

**STATE OF FLORIDA AUDITOR GENERAL**

**Operational Audit**

Report No. 2017-007  
August 2016

**CITY OF HAMPTON**

Prior Audit Follow Up



Sherrill F. Norman, CPA  
Auditor General

## **Council Members, Mayor, and City Clerk**

During the period March 2015 through August 2015, the following individuals served as City of Hampton Council Member, Mayor, or City Clerk:<sup>a</sup>

Dan Williams, Council Chair  
William "Bill" Goodge, Council Vice Chair  
Mike Armes, Council Member  
Frank Bryant, Council Member  
Crystal Turner, Council Member  
Gene Brannock, Mayor  
Mary Lou Hildreth, City Clerk from 5-19-15  
Amy Davis, City Clerk to 3-3-15<sup>b</sup>

<sup>a</sup> A Chief of Police served during the period of our prior audit (October 2009 through March 2013). On September 9, 2014, the City eliminated the Police Department, and the related services are being provided by the Bradford County Sheriff.

<sup>b</sup> The City Clerk position was vacant from March 4, 2015, until May 19, 2015.

The team leader was Brian J. Hartsfield, CPA, and the audit was supervised by Michael J. Gomez, CPA.

Please address inquiries regarding this report to Michael J. Gomez, CPA, Audit Manager, by e-mail at [mikegomez@aud.state.fl.us](mailto:mikegomez@aud.state.fl.us) or by telephone at (850) 412-2881.

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# CITY OF HAMPTON

## Prior Audit Follow Up

### **SUMMARY**

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This operational audit of the City of Hampton (City) focused on the progress that the City had made, or was in the process of making, in addressing the findings and recommendations in our operational audit report No. 2014-100. Our audit disclosed that the City had corrected 3 findings (Nos. 14, 30, and 31), partially corrected 21 findings (Nos. 2, 3, 4, 5, 6, 8, 9, 10, 11, 12, 13, 16, 17, 18, 19, 21, 22, 24, 25, 26, and 29), had not corrected 4 findings (Nos. 1, 7, 15, and 20), had taken actions that made 2 findings (Nos. 23 and 28) no longer relevant, and had no occasion to correct 1 finding (No. 27).

### **BACKGROUND**

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The City of Hampton (City), located in Bradford County, was created by the Florida Legislature through the enactment of Chapter 10599, Laws of Florida, 1925. The City operates under a mayor-council form of government and provides services to its citizens including water, culture and recreation, and other general governmental activities. In 2014, the estimated population of the City was 480.<sup>1</sup>

As directed by the Legislative Auditing Committee, we conducted an operational audit of the City for the period October 2009 through March 2013, and selected actions taken prior and subsequent thereto, and issued our report No. 2014-100 in February 2014. In accordance with State law,<sup>2</sup> we performed follow-up procedures, as deemed necessary, to determine the City's progress in addressing the findings and recommendations contained within that report.

### **FINDINGS AND RECOMMENDATIONS**

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GENERAL MANAGEMENT CONTROLS AND OVERSIGHT
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#### **Finding 1: Financial Accountability**

##### **Previously Reported**

Several findings included in the City's 2011-12 fiscal year annual financial audit report had been reported for many years without correction.

We recommended that the City ensure that audit findings are addressed in a timely manner.

##### **Results of Follow-Up Procedures**

***The City did not correct this finding.*** Our discussions with the City Clerk and review of City records, as of June 2016, disclosed that the City had not established procedures to provide for financial audits

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<sup>1</sup> Florida Population Estimates for Counties and Municipalities, April 2014, Florida Legislative Office of Economic and Demographic Research.

<sup>2</sup> Section 11.45(2)(j), Florida Statutes.

required by State law<sup>3</sup> or to timely resolve audit findings. The City Clerk indicated that auditors were retained to perform the City's annual financial audit for the 2012-13 fiscal year, but the auditors would not issue their report until completion of a Florida Department of Law Enforcement (FDLE) investigation, which was ongoing as of July 7, 2016.

