

Tiger Point Golf Club

Finding 1: City records did not demonstrate that the City's purchase of the entire 365-acre Tiger Point Golf Club (TPGC) was necessary or that the process used to acquire the property was prudent and appropriate. To help ensure that future real property acquisitions are appropriate and in the City's best interest, the City needs to establish effective policies and procedures that require formal independent appraisals, business valuations, and feasibility studies be obtained for appropriate consideration.

City Response to Finding 1: In acquiring the TPGC, the City followed State and local law related to the purchase of land, which under municipal home rule authority affords the City the discretion to act on the basis of multiple, sometimes competing, aspects of public purpose and interest. The primary City interest in acquiring the TPGC was to ensure that the property could continue to be used to meet the effluent disposal needs associated with the operation of the City's South Santa Rosa Utility System (SSRUS) wastewater treatment plant, which serves customers inside and outside the City limits.

At the time, the City faced decisions on whether to expand or build a new plant to meet increasing wastewater treatment demands. The City ultimately determined that building a new plant at a new location would cost ratepayers significantly more than would expansion of the existing plant. Purchase of the TPGC to maintain effluent disposal capacity for existing needs, and for future needs upon expansion, was a critical consideration that supported the decision. The costs associated with purchase, restorations and operational improvements of the TPGC (\$5.4 million from 2012 to 2018) have proven to be much less. While the profitability of the golf course operations and the value of the purchase as a real estate investment were also considered by the City Council, those interests had to be balanced against the primary need to cost-effectively maintain effluent disposal capacity for the benefit of the utility ratepayers.

The audit acknowledges the 2012 due diligence undertaken by the then-administration and City Council, including specialized golf course valuations, engineering reports, and the review of financials; yet, the audit concludes that the due diligence was insufficient. Whether expending more money to conduct additional studies and due diligence would have resulted in the City deciding against purchase of the TPGC is an unknown, but what is known is that as a result of the TPGC purchase the City was able to maintain, and maintains to this day, an FDEP-permitted site that allows for cost-effective and necessary effluent disposal capable of meeting the utility's needs today and in the future. The City acknowledges that there have been challenges in operating the golf club business, but under the City's ownership, the business and the condition of the property has improved significantly. Moreover, to mitigate the business concerns going forward, the City is marketing the golf course business and property with the mandatory condition that upon sale the property will continue to serve the City's effluent disposal needs in perpetuity.

City Response to Recommendation: The City concurs with the recommendation to consider adoption of policies and procedures on appraisals, appropriate due diligence, and other steps to guide future land and enterprise purchases.

Finding 2: The City did not seek legal counsel, prior to the TPGC acquisition, regarding the authority to make certain concessions promised by the then City Manager to property owners near the TPGC nor was the City Council informed, prior to approving the TPGC acquisition, of the concessions. Many of the concessions were subsequently determined to be not reasonable, practical, or enforceable.

City Response to Finding 2: As an applicant to Santa Rosa County for a conditional use permit to expand the wastewater treatment plant in the City's growing service area outside the City limits, the City relied on Santa Rosa County's guidance regarding the procedural requirements for obtaining the permit. The County Zoning Board and the County Commission adopted the conditional use permit in 2012 following the required public hearings and in doing so agreed to include a list of conditions sought by one of the 15 homeowners associations (HOAs) that represent County citizens who own property adjacent to the TPGC.

The County did not raise any concerns regarding the legal appropriateness of including the HOA's conditions in the City's conditional use permit, and in agreeing to those terms, the then City Manager had no reason to believe there were any legal impediments to carrying them out. For these reasons, there was no apparent need at the time for the City to seek legal guidance on the conditions.

After a subsequent cost analysis to assess the financial impact to ratepayers, the City engaged independent legal counsel to evaluate the conditions in the conditional use permit. The independent counsel found there was no connection between the conditions included by the County in the permit and mitigation of any negative impact of the expansion of the WWTP. Therefore, the city could not comply with the conditions. The Board of County Commissioners agreed. As a result, the County amended the conditional use permit to remove the conditions that should not have been included.

City Response to Recommendation: The City concurs with the recommendation to consider adoption of policies and procedures to guide future land and enterprise purchases, and will consider including in those policies and procedures guidance on consultation with appropriate legal counsel.

Finding 3: Notwithstanding the intent to make the TPGC a successful golf venue, the City has experienced ongoing losses from TPGC operations totaling \$5.4 million through the 2017-18 fiscal year.

City Response to Finding 3: For clarification, this audit finding references a six-year time period from December 2012 to September 30, 2018. The City acknowledges the \$5.4 million net cost incurred during these years, but that amount includes expenditures made for revitalization of the 335-acre waterfront golf course property, which has enhanced the value of the business and the property. The City annually publishes to the public a reader-friendly Tiger Point budget brief with operational revenues and losses, which is readily available and documents these numbers.

For the first five years of the City's ownership of the TPGC, the dilapidated condition of the neglected golf courses, driving range, and clubhouse called for a significant investment from the City's South Santa Rosa Utility Water & Sewer Fund. The capital investments and management improvements to the operating east course have resulted in increased revenues and a break-even projection for the business operations in Fiscal Year 2020. The condition of the non-operational west course is greatly improved and currently serves as a greenspace that is used by neighborhood recreation leagues and citizens.

The fully revitalized east golf course was listed for sale in March 2020. Any sale will ensure the City's right to continued use of the property for effluent disposal.

City Response to Recommendation: The City agrees with and is already implementing the recommendations of the auditors by listing the golf course business for sale. The City Council and the SSRUS Board have discussed the golf course operations, potential property sales, and other matters related to the TPGC in numerous public workshops and meetings over the last two years and will continue to do so moving forward.

