

**CITY OF LAKE WORTH'S SUB-REGIONAL
SEWER SYSTEM**

Operational Audit



MAYOR, COUNCIL MEMBERS, AND CITY MANAGER

City of Lake Worth Mayor, Council Members, and City Manager who served during the period October 2005 through September 2011 are listed below:

Mayors (1)

Rachel Waterman, from 7-14-11 to 9-30-11
Rene A. Varela, from 11-17-09 to 5-3-11
Jeff Clemens, from 3-27-07 to 11-16-09
Marc Drautz, from 10-1-05 to 3-26-07

Vice-Mayors

Suzanne Mulvehill, from 11-16-10 to 9-30-11
Jo-Ann Golden, from 12-2-08 to 11-16-10
Retha Lowe, from 4-4-06 to 12-2-08
C.H. McKinnon, from 10-1-05 to 4-4-06

City Managers

Susan Stanton, from 4-27-09 to 9-30-11
Laura Hannah, (Acting) from 3-16-09 to 4-26-09;
(Interim) from 1-18-07 to 2-12-07
Robert Baldwin, from 11-26-07 to 3-15-09;
(Interim) from 2-13-07 to 11-26-07
William Smith (Interim), 1-17-07
Paul C. Boyer, Jr., from 10-1-05 to 1-16-07

Commissioners

Christopher McVoy, from 11-5-10 to 9-30-11
Scott Maxwell, from 11-6-09 to 9-30-11
Suzanne Mulvehill, from 11-21-08 to 9-30-11
Jo-Ann Golden, from 3-30-07 to 9-30-11
Cara Jennings, from 3-31-06 to 11-5-10
David G. Vespo, from 3-31-06 to 11-21-08
Retha Lowe, from 10-1-05 to 11-6-09
Nadine Burns, from 10-1-05 to 3-30-07
Joe Egly, from 10-1-05 to 3-31-06
CH McKinnon, from 10-1-05 to 3-31-06

Note (1): Mayor position remained vacant from May 4, 2011, to July 13, 2011

The audit team leader was Stefanie Johnson, CPA, and the project was supervised by David T. Ward, CPA. Please address inquiries regarding this report to Marilyn D. Rosetti, CPA, Audit Manager, by e-mail at marilynrosetti@aud.state.fl.us or by telephone at (850) 487-9031.

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CITY OF LAKE WORTH'S SUB-REGIONAL SEWER SYSTEM

SUMMARY

Our operational audit of City of Lake Worth's Sub-regional Sewer System (Sub-regional System) disclosed the following:

CONTRACTS

Finding No. 1: Some contract terms were not sufficiently detailed as to the methodology for determining costs to be billed to System Customers. Due to the ambiguous contract provisions and various other deficiencies, City records were insufficient to permit a determination, in total, of amounts that should have been billed to System Customers.

BILLING OF COSTS TO SYSTEM CUSTOMERS

Finding No. 2: Renewal and replacement costs billed to System Customers were not always calculated properly and consistently, and City records did not always evidence the basis or methodology used to determine amounts to be billed to System Customers.

Finding No. 3: Contrary to contract provisions, fleet reserve and debt costs were not always properly passed through to System Customers, and documentation supporting rates charged to System Customers was not always retained.

Finding No. 4: Amounts billed to System Customers for regional operating and maintenance costs based on flow of effluent through the systems were not always calculated properly and documentation supporting flow rate calculations was not always retained.

Finding No. 5: The City needed to improve its procedures for ensuring the reasonableness of budgeted amounts used as the basis for the Sub-regional O&M cost component of the flow rate calculations. Also, contrary to contract provisions, City records did not evidence that budgets were provided to System Customers for any of the fiscal years we reviewed or that such budgets reflected estimated deficiencies and surpluses from prior fiscal years. In addition, contrary to contract provisions, the City did not provide for annual audits of operating costs by a Certified Public Accountant.

PUBLIC RECORDS

Finding No. 6: The City had not established adequate procedures to ensure that public records requests were addressed timely and appropriately, and notification was provided for records that did not exist or were otherwise unavailable.

BACKGROUND

The United States Environmental Protection Agency's Clean Water Act required that Regional Facility Plans be completed to determine if "local" wastewater treatment and disposal needs could be more cost-effectively served by "regional" facilities. As a result, Palm Beach County was divided into several Wastewater Treatment and Disposal Regions. Five entities, consisting of the City of Lake Worth, City of Riviera Beach, City of West Palm Beach, Town of Palm Beach, and Palm Beach County, entered into agreements resulting in the construction of the East Central Regional Water Reclamation Facility (ECRWRF). The City of West Palm Beach acted as the responsible entity on behalf of ECRWRF Board of Directors for the operation, maintenance, and improvements to ECRWRF. The City of Lake Worth, Palm Beach County, Town of Palm Beach, and the City of Riviera Beach were responsible for operation, maintenance, and future improvements of the collection and transmission systems within their respective jurisdictions.

Additionally, the wastewater collected by the City of Lake Worth was transported to the ECRWRF via the Palm Beach County Joint Transmission Facility (PBCJTF) pursuant to an agreement between the City of Lake Worth and Palm Beach County.

The City of Lake Worth Sub-regional System (Sub-regional System) transported wastewater for users and included several major gravity interceptors, a master pump station (MPS) located in Bryant Park, a 36-inch force main, a repump station (RPS), and a second section of force main that transferred flow to the PBCJTF portion of the regional system and eventually to the ECRWRF. Users of the Sub-regional System included the City of Lake Worth (City) and seven other entities (System Customers¹): City of Atlantis, Town of Lantana, Town of Manalapan, Town of Palm Beach, Town of South Palm Beach, Village of Palm Springs, and Palm Beach State College.

FINDINGS AND RECOMMENDATIONS

Contracts

Finding No. 1: Contract Provisions

As a matter of good business practice, contractual arrangements should be evidenced by written agreements embodying all terms and conditions. The use of a formal written agreement (hereinafter referred to as contract) protects the interests of the City and the System Customers by identifying the duties and responsibilities of each party, including specifying the services to be provided and a methodology for determining the appropriate payment for such services.