Our observation of City procedures disclosed that four of the eight findings cited in the City's last annual financial audit report, for the 2011-12 fiscal year, were corrected, leaving four findings citing control deficiencies that date back to the 2006-07 fiscal year and remained uncorrected as of June 2016. The uncorrected deficiencies include inadequate separation of duties and lack of compensating controls in the accounting department, lack of personnel to prepare financial statements in accordance with generally accepted accounting principles, untimely bank account reconciliations, and the lack of management oversight of the Water Fund. The conduct of annual financial audits, as required by State law, are necessary to provide citizens and other users with an independent assessment of the City's financial position and results of operation. Without procedures requiring annual financial audits and the timely resolution of audit findings, there is an increased risk that errors or fraud may occur and not be timely detected and that noted deficiencies will remain uncorrected.

**Recommendation: The City should establish procedures to require the performance of annual financial audits and the timely resolution of audit findings.**

## **Finding 2: Written Policies and Procedures**

### **Previously Reported**

The City had not established written policies and procedures necessary to assure the efficient and consistent conduct of accounting and other business-related functions and the proper safeguarding of assets.

We recommended that the City adopt comprehensive, written policies and procedures that are consistent with applicable laws, ordinances, and other guidelines. In doing so, we recommended that the City ensure that the written policies and procedures address the instances of noncompliance and internal control deficiencies noted.

### **Results of Follow-Up Procedures**

***The City partially corrected this finding.*** Our review of City records disclosed that, in September 2015, the City adopted *Financial Policies and Practices (Policies and Practices)*, which addressed processes to follow-up on delinquent accounts, monitor budgetary positions, prepare financial reports, competitively select vendors through bid solicitation, and similar procedures. However, the *Policies and Practices* did not include other business-related functions discussed in our audit report No. 2014-100, such as processes for hiring employees, issuing customer credits for water services, and making routine purchases for amounts below bid thresholds using purchase orders and credit cards. In response to our inquiries, the City Clerk indicated that the City was gradually implementing the various needed written policies and procedures as time and resources became available and, in July 2016, the City Council adopted *Purchasing Policies and Practices* that addressed use of purchase orders and credit cards.

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<sup>3</sup> Section 218.39, Florida Statutes.

While we recognize that the City is small in size and has limited resources, comprehensive, written policies and procedures are necessary to help prevent instances of noncompliance or inadequate internal controls, such as those discussed in this report.

**Recommendation: The City should continue efforts to establish comprehensive, written policies and procedures to help prevent instances of noncompliance and inadequate internal controls. In doing so, the City should ensure that the written policies and procedures address all remaining areas of noncompliance and internal control deficiencies discussed in this report.**

### **Finding 3: Separation of Duties**

#### **Previously Reported**

The City had not provided for an adequate separation of duties, or established adequate compensating controls, in most areas of its business functions.

We recommended that the City ensure that adequate compensating controls, such as independent oversight and monitoring, are implemented to mitigate circumstances in which adequate separation of duties with existing employees is not possible.

#### **Results of Follow-Up Procedures**

***The City partially corrected this finding.*** Our examination of City records for the audit period,<sup>4</sup> discussions with the City Clerk, and evaluation of City-established controls disclosed that, in May 2015, the City revised payroll processing procedures to discontinue the City Clerk's ability to input new hire information into the payroll system. During the period of our audit, the City contracted with a bookkeeper to perform these duties, and the Mayor manually signed each payroll check. However, as of February 2016, certain duties continued to be inadequately separated for some business functions. For example, the City Clerk continues to receive collections, prepare and make bank deposits, and record all accounting transactions. Also, although the Mayor countersigns the checks, the City Clerk continues to prepare, sign, and mail the checks. Further, City records did not evidence that adequate compensating controls, such as independent oversight and monitoring, had been established to mitigate the incompatible duties.

The City Clerk indicated that, due to the City's small number of staff, the City was unable to completely separate incompatible duties. However, absent the implementation of compensating controls to mitigate the risks incompatible duties create, errors or fraud could occur and not be timely detected.

**Recommendation: The City should continue efforts to ensure that adequate compensating controls, such as independent oversight and monitoring, are implemented to mitigate circumstances in which adequate separation of duties with existing employees is not possible.**

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<sup>4</sup> As noted in the **OBJECTIVES, SCOPE, AND METHODOLOGY** section to this report, the audit period is March 2015 through August 2015, unless otherwise noted.