Finding 4: The City's oversight of the contracted management company operating the TPGC could be enhanced to better ensure that all fees due the City for TPGC operations are properly assessed, collected, recorded, and deposited and that all expenses paid by the management company are appropriate and reported to the City.

City Response to Finding 4: The City has implemented steps to address the concern. As a result, improvements in management oversight and reporting have been realized. The City initially managed the golf business itself, but in 2015 engaged a third-party management company for this purpose. Upon the City's one-year evaluation of the company's performance, the contract was terminated. In 2017, the City engaged in a competitive Request for Proposals (RFP) process that led to the selection of Troon/Honours Golf, which is the largest golf course management company in the world, to manage the TPGC business, including bookkeeping and accounting services. In 2019, the City also hired an accountant who was specifically assigned to TPGC for an additional layer of financial oversight.

City Response to Recommendation: As noted, the City has enhanced its oversight and monitoring of the TPGC business and will continue to vigilantly watch over the operations until such time as the business is sold.

Finding 5: The City did not require the TPGC management company to execute, for each event at the TPGC, an agreement that specified relevant details for the event and the sponsoring entity's responsibilities.

City Response to Finding 5: The 2017 management contract with Troon/Honours Golf does not require the execution of an official agreement for a special event rental. However, the management company is responsible for all rentals and fee collections and reports on those to the Parks and Recreation Director and Public Services Director, who review all operations including rentals. The City's TPGC accountant provides additional oversight.

City Response to Recommendation: The City does not plan to amend its contract with the management company because it anticipates selling the golf course business in the near future, but the City will continue its oversight, which has been enhanced to a point that the City believes is sufficient, and will work with the management company to assure clear terms are established for events held at TPGC.

Finding 6: City personnel did not always verify assertions made by consultants used to solicit competitive bids or quotes on the City's behalf and written agreements were not always properly executed for consultant and other professional services.

City Response to Finding 6: It is difficult for the current administration to ascertain in all respects what took place in the past, but the City acknowledges that there have been instances in which better documentation could have been kept on competitive bids or quotes obtained for

goods or services.

City Response to Recommendation: Since this audit began, the City has taken several significant steps to implement the auditor's recommendations. The City has improved its record keeping by purchasing new digital software named QuestCDN in 2018 to manage procurement and competitive solicitations for the purchase of goods and service over \$5,000. Additionally, the City completely overhauled its procurement procedures and in November of 2019 the Council adopted a new detailed Purchasing Policies and Procedures manual in that addresses the process and required documentation for procurement at all levels in keeping with the provisions of the City Charter and Code of Ordinances.

Finding 7: The City did not always obtain timely independent appraisals of property values for consideration by the City Council prior to selling surplus City-owned real property.

City Response to Finding 7: As acknowledged by the audit, the City has obtained appraisals for the TPGC property and the City Council considered those appraisals and the "highest and best use" values estimated therein prior to making decisions on the sale of the old driving range property, which closed in June of 2019, and on the sale of a portion of the west course to the Santa Rosa County School Board, which is set to close in September of 2020. The appraisals, however, were not the Council's only considerations. As with the purchase of the TPGC, the City Council took into account other analyses and factors and acted in what it believed to be the public interest.

The auditors reviewed the appraisals which state that the highest and best use would be high density residential. However, this type of development may not be compatible with the City's primary interest, which is the ongoing use of the land for effluent disposal.

City Response to Recommendation: The City concurs with the recommendation to consider adoption of policies and procedures for obtaining appraisals and consideration of them prior to the sale of City-owned real-property.

Related Organizations – Financing Programs

Finding 8: The City did not, of record, assess that it was economically or otherwise advantageous for the City to use Gulf Breeze Financial Services, Inc. (GBFS), and Capital Trust Agency, Inc. (CTA), to administer its financing programs. Additionally, the use of these entities resulted in less accountability and transparency for program transactions and activities when compared to direct administration of those programs by the City, and resulted in costs that could have been avoided had City personnel been solely responsible for administering the financing programs.

City Response: The current City administration's review of the history of the organizations, which were formed many years ago, revealed that administrative efficiencies were the primary reason for structuring the City's financing programs in this manner. Since its formation in 1985, GBFS has operated under the umbrella of the City, and since 2015, has been run by City employees.¹

¹ It should be noted that the business of GBFS has significantly decreased due to a phase out of its programs. The City is therefore more focused on CTA in responding to this and other audit findings on the City's financing programs.

When CTA was subsequently established in 1999, the Interlocal Agreement adopted by the City of Gulf Breeze and the City of Century documented that the agency was formed to achieve “administrative convenience” in the financing and administering of its programs. This approach and authority of the City to operate the programs through CTA has been expressly validated in multiple court proceedings over the years and is fully in line with the law, and the City believes that economic and operational advantages have been realized through this structure.

The Florida Attorney General's Office “has long recognized the authority of a municipality to use non-profit organizations to assist in carrying out municipal purposes.” AGO 2006-40. CTA exemplifies the propriety of doing so when a specialized function is involved. Here, with the separate legal structure, CTA's conduit bond financing program is overseen and managed by a City Council appointed Board of citizens, who have significant business, finance, and local government experience. Unlike the City Council, which must attend to a broad range of business, the CTA Board's is able to dedicate its attention solely to the bond financing program.

Additionally, CTA's creation as a separate entity under the Interlocal Agreement allows for a wide variety of projects (e.g., educational, housing, and senior care facilities).