The City had executed contracts with the seven other System Customers since at least 1962. The current contractual arrangement is governed by separate contracts executed by the City with each of the seven other System Customers. The earliest of the current contracts was effective in 1977. There were several amendments to these contracts through November 2005, including five amendments to one of the contracts, but the contracts were not redrafted to incorporate the amendments into one document. Pursuant to these contracts, as amended, the City was responsible for the operation, maintenance, repair, and improvements to the Sub-regional System and the System Customers were required to make payments for the following costs: 1) ECRWRF renewal and replacement (R&R) costs; 2) ECRWRF State Revolving Fund (SRF) loan; 3) ECRWRF fleet reserve costs; 4) PBCJTF R&R costs; 5) Sub-regional System R&R costs; 6) Sub-regional System debt; and 7) operating and maintenance (O&M) costs for the ECRWRF, PBCJTF, and Sub-regional System. Pursuant to the contracts, R&R, SRF loan, and debt costs were to be billed based on each System Customer's reserved capacity and O&M costs were to be billed based on each System Customer's flow of effluent through the systems. The Town of South Palm Beach was also billed for lift station charges.

Our review of the contracts, as amended, between the City and System Customers through November 14, 2005, disclosed that some contract terms were not sufficiently detailed as to the methodology for determining the costs to be billed to and paid by System Customers. Specifically, we noted the following:

- The contracts did not specify a basis or methodology for calculating R&R costs related to the Sub-regional System.
- The contracts stated that, at a minimum, the System Customer agrees to pay an amount equal to 120 percent of its pro-rata share, based upon the System Customer's reserved capacity, of debt principal and interest requirements, with the 20 percent excess coverage payment to be placed in an R&R Fund and utilized to fund

¹ The term "System Customers" as used throughout this report includes the City of Lake Worth for its local sewer system and the seven other entities.

R&R costs of ECRWRF, PBCJTF, and Sub-regional System. The contracts required the 20 percent excess coverage payment to continue after the debt was paid; however, the annual debt payments were not uniform throughout the debt repayment period and the contracts were unclear as to what minimum R&R contribution was required after the debt was paid (see further discussion in finding No. 2).

- The contracts stated that amounts contributed to the R&R Fund in excess of that needed to sufficiently fund R&R costs of ECRWRF, PBCJTF, and Sub-regional System were to be credited to the System Customer; however, the contracts were unclear as to the System Customer’s responsibility for R&R costs that exceeded amounts available in the R&R Fund.
- From October 2005 through September 2011, ECRWRF O&M costs were billed during the fiscal year based on estimated costs and flow, and surpluses or deficits were determined at the end of the fiscal year based on actual amounts. Surpluses were applicable for each complete fiscal year we reviewed (2005-06 through 2009-10 fiscal years) and the surplus amounts were either credited to ECRWRF R&R reserves or refunded to the City (see further discussion in finding No. 4). However, the contracts between the City and System Customers did not address how the ECRWRF surplus/deficits should be treated with respect to System Customers.

Due to billing disputes, System Customers (excluding the City) did not pay all amounts billed by the City. According to City records, for the period October 2005 through September 2011, System Customers (excluding the City) were billed a total of \$17.7 million, of which the System Customers (excluding the City) paid \$14.6 million as of June 19, 2012. As discussed in finding Nos. 2 and 4, our audit disclosed numerous instances in which the City had under- or over-billed System Customers as determined based on the methodology used by the City for a given fiscal year. Exhibit B summarizes by System Customer and fiscal year under- or over-billings that were determinable using available City records. However, due to the ambiguous contract provisions and various other deficiencies as described on Exhibit B, City records were insufficient to permit a determination of additional amounts that may have been under- or over-billed to System Customers. For example, as discussed in finding No. 2, under- or over-billings were determined for Sub-regional R&R costs based on the various methodologies used by the City; however, because the contracts did not specify the basis or methodology for determining such costs, or specify the minimum R&R contribution for periods after the debt was paid, it was not possible to determine what amounts should have been billed for R&R costs. Ultimately, to determine, in total, the amounts the City should have billed System Customers, the record deficiencies identified on Exhibit B will need to be resolved, including clarification of ambiguous contract provisions.

Recommendation: To ensure that all parties are aware of their contractual responsibilities, including the obligation of System Customers to make payments and how such payments will be calculated, contracts with System Customers should be renegotiated and redrafted with clear and concise detailed terms regarding costs to be charged and the methodologies to be used to calculate such costs.

Billing of Costs to System Customers

Finding No. 2: Renewal and Replacement (R&R) Costs

As discussed in finding No. 1, the contracts between the City and System Customers required the System Customer to pay an amount equal to 120 percent of the System Customer’s pro-rata share, based upon the System Customer’s reserved capacity, of debt principal and interest requirements, with the 20 percent excess to be utilized by the City to fund the various R&R costs required (for the ECRWRF, PBCJTF, and the Sub-regional System). During the 2005-06 fiscal year, the debt was paid off and, with minor differences; the total R&R costs billed to System Customers equaled approximately \$341,300 or 20 percent of the debt service requirement for the 2005-06 fiscal year. However, because

the contracts did not specify a basis or methodology for calculating the requirement for the R&R fund related to the Sub-regional System, nor the basis for determining the minimum R&R contribution payments after the debt was retired, it was unclear in the contracts as to what minimum amount the City should have billed the System Customers for R&R costs after the 2005-06 fiscal year. Amounts billed by the City for R&R costs for the 2006-07 through 2010-11 fiscal years are shown in Table 1.

Table 1

Fiscal Year	Sub-regional R&R Costs Billed	Regional R&R Costs Billed	Total R&R Billed
2006-07	\$650,016	\$528,576	\$1,178,592
2007-08	250,000	595,469	845,469
2008-09	853,100	727,361	1,580,461
2009-10	380,442	473,800	854,242
2010-11	627,063	488,063	1,115,125

Source: City Records

Sub-regional System R&R Costs. Our review disclosed that amounts billed to System Customers for Sub-regional System R&R costs from October 2006 through September 2011 were not always calculated properly and consistently, and City records did not always evidence the basis or methodology used to determine amounts to be billed to System Customers. Specifically, we noted the following:

- For the 2006-07 fiscal year, City records did not evidence how Sub-regional System R&R costs were calculated.
- For the 2007-08 fiscal year, Sub-regional System R&R costs were calculated based on the amount budgeted for depreciation. However, City records did not evidence why the City used budgeted depreciation as the sole basis for calculating R&R costs. Further, the City did not include R&R in the billings for eight months of the 2007-08 fiscal year, resulting in System Customers being under-billed a total of \$350,000 for Sub-regional System R&R costs based on the budgeted depreciation. Individual System Customers were under-billed amounts ranging from \$3,024 to \$159,236, including an under-billing of \$159,236 to the City’s local sewer system.
- For the first half of the 2008-09 fiscal year, the Sub-regional System R&R costs were again calculated based on the amount budgeted for depreciation and City records again did not evidence why the City used budgeted depreciation as the sole basis for calculating R&R costs. Additionally, the City included Sub-regional System R&R costs in the flow rate instead of treating it as a pass-through charge, contrary to the contracts, resulting in the System Customers being under-billed a net total of \$82,059 for Sub-regional System R&R costs for the first half of the fiscal year based on the budgeted depreciation. Individual System Customers were under- or over-billed amounts ranging from (\$57,731) to \$3,383, including an under-billing of (\$57,731) to the City’s local sewer system.

