The new Vehicle Fueling Policy will eliminate the use of employees entering mileage readings of "0" or "1" to initiate fuel transactions.**
- (36) The City is abandoning the TRAK system and has purchased a replacement system. A function in the new system provides for programming limits and will be fully implemented in January 2015.**

**Finding (14): THE CITY IS NOT ACCURATELY RECONCILING AND ALLOCATING MONTHLY FUEL USAGE**

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A monthly fuel usage report is prepared by the fleet maintenance department with information generated from the computerized system. Our review of two monthly fuel allocation reports found that information used to substantiate the allocation of monthly fuel usage to each City department is incomplete. We found formula errors in the spreadsheet and missing back up reports to substantiate the monthly allocation of each department's fuel usage. Monthly fuel reports were not electronically maintained; only large user department reports were attached to the vehicle maintenance report; and we were unable to reconcile certain selected usage totals to the monthly report.

**Recommendations:**

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- (37) The City should provide for the development and regular review of fuel transaction reports which identify the vehicle, fueling assignment and fuel usage by department.**

**Management Response:**

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**The City concurs with Finding 14 and will take the following actions to address recommendation (37).**

- (37) The reporting function in the newly acquired fueling system provides management with new tools and information that was lacking in the prior system.**

**Finding (15): THE CITY DOES NOT HAVE POLICIES AND PROCEDURES FOR THE OPERATION OF THE CITY FUEL DEPOT**

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Sound internal control principles include having adequate written policies and procedures that document how a program's activities are carried out, monitored and controlled. The City does not have any written policies and procedures to govern the operation of the City's fuel program. The findings we have previously discussed regarding the fuel program are attributable, in part, to a lack of policies and procedures that instruct those responsible for managing the fuel operation as well as all employees who use the City's fuel depot, on how those activities and responsibilities are to be carried out.

Policies and procedures should be comprehensive enough to thoroughly describe how the City's computerized fuel management system works; the rules governing the fueling of various City assets such as vehicles, equipment and containers, and the process for monitoring fuel transactions and reconciling monthly fuel usage by department. Duties and responsibilities for managing the program and using the City's fuel depot should be



clearly defined. Once adequate policies and procedures are in place they should be communicated to all employees that manage or have access to the City's fuel.

### Recommendations:

- (38) The City should create and document policies and procedures to govern the City's fuel program and once established, they should be clearly communicated.

### Management Response:

The City concurs with Finding 15 and will take the following actions to address recommendation (38).

- (38) The City agrees that new internal processes and policies are needed as it relates to fuel management. The City has taken a proactive approach to this issue by finalizing a new Vehicle Fueling Policy. Staff will be trained on the new policies and procedures.

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

### Questioned Costs<sup>4</sup>

Finding	Description	Questioned Costs
1	Expenditures on contracts	\$571,082
2	Payments related to quotes and bids	\$53,274
4	Unapproved travel	\$3,659
5	Unnecessary phone and iPad usage	\$20,444
7	Questionable P-Card charges	\$3,750
7	Questionable Corporate Card charges	\$9,861
10	Recurring Expenditures	\$21,716
13	Fuel Depot transactions	\$196,718
	<b>Total</b>	<b>\$880,504</b>

<sup>4</sup> Questioned costs can include costs incurred pursuant to a potential violation of a provision of law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds, and/or a finding that such costs are not supported by adequate documentation, and/or a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable in amount. As such, not all questioned costs are indicative of potential fraud or waste.

## OIG Comment

The City does not agree with the \$880,504 identified as questioned costs. In its response the City states that they can only identify \$163,190 in expenditures that did not completely follow contracting or procurement guidelines. All expenditures included in our questioned costs are consistent with the OIG definition included in our footnote on page 1 of this report. For example our questioned costs included \$571,082 related to contracts that were not executed in accordance with the City's Procurement Code, were not in accordance with the terms of the contract or lacked adequate documentation of review and approval of payments. They included several contracts awarded by the City Manager that exceeded her contracting authority of \$1,500 and thus violated the City's Code of Ordinances. Questioned costs also included amounts that represent potentially wasteful or unnecessary spending including unnecessary cell phone and iPad usage, credit card expenditures that lacked documentation showing a clear public or business purpose and expenditures on utility meters that may no longer be needed. In addition, questioned costs included \$196,718 in questionable fuel transactions. While the City stated in its response that it believed the fuel transactions were justified, due to the lack of monitoring and control over the fuel depot, the City has no assurance that these transactions are valid.

As stated in our definition, not all questioned costs are indicative of potential fraud or waste. However, questioned costs represent funds that are at increased risk for fraud, waste or abuse unless adequate internal controls are in place to ensure that funds are expended in accordance with laws and regulations and are supported by adequate documentation and adequate levels of review and approval. We are pleased that in their response, the City has agreed to take action or has already taken action on most of our recommendations which will strengthen internal controls over City expenditures.

### Potential Avoidable Cost<sup>5</sup>

Description	Avoidable Costs
Contract Expenditures	\$341,952
Unapproved Travel	\$9,973
Unnecessary Phone and ipad usage	\$55,720
Questioned Credit Card Charges	\$37,097
Recurring Expenditure Review	\$59,187
Questionable Fuel Transactions	<u>\$536,155</u>
<b>Total</b>	<b><u>1,040,084</u></b>

<sup>5</sup>Avoidable costs is a value that represents the dollars an entity will not have to spend, and/or the increase in revenue over the next three years if the OIG's recommendations are implemented.