City Response to Recommendation: The City agrees that the City should evaluate the administrative functioning of GBFS and CTA to ensure transparency and accountability. Although, CTA bonds must be approved by the City's City Council at a public meeting, the City acknowledges that it should evaluate the current operations and, with input from the CTA Board, consider whether steps can be taken to increase accountability, transparency, and public understanding of the business of CTA.

Finding 9: City measures to ensure that CTA operations are conducted consistent with City Council intent and in accordance with applicable laws, established policies and procedures, CTA articles of incorporation, and good business practices were not always effective.

City Response to Finding 9: The City recognizes that the CTA's Articles of Incorporation, By-Laws, the Interlocal Agreement should be periodically reviewed, along with CTA's policies and procedures, as a matter of routine best practices. The City plans to undertake that review, in conjunction with the CTA Board, and will consider any updates which would be beneficial for best business practices and the achievement of appropriate and effective controls.

CTA's Articles of Incorporation meet the requirements of Florida law for the formation of an entity and, like most Articles, generally describe the purpose of the entity without express detail on all aspects of operations. There is no prohibition on CTA making charitable contributions to not-for-profit organizations, and doing so serves a public purpose by providing support and benefits to the City and its residents.

The City agrees that it would be beneficial to review the Interlocal Agreement, the Articles of Incorporation, the By-Laws, and other governing documents and policies and procedures of CTA, to ensure that sufficient policies, procedures, and controls are in place and that best business practices are followed.

City Response to Recommendation: Following review of CTA's governing documents and policies and procedures, the City will work in conjunction with the CTA Board to consider whether amendments to the documents are appropriate and whether new policies and procedures should be adopted to implement best business practices to increase

accountability, transparency, and public understanding of the business of CTA.

Finding 10: The City lacked comprehensive policies and procedures governing significant aspects of GBFS and CTA operations.

City Response to Finding 10: As acknowledged in the City's Response to Finding 9, the City recognizes the need to review and update CTA's governing documents and policies and procedures to ensure that the interests of transparency and accountability are met, and that best business practices are followed.

City Response to Recommendation: The City will review GBFS policies and procedures, and, in conjunction with the CTA Board will review CTA policies and procedures, to ensure that all significant aspects of GBFS and CTA operations are covered.

Finding 11: Enhanced transparency of GBFS and CTA operations is needed.

City Response to Finding 11: The City will consider actions to enhance transparency with respect to GBFS and its operations within the City. With regard to CTA, as noted by the auditors, CTA's meetings and activities are conducted in compliance with Florida's Sunshine Law and Public Records Act. However, the City agrees that measures to improve transparency, accountability, and the public understanding of the City's finance programs should be undertaken. The City is currently working to overhaul the agency websites and establish new email domains for GBFS and CTA, and will consider other ways to increase accountability, transparency, and public understanding of the City's financing programs.

City Response to Recommendation: The City will work to implement steps to increase accountability, transparency, and public understanding of the business of GBFS and CTA.

Finding 12: The City had not executed a contract with the CTA or formally established directives regarding the amounts and frequency of GBFS and CTA transfers of resources to the City.

City Response to Finding 12: The City has not entered into a contract with CTA on its operations and it has not set specific directives on the amounts and frequency of GBFS and CTA transfers of resources to the City. However, there is no legal requirement that the City do so. Decisions on transfers are made by the City Council, and where applicable by the CTA Board, through the City's annual budget process.

The practice has been for the City to budget transfers in two increments annually, at the beginning and end of the year so as to ensure the availability of funds. The amount, however, is determined based on the budgetary needs of the City. During budget workshops, the City reviews its capital improvement plan and strives to assign CTA transfers to fund capital needs, such as storm water or public safety projects, rather than assigning transfers for support of recurring operating costs.

City Response to Recommendation: The City will consider whether to adopt guidance to document the City's practice and procedure for determining the amount and frequency of GBFS and CTA transfers to the City.

Finding 13: The City could have exercised more diligence in resolving questions regarding compensation paid to the GBFS and CTA Executive Director and his company, and the City needs to improve oversight and transparency regarding the Executive Director's compensation and administration of GBFS and CTA operations.

City Response to Finding 13: The City has taken action to address this concern and intends to continue to exercise greater diligence in reviewing compensation for the GBFS and CTA Executive Director. Beginning in 2015, the Council has placed the Executive Director's employment agreement on a City Council meeting agenda for optimal transparency in considering its compensation terms, and will continue to do so.

City Response to Recommendation: The City believes that improved oversight and transparency with respect to the compensation paid to the GBFS and CTA Executive Director would be beneficial. The City intends to review the structure of the Executive Director's compensation and consider revisions to ensure the compensation is reasonable and that payments are properly documented and allocated between GBFS and CTA. Any revisions to the employment agreement and compensation structure will be considered and acted upon by the City Council in a public meeting.

Finding 14: The City had not established a documented methodology for allocating City personnel and other City-provided support costs to the GBFS and CTA.

City Response to Finding 14: The City employs the personnel responsible for GBFS and CTA day-to-day operations. The purpose is to ensure accountability to the City to the greatest extent possible. However, the City recognizes that because these employees serve the two agencies, their time and expenses must be allocated to one fund or the other. In the past, the method and rationale for the allocation has not always been adequately documented. The City is working to do a better job of such documentation going forward. However, as GBFS is no longer initiating bond activity and is simply monitoring and maintaining outstanding accounts that are set to retire in a few years, this issue will resolve itself in the future.

City Response to Recommendation: The City will strive for better documentation of the rationale for allocating the time and expenses of the GBFS and CTA staff between the two agencies.

Finding 15: City records lacked documented determinations of the necessity for certain loans made to and from related organizations and the appropriateness of the assessed interest rates for those loans.