For the second half of the 2008-09 fiscal year, the City obtained a rate study that included the Sub-regional R&R costs in the flow rate instead of treating it as a pass-through charge. City records did not evidence how the flow rates stated in the consultant’s rate study were determined. As such, City records were not sufficient to allow a determination of whether System Customers were under- or over-billed for the second half of the 2008-09 fiscal year.

- For the 2009-10 fiscal year, contrary to the contracts, the City incorrectly included the Sub-regional System R&R costs in its flow rate calculation rather than passing these costs to System Customers based on their respective reserved capacities of the Sub-regional System. According to a revenue sufficiency report prepared for the City by a consultant, Sub-regional System R&R costs used to calculate the flow rate totaled \$237,000. Based on this amount, System Customers were over-billed a total of \$143,442 for Sub-regional System R&R costs. Individual System Customers were under- or over-billed amounts ranging from (\$353) to \$68,036, including an over-billing of \$68,036 to the City’s local sewer system.

- For the 2010-11 fiscal year, the City's method for calculating Sub-regional System R&R costs was 0.5 percent of total replacement value. However, the City incorrectly used a total replacement value of \$125,400,000, rather than the correct amount of \$70,800,000, to calculate Sub-regional System R&R costs because it incorrectly included the City's share of PBCJTF's replacement value in the total replacement value. Consequently, System Customers were over-billed a total of \$273,000 for Sub-regional System R&R costs based on the correct replacement value. Individual System Customers were over-billed amounts ranging from \$2,334 to \$124,229, including an over-billing of \$124,229 to the City's local sewer system.

Regional Systems R&R Costs. Regional R&R costs include those for ECRWRF and PBCJTF. Pursuant to the contracts between the City and System Customers, these costs were to be paid by System Customers based on their respective reserved capacities of the Sub-regional System. Each August, the City was informed of amounts that would be charged by ECRWRF for R&R costs for the next fiscal year. The City's contract with Palm Beach County specified that R&R costs for the PBCJTF would be collected on an as-needed basis. Contrary to the contracts, the City did not bill System Customers for ECRWRF and PBCJTF R&R costs, as follows:

- Although the City billed System Customers for ECRWRF R&R costs based on their respective reserved capacities for the 2006-07 through 2010-11 fiscal years, the City did not bill System Customers for any of the \$564,280 of ECRWRF R&R costs for the 2005-06 fiscal year. Individual System Customers were under-billed amounts ranging from \$4,875 to \$256,725, including an under-billing of \$256,725 to the City's local sewer system.
- Although Palm Beach County billed the City \$991,782 for PBCJTF R&R costs for the 2005-06 fiscal year, the City did not bill System Customers for any of these costs. Individual System Customers were under-billed amounts ranging from \$8,569 to \$451,221, including an under-billing of \$451,221 to the City's local sewer system. Palm Beach County did not, of record, bill the City for PBCJTF R&R costs for the 2006-07 through 2010-11 fiscal years.

Annex "A" of the contracts required that the R&R Fund be audited after the first five years and yearly thereafter, and any amount in excess of the amount sufficient to provide for R&R costs be credited to System Customers on their next year's payment. Contrary to the contracts, these audits were not performed. However, since the basis or methodology for calculating R&R costs for the Sub-regional System was not specified in the contracts, it is not apparent how such determinations could have been made on audit.

Recommendation: As the contracts were ambiguous with respect to calculating R&R costs for the Sub-regional System and the minimum R&R contributions required after the debt was paid, the City and System Customers should negotiate these provisions of the contracts, recalculate the billings for a reasonable period, and determine the amounts owed and payable by each entity. In addition, the City should ensure that the required annual audits of the R&R Fund are performed and audit reports furnished to System Customers.

Finding No. 3: Other Pass-through Costs

In addition to ECRWRF and PBCJTF R&R costs, the contracts provided that the ECRWRF fleet reserve and SRF loan costs, and Sub-regional System debt costs, were to be billed to the System Customers based on respective reserved capacities of the Sub-regional System rather than including these costs in the flow rate. Our review disclosed the following instances in which the City, contrary to the contracts, incorrectly included fleet reserve or debt costs in the flow rate calculations:

ECRWRF Fleet Reserve and SRF Loan

- The City incorrectly included the ECRWRF SRF loan costs in the flow rate calculation for the 2005-06, 2007-08, 2008-09, and 2009-10 fiscal years. For the 2006-07 and 2010-11 fiscal years, City records did not

evidence how the flow rates were calculated and, therefore, whether or not SRF loan costs were included in those fiscal years' flow rate calculations.

- For the 2009-10 fiscal year, in addition to incorrectly including loan costs totaling \$319,212 in the flow rate calculation, the City billed System Customers separately for the same loan costs.
- The City incorrectly included ECRWRF fleet reserve costs in the flow rate calculations for the 2005-06 and 2007-08 fiscal years.

The effects on billings to the City's local sewer system and System Customers resulting from the issues discussed above, to the extent we could determine such effects, are discussed in finding No. 4.

Recommendation: The City should ensure that pass-through costs are not included in the flow rate calculations to System Customers.

Finding No. 4: Flow Rate Calculations and Regional Systems Operating and Maintenance (O&M) Costs

The O&M costs of the regional systems (ECRWRF and PBCJTF) and Sub-regional System feed into the flow rate calculation. The O&M costs applicable to the Sub-regional System are discussed in finding No. 5. Each July or August when the ECRWRF budget was completed, the City was informed by the City of West Palm Beach of the amounts that would be charged for O&M costs of the regional system for the next fiscal year. The estimated ECRWRF O&M costs were divided by the three-year average of the actual flow for all users to arrive at a rate that was then multiplied by a three-year average actual flow for the Sub-regional System to arrive at the total amount billed to the City. At the end of the fiscal year, a comparison was prepared of budget to actual expenses and flow and, if the amount paid to ECRWRF during the fiscal year was more than the actual, the City of West Palm Beach issued a refund to the City or the excess was transferred to ECRWRF R&R reserves. If the amount paid was less than the actual, the City paid the difference. PBCJTF O&M costs were billed to the City at rates established in the contract between the City and Palm Beach County applied to actual flow.