## Finding 4: Accounting Controls and Records

### Previously Reported

Lax controls, inadequate accounting procedures and processes, and errors in recordkeeping contributed to apparent overpayments totaling \$8,258 to a former City Clerk.<sup>5</sup>

We recommended that the City ensure that written reports showing a list of all outstanding checks and cash balances on hand for each fund are provided to the City Council as required by the City Charter. We also recommended that the City ensure that accounting personnel are properly trained on the use of its accounting software; transactions are appropriately recorded in its accounting records; and prenumbered checks are safeguarded, used in sequential order, and accounted for. Additionally, we recommended that the City review the apparent overpayments to the former Clerk totaling \$8,258 and enter into its records the basis for the payments or recover such overpayments from the former Clerk. Finally, we recommended that the City establish written policies and procedures that ensure that water customer credit memoranda issued are supported, reviewed, and approved by supervisory personnel.

### Results of Follow-Up Procedures

***The City partially corrected this finding.*** Our examination of City records for the audit period and discussions with the City Clerk disclosed that:

- The City Charter requires written reports of outstanding checks and cash balances on hand for each fund be provided to the City Council at each regular City Council meeting; however, the reports were not initially provided to the City Council because, according to the City Clerk, she was unaware of this requirement. Subsequent to our inquiries, at the September 8, 2015, City Council meeting, the City Clerk provided to the City Council reports of cash balances on hand as of August 31, 2015, for each fund; however, the City Council was not provided a report of outstanding checks. Timely reports to the City Council regarding outstanding checks and cash balances on hand would provide the Council with information needed to make informed financial decisions.
- In May 2015, the City addressed the lack of staff training cited in the previous audit by employing a City Clerk who had acquired experience with the City's accounting software during her previous employment and received training from the City's contracted bookkeeper. Also, the City Clerk received technical support training from the water utility system's software vendor.
- From the population of 176 expenditure transactions totaling \$96,795 during the audit period, we selected 24 transactions totaling \$20,498, reviewed related supporting City records, and determined that the transactions tested were appropriately recorded in the accounting records.
- In May 2015, the City established procedures to safeguard prenumbered checks by storing them in a safe and to use the checks in sequential order. However, our test of 227 sequential check numbers used during the audit period disclosed 18 missing check numbers.

Subsequent to our inquiry, the City Clerk provided documentation evidencing that 12 of the 18 missing check numbers represented voided checks. The City Clerk did not provide documentation for the remaining 6 missing check numbers. Our review of the City's bank account statements from March 2015 through April 2016 disclosed no disbursements relating to any of the 6 missing check numbers and we did not note any altered checks or duplicate checks.

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<sup>5</sup> This former City Clerk resigned on June 3, 2013.

Accurately maintained records of all prenumbered checks are essential for identifying outstanding checks for bank account reconciliations and for required presentations to the City Council.

- As of April 29, 2016, 1 check issued in 2012 for \$100, 8 checks issued in 2013 totaling \$2,840, and 26 checks issued in 2014 totaling \$11,233 remained outstanding because the City had not established written policies or procedures to timely void or replace stale-dated checks. Checks that remain outstanding for long periods of time need to be voided and, possibly, replaced to reduce the risk of errors or fraud associated with the checks.
- City records did not evidence any efforts, as of June 2016, to recover from the former City Clerk apparent overpayments totaling \$8,258 or, alternatively, to document the basis for the payments. The City Clerk indicated that the City did not intend to take action to recover the apparent overpayments until the completion of our audit and the conclusion of the FDLE investigation, which was ongoing as of July 2016. The lack of timely recovery efforts may hinder the City's ability to collect the moneys and absent documentation for the basis of the payments the public purpose served is not apparent.
- While the City had not established written policies and procedures to ensure that the water customer credits issued were supported, reviewed, and approved by appropriate City personnel, the City implemented a procedure, in August 2015, for a council member to approve credits for water services.

**Recommendation:** The City should continue efforts to ensure that written reports of outstanding checks and cash balances on hand are provided to the City Council as required by the City Charter. In addition, the City should establish written policies and procedures to timely void and replace stale-dated checks. We also continue to recommend that the City:

- Ensure that prenumbered checks are used in sequential order and that all voided checks are properly accounted for.
- Review the apparent overpayments to the former Clerk totaling \$8,258 and enter into City records the basis for the payments or, alternatively, take appropriate actions to recover the overpayments from the former Clerk.
- Establish written policies and procedures to ensure that the water customer credits issued are supported, reviewed, and approved by appropriate City personnel.