City Response to Finding 15: The Mayor and City Council have from time to time, determined that certain inter-fund loans are necessary and appropriate. From an accounting and legal standpoint, there is nothing to prohibit local government inter-fund loans, the terms of which may vary based on particular circumstances and budgetary considerations. For instance, the City's loan of \$600,000 to GBFS, which the auditors focused on, included an interest rate that recovered the savings interest otherwise lost to the City by drawing the money from an interest-bearing account. Yet, on another inter-fund loan noted by the auditors, the interest was set slightly lower than a quote from a conventional lender. In both these instances, the City Council's deliberation and decision on the loan terms was based on the specific circumstances and the best interest of the public at the time, but could have been better documented.

City Response to Recommendation: The City will consider establishing policies and procedures addressing interfund loans, including the establishment of terms and proper documentation.

Finding 16: City records, as of July 2020, did not document the current status of a United States Department of Justice investigation regarding the City's use of the United States Department of Treasury's State and Local Government Series securities program to invest bond proceeds.

City Response to Finding 16: The investigation referenced in the background for this finding dates back to 2013 and involved an investment program available to state and local governments that the City is no longer involved in. The City cooperated with the investigation, which involved multiple local governments, and hired legal counsel to guide it through the process, which has been inactive for some time.

City Response to Recommendation: The City will better document the status of this matter and will consult with legal counsel on any possibility for recovering legal costs, taking into consideration the time and resources that would have to be devoted to such an effort, which might very well offset any potential recovery.

Utility Services

Finding 17: City records did not always evidence that utility rate studies were based on applicable cost factors and that enterprise fund transfers for internal services costs were proper and reasonable.

City Response to Finding 17: Prior utility rate studies were based on utility needs and cost factors, but the City does recognize that an update to the last such utility rate study was overdue. In order to address this, the City has engaged in a new rate study to ensure that utility rates both inside and outside of the City are based on applicable and documented cost factors and analysis. The City will consider adjustments to utility rates based upon the study. Additionally, to improve the support and documentation for enterprise fund transfers, in FY 2018-2019, the City implemented a true cost allocation plan so that the City's budget and supporting financial records now reflect the allocation of administrative/financial services, overhead, and payroll costs across the City's utility enterprises. Costs which can be directly tied to various programs are now being directly expensed to the proper cost centers and accounting funds. Costs that are considered to be shared costs are now the basis for operating transfers from the respective enterprise funds to the General Fund, and specifics on those transfers, the actual dollar amount and the purpose behind each transfer, are now reported in the City's year-end Comprehensive Annual Financial Report (CAFR). See, e.g., page 100, CAFR for FY September 30, 2019.

City Response to Recommendation: The City will consider adoption of policies and procedures to ensure that utility rates are based on appropriate rate studies that take into account applicable cost factors. The City will also consider adoption of policies and procedures to guide determinations on fund transfers.

Finding 18: City records did not demonstrate that the same factors were used to assess water and sewer utility rates, fees, and charges for customers inside and outside the City. In addition, the transparency of potential rate assessment increases and surcharges to South Santa Rosa Utility Services (SSRUS) customers could be enhanced by openly discussing such rate increases and surcharges at SSRUS Board meetings.

City Response to Finding 18: The City has provided information to ratepayers on the basis for rates, and has acted as required in public meetings to set rates over the years. However, the City acknowledges that periodic rate studies are important to ensure that utility rates are appropriately set for the benefit of the ratepayers and the financial operations of the utility. Because a new rate study was overdue, in July 2019, the City Council initiated a comprehensive rate study for water and sewer utilities, engaging Raftelis Consultants, which is a leader in this field. On June 29, 2020, representatives of Raftelis met in public video/teleconference sessions, as authorized by Florida Governor DeSantis' COVID-19 Executive Orders, with both the South Santa Rosa Utility System Board and the Gulf Breeze City Council to present the rate study findings.

The study concludes that: 1) the same rate should be charged to customers inside and outside the City; 2) the water and sewer enterprise utilities should be consolidated into one fund; and 3) the outside the City (non-City) customer surcharge should be increased to 25%, as allowed by Florida law. Currently, non-City customers pay only a 6% surcharge, while City customers pay a 10% municipal utility tax. The rate study recommendations will ensure rate parity between non-City and City customers, and surcharge parity with other non-City municipal customers.

Raftelis is now working with City staff to develop action items to bring back to the SSRUS Board and Council for implementation of the rate study finding recommendations.

City Response to Recommendation: The City has already responded to the recommendation by engaging in a comprehensive water and sewer rate study to ensure that rates, fees, and charges for in-City and outside-City customers are just, equitable, and set in accordance with Florida law. As with the recent presentation of the rate study findings, the SSRUS Board's and the City Council's consideration of actions to implement the recommendations of the rate study will take place in an advertised public meetings in which the public can participate either in person, or virtually, depending on COVID-19 restrictions. The City's goal is to complete implementation of the rate study sometime during the first quarter of next fiscal year.

Finding 19: The City could enhance procedures for recording and documenting utility billing adjustments.

City Response to Finding 19: In order to address the concern, over the last three years, the City has added 4 new positions (for a total of 6) within the Finance Department to strengthen internal controls.

Additionally, during the fiscal year 2018/2019, the City implemented new policies and processes for review and approval of account adjustments in its utility billing software (BS&A). These procedures restrict access to make customer account adjustments to the Utility Billing Supervisor and Assistant Supervisor only. If the Utility Billing Supervisor posts adjustments, they are reviewed by the Assistant Utility Billing Supervisor for accuracy, and vice versa, and the respective approvals are documented. Any adjustments over \$1,000 require the City Manager's approval and documentation of the approval must be scanned into the customer's account

history.