For the 2005-06 through 2009-10 fiscal years, a surplus was paid to ECRWRF and for the 2005-06 and 2007-08 fiscal years, the surplus was transferred to the ECRWRF R&R reserves. ECRWRF refunds totaling \$367,624, \$624,092, and \$713,602 were received by the City for the 2006-07, 2008-09, and 2009-10 fiscal years, respectively.

As noted in finding No. 1, the contracts between the City and System Customers did not address how any surpluses or deficits of amounts paid by the City to ECRWRF would be handled with respect to System Customers. For purposes of our audit, we compared amounts billed by ECRWRF and PBCJTF to the City to amounts billed by the City to System Customers, without consideration of refunds received or deficits paid by the City. Our review disclosed the following:

2005-06 Fiscal Year

- **ECRWRF.** The City paid \$2,127,792 to ECRWRF for O&M, fleet reserve, and SRF loan costs. As noted in finding No. 3, the SRF loan and fleet reserve costs were incorrectly included in the flow rate calculation.
- **Flow Rate.** The City charged System Customers a flow rate of \$1.22, but should have charged a flow rate of \$1.0986. The incorrect flow rate resulted from the City incorrectly including an ECRWRF O&M deficit paid for the prior fiscal year, and SRF loan and fleet reserve costs, in the flow rate. Consequently, the City over-billed System Customers a net total of \$44,540. Individual System Customers were under- or over-billed amounts ranging from (\$34,323) to \$51,828, including an over-billing of \$51,828 to the City's local sewer system.

2006-07 Fiscal Year

- **ECRWRF.** The City paid \$2,411,295 to ECRWRF for O&M and SRF loan costs. City records did not evidence what portion of the flow rate billed to System Customers was attributable to ECRWRF or, as discussed in finding No. 3, whether the flow rate included the SRF loan costs. As such, City records were not sufficient to allow a determination as to whether System Customers were under- or over-billed.
- **PBCJTF.** The City paid \$261,648 to PBCJTF for O&M costs. City records did not evidence what portion of the flow rate billed to System Customers was attributable to PBCJTF. As such, City records were not sufficient to allow a determination as to whether System Customers were under- or over-billed.

2007-08 Fiscal Year

- **ECRWRF.** The City paid \$2,515,890 to ECRWRF for O&M, fleet reserve, and SRF loan costs. As noted in finding No. 3, the SRF loan and fleet reserve costs were incorrectly included in the flow rate calculation.
- **PBCJTF.** The City paid \$285,119 to PBCJTF for O&M costs. The City used a rate for billing System Customers that was slightly higher than the rate it was charged by PBCJTF.
- **Flow Rate.** The City charged System Customers a flow rate of \$1.39, but should have charged a flow rate of \$1.2604. The incorrect flow rate resulted from the City incorrectly including SRF loan and fleet reserve costs in the flow rate. This, and because the City used an incorrect flow rate for PBCJTF O&M costs, and used months to estimate flow for rate calculations that were not consistent with months used in other fiscal years, resulted in the City over-billing System Customers a net total of \$58,374. Individual System Customers were under- or over-billed amounts ranging from (\$734) to \$25,594, including an over-billing of \$25,594 to the City's local sewer system.

2008-09 Fiscal Year

- **Flow Rate.** The City utilized two different flow rates. City personnel calculated the rate used from October 2008 to March 2009. Our review of the flow rate utilized from October 2008 through March 2009 disclosed the following:
 - The City used a one-year average to determine the flow to be used in the rate calculation whereas in all other years, the City used a two-year average.
 - As noted in finding No. 2, the City incorrectly included Sub-regional R&R costs in the flow rate calculation.
 - As noted in finding No. 3, the City incorrectly included the ECRWRF SRF loan payment in the flow rate calculation.
 - The City incorrectly included a debt payment on a loan that the City obtained relating to the City's local sewer system in the flow rate calculation.
 - The flow rate calculation included a typographical error in the insurance amount, resulting in \$400,000 more in insurance costs being used to calculate the flow rate than what was provided for in the City's budget.
 - The City included an overstated amount for the ECRWRF portion of the flow rate by including a fleet reserve charge of \$25,658 that the City never incurred.
 - Using the correct average flow, the correct insurance amount, and excluding the SRF loan and the City's loan payments, we determined that the City should have billed System Customers using a flow rate of \$1.4205 instead of \$2.26. In addition, the City should have separately billed the following as pass-through charges: \$319,212 for the SRF loan and late fees of \$3,384. The rate of \$2.26 was only used for half of the year because the City obtained a rate study for the second half of the fiscal year, at which time a new rate was charged. Excluding the R&R portion of the rate (see prior discussion in finding No. 2 regarding under-billing of System Customers a total of \$82,059 due to the City incorrectly including R&R costs in the flow rate), the City over-billed System Customers a total of \$1,090,209 during the first

half of the fiscal year. Individual System Customers were over-billed amounts ranging from \$4,520 to \$406,122, including an over-billing of \$406,122 to the City's local sewer system.

- The rate used from April 2009 to September 2009 was derived from a rate study performed for the City by a consultant. City records did not evidence how the rates stated in the rate study were determined. As such, City records were not sufficient to allow a determination of whether System Customers were under- or over-billed.

2009-10 and 2010-11 Fiscal Years

- ***ECRWRF.*** As noted in finding No. 3, the SRF loan costs were incorrectly included in the flow rate calculation for the 2009-10 fiscal year. In addition, City records did not evidence how the rates stated in the revenue sufficiency analyses were determined and, as discussed in finding No. 3, did not evidence whether the flow rate included SRF loan costs for the 2010-11 fiscal year. As such, City records were not sufficient to allow a determination of whether System Customers were under- or over-billed for the ECRWRF portion of the flow rate.
- ***PBCJTF.*** For the 2009-10 and 2010-11 fiscal years, revenue sufficiency analyses were prepared. City records did not evidence the PBCJTF portion of the flow rate. Budgeted amounts used to calculate the flow rate were 26 and 34 percent more than the amounts actually paid for the 2009-10 and 2010-11 fiscal years, respectively.