## Finding 5: Petty Cash

### Previously Reported

The City's records did not demonstrate that a public purpose was served for petty cash fund disbursements, and petty cash was not adequately safeguarded and accounted for.

We recommended that the City ensure that petty cash is adequately safeguarded, records are kept as to its use and the amount on hand, and documentation is maintained to support the propriety of all petty cash disbursements.

### Results of Follow-Up Procedures

**The City partially corrected this finding.** According to the City Clerk, no petty cash or change fund transactions occurred during the audit period. Our discussions with the City Clerk and our physical cash count procedures disclosed that, in August 2015, the City reduced its petty cash fund from \$200 to \$20. The \$75 change fund remained the same throughout the audit period. Although we observed that the petty cash and change funds were maintained in a secure environment, the City did not record these

funds in the accounting records. Identifying cash accounts in the accounting records is important due to the susceptibility of cash to theft. In February 2016, the City eliminated the petty cash fund and began reimbursing the City Clerk by check for minor purchases.

**Recommendation:** The City should, for the change fund and any future petty cash funds, ensure that the funds are appropriately recorded in the City's accounting records.

## Finding 6: Cash Receipt Forms

### Previously Reported

Cash receipt forms used to account for collections were not properly accounted for.

We recommended that the City ensure that prenumbered cash receipts are used in sequential order, and complete, legible, carbon copies retained in the cash receipt book. Additionally, we recommended that cash receipt numbers be recorded in the accounting records.

### Results of Follow-Up Procedures

**The City partially corrected this finding.** Our examination of the City's cash receipt books for the audit period disclosed that prenumbered cash receipts were not always effectively used to document the purpose and amounts of money collected and to fix responsibility for such amounts mainly because, as mentioned in Finding 2, the City had not established written policies and procedures. Specifically, we noted that:

- While the City improved the legibility of receipt information to document collections received, three cash receipt books were used simultaneously without distinction as to the purpose for the collections, such as for business license fees or water customer payments.
- Deposits totaling \$4,897 were recorded in City accounting records for April 2015; however, no receipts were written for April 2015 in any of the cash receipt books.
- During the period March 2015 through June 2015, receipt numbers were not recorded in the water billing system to correlate the receipts to customer water service payments, nor were reconciliations prepared between the receipts recorded in the water billing system and the bank account deposits.

The improper use of prenumbered cash receipts diminishes their effectiveness as a control.

To determine whether collections for water service were properly recorded in the water billing system and deposited in the City's bank account during the audit period, we tested 20 cash receipts totaling \$1,027 from the population of 226 cash receipts totaling \$8,869. We found that the City properly accounted for 15 of the cash receipts tested; however, City records did not evidence that 5 cash receipts totaling \$172, dated June 24, 2015, or before, were deposited in the City's bank account. Although we requested an explanation for the missing \$172, the City Clerk was unaware of the missing funds. In July 2015, the City established procedures for matching receipts recorded in the water billing system to bank account deposits. Such procedures, if properly and consistently performed, will allow for the timely detection of cash receipts deposit and recording errors and fraud.

**Recommendation:** We continue to recommend that the City ensure that prenumbered cash receipts are used in sequential order. Additionally, the City should ensure that cash receipt numbers are recorded in the water billing system and conduct, and document, reconciliations

between the cash receipts and bank account deposits. Further, the City should investigate the five cash receipts totaling \$172 that were not deposited in the City's bank account and take appropriate action based on the results of the investigation.

## FINANCIAL CONDITION OF THE WATER FUND

### Finding 7: Financial Condition of Water System

#### Previously Reported

The City Council needed to establish a policy indicating minimum target levels of working capital funds to be maintained for the Water Fund.

We recommended that the City Council establish a policy indicating a minimum target level of working capital funds to be maintained for the Water Fund.