The Director of Finance is responsible for reconciling the accounts receivable accounts and reviewing the general ledger for the annual audit by the City's external financial auditors. The City plans to take additional steps in FY 2020/2021 to ensure timely reconciliation of accounts receivable and additional focus on internal control improvements.

City Response to Recommendation: The City has addressed, and will continue to address, this recommendation. Steps taken thus far under the new City Manager appointed in 2017 and the new Finance Director hired in 2018, include adding Finance Department staff to improve internal controls, including the review and approval of account adjustments, and to provide for better record-keeping.

Payroll and Personnel Administration

Finding 20: The City did not verify, of record, that individuals participating in the City group insurance plans were eligible participants.

City Response to Finding 20: This finding relates to one individual at the city's transfer station who had previously been on the city's self-insurance plan prior to the city's change in insurance carriers. The City is not aware of and the auditors did not indicate that there were any other ineligible participants in the City's group insurance plans. However, to ensure the eligibility of all participants is verified going forward, the City has revised its procedures related to verifying the eligibility of participants. Additionally, in 2019 the City created an Administrative Services Department which is specifically assigned to handle employee benefits and other personnel matters. Previously, there was no department designated to handle human resources and the duties were shared between Finance, City Clerk, and City Manager's Offices.

City Response to Recommendation: The City has through the establishment of an Administrative Services Department, and the revision of procedures, taken steps to address this recommendation, including review and documentation of evidence of eligibility upon initial enrollment and monitoring of eligibility thereafter with timely removal of employees who become ineligible.

Finding 21: City records did not always demonstrate that accumulated leave payment calculations were verified before payments were made or that payments complied with City policies.

City Response to Finding 21: In order to address the concern that accumulated leave payouts at separation have not always been handled consistently, the City has implemented administrative procedures to ensure verification and documentation of accumulated leave and of accumulated leave payouts due upon separation. The new procedures will also ensure that the provisions of the City's Personnel Manual are consistently followed. The Senior Accountant is now reviewing all employee leave payouts as calculated by the payroll accounting specialist. Additionally, the Finance Director also reviews and approves accumulated leave payouts before the payroll is processed. These steps, which are set forth in clearly documented policies, have greatly improved the accuracy of reporting.

City Response to Recommendation: In 2020, City staff worked with the City Attorney to revise and update the City's Personnel Manual and the resulting revised manual was

adopted by the City Council on May 4, 2020. The Personnel Manual specifically addresses employee leave in section 6.2 and includes provisions on accumulation of leave time and payment of leave upon separation. As noted above, the City has also implemented administrative procedures to ensure consistent application of the manual's provisions. With regard to the suggestion that the City consider seeking recovery of separation overpayments, the City does not believe that would be worthwhile from a cost/benefit perspective.

Finding 22: The City made certain severance and other compensation payments that exceeded limits set by State law and made payments to a former employee for unsubstantiated consulting services.

City Response to Finding 22: This finding arises from two situations in which severance pay was in the view of the auditors above that allowed by law. However, both instances involved employment disputes that were resolved by the employee resigning with severance pay. It appears that the severance pay may have exceeded the allowed amount in one instance, but in the other instance, Council amended the severance agreement to ensure consistency with State law. Subsequently, a consulting agreement was entered into with the separated employment, which was in the best interest of the City to ensure continuity of services during a transition time.

The prior Finance Director left the City just two months after the appointment of the new Interim City Manager, leaving the City with only one full-time accounts payable clerk, who had no budget experience, in the Finance Department. The timing left the City without sufficient staff to handle the budget development and workshops taking place at the time. It was therefore in the best interest of the City to agree to a consulting arrangement under which the former Finance Director was on retainer and available for consultation. The City acknowledges that better records could have been kept to document the work performed under the consulting agreement.

City Response to Recommendation: The City will ensure that future severance payments do not exceed limits set by Florida law and will also ensure that work performed under future consulting agreements is properly documented. With regard to the suggestion that the City consider seeking recovery of any overpayments, the City does not believe that would be worthwhile from a cost/benefit perspective.

Finding 23: Contrary to State law, the City paid extra compensation after services were rendered.

City Response to Finding 23: This audit finding relates to the City's long best practice of succession planning and recognition for service. The City intends to exercise diligence to assure that compensation to employees comports with state law.

City Response to Recommendation: The City will consider adoption of policies and procedures to ensure that compensation paid to employees is at all times appropriate and in compliance with the law.

Finding 24: The City hired a Special Advisor although that position was not included on the City Council-approved Schedule of Authorized Positions. In addition, City records did not evidence that payments to the Special Advisor were supported by records evidencing hours worked, and the City made salary overpayments and excess contributions to the Special Advisor's deferred

compensation plan account.

City Response to Finding 24: The City agrees that prior to Fiscal Year 2019/2020, the City did not consistently approve a complete Schedule of Authorized Positions, and thus the Special Advisor's position was not included. However, with the implementation of new procedures to improve budgeting transparency, the City Council now approves such a schedule in the course of considering the budget and any changes to the schedule that might occur during the year will be brought to the Council for approval.

Regardless of whether the Special Advisor's position was in a schedule, the City Council did approve the employment agreement to retain as a Special Advisor the former City Manager, who with 25 years of experience in serving the City was a valuable resource for the City as it transitioned to a new administration. In his role as Special Advisor, the former City Manager continued to devote his time and expertise to the City. His contributions included running the City's Citizen's Academy, which educates citizens on how their City operates and how they might become involved. He also served in accordance with the City Manager succession plan to provide consultation and support for the new City Manager in her interim and permanent appointments. The Special Advisor also provided much needed and valuable support for the City as it sought to answer the multitude of historic questions raised by the auditors in the course of this audit.