The Village of Palm Springs pays a reduced flow rate because its flow does not go through the master lift station. City records did not evidence the flow rate calculation for the Village of Palm Springs for the 2006-07 through 2010-11 fiscal years. As such, City records were not sufficient to allow a determination of whether the Village was under- or over-billed in addition to the under- or over-billings discussed above and in finding No. 2.

Recommendation: The City should recalculate the costs that should have been passed through, adjust the flow rates for all years, and compare the revised amounts to System Customers' payments during those years. The differences should be billed or credited, as applicable, to System Customers' accounts. In addition, the City should provide System Customers with details of the recalculations.

Finding No. 5: Flow Rate Calculations and Sub-Regional System O&M Costs

The contracts stated that System Customers were responsible for their share of the City's operating costs, which were defined as the total costs of all operation, supervision, management, maintenance, penalties, and all items of current expenses (O&M costs) in connection with the operation of the Sub-regional System. The City recorded costs of the Sub-regional System in the Regional Sewer Fund whereas costs attributable to the City's local sewer system were recorded in the Local Sewer Fund. Costs recorded in the Regional Sewer Fund included direct and indirect costs and were used as a basis for billing Sub-regional System O&M costs to System Customers.

The flow rates used to bill System Customers for Sub-regional System O&M costs were calculated based on the proposed budgeted expenditures of the Regional Sewer Fund and estimated flow. Annex "A" of the contracts stated that the City must provide an estimate of the proposed budget upon which System Customers can base Sub-regional System O&M costs for the next fiscal year by July 15th of each year, and a copy of the proposed Sub-regional System O&M budget by August 30th of each year.

City personnel stated that at least some of these budgets were provided to the System Customers; however, City records did not evidence that budgets were provided to System Customers for any of the fiscal years we reviewed. Additionally, although the contracts provided that each new budget is to reflect estimated surpluses or deficiencies from the prior fiscal year, City records did not evidence that surpluses or deficiencies from prior fiscal years were considered.

According to City personnel, prior fiscal year actual expenditures recorded in the Regional Sewer Fund were used as the basis for preparing subsequent fiscal years’ budgets which, in turn, were used as the Sub-regional O&M component of the flow rate calculations. Accordingly, it is essential that procedures be established and followed to ensure the reasonableness of budgeted amounts used for flow rate calculations, including the proper calculation, allocation, and recording of actual expenditures and subsequently comparing budgeted expenditures to actual expenditures. Absent such procedures, there is an increased risk that System Customers will be under- or over-billed due to improperly calculated flow rates.

Our audit disclosed that the City’s procedures for ensuring the reasonableness of budgeted amounts used to calculate flow rates could be improved as discussed below.

Comparison of Budgeted Expenditures to Actual Recorded Expenditures

Our comparison of budgeted expenditures used for the calculation of Sub-regional System O&M costs to actual expenditures recorded in the Regional Sewer Fund for the 2005-06, 2007-08, 2009-10, and 2010-11 fiscal years disclosed differences as shown in Table 2.

Table 2

Fiscal Year	Budgeted for Calculation of O&M	Actual Recorded Expenditures	Difference
2005-06	\$3,558,125	\$3,442,076	\$ 116,049
2006-07	(1)	4,339,397	(1)
2007-08	4,055,125	3,969,415	85,710
2009-10	4,660,632	4,185,808	474,824
2010-11	3,805,051	3,433,158	371,893

Note (1): City records did not evidence the budgeted amounts used for the calculation of Sub-regional System O&M costs for the 2006-07 fiscal year.

Source: City Records

For the 2009-10 and 2010-11 fiscal years, the budgeted amounts exceeded actual recorded expenditures by \$474,824 (11.3 percent) and \$371,893 (10.8 percent), respectively. City records did not evidence the reason for these significant differences.

As discussed in finding No. 4, the City used two different flow rates for the 2008-09 fiscal year. For purposes of Sub-regional System O&M costs, the City used an annualized budgeted amount of \$7,023,507 for the first half of the 2008-09 fiscal year. The City used an annualized budgeted amount of \$5,195,278 for the second half of the 2008-09 fiscal year. Actual expenditures recorded in the Regional Sewer Fund for the 2008-09 fiscal year were \$5,687,765. [Link to FY 09](#)

Allocation of Costs to the Regional Sewer Fund

Proper determination of direct and indirect costs for the Regional Sewer Fund is essential as such costs are used as a basis for determining budget amounts used to bill System Customers for Sub-regional O&M costs. These shared costs should be apportioned by some systematic and rational allocation methodology and that methodology should be disclosed, particularly in situations where costs are fully or partially recovered through user charges.

In its Best Practices, *Measuring the Cost of Government Service (2002)*, the Government Finance Officers Association (GFOA) recommends that governments calculate the full cost of the different services they provide. The full cost of a service encompasses all direct and indirect costs related to that service. Direct costs include salaries and benefits of

employees while they are exclusively working on the delivery of the service, as well as the materials and supplies, and other associated operating costs. Indirect costs include shared administrative expenses within a department and in one or more support functions outside a department (such as legal, finance, human resources, and information technology).

Direct Costs. Our test of 156 direct expenditures, totaling \$4,659,789, recorded in the Regional Sewer Fund for the period October 1, 2005, through May 31, 2011, disclosed the following:

- For 25 expenditures, totaling \$132,498, the expenditures were not recorded in the correct amount or, for allocated expenditures, there was no documentation to support the amount allocated. Five expenditures, totaling \$47,890, did not relate to the Sub-Regional System. For 19 expenditures, totaling \$398,920, City records did not sufficiently demonstrate that expenditures were recorded in the correct amount and were related to the Sub-regional System.
- The City's employees that worked on the Sub-regional System also worked on the City's local sewer system. The budgeted salaries and benefits for these employees were allocated based on percentages estimated by the Utilities Director. However, City records did not evidence the basis upon which the allocation percentages were established for these employees. These employees were not required to maintain time records documenting actual time spent on Sub-regional or the local sewer system. In addition, the accounting software the City used prior to the 2008-09 fiscal year could not allocate part of an employee's salary to more than one fund. The City used an estimate to charge the salary and benefit expenditures to the Regional Sewer Fund. Our expanded testing of employees' salary and benefits costs prior to the 2008-09 fiscal year, disclosed that a reconciliation was never prepared to reallocate employees' salary and benefits costs based on actual salary and benefits costs at the end of each fiscal year. Actual salaries and benefits varied from budgeted amounts for regular wages due to rate increases, retro-active payments, difference of hours worked, and other adjustments. Consequently, a total of \$32,486 was over-allocated for the 2005-06 through the 2007-08 fiscal years to the Regional Sewer Fund based on the allocation percentages used and actual salaries and benefits paid.