#### Results of Follow-Up Procedures

***The City did not correct this finding.*** According to City records, in September 2015, the City adopted a policy titled *Financial Policies and Practices* for all City Funds, including the Water Fund, which established reserves for capital expenditures, funding the renewal and replacement fund, and provision for required debt service reserves. While the City Clerk believed the policy sufficiently established the City's financial policies and practices, as of November 2015, the policy did not establish the minimum target level of working capital funds for the Water Fund. Absent established target levels, City records do not document the basis upon which the City monitors the solvency of the Water Fund.

**Recommendation:** We continue to recommend that the City Council establish a minimum target level of working capital funds for the Water Fund.

### Finding 8: Fees and Charges for Water Service

#### Previously Reported

Rates and charges for water service were not assessed and accounted for in accordance with adopted ordinances, and City records did not demonstrate that established rates and charges were appropriate and sufficient to cover the cost of the providing water service. Also, adopted ordinances did not specify the safekeeping and handling of water deposits and advances.

We recommended that the City obtain a rate study or conduct other analyses to ensure that water rates are sufficient to cover the costs of providing water services. Additionally, we recommended that the City ensure that water customers are assessed the appropriate fees and charges. We also recommended that the City Council amend Ordinance No. 2009-1 (ordinance) to specify the security deposit amount for new water customers, the manner in which security customers should be accounted for, time frames for returning security deposits to water customers, and time frames within which monthly water bills must be paid before service is terminated for nonpayment. Further, we recommended that the City ensure that tap application forms are used to establish water customer accounts in the City's records along with related security deposits.

## **Results of Follow-Up Procedures**

***The City partially corrected this finding.*** Our discussions with the City Clerk and examination of City water services records during the audit period indicated that:

- On April 22, 2015, the City requested assistance from the Southeast Rural Community Assistance Project, Inc. (Project) to perform a water rate study. The Project agreed to perform the study and, as of March 2016, the study was in progress.
- As of July 2016, the City continued to assess a base water rate of \$28 per month, instead of the \$30 per month rate established by Ordinance No. 2009-1. According to the City Clerk, water rate amendments will be contingent on the results of the water rate study.
- As of February 2016, the City had not amended Ordinance No. 2009-1 to specify the security deposit amount for new customers, the manner in which security deposits should be accounted for, time frames for returning security deposits to water customers, and time frames within which monthly water bills must be paid before service is discontinued due to nonpayment.
- The City did not use tap application forms to establish water customer accounts or record the related security deposits in City accounting records. Additionally, our test of 23 security deposits totaling \$1,300 recorded in the water billing system disclosed that 6 security deposits totaling \$300 were not recorded in the City accounting records, nor were the deposits listed on the City bank account statements.

In response to our inquiry, the City Clerk indicated that other priorities had prevented the City from amending Ordinance No. 2009-1, using tap application forms, and properly accounting for the security deposits.

**Recommendation:** Upon completion of the water rate study, the City should consider the results and, as appropriate, adjust the rates charged to water customers. Additionally, the City should:

- **Amend Ordinance No. 2009-1 to specify the security deposit amount for new water customers, manner in which security deposits should be accounted for, time frames for returning security deposits to water customers, and time frames within which monthly water bills must be paid before service is discontinued due to nonpayment.**
- **Ensure that tap application forms are used to establish water customer accounts and related security deposits are recorded in City accounting records.**
- **Take appropriate action to investigate and resolve the six missing security deposits totaling \$300.**

### **Finding 9: Water Customer Accounts and Billings**

#### **Previously Reported**

Water customers accounts were not adequately identified and monitored to ensure accounts were billed and payments timely made. Our review disclosed at least \$11,354 of unbilled and uncollected water revenue.

We recommended that the City establish a master listing of water meter locations indexed to customer accounts for use in controlling the water meters read and accounts billed. Additionally, we recommended that the City review the history of water billings to identify unbilled accounts and seek to recover unpaid fees and charges from applicable water customers to the extent permitted by law. We also recommended

that the City establish adequate collection procedures to ensure that water customer payments are received in a timely manner or service is disconnected.

### **Results of Follow-Up Procedures**

***The City partially corrected this finding.*** Our discussions with the City Clerk and review of City records, disclosed that, in February 2015, the City established a master listing of water meter locations and indexed the listing to customer accounts to ensure that all water customer accounts were included in the water billing system. However, the City had not reviewed the history of water billings to identify unbilled accounts nor had the City attempted to recover unpaid fees and charges from applicable water customers.