City Response to Recommendation: With the conclusion of the audit and the end of the current Fiscal Year on September 30, 2020, the Special Advisor position that is the subject of this finding will expire and therefore there will be no need to include, as recommended, the position description and pay in the Schedule of Authorized Positions for the new Fiscal Year beginning October 1, 2020. Any additional hours worked and pay will be fully documented in the short time remaining for this position. Additionally, the City concurs that the Special Advisor and former long-serving City Manager was overpaid \$873 due to a payroll error discovered by this audit; however, this amount has now been repaid.

Finding 25: Contrary to City policies requiring that individuals using personal vehicles for City travel be reimbursed at rates established by State law, the City provided automobile and toll allowances to certain employees and City records did not evidence how the allowances were determined.

City Response to Finding 25: In certain instances, it appears the City may not have consistently reimbursed or required sufficient documentation of travel expenses involving employee personal vehicles. However, the new City Personnel Manual adopted May 4, 2020, includes detailed provisions in section 13.10 on employee use of personal vehicles for City-related travel that provide for reimbursement in accordance with state law and for submission of expense documentation prior to reimbursement.

City Response to Recommendation: The City has established policies and procedures, in its newly adopted Personnel Manual, on employee use of personal vehicles for City-related travel and for reimbursement and documentation of expenses related thereto. The City will ensure compliance with these policies through administrative measures and will periodically review the Personnel Manual and consider any additional updates that might be beneficial.

Motor Vehicles

Finding 26: The City could enhance controls over motor vehicle assignment and use.

City Response to Finding 26: The City is working towards enhanced policies and controls for asset management and fuel consumption tracking systems. The City has developed a vehicle user database, which will be tied into the fuel system. In addition, fuel pumps not previously tied into the fuel system are currently being upgraded and will be tied in. It is projected that this citywide system will be fully functional in FY2021. The Finance Department will consequently be better able to track fuel usage and better monitor vehicle maintenance needs.

The City has also taken steps for better oversight of vehicle assignment. Under newly adopted policies, when employees are assigned vehicles, they must sign a form acknowledging the City's policy related to City-owned vehicle use. The City has also instituted measures for monitoring vehicle use and for independent third party verification of employee driver's licenses.

City Response to Recommendation: The City will continue to implement enhanced controls over the use of City vehicles as noted above. The City will consider if additional measures are warranted.

Finding 27: City records did not demonstrate that the value of personal use of City vehicles was appropriately included in each applicable employee's gross income reported to the Internal Revenue Service.

City Response to Finding 27: City employees who are assigned City vehicles are allowed to use those vehicles for commuting and incidental personal use. The Finance Department in consultation with the City Attorney, drafted Resolution 13-2019 to document the City's policies related to employees' personal use of assigned City vehicles and to ensure compliance with IRS reporting regulations on the value of such use. In keeping with the policies, the City has improved record-keeping on City vehicle use. Employees with take-home vehicles now report personal vehicle usage monthly to the Finance Department so that the benefit can be accurately calculated and added to the employee's gross income.

City Response to Recommendation: The City will continue to implement its new policies on employees' personal use of City vehicles and will ensure that meet all applicable laws and regulations related to reporting and monitoring of such use are met.

Finding 28: City efforts to monitor fuel use at the fuel pumping station need enhancement.

City Response to Recommendation 28: The City has improved its fuel monitoring. A new fuel system has been installed behind City Hall to account for gasoline usage. For additional monitoring, a camera system was also installed. Additionally, the Public Services field operations station is slated for automation in the near future.

City Response to Recommendation: The City has implemented policies and procedures for better monitoring of fuel use through the steps described above and may consider additional steps to be taken in the future.

Finding 29: To reduce the risk of costly repairs and inconvenient downtime, the City needs to

establish a comprehensive vehicle preventative maintenance plan.

City Response to Finding 29: The City does not have a mechanic on staff due to the City's small size; however, the City agrees that it could make improvements with a comprehensive vehicle preventative maintenance plan.

City Response to Recommendation: The City will implement policies and procedures for uniform maintenance and repair of City motor vehicles.

Travel

Finding 30: City personnel and City contractors did not always comply with City travel policies and City records did not always evidence that travel-related expenditures were adequately reviewed and supported by appropriate documentation and signed travel reports.

City Response to Finding 30: The City has always strived to follow applicable state travel policies and require documentation for travel expenses, but agrees that improvements and clarifications were needed. To that end, the new Personnel Manual, adopted May 4, 2020, includes in section 13.10 detailed provisions on travel reimbursement and required documentation, all in compliance with state law. Additionally, in November of 2019, the City adopted new Purchasing Policies and Procedures on the use of City p-cards, whether for travel or otherwise.

City Response to Recommendation: The City will continue to implement policies and procedures to enhance controls over travel by its employees and contractors, assuring that it is approved and that reimbursement of expenses are appropriate, sufficiently documented, and in accordance with law.

Procurement and Use of Public Funds

Finding 31: To better ensure that the process for acquiring goods and services is effective and consistently administered, and procurements are made in an equitable and economic manner, the City Charter or purchasing policies need to be revised to provide clear and consistent terms, provisions, and requirements that comply with State law and to promote good business practices.

City Response to Finding 31: The City acknowledges that it was operating under outdated procurement policies that were in need of revising and for that reason has made significant progress in addressing this concern. On November 18, 2019, the City Council adopted Ordinance No. 17-2019 amending the City's Code of Ordinances to provide for the adoption of a Purchasing and Procedures manual and to ensure "the uniform, fair and equitable treatment of all persons involved in public purchasing" by the City. On November 18, 2019, the City Council also adopted its new Purchasing and Procedures Manual by Resolution 58-2019, which provides detailed guidance to City staff and others on the City's procurement process. For example, the new manual addresses procedures that, although not required, may be used for procurement of professional services "such as for brokers, realtors, accountants or attorneys" (section 5.1(c)). This provision is consistent with state law.