**ACKNOWLEDGEMENT**

The Inspector General's audit staff would like to extend our appreciation to the City employees for their assistance 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 Dennis Schindel, Director of Audit, by email at [inspector@pbcgov.org](mailto:inspector@pbcgov.org) or by telephone at (561) 233-2350.*

## ATTACHMENT 1 – Management Response



OFFICE OF  
CITY MANAGER

## CITY OF RIVIERA BEACH

600 WEST BLUE HERON BLVD. • RIVIERA BEACH, FLORIDA 33404  
(561) 845-4010 FAX (561) 840-3353

January 9, 2014

Mr. Dennis Schindel, Director of Audit  
Office of the Inspector General, Palm Beach County  
100 Australian Avenue, Fourth Floor  
West Palm Beach, FL 33406

Dear Mr. Schindel:

The City of Riviera Beach is in receipt of Draft Report, Audit of Riviera Beach Cash Disbursements (2014-A-DRAFT) for the period of October 1, 2012 through September 30, 2013. Before addressing specific Findings and Recommendations presented within the Report, I would first like to take this opportunity to thank the staff of the Office of the Inspector General (OIG) for their efforts and the manner in which this review was undertaken. The City appreciates the OIG's recognition of the City's proactive initiatives to improve internal controls. Though the City disagrees with the OIG on a number of Findings and Recommendations within the Report, the elected officials and city staff embrace the ongoing efforts of the OIG and look forward to a continued cooperative relationship.

As defined with in the Report we agree that not all Questionable Costs are indication of potential fraud or waste. Although the OIG Report identified \$880,506 of Questionable Cost, the City can only identify \$163,190 in expenditures that did not completely follow contracting or procurement guidelines. However, these purchases have been made public, have been properly approved, and are for valid business expenses within the budget.

Secondly, I would like to take this opportunity to advise the OIG of administrative projects and undertakings that have taken place within the City since the beginning of Fiscal 2013 that will not only strengthen the City's Purchasing and Accounts Payable processes, but overall internal controls.

1. Over the four-month period of June-September 2013, I directed the Director of Finance and Administrative Services to perform an evaluation and analysis of the Purchasing and Accounts Payable processes. The internal review consisted of meetings with departmental as well as purchasing and accounts payable staff, a thorough review of policies, manuals and ordinances, a review of the American Bar Association Model Procurement Code, a review of the Government Finance Officers' Association Best Practices, discussions with software and procurement-card providers, discussions with vendors along with hands-on resolution and research.

## ATTACHMENT 1 – Management Response (continued)

In October 2013, a multi-point plan was submitted for my review and implementation. Many of the areas of concern identified by City staff are the same or similar to those contained in the Report. While a number of the recommendations have been or are in the process of being implemented, City staff put an equal number of the recommendations on hold awaiting the results of the OIG Report.

In August 2014, the City hired its first ever Internal Auditor (CIA, CGAP). This additional resource will perform risk assessments, conduct audits, and provide ongoing support in areas critical to the City's success, including purchasing and accounts payable.

2. The City hired its first ever Contract Administrator at the beginning of December 2014. The Contract Administrator is in the process of reviewing current processes, procurements, and anticipated procurements in order to initiate the following:
  - a. Establishing a Master Procurement Status Tracking Log to track the status of contracts, purchase orders, check requests, and anticipated procurements. The log will include the following fields: Contractor; Vendor Number; Resolution Number; Procurement Award/Solicitation Number; Department/Code; Title/Description; Solicitation Type, Date, and Due Date; Council Approval Date; Procurement Estimate; Requestor; Award Begin and End Dates; Value; Dollars Spent; Variance; Buyer; Comments. This Master Procurement Status Tracking Log will be maintained and updated on an ongoing basis to assist the City as a tool in monitoring the spending limits and terms remaining on procurements.
  - b. Reviewing the information in the current Procurement Code, Electronic Requisition Manual, and Senior Procurement Specialist Desk Manual for identification of conflicting instructions and possible revisions, and developing a consolidated Procurement Policy & Procedure Manual for guidance and training purposes.
  - c. Conducting training with appropriate staff in all departments to ensure compliance with Procurement Policies & Procedures and to clearly define roles and responsibilities regarding procurements.
3. The City is in the process of implementing Bidsync, an industry leader in end-to-end procurement solutions for the public sector. The contract for Bidsync was executed in February 2014.
4. The City separated the Director of Purchasing and Information Technology position into two positions effective October 1, 2014. One individual will head Purchasing and one individual will head Information Technology.

The Draft Report, Audit of Riviera Beach Cash Disbursements (2014-A-DRAFT), as the City understands it, is the result of a standard review cycle developed by the OIG and not based on a



**ATTACHMENT 1 – Management Response (continued)**

specific complaint. The City is proud of the minimal number of findings presented by the OIG. After nearly eleven months of auditing, the Report contains only fifteen Findings. During the City internal review of October 2013, prior to the OIG audit, ten of the fifteen Findings in this OIG report had previously been identified by the City. The City disagrees with three other Findings. However, the OIG has presented two Findings that had not been identified during the City's internal review.