Indirect Costs. Indirect costs charged to the Regional Sewer Fund and utilized in calculating the Sub-regional System O&M rate included separate allocations for administrative costs, insurance, and information systems support. City records did not evidence the methodology used to allocate any indirect costs to the Regional Sewer Fund and, as such, did not demonstrate that a systematic and reasonable approach was used to allocate such costs. Additionally, for some fiscal years there were differences between indirect costs included in budgetary data used to calculate Sub-regional System O&M costs to be billed to System Customers and the amounts actually allocated and recorded in the Regional Sewer Fund. As discussed in finding No. 4, the City used two different flow rates for the 2008-09 fiscal year. For purposes of Sub-regional System indirect costs used for O&M costs calculations, the City used annualized indirect costs of \$1,173,077 for the first half of the 2008-09 fiscal year. The City used annualized indirect costs of \$747,977 for the second half of the 2008-09 fiscal year. Indirect costs charged to the Regional Sewer Fund for the 2008-09 fiscal year totaled \$747,977.

For the remaining fiscal years, indirect costs used for purposes of calculating the Sub-regional System O&M costs compared to amounts actually recorded in the Regional Sewer Fund are shown in Table 3.

Table 3

Fiscal Year	Administrative Costs	Insurance Costs	Information Systems Support Costs	Total Indirect Costs Used for O&M Calculations	Total Indirect Costs Charged to Regional Sewer Fund
2005-06	\$350,000	\$ 0	\$ 0	\$350,000	\$681,646
2006-07	(1)	(1)	(1)	(1)	706,975
2007-08	610,000	63,200	30,000	703,200	713,000
2009-10	443,725	213,760	0	657,485	657,485
2010-11	471,428	113,760	0	585,188	477,164

Note (1): City records did not evidence costs used in the O&M costs calculation for the 2006-07 fiscal year.

Source: City Records

For the 2005-06 fiscal year, indirect costs charged to the Regional Sewer Fund exceeded indirect costs used for purposes of calculating the Sub-regional System O&M costs by \$331,646, or approximately 95 percent of the \$350,000 of indirect costs used in the O&M cost calculations. City records did not evidence the reason for this significant difference.

The City purchased general liability, automobile, property, and workers’ compensation insurance coverage for all fiscal years we reviewed. The policy cost was allocated to all City departments, including the Sub-regional System (i.e., Regional Sewer Fund). During our review, we compared the actual insurance expenditures to the total amount allocated to all City departments, including the Sub-regional System. As shown in Table 4, the City allocated more than the cost of the insurance for several fiscal years.

Table 4

Fiscal Year	Total Amount Allocated to all City Departments	Total Cost of Premiums (1)	Difference
2005-06	\$3,665,260	\$3,245,651	\$ 419,609
2006-07	(2)	4,693,656	(2)
2007-08	(2)	3,377,424	(2)
2008-09	3,793,856	949,418	2,844,438
2009-10	3,598,186	935,168	2,663,018
2010-11	931,418	657,878	273,540

Note (1): Effective October 1, 2008, the City concluded its participation in a risk pool and became a separate, self-insured municipality for general insurance coverage resulting in the cost of insurance premiums significantly decreasing effective for the 2008-09 fiscal year.

Note (2): City records did not evidence amounts allocated to all City departments for the 2006-07 and 2007-08 fiscal years.

Source: City Records

In response to our inquiries, City personnel stated that the difference between the premiums paid and the amounts allocated to the individual departments was for noncovered losses and deductibles. However, City records did not evidence how the additional amounts allocated were determined for any of the fiscal years or the reasonableness of the additional amounts.

Annual Audits

Annex “A” of the contracts required that annual audits by a Certified Public Accountant of operational costs be performed, and audit reports furnished to each System Customer within 150 days of the end of the fiscal year.

Contrary to this requirement, audits were not performed and, as such, audit reports were not furnished to System Customers. Audits would provide the City and System Customers with assurance that costs charged to the Regional Sewer Fund were appropriately classified as costs of the Sub-regional System, were accurately recorded, and, as applicable, charged using a systematic and rational approach. Such audits, had they been performed, may have disclosed some of the deficiencies discussed in this report, such as the lack of documented support for cost components, or the use of inconsistent methodologies for billing System Customers for the various cost components.

Recommendation: The City should ensure that proposed budgets used as a basis for billing System Customers for Sub-regional System O&M costs are reasonable and provided to System Customers as required by contract provisions, and that budgets reflect surpluses and deficiencies from prior fiscal years. The City should also develop systematic and rational methodologies for allocating direct and indirect costs to the Regional Sewer Fund, and enhance its procedures to maintain adequate documentation to support all expenditures and allocations of direct and indirect costs. In addition, the City should ensure that expenditures are accurately recorded. Further, the City should ensure that required annual audits are performed and copies of the audit reports provided to System Customers.

Public Records

Finding No. 6: Public Records Requests

Section 119.07(1)(c), Florida Statutes, provides that a custodian of public records must acknowledge requests to inspect or copy records and respond to such requests in good faith. A good faith response includes making reasonable efforts to determine from other officers or employees within the agency whether such a record exists and, if so, the location at which the record can be accessed.

Our review disclosed that a consulting firm, and an attorney on behalf of the consulting firm, made public records requests to the City Clerk through memoranda dated November 19, 2010, December 22, 2010, January 7, 2011, January 26, 2011, and February 14, 2011. The City Clerk acknowledged the public records requests made, and an electronic folder was created so that the applicable departments could upload the requested documents and the requestors could access them. For those documents that were not available for inspection, the requestors were not notified that the City did not have the requested documents. In response to our inquiries, City personnel indicated that applicable departments provided all existing documents in responding to the public records requests. Although the City had written procedures addressing what should be done when a request is received, the procedures did not address handling of instances where requested documents are not available, and did not specify a time frame within which requests should be completed.

Recommendation: The City should revise its procedures to require, when applicable, notification of requestors that public records requested are not available and to specify a time frame within which public records requests should be completed.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida’s citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations. The Legislative Auditing Committee received a request by the City, with the support of the remaining System Customers, to have the

Auditor General conduct an audit of the City with respect to its responsibilities concerning the Sub-regional System. Pursuant to Section 11.45(5)(a), Florida Statutes, the Legislative Auditing Committee, at its March 28, 2011, meeting, directed us to conduct the audit.