As for amendments to the City Charter, the Council proposed updates to the Charter's provisions on procurement in 2019, but the referendum on those updates did not pass. The City Council has formed a Charter Review Committee, but its work has been suspended due to COVID-19.

Once the work resumes, the Committee will consider whether to recommend that the Council again consider updates to the Charter on procurement.

City Response to Recommendation: The City will continue to implement its new procurement policies and procedures to ensure effective and consistently administered procurement processes to achieve equitable treatment of those involved in the process and processes that ensure compliance with the law and sound purchasing decisions. The City will also continue to review its procurement policies and consider additional updates as warranted.

Finding 32: City records did not always demonstrate the use of competitive selection procedures in accordance with City purchasing policies or good business practices and the City did not always retain records supporting procurements of goods and services.

City Response to Finding 32: The City agrees that improvements were required to ensure consistency in competitive procurement and selection processes, and as described in response to finding 31, the City has taken action to address the concern. As stated above, the City adopted its new Purchasing and Procedures Manual on November 18, 2019. The prior manual was outdated and last amended by City Council May 17, 2010. Additionally, as stated elsewhere in this audit, the City Council created the Administrative Services Department at the start of the 2019/2020 fiscal year including an Administrative Services Director, and other positions, to oversee the procurement process throughout the City, to ensure consistency and proper documentation.

City Response to Recommendation: The City will continue to implement its new procurement policies and procedures to ensure effective and consistently administered procurement processes to achieve equitable treatment of those involved in the process and processes that ensure compliance with the law and sound purchasing decisions. The City will also continue to review its procurement policies and consider additional updates as warranted.

Finding 33: For some acquired services, the City did not execute contracts to establish the duties, expectations, and other requirements of each party.

City Response to Finding 33: It appears that there have been instances in the past where services were obtained without clear contracts on the terms of the services to be provided. On July 20, 2018, the City engaged a new firm for legal services, which provides an attorney to serve as the City Attorney. Since that time, the new City Attorney has been reviewing and revising the standard template contracts for construction and other services.

City Response to Recommendation: The City will continue to review and update contracts and take steps to ensure that contracts are entered into in a timely manner with clear terms as to the duties, expectations, and requirements of the parties.

Finding 34: City procedures did not provide for identifying and documenting potential and actual conflicts of interests.

City Response to Finding 34: In any procurement, the City does take steps to avoid conflicts

of interest prohibited by law and by its policies and procedures. As noted in the audit, the new Purchasing and Procedures manual and new Code provisions on procurement highlight the need to avoid conflicts of interest (see, e.g., section 4.3) and to follow the Florida Code of Ethics. The City will, however, implement new administrative measures to document verification that no conflicts of interest exist in procuring goods and services for the City.

City Response to Recommendation: The City's newly adopted procurement policies stress the importance of ethics in procurement and avoiding conflicts of interest. As noted, the City will consider and implement additional administrative measures to document the absence of conflicts of interests in procurement.

Finding 35: City records did not demonstrate that the City financial statement auditors were selected in accordance with State law.

City Response to Finding 35: The auditor's discussion on this finding acknowledges that a Request for Proposals (RFP) process was used in the selection of the City's financial auditors. However, the City agrees that documentation on the City's consideration of responses to the RFP recognizes was not retained.

City Response to Recommendation: The City's new records retention software and procurement software will ensure full documentation and required record retention in future auditor selections. The City will take steps to ensure compliance with Florida law when the auditing services are next competitively selected, which will be for the FY2022 audit.

Finding 36: The City did not document a cost-benefit analysis that considered alternative options to achieve City objectives prior to entering into protracted and expensive litigation regarding beach access.

City Response to Finding 36: As the auditor's lengthy discussion indicates, this was a complex matter, involving litigation that the City did not initiate. Along the way, the City Council made determinations in its informed discretion on how to proceed, taking into account the advice of its legal counsel and what it believed to be the best interests of the City and its residents. Unfortunately, the uncertainty of litigation, particularly as it unfolds, does not always lend itself to a cost-benefit analysis. However, given the value and price of waterfront property in the City even years ago, the alternative proposed by the auditors of purchasing other waterfront property for beach access would likely have been unrealistic and much more expensive than the City's efforts to maintain the public waterfront access that the public had used for years. In the end, the City accepted the rulings of the court and brought the matter to a reasonable close.

City Response to Recommendation: The City will continue as best it can to consider options other than litigation to resolve disputes, taking into account the costs and interests involved.

Finding 37: City controls over purchasing cards and related charges need improvement.

City Response to Finding 37: The City agrees that controls over purchasing cards were lacking. However, the City has now adopted policies and procedures in its new Purchasing

Policies and Procedures manual to enhance these controls and address this concern. For example, the City has implemented deadlines for submitting a p-card receipts and has assigned staff to track and monitor documentation related to p-card use.

City Response to Recommendation: The City will continue to refine its controls over the use of purchasing cards and related charges.

Tourist Development Tax Funds

Finding 38: The City needs to seek clarification from Santa Rosa County (County) on the restrictive uses of Tourist Development Tax (TDT) proceeds and ensure that quarterly TDT reports are filed with the County Clerk, even during the absence of the individuals primarily responsible for filing the reports.