**Questionable Costs**

In lieu of addressing Questionable Costs within the response to individual Findings, I would like to address the topic upfront. A detailed response to each finding is presented in EXHIBIT 1. The OIG has identified \$880,506 of cost identified as questionable. As defined within the Report, it is important to note that not all the Questioned Costs are indicative of potential fraud or waste. In fact, the City believes that the transactions questioned by the OIG were for payment of goods and services provided. The City agrees that there were some deficiencies in our process. However, upon further investigation it has been determined by the City that the process deficiencies did not lead to waste since the good and services were indeed provided.

Questionable Cost, as defined by the OIG, includes costs incurred pursuant to a potential violation of:

- a) A provision of law, regulation, contract, grant, cooperative agreement, or other agreement, or
- b) A document governing the expenditure of funds, and/or a finding that such costs are not supported by adequate documentation, and/or
- c) A finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable in amount. There are places to argue "unnecessary or unreasonable in amount."

Regarding the OIG conclusion wherein categorical support or justification is not provided, the City must speculate.

As we review the overall findings, we noted that the OIG did acknowledge that the City has already taken actions to address some of the processes identified in your report and we also acknowledge your recommendations that the City can consider to improving controls over expenditures and ensure assets are adequately safeguarded. In addition, the OIG questions some items as not meeting a public purpose or consider them "unnecessary", while the OIG makes this claim, it's important that the public understand it's merely your opinion with no true basis, while the City makes these critical decisions based on a need to provide services to the public. Again we appreciate your recommendation and I believe it's important that the City continue to take steps to maintain the public's trust and ensure the efficient use of tax payer's dollars.

With respect to questionable transactions with a high dollar amount noted in Findings (1) Contracts, the OIG documented questionable costs and services of \$571,087 while the City



## ATTACHMENT 1 – Management Response (continued)

reviewed those same transactions and noted that \$101,795 of the cost and service may have required a different procurement process but were required to provide services.

Additionally, the OIG noted on several occasions that some contracts signed by the City Manager exceeded the City Manager's authority under a 1957 ordinance. As we noted during our meeting, the 2012 ordinance supersedes the 1957 ordinance you referred to in your findings. In fact, language in ordinance number 4010 adopted in 2012 reads as follows:

***Section 5: That all sections or parts of sections of the Code of Ordinances, all ordinances or parts of ordinance, and all resolutions or parts of resolutions in conflict herewith, be and the same are hereby repealed to extent of such conflict.***

Regarding the Fuel Program, the OIG noted \$196,718 of questionable fuel transactions. The City believes all fuel transactions were justified and as noted we are taking steps to improve our fuel management system.

In closing, again I would like to thank the OIG for the opportunity to respond to the Findings and Recommendations of the Report. We note that not all the Questioned Costs are indicative of potential fraud or waste. In fact, the City believes that the transactions questioned by the OIG were for payment of goods and services provided. It is important to recognize and acknowledge that the City is demonstrating due diligence in addressing the findings and proactively striving to improve overall operations & compliance with Policies & Procedures. The City is committed to make the appropriate corrections to processes and procedures so that the findings are not repeated in the future.

Sincerely,



Ruth C. Jones  
City Manager

cc: City Council  
Danny Jones, Deputy City Manager  
Randy M Sherman, Director of Finance & Administrative Services  
William Brown, Internal Auditor  
Randy Wood, Contract Administrator  
John A. Carey, Inspector General

Attachments: Finding and Recommendations  
Exhibit 1

## ATTACHMENT 1 – Management Response (continued)

**FINDING AND RECOMMENDATIONS****Finding (1): CONTROLS ARE INADEQUATE TO ENSURE THAT CONTRACTS ARE COMPETITIVELY PROCURED, PROPERLY APPROVED, AND EFFECTIVELY MANAGED (Page 4)**

Response: The City concurs with finding (1). The City previously identified this deficiency. The City adopted the American Bar Association Model Procurement Code in January 2012. The ordinance was adopted without the personnel infrastructure to support the required administration. The related policies, manuals and procedures were not modified to coincide with the ordinance.

Since the adoption of the Procurement Code in 2012, the City has hired, as notated above, an Internal Auditor and a Contract Administrator. The City has also performed, in the summer of 2013, prior to the OIG review, its own evaluation of the Purchasing and Accounts Payable process. The City is taking actions as outlined below in the response to the Recommendations. Comments relating to specific OIG references and Questionable Costs are presented in EXHIBIT 1.

**Recommendations**

1. The City should establish policies and procedures for contract monitoring and contract administration that provides guidance on contract activities; such as monitoring of progress, and inspection and acceptance of work performed prior to payments.

Response: As noted above, the City has hired a Contract Administrator. The primary task of this position will be the monitoring and administration of all contracts. This individual has been tasked with writing policies and procedures regarding contracting activities. In addition, this individual will conduct training with appropriate staff to ensure compliance with Procurement Policies & Procedures and to clearly define roles and responsibilities regarding procurements with the objective of ensuring compliance with the Procurement Policies and Procedures.

2. The City should establish a position under the Director of Purchasing to oversee all contracting activities. Centralized contract management would aid the City in improving its management oversight of City contracts. Also, an effective monitoring process would help prevent payments in excess of the maximum contract amounts.