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

The objectives of this operational audit were to: (1) obtain an understanding and make overall judgments as to whether the City’s internal controls relevant to the Sub-regional System promoted and encouraged compliance with applicable laws, ordinances, contracts, and other guidelines; the economic and efficient operation of the City relevant to the Sub-regional System; the reliability of records and reports; and the safeguarding of assets; (2) evaluate the City’s performance as it relates to accumulating costs of the Sub-regional System and billings to the System Customers in achieving compliance within these areas.

The scope of this operational audit is described in Exhibit A. Our audit included examinations of various records and transactions (as well as events and conditions) occurring from October 1, 2005, through May 31, 2011, and selected actions taken prior and subsequent thereto through September 30, 2011. Our audit period was determined after considering availability of records and other factors.

Our audit methodology included obtaining an understanding of the internal controls by interviewing City personnel and, as appropriate, performing a walk-through of relevant internal controls through observation and examination of supporting documentation and records. Additional audit procedures applied to determine that internal controls were working as designed, and to determine the City’s compliance with the above-noted audit objectives, are described in Exhibit A. Specific information describing the work conducted to address the audit objectives is also included in the individual findings.

Our audit did not extend to an examination of the City’s financial statements. The City’s financial statements for the 2005-06 through 2010-11 fiscal years were audited by a certified public accounting firm, and the audit reports are to be filed as a public record with the City.

AUTHORITY

Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.



David W. Martin, CPA
Auditor General

MANAGEMENT’S RESPONSE

Management’s response is included as Exhibit C.

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EXHIBIT A
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Contracts between the City and Sub-regional System Customers.	Reviewed and evaluated contract provisions to determine parties' responsibilities.
Sub-regional System Renewal and Replacement (R&R) costs.	Reviewed methodologies and calculations for billing System Customers for Sub-regional System R&R costs.
Sub-regional System Operating and Maintenance (O&M) costs.	Reviewed methodologies and calculations for billing System Customers for Sub-regional System O&M costs. Determined whether administrative, insurance, and information system support costs were allocated using a systematic and rational method.
Regional R&R, O&M, and Debt Costs.	Reviewed billings from the City of West Palm Beach and Palm Beach County to determine if charges for East Central Regional Water Reclamation Facility (ECRWRF) and Palm Beach County Joint Transmission Facility (PBCJTF) were in accordance with contract terms.
Billings to System Customers.	Determined whether R&R, fleet reserve, O&M, and debt costs were billed to System Customers in accordance with contract terms.
ECRWRF refunds.	Reviewed any refunds received from ECRWRF and determined whether refunds were passed on to System Customers.
Expenditures.	Tested expenditures recorded in the Regional Sewer Fund to determine if the expenditures were appropriately classified, recorded, and supported. Also, determined if purchases were in compliance with the City's procurement ordinances and Florida law.
Public records.	Reviewed the City's procedures for responding to public records requests. Reviewed the public records requests received to determine whether they were resolved in a timely manner.

EXHIBIT B
SUMMARY OF DETERMINABLE AMOUNTS OVER (UNDER)-BILLED SYSTEM CUSTOMERS AND TYPES OF DEFICIENCIES IN CITY RECORDS PREVENTING DETERMINATION OF ADDITIONAL AMOUNTS OVER (UNDER)-BILLED SYSTEM CUSTOMERS

Fiscal Year	Determinable Amounts Over (Under)-Billed System Customers								Types of Deficiencies in City Records Preventing Determination of Additional Amounts Over (Under)-Billed System Customers
	City of Lake Worth Local Sewer System	City of Atlantis	Town of Lantana	Town of Manalapan	Town of Palm Beach	Town of South Palm Beach	Village of Palm Springs	Palm Beach State College	
2005-06	(656,118)	(57,990)	(163,345)	(18,524)	(108,285)	(42,844)	(450,476)	(13,940)	A, J, K, L
2006-07 (1)									A, B, D, E, F, I, J, K, L
2007-08	(133,642)	(8,411)	(26,344)	(1,997)	(25,481)	(9,104)	(82,889)	(3,758)	A, C, I, J, K, L
2008-09 (2)	348,391	14,763	136,861	24,085	72,126	26,931	383,094	1,899	A, B, C, D, F, G, I, J, K, L
2009-10	68,037	7,590	23,944	2,132	8,185	3,481	30,426	(353)	A, B, D, F, H, I, J, K, L
2010-11	124,229	10,593	31,518	3,345	20,564	7,494	72,986	2,334	A, D, E, F, H, I, J, K, L

Notes to Fiscal Years:

1. City records did not include sufficient information to permit a calculation of over (under)-billings for the 2006-07 fiscal year.
2. Notes A, C, I, J, K, and L under the Types of Deficiencies in City Records, relate to the first half of the 2008-09 fiscal year. Notes A, B, D, F, G, I, J, K, and L relate to the second half of the 2008-09 fiscal year. Over (under)-billing amounts are for the first half of the 2008-09 fiscal year. City records did not include sufficient information to permit a calculation of over (under)-billings for the second half of the 2008-09 fiscal year.

Notes to Types of Deficiencies in City records:

- A. Contracts between the City and System Customers were not sufficiently detailed as to the methodology for determining renewal and replacement costs to be billed to and paid by System Customers.
- B. City records did not evidence how Sub-regional System renewal and replacement (R&R) costs were calculated.
- C. City records did not evidence why the City used budgeted depreciation as the sole basis for calculating Sub-regional System R&R costs.
- D. City records did not evidence what portion of the flow rate billed to System Customers was attributable to the East Central Regional Water Reclamation Facility (ECRWRF).
- E. City records did not evidence whether or not State Revolving Fund (SRF) loan costs were included in ECRWRF flow rate calculations.