City Response to Finding 38: The finding relates to one event that occurred after the former Finance Director unexpectedly and abruptly left the City leaving only one other full time employee to take on duties such as the filing of the TDT reports. The City is clear on its TDT spending and reporting requirements and there have been no late filings since the hiring of a new Finance Director and additional staff within the Finance Department.

Additionally, the City last updated an interlocal with the County and verified all expenditures in 2015. The City will repeat this exercise as a best business practice.

City Response to Recommendation: The City will continue to comply with requirements on the use of TDT monies and the reporting requirements.

Finding 39: The City did not always competitively select goods and services purchased with TDT moneys in accordance with the City Charter and City purchasing policies.

City Response to Finding 39: This finding relates to only two instances – procurement related to a sand volleyball court and a fireworks display. Regarding the latter, the City approved a sole source contract for fireworks at the recommendation of the fire chief; yet, the city lacked a purchasing manual at the time which allowed for approval in the event of a sole source provider. In regards to the construction of a sand volleyball court, the City waived the competitive bid requirements for three purchases ranging from \$1,680 to \$3,505 made in 2016 for supplies. Procedures to ensure and document compliance with sole source purchasing requirements, which may lawfully be used when appropriate, have now been addressed with the adoption of the new Purchasing and Procedures Manual.

City Response to Recommendation: The City will follow the procedures for sole source purchasing as set forth in its new Purchasing Policies and Procedures manual and will review and update those policies as warranted.

Capital Assets

Finding 40: City policies and procedures did not require and ensure that an annual physical inventory of tangible personal property (TPP) was conducted and reconciled to City TPP records or that property schedules used for insurance purposes were accurate and complete.

City Response to Finding 40: To address the concern, in 2019, the City created an Administrative Services Department for the purposed of centralizing responsibilities such as the

TPP, and will make improvements to better account for inventory.

City Response to Recommendation: The City will consider adoption of policies and procedures, and will continue to implement administrative improvements, to properly account for and safeguard TPP.

Administration and Management

Finding 41: The City had not established an internal audit function or otherwise provided for internal audit activities to assist management in maintaining a comprehensive framework of internal controls.

City Response to Finding 41: The City agrees that it needs to take steps to establish better internal controls, but the City has made changes that will make improvements through the establishment of the Administrative Services Department and enhanced controls in the Finance Department. Additionally, in August 2020, the City hired an Assistant City Manager with a background as the Santa Rosa County budget manager. The roles and responsibilities of the position include oversight of the annual budget process. Internal controls and audit functions will also be assigned to this position.

City Response to Recommendation: The City will continue to take steps to establish an internal audit function and other actions to establish better and more comprehensive internal controls.

Finding 42: The City needs to periodically evaluate the sufficiency of, and amend as appropriate, its parliamentary procedures for conducting City Council business.

City Response to Finding 42: At a workshop held in January of 2019, the City Council reviewed a Mayor and Council Roles and Responsibilities Handbook which includes parliamentary procedures. The manual was subsequently adopted on October 7, 2019 by Resolution 49-2019. The City agrees that the Mayor and Council should periodically review the handbook on conducting City Council business and amend it as appropriate.

City Response to Recommendation: At least every two years, concurrent with the staggered City Council office terms, the City intends to review the Mayor and Council Roles and Responsibilities Handbook, including the parliamentary procedures therein, and amend it as warranted.

Finding 43: Contrary to State law, the City's 2016-17 and 2017-18 fiscal year budgets did not include balances brought forward from prior fiscal years.

City Response to Finding 43: The City has addressed this by increasing the Finance Department staff to a total of six full time employees over the last two years. Prior to that time, there were only two full time positions and two temporary positions, and the City's ability to comply with budget requirements was unfortunately impacted by the sudden and unexpected departure of the former Finance Director in the summer of 2017. This finding, which was noted in the City's annual financial audits, has not reoccurred. The City's recent audits have been clean, with no findings.

City Response to Recommendation: The City will continue to take the steps through its enhanced Finance Department to achieve clean financial audits that include all required information and result in no findings.

Finding 44: For the 2016-17 and 2017-18 fiscal year adopted budgets, the City did not specify the legal level of budgetary control, and record and report the budget in a consistent manner, to more easily enable City personnel and financial statement users to readily determine whether resources were expended within budgeted amounts. In addition, contrary to State law, General Fund and certain proprietary fund expenditures exceeded budgeted amounts for the 2016-17 fiscal year.

City Response to Finding 44: The finding arises from the same extraordinary circumstances as described by the City, and documented within this audit, regarding the former Finance Director and staffing. The legal level of budgetary control is now documented, and there are no issues related to carry-forward funds and year-end close out. The City has most recently had a clean independent financial audit, with no findings.

City Response to Recommendation: The City will continue to take the steps through its enhanced Finance Department to achieve clean financial audits that include all required information and result in no findings.

Finding 45: The City did not always maintain records in accordance with applicable public records retention requirements.

City Response to Finding 45: There may have been past instances where records retention requirements were not met; however, the City will work to ensure proper records retention going forward.

The City Clerk's Office has implemented a new city retention software system named Icompass. Additionally, the City has created an Administrative Services Department to oversee procurement. The issues noted in this audit relate to the City not retaining date and time-stamped bid envelopes for ten years and bid tabulation documentation for five years. Creating a new Administrative Services Department with an Administrative Services Director and a Procurement and Logistics Officer position to be filled in the future will ensure records are provided to the City Clerk's Office and maintained in accordance with the applicable public records retention requirements.

City Response to Recommendation: The City will continue its efforts to ensure proper records retention and consider the adoption of policies to ensure the coordination between the new Administrative Services Department and City Clerk's Office, consistent with applicable public records retention requirements.