Response: The City previously identified the need for a Contract Administrator. Funding was included in the current budget and the position has been filled effective December 01, 2014.

## ATTACHMENT 1 – Management Response (continued)

**FINDING AND RECOMMENDATIONS**

3. The Finance Department should review invoices and payment requests for proper review and approval by the originating department. The originating department should document their review and approval process with a signature. In the absence of this documentation the Finance Department should not process the invoice for payment.

Response: The Finance Department staff reviews every invoice presented for payment. Staff has been retrained in which sign-offs are essential to obtain prior to issuing a payment.

4. City staff should be knowledgeable as to the scope of contract work, contract deliverables or types of services allowable under established contracts. This would help ensure that payments are not made for goods or services that are outside the scope of the contract.

Response: The reporting and contract monitoring provided by the Contract Administrator will provide staff a simple tool to reference when reviewing contracts for payment. The Contract Administrator sign-off has been added to the required approvals.

5. The City Manager should work with the City Council to determine what level of contracting authority should be delegated to the City Manager than the \$1,500 currently established; the City Ordinance should be amended accordingly.

Response: The City holds the position that this Section 2-176(a) of the Code of Ordinances has been superseded by the Procurement Code. However, the City will make the appropriate modifications to the Code to provide clarity for the future.

6. The City Council should reassess Sec. 16.2-63 of the City's Procurement Code to ensure that it encourages the use of competitive procurement whenever possible.

Response: The City has adopted the American Bar Association Model Procurement Code. The City does not believe changes need to be made to the Procurement Code regarding the use of competitive procurement.

**Finding (2): THE CITY IS NOT CONSISTENTLY OBTAINING QUOTES ON PURCHASES UNDER \$25,000 AS REQUIRED BY CITY ORDINANCE (Page 11)**

**Response:** The City concurs with finding (2). The City had previously identified this deficiency. The City is taking actions as outlined below in the response to the Recommendations. Comments relating to specific OIG references and Questionable Costs are presented in EXHIBIT 1.

**Recommendations**

7. The City Manager should ensure compliance with the City's Procurement Code that requires obtaining competitive quotes on small purchases between \$2,500 and \$25,000.

**ATTACHMENT 1 – Management Response (continued)****FINDING AND RECOMMENDATIONS**

Response: The City previously identified this need. The City is committed to, and has already begun, the retraining of staff to the specifics of the Procurement Code. All purchases for goods and services will go through the Procurement office.

8. The Director of Purchasing should initiate a review of all current City purchasing guidelines to ensure that guidance that conflicts with the City Procurement Code is identified and corrected.

Response: The City previously identified this need. With the adoption of the new Procurement Code, discrepancies exist with the policies and procedures manual. A review and rewrite have already been initiated.

**Finding (3): THE CITY DEPARTMENTS ARE MAKING PURCHASES THAT BY-PASS THE ELECTRONIC REQUISITION SYSTEM (Page 13)**

**Response:** The City concurs with finding (3). The City had previously identified this deficiency. The City is taking actions as outlined below in the response to the Recommendations.

**Recommendations**

9. The City Manager should direct City staff to utilize the requisition system to procure goods and services.

Response: The City previously identified this deficiency. The policies and procedures manual revision will state the required use of requisitions. In addition, the City Manager has stressed this requirement in Department Staff Meetings. The City Manager will continue to ensure enforcement of this requirement with a follow-up memorandum stating the need for compliance and reiterating this message in future Department Staff Meetings as deemed necessary.

10. The Purchasing Director should review the City's procedural manuals that provide guidance on use of the requisition system and clarify guidance that requires staff to submit requisitions for all purchases.

Response: The City previously identified this deficiency. The policies and procedures manual revision will provide guidance on the use of requisitions.

**Finding (4): WE IDENTIFIED SEVERAL PROCEDURAL DEFICIENCIES IN PROCESSING PAYMENTS FOR PURCHASES (Page 14)**

**Response:** The City concurs with finding (4). The City had previously identified this deficiency. The City is taking actions as outlined below in the response to the Recommendations. Comments relating to specific OIG references and Questionable Costs are presented in EXHIBIT 1.



## ATTACHMENT 1 – Management Response (continued)

**FINDING AND RECOMMENDATIONS****Recommendations**

11. The City Manager should ensure that purchase orders, check requests and travel requests are not processed for payment without the proper approval and adequate documentation to support the payment.

Response: This is a repeat of Recommendation (3). As stated above, the Finance Department staff reviews every invoice presented for payment. Staff has been retrained in which sign-offs are required prior to issuing a payment.

12. City departments need to ensure that all purchasing documents such as purchase orders and check requests have descriptions and amounts that match the invoice being submitted for payment.

Response: This will be stated in the revision of the policies and procurement manual.

**Finding (5): THE CITY'S MANAGEMENT POSITION, DIRECTOR OF PURCHASING AND INFORMATION TECHNOLOGY CREATES A SEGREGATION OF DUTIES RISK (Page 15)**

**Response:** The City concurs with finding (5). This item was identified in FY13. The position has been split into two positions. The City is taking actions as outlined below in the response to the Recommendations. Comments relating to specific OIG references and Questionable Costs are presented in the Table above.