EXHIBIT B (CONTINUED)
**SUMMARY OF DETERMINABLE AMOUNTS OVER (UNDER)-BILLED SYSTEM CUSTOMERS AND TYPES OF DEFICIENCIES IN CITY RECORDS
PREVENTING DETERMINATION OF ADDITIONAL AMOUNTS OVER (UNDER)-BILLED SYSTEM CUSTOMERS**

Notes to Types of Deficiencies in City records (continued):

- F. City records did not evidence what portion of the flow rate billed to System Customers was attributable to the Palm Beach County Joint Transmission Facility (PBCJTF).
- G. City records did not evidence how the flow rates stated in a consultant's rate study were determined.
- H. City records did not evidence how the flow rates stated in revenue sufficiency analyses were determined.
- I. City records did not evidence the flow rate calculation for the Village of Palm Springs.
- J. City records did not always sufficiently demonstrate that Regional Sewer Funds expenditures were recorded in the correct amount and were related to the Sub-regional System.
- K. City records did not evidence the basis upon which allocation percentages, used to allocate budgeted salaries of Sub-regional System employees to the City's local sewer system, were established.
- L. City records did not evidence the methodology used to allocate any indirect costs to the Regional Sewer Fund and, as such, did not demonstrate that a systematic and reasonable approach was used to allocate such costs.

**EXHIBIT C
MANAGEMENT'S RESPONSE**



MAYOR'S OFFICE

7 North Dixie Highway · Lake Worth, Florida 33460 · Phone: 561-586-1600

July 12, 2012

Mr. David W. Martin
Auditor General
State of Florida
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32399-1450

Dear Mr. Martin:

The City is in receipt of your audit report for the City of Lake Worth's Sub-regional Sewer System, dated June 26, 2012.

The audit report contained six findings relating to fiscal years 2005/06 through 2010/11. The findings and the City's response are listed below.

CONTRACTS

Finding No. 1: Some contract terms were not sufficiently detailed as to the methodology for determining costs to be billed to System Customers¹. Due to the ambiguous contract provisions and various other deficiencies, City records were insufficient to permit a determination, in total, of amounts that should have been billed to System Customers.

City Response

- The City agrees that the contracts with the customers should be renegotiated as soon as possible. The City's new City Manager is moving forward with this task. The renegotiated agreements will be specific as to the components of cost and the calculation methodology of those components.

BILLING OF COSTS TO SYSTEM CUSTOMERS

Finding No. 2: Renewal and replacement costs billed to System Customers were not always calculated properly and consistently, and City records did not always evidence the basis or methodology used to determine amounts to be billed to System Customers.

City Response

- The City agrees with the Auditors recommendation that the contracts were ambiguous with respect to calculating R&R costs for the Sub-regional System

EXHIBIT C (CONTINUED)
MANAGEMENT'S RESPONSE

Page 2 of 4

after the bonded debt was paid in 2006. A clearer definition of R&R should be a part of the renegotiated contracts.

- The City also agrees that the City and System Customers should negotiate and recalculate the billings for a reasonable period, and determine the amounts owed and payable by each entity.
- In addition the City agrees that audits of the R&R Fund should be performed and audit reports furnished to System Customers.
- As stated in number (1) above, all these calculations and the methodology used in the future will be incorporated and included in the renegotiated agreements.

Finding No. 3: Contrary to contract provisions, fleet reserve and debt costs were not always properly passed through to System Customers, and documentation supporting rates charged to System Customers was not always retained.

City Response

- The City agrees that fleet reserve and debt costs were not always properly passed through to the customers. As stated in (1) above, the calculation and methodology for passing the fleet reserve and debt costs through, to the customers, will be incorporated and included in the renegotiated agreements

Finding No. 4: Amounts billed to System Customers for regional operating and maintenance costs based on flow of effluent through the systems were not always calculated properly and documentation supporting flow rate calculations was not always retained.

City Response

- The City agrees with the Auditors recommendation that the Operating and Maintenance costs should be recalculated and the flow rates for all years should be adjusted to actual. These revised amounts will be compared to the System Customers' payments during those years. This recalculation will be the basis for negotiating a settlement with the customers. As stated in (1) above, the calculation and methodology for O & M costs going forward will be incorporated and included in the renegotiated agreements.

Finding No. 5: The City needed to improve its procedures for ensuring the reasonableness of budgeted amounts used as the basis for the Sub-regional O&M cost component of the flow rate calculations. Also, contrary to contract provisions, City records did not evidence that budgets were provided to System Customers for any of the fiscal years we reviewed or that such budgets reflected estimated deficiencies and surpluses from prior fiscal years. In addition, contrary to contract provisions, the City did not provide for annual audits of operating costs by a Certified Public Accountant.

EXHIBIT C (CONTINUED)
MANAGEMENT'S RESPONSE

Page 3 of 4

City Response

- The City agrees with the Auditors recommendation that proposed budgets used as the basis for billing Sub-regional System O&M costs be reasonable and provided to System Customers in a timely manner.
- The City will also ensure that the budgets clearly reflect surpluses, refunds and deficiencies from prior fiscal years.
- The City will also develop more transparent, systematic and rational methodologies for allocating direct and indirect costs to the Regional Sewer Fund, along with improving procedures to maintain adequate documentation to support all expenditures and allocations.
- The City will come to agreement in the renegotiated agreements about the definition of audits of annual operating costs by a CPA. The City had believed that the City's annual audit sufficed for this requirements but will more clearly define this going forward.

PUBLIC RECORDS

Finding No. 6: The City had not established adequate procedures to ensure that public records requests were addressed timely and appropriately, and notification was provided for records that did not exist or were otherwise unavailable.

City Response

- The City will review and re-evaluate its procedures for responding to public records requests.

In conclusion, the City as the owner/operator of the Sub-regional system bears the responsibility of ensuring that the system operates in a safe and effective mode. The City has discharged this operational responsibility in a professional manner. The Sub-regional System assets have been maintained and improved over the years.

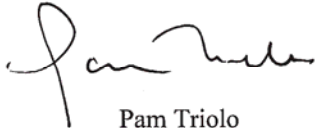
The City, however, is in agreement that the fundamental issues with the billing and cost allocation mechanisms in the Sub-regional Sewer System stem from outdated, old and unclear provisions in the written contracts that were in many cases 40 or more years old. The ultimate solution to the issues raised by both the dispute with the customers and the audit findings is to renegotiate all the agreements with clear terms and calculation methodologies. Additionally closer communications with the customer concerning budget and capital plans must be a cornerstone of the future relationships.

**EXHIBIT C (CONTINUED)
MANAGEMENT'S RESPONSE**

Page 4 of 4

The dispute with the Sub-regional customers will be resolved through settlement negotiations for past costs and through the clear careful crafting of contracts governing billings in the future. The City is moving forward with these negotiations and appreciates the Auditor General's assistance.

Sincerely,



Pam Triolo
Mayor
City of Lake Worth