**Recommendations**

13. We recommend that the City Manager separate the duties of managing the City's information technology operations and the City's purchasing operations. If this is not practical, additional mitigating controls need to be put in place such as additional levels of review and approval for IT purchasing.

Response: On October 1, 2014, the City split the Director of Purchasing and Information Technology position into two positions. No further action needs to be taken by the City.

14. The appropriate City department should develop a current list of cell phones and iPads identified by serial number, service number if applicable, and name of staff assigned to the equipment.

Response: The City changed telecommunication providers in May 2014. At that time, an updated listing was developed.

15. Approved cellular request forms demonstrating need should be on file for City staff in accordance with the City policy. A formal request and approval form should be established for iPads.

## ATTACHMENT 1 – Management Response (continued)

**FINDING AND RECOMMENDATIONS**

Response: Phone and I-Pad authorizations have been revisited. A complete file of the authorizations is maintained by both the Purchasing office and City Administration.

**Finding (6) POLICIES AND PROCEDURES ESTABLISHED FOR CONTROL OVER P-CARDS AND CORPORATE CARDS ARE NOT BEING FOLLOWED (Page 18)**

**Response:** The City concurs with finding (6). The City had previously identified this deficiency. The City is in the process of selecting a new P-Card provider. An updated policies and procedures manual will be adopted at the time of the conversion. The policies and procedures will encompass P-Cards, Corporate Cards and Store Cards.

No recommendations from the OIG.

**Finding (7): WE IDENTIFIED P-CARD AND CORPORATE CARD PURCHASES THAT DID NOT HAVE A CLEAR PUBLIC OR BUSINESS PURPOSE (Page 20)**

**Response:** With the exception of vehicle rentals, the City disagrees with finding (7). All of the items questioned by the OIG have been reviewed for public purpose consideration. The City found no instances of expenditures that, in its opinion, did not meet the public purpose criteria. The City is taking actions as outlined below in the response to the Recommendations. Comments relating to specific OIG references and Questionable Costs are presented in EXHIBIT 1.

**Recommendations**

16. The City Manager should ensure that established P-Card and Corporate Card procedures are consistently followed by both cardholders and responsible management officials. Key controls such as the review and approval of monthly cardholder statements by responsible officials need to be performed timely and consistently. Supporting documentation such as receipts and/or invoices should accompany each purchase and the requirement for completing a Missing Receipt Form should be enforced.
17. The Finance Department should develop a process for documenting and notifying both the P-Card Administrator and the City Manager of recurring violations of the P-Card policy, such as not submitting monthly reports timely or not providing supporting documentation for credit card purchases. As provided for in the P-Card Manual, disciplinary action should be taken, when appropriate, for violation of the procedures.
18. The P-Card and Corporate Card administrator should develop formal policies and procedures for the increase and decrease of single purchase limits and cumulative monthly card limits. Increases and decreases to card limits should be adequately documented.



## ATTACHMENT 1 – Management Response (continued)

**FINDING AND RECOMMENDATIONS**

19. The City Manager should remind all cardholders and responsible officials of the requirements in the P-Card Manual to ensure that no sales tax is charged on cred card purchases. The Finance Department and the P-Card Administrator should regularly review monthly cardholder's statements and supporting documentation and notify cardholders and responsible officials when sales tax had been improperly charged.

Response to Recommendations 16-19: The City is in the process of selecting a new P-Card provider. At the time of the conversion, a new set of policies and procedures will be adopted providing for more stringent controls.

20. The City Manager should evaluate whether there is a need for Council members to be issued both P-Cards and Corporate Cards.

Response: As stated above, the City is in the process of selecting a new P-Card provider. At the time of the conversion, the need for both P-Cards and corporate cards will be evaluated.

21. The City Manager should remind cardholders and responsible officials of the need to review all credit card purchases to ensure that they have a clear public or business purpose.

Response: As stated above, the City is in the process of selecting a new P-Card provider. At the time of the conversion, a new set of policies and procedures will be adopted providing for more stringent controls.

**Finding (8): THE CITY DOES NOT HAVE WRITTEN POLICIES AND PROCEDURES FOR STORE CREDIT CARDS (Page 24)**

**Response:** The City concurs with finding (8). The City will include Store Credit Cards within the revised policies and procedures for P-Cards. The City is taking actions as outlined below in the response to the Recommendations.

**Recommendations**

22. The City should develop written policies and procedures over the issuance and use of store cred cards. The procedures should include documented approval, review and monitoring of the procedures and processes to ensure the safeguarding of City's assets.

Response: As stated above, the City will include the policies and procedures for store credit cards within the revised policies and procedures for P-Cards.

**ATTACHMENT 1 – Management Response (continued)****FINDING AND RECOMMENDATIONS**

23. The Purchasing Department should develop a current list of all authorized City store credit cards. This list should be reconciled at least annually to the actual credit cards or credit card authorizations at the retail store.

Response: The City will prepare and reconcile a listing of store credit cards.

24. The Purchasing Department should request the return of the Costco Card from the Department Head and City staff for safekeeping.

Response: The City will request that all cards held by departments be stored in Finance to provide safekeeping.

**Finding (9): STORE CREDIT CARDS ARE NOT BEING CANCELLED WHEN CITY EMPLOYEES TERMINATE (Page 25)**

**Response:** The City concurs with finding (9). The City has previously corrected this issue. The City is taking further actions as outlined below in the response to the Recommendations.

**Recommendations**

25. The Purchasing Department should work with the Human Resources Department to provide written guidance on the collection of City owned assets when an employee is separating from the City.
26. The separation checklist should include all City assets and provide for a notification process related to store credit cards. This would also add additional benefit to ensure control of other items such as P-Cards, Corporate Cards, iPads and Cell Phones.

Response to 25 & 26: The City currently has a separation list to collect City-owned assets from the terminating employee. The separation information will be shared with Purchasing and Finance for card control purposes.

**Finding (10): THE CITY IS NOT EFFECTIVELY MONITORING RECURRING PAYMENTS FOR UTILITY BILLS (Page 26)**

**Response:** The City disagrees with finding (10). The City staff reviews each invoices in both the billing process and the payment process. A zero reading, does not necessarily equate to a problem. The City currently has in place a process to review zero read accounts. The City finds no further actions required as outlined below in the response to the Recommendations. Comments relating to specific OIG references and Questionable Costs are presented in the Table above.

## ATTACHMENT 1 – Management Response (continued)

**FINDING AND RECOMMENDATIONS****Recommendations**

27. The Water Utility should general and review exception reports in order to identify questioned meter readings or unusual usage. The reports and billing registers should be initiated and dated to document the review process.
28. The Finance Department should review both the FPL utility bills and the water utility bills for to insure timely payment of the appropriate amount.

**Finding (11): MONTHLY BANK STATEMENTS ARE NOT PROPERLY RECONCILED (Page 27)**

**Response:** The City disagrees with finding (11). The City reconciles bank accounts on a monthly basis. An unidentified transaction that is properly disclosed in the reconciliation, does not equate to “not properly reconciled”. The City finds no further actions required as outlined below in the response to the Recommendation (28). The City is taking further actions as outlined below in the response to the Recommendation (29).

**Recommendations**

29. The City should ensure that bank statements are reconciled on a monthly basis to provide accurate accounting records and to enable the operation of a key internal control over the City’s cash. The City should implement procedures to ensure that bank account activity is monitored routinely and potential errors and irregularities are addressed on a timely basis.

Response to 27, 28 & 29: This process has long been the practice within the City. No action is required on this recommendation.

30. The City should complete a new authorized signature card on the bank account and replace the incorrect signer with the current signer in order to correctly transact business on that bank account.

**Response:** The bank has been contacted and a new authorized signature card has been filed.

**Finding (12): THE CITY IS NOT EFFECTIVELY UTILIZING THE TRAK SYSTEM TO MONITOR AND CONTROL FUEL TRANSACTIONS (Page 30)**

**Response:** The City concurs with finding (12). However, the City does not believe that this amount was the result of any inappropriate, illegal or prohibited fueling activities. Comments relating to specific OIG references and Questionable Costs are presented in the Table above.

**Recommendations**

## ATTACHMENT 1 – Management Response (continued)

**FINDING AND RECOMMENDATIONS**

31. The City should utilize the features of the TRAK system, including production of exception reports to monitor fuel transactions. If the existing system cannot provide the appropriate functions for monitoring and control, management should evaluate the cost/benefit of replacing the system.

32. The City should work with the vendor to resolve the problems with malfunctioning SMARTags and increase the use of the SMARTag option for access to the fuel depot.

Response to 31 & 32: The City is in the process of abandoning the TRAK system. TRAK has had numerous problems that it is not capable of addressing permanently. The City acquired a new system in October of 2014 and is waiting to fully vet the new fuel management policy before implementing in January of 2015.

33. The City should consider utilizing the dual access options available in the System to identify the specific employee executing the fuel transaction.

Response: The new fueling system purchased by the City in October 2014 provides for dual access control which will be fully implemented by the City in January 2015.

**Finding (13): WE IDENTIFIED A SIGNIFICANT NUMBER OF FUEL  
TRANSACTIONS WITH INCORRECT MILEAGE ENTRIES OR OTHER  
QUESTIONABLE FUELING PATTERNS (Page 31)**

**Response:** The City concurs with finding (13). However, the City does not believe that this amount was the result of any inappropriate, illegal or prohibited fueling activities. Comments relating to specific OIG references and Questionable Costs are presented in EXHIBIT 1.

**Recommendations**

34. The Public Works-Vehicle Maintenance should ensure that employees are properly trained on the importance of entering the correct mileage entry to initiate fuel transactions.

Response: the City has purchased a new fueling system that will be fully implemented in January 2015. In conjunction with the acquisition of a new system, a new policy has been drafted. All staff having or needing access to the fuel depot will be trained on the new system and related Vehicle Fueling Policy.

35. The City should discontinue the practice of employees entering mileage readings of "0" or "1" to initiate fuel transactions.

**Response:** The new Vehicle Fueling Policy eliminates this practice.



## ATTACHMENT 1 – Management Response (continued)

**FINDING AND RECOMMENDATIONS**

36. New key fobs should be added to the TRAK system specifically designed for fueling small equipment and containers. These fobs should be programmed with a gallon limit equal to the size of the small equipment or containers being used.

**Response:** The City is abandoning the TRAK system and has purchased a replacement system. The function in the new system that provides for programming limits will be fully implemented in January 2015.

**Finding (14): THE CITY IS NOT ACCURATELY RECONCILING AND ALLOCATING MONTHLY FUEL USAGE (Page 33)**

**Response:** The City concurs with finding (14). The newly purchased fueling system and policy address these concerns.

**Recommendations**

37. The City should provide for the development and regular review of fuel transaction reports which identify the vehicle, fueling assignment and fuel usage by department.

**Response:** The reporting function in the newly acquired fueling system provides management with new tools and information that was lacking from the prior system.

**Finding (15): THE CITY DOES NOT HAVE POLICIES AND PROCEDURES FOR THE OPERATION OF THE CITY FUEL DEPOT (Page 33)**

**Response:** The City concurs with finding (15). Policies have been drafted and will be implemented along with a new fueling system.

**Recommendations**

38. The City should create and document policies and procedures to govern the City's fuel program and once established they should be clearly communicated.

**Response:** The City agrees that new internal processes and policies are needed as it relates to fuel management and the City has taken a proactive approach to this issue by finalizing a new Vehicle Fueling Policy. Staff will be trained accordingly.

## ATTACHMENT 1 – Management Response (continued)

Exhibit 1

## QUESTIONABLE COST RESPONSE

Regarding the OIG conclusion wherein categorical support or justification is not provided, the City must speculate. Based on the City review of the specific items identified by the OIG, the City presents the following response:

Finding	Subject Area	Question Costs		Response
		OIG	City	
	Contracts			
1	Contract payments without City Council or City Manager approval	\$93,267	\$7,051	The Council approved \$86,205 in change order authority. The change orders were approved by staff, not the City Manager as required. Payments against the change orders were properly authorized and approved by the consulting engineer. As-built drawings document the change orders performance. Only \$7,051 was spent above Council approval.
	Contracts exceeding City Manager authority and payments exceeding contract amounts	37,987	2,033	The City disagrees with the OIG's reading of the City's ordinance. The City adopted the American Bar Association Model Procurement Code in 2012. The City's intent, and continuing practice, is for the City Manager to have \$25,000 signing/approval authority. The City takes the position that the 2012 ordinance supersedes the 1957 ordinance referred to by the OIG. Only \$2,033 exceeded the contract maximum amount.
		71,515	11,515	The City concurs that the issuance of new Purchase Orders in lieu of exercising the two year extension option on the original Purchase Order should have been documented and a new solicitation should have been undertaken for the \$11,515 spent in excess of the total \$60,000 authorized amount on the Purchase Orders. The City, however, disagrees with the OIG's reading of the City's ordinance regarding the City Manager's signing authority and, therefore, rejects \$60,000 in Questionable Costs.
		42,506	0	The City entered into two contracts for two different technology/software projects. Technology/software is selected on functionality before price. The City holds that this was within the scope of the Procurement Code and the City Manager's authority. The City takes the position that the 2012 ordinance supersedes the 1957 ordinance referred to by the OIG.
		33,191	33,191	The City concurs that a contract modification



## ATTACHMENT 1 – Management Response (continued)

Exhibit 1

## QUESTIONABLE COST RESPONSE

Regarding the OIG conclusion wherein categorical support or justification is not provided, the City must speculate. Based on the City review of the specific items identified by the OIG, the City presents the following response:

Finding	Subject Area	Question Costs		Response
				should have been executed.
	Sole source contract award not in compliance with City ordinance	42,351		The contractor in question has a familiarity with the City networking and electrical infrastructure. This transaction may have been mislabeled by the Purchasing as Sole Source procurement; however, the Code does provide the ability to contract through negotiations based on experience and skill.
I (cont.)	Emergency procurement not in compliance with City ordinance	6,500	0	The City agrees that by definition, this contract should not have been labeled as an "Emergency" procurement. Notwithstanding, the City followed the proper process in entering into this contract. The City rejects the OIG assertion that the dollar scope was outside the City Manager's signing authority. The City takes the position that the 2012 ordinance supersedes the 1957 ordinance referred to by the OIG.
	Inadequate review or approval on contract payments	61,966	0	The City agrees with the OIG that a payment was processed in error from a change order. This error, however, was immediately caught by the City and corrected. The actual funds spent on this transaction were a net of zero dollars and should have been reported accordingly by the OIG.
		55,340	0	The Marina project ran two concurrent purchase orders for equal amounts for two different sections of the docks. Each purchase order was releasing retainage in the amount of \$55,340. The consulting engineer only signed one of the two payment applications submitted. The retainage was due and payable and therefore, should not be considered questionable.  The City takes exception to the OIG comments regarding retainage. The OIG has made an interpretation on the City's contract that is not accurate with the intent of the parties nor in concert with standard construction contract administration. The multi-year, multi-

## ATTACHMENT 1 – Management Response (continued)

Exhibit 1

## QUESTIONABLE COST RESPONSE

Regarding the OIG conclusion wherein categorical support or justification is not provided, the City must speculate. Based on the City review of the specific items identified by the OIG, the City presents the following response:

Finding	Subject Area	Question Costs		Response
				component multi-phase, project was noticed to proceed by dock section. Each section had a retainage which was released as the respective section was completed. Requiring a contractor to wait for final certificate of completion on the entire project unnecessarily burdens the contractor and would have a negative cost impact.
	Inadequate review or approval on contract payments	46,984	0	<p>The OIG claims an invoice for architectural services was not approved for payment. The City provided documentation to the contrary; however, the item was not removed from the Report.</p> <p>The OIG also found the purchase order was unsigned. The City's practice does not require signed purchase orders for payment. The only individuals with the ability to enter a purchase order are the staff of the Purchasing office. If a purchase order has been entered into the City's electronic system, the purchase order is considered approved. An actual signature on a printed document is not necessary and is highly inefficient. When the City issues the revised Policy and Procedures Manual, a provision will be included that clarifies the following: Purchasing Department's issuance of the Purchase Order in the system serves as an electronic signature of approval of the Purchase Order for City purposes.</p>
1 (cont.)	Consulting contracts with multiple deficiencies	12,285	12,285	The City concurs that work was requested and payment was made outside the scope of the contract. A written change order was not signed by the parties. The change was conveyed through verbal communication.
		35,720	35,720	The City concurs that the agreement with the vendor was improperly executed and a 90-day window occurred where service was provided and payments were made outside of a contract.
		6,475	0	The City disagrees with the OIG conclusion that

## ATTACHMENT 1 – Management Response (continued)

Exhibit 1

**QUESTIONABLE COST RESPONSE**

Regarding the OIG conclusion wherein categorical support or justification is not provided, the City must speculate. Based on the City review of the specific items identified by the OIG, the City presents the following response:

Finding	Subject Area	Question Costs		Response
				the City Manager did not have the authority to enter into the contract. The City disagrees with the OIG's reading of the City's ordinance. The City adopted the American Bar Association Model Procurement Code in 2012. The City's intent is for the City Manager to have \$25,000 signing/approval authority. The City takes the position that the 2012 ordinance supersedes the 1957 ordinance.
		25,000	0	The City disagrees with the OIG conclusion that the City Manager did not have the authority to enter into the contract. The City disagrees with the OIG's reading of the City's ordinance. The City adopted the American Bar Association Model Procurement Code in 2012. The City's intent is for the City Manager to have \$25,000 signing/approval authority. The City takes the position that the 2012 ordinance supersedes the 1957 ordinance.
2	Payments related to quotes and bids	53,274	53,274	The City concurs that the Desk Manuals are in conflict with the procurement Code. Corrections are taking place.
4	Unapproved Travel	3,659	3,659	The City agrees that several travel requests were processed for payment without all of the required signatures. A revised Travel Policy was adopted by the Council in November 2013.
5	Unnecessary phone and iPad usage	20,444	0	The City believes that the OIG has not substantiated its claim of 40 cell phones and 19 I-Pads as "unnecessary". The OIG did not perform an evaluation or review of job functions, duties or responsibilities. The City holds that it is presumptive on the part of the OIG to conclude the efficiency devices are not necessary. This matter seems subjective and only reflects an undocumented opinion of the OIG.
7	Questionable P-Card charges	3,750	832	The City agrees that the documentation supporting the 16 tickets for the youth of the City to attend a Miami Dolphins game was not properly maintained.

## ATTACHMENT 1 – Management Response (continued)

Exhibit 1

## QUESTIONABLE COST RESPONSE

Regarding the OIG conclusion wherein categorical support or justification is not provided, the City must speculate. Based on the City review of the specific items identified by the OIG, the City presents the following response:

Finding	Subject Area	Question Costs		Response
				<p>The City disagrees with the OIG that the balances of the items are questionable.</p> <p>Note: The City's Finance Department has drafted a policy provision for the purposes of clarifying what are allowable costs.</p>
7	Questionable corporate credit card charges	9,861	0	The City disagrees with the OIG that the transactions identified do not represent or provide a public purpose.
10	Recurring Expenditures	21,716	3,630	<p>The City maintains numerous water and electric utility meters throughout the city. It is quite common, especially during a construction project, to register zero electric usage. It is also quite common for a city water meter to reflect zero usage in any given month as billings only occur every 1,000 gallons and certain meters are operated solely on demand (Irrigation). The City holds that it is presumptive on the OIG's part to conclude that the charges are questionable.</p> <p>The statement by the Finance Director indicating a review of water utility billing is correct, however, it appears that it was misinterpreted by the OIG. The Finance Director was not referring to City held accounts, but all residential and commercial accounts. The fact that a subsequent month's meter reading is zero does not indicate that the review process is not ongoing, nor does it indicate a problem.</p>
13	Fuel Depot transactions	196,718	0	<p>The City concurs that the fuel management system is outdated and in need of replacement. This had been identified prior to the review of the OIG.</p> <p>The City does understand the concerns of the OIG; however, the City does not believe that this amount was the result of any inappropriate,</p>

## ATTACHMENT 1 – Management Response (continued)

Exhibit 1

**QUESTIONABLE COST RESPONSE**

Regarding the OIG conclusion wherein categorical support or justification is not provided, the City must speculate. Based on the City review of the specific items identified by the OIG, the City presents the following response:

Finding	Subject Area	Question Costs		Response
				illegal or prohibited fueling activities. This is the result of a failed fuel management system that the City is working diligently to correct.
<b>Total</b>		<b>\$880,506</b>	<b>\$163,190</b>	