In response to our inquiry, the City Clerk indicated that the City had concentrated efforts on implementing the new water billing system and establishing collection procedures prospectively rather than identifying unbilled or unpaid water billings from the past. According to the City Clerk, beginning August 2015, the City began evaluating recent delinquent accounts and, based on continued nonpayment, discontinuing water service.

Appropriate controls to monitor water bills and related payments provide assurance that fees and charges are collected from water customers in accordance with the City ordinance and that such collections are sufficient to cover the costs of operating the water system.

**Recommendation:** The City should continue to evaluate delinquent accounts and, based on continued nonpayment, discontinue water service. Additionally, the City should review the history of water billings to identify unbilled accounts and, to the extent permitted by law, seek to recover unpaid fees and charges from applicable water customers.

## **Finding 10: Unaccounted for Water**

### **Previously Reported**

The City's high rate of unaccounted for water loss was deemed unacceptable by the Suwannee River Water Management District (SRWMD).

We recommended that the City continue its efforts to reduce unaccounted for water to an acceptable level.

### **Results of Follow-Up Procedures**

***The City partially corrected this finding.*** Our discussions with the City Clerk and review of City records associated with unaccounted for water, disclosed that the City, in March 2015, hired a company to fix water leaks and repair broken water meters. City records also indicated that the City was undergoing a water audit for the period April 2015 through February 2017.

In 2011, the SRWMD indicated that the City's unaccounted for water should not exceed 10 percent of the total water consumption. However, based on a comparison of Florida Department of Environmental Protection reports with the City's water billing system reports, the City had 4.7 million gallons of unaccounted for water for the audit period, which represents 52 percent of the City's total water consumption. Without a thorough investigation to identify the cause for, and timely and appropriate

actions to reduce the excessive levels of, unaccounted for water, there is an increased risk of water billing undercharges and water loss.

**Recommendation:** The City should continue efforts to reduce unaccounted for water to an acceptable level.

BUDGETARY CONTROLS

**Finding 11: Budget Preparation and Adoption**

**Previously Reported**

For the 2010-11 and 2011-12 fiscal years' budgets, the City did not consider the effect of the available fund balances in the General Fund or net assets deficits in the Water Fund from prior fiscal years, contrary to law.<sup>6</sup> Additionally, the tentative and final 2011-12 fiscal year budgets were not provided to Bradford County for posting on its Web site, contrary to law.<sup>7</sup>

We recommended that the City appropriately consider all available amounts from prior fiscal years in the preparation of its budgets and provide its tentative and final budgets to the County for posting to its Web site as required by law.

**Results of Follow-Up Procedures**

***The City partially corrected this finding.*** Our review of City records disclosed that the City documented consideration of available prior fiscal year fund balances in adopting the 2014-15 and 2015-16 fiscal year budgets and timely transmitted the final 2014-15 and 2015-16 fiscal year budgets to the County for posting on its Web site. However, as of February 2016, the City had not provided the tentative 2015-16 fiscal year budget to the County because the City Clerk was unaware of the tentative budgets posting requirement. Posting of tentative fiscal year budgets on the appropriate Web site is necessary to properly inform the citizenry of budget information.

**Recommendation:** We again recommend that the City timely transmit tentative budgets to the County for posting on the County's Web site as required by State law.

**Finding 12: Budget Overexpenditures**

**Previously Reported**

The Public Safety Department incurred budget overexpenditures for the past 3 fiscal years with no action taken by the City Council, and the General Fund's total budget was overexpended for 2 of the past 3 fiscal years. Additionally, the City Council was not provided periodic budget-to-actual comparison reports to monitor the 2009-10, 2010-11, and 2011-12 fiscal years' budgets.

We recommended that the City enhance its budgetary procedures to ensure that expenditures are limited to budgeted amounts as required by law.<sup>8</sup> We also recommended that the City should ensure that the

<sup>6</sup> Section 166.241(2), Florida Statutes.

<sup>7</sup> Section 166.241(3), Florida Statutes.

<sup>8</sup> Section 166.241(2), Florida Statutes.

City Council is periodically provided budget-to-actual comparison reports for monitoring budgeted and actual expenditures.

### **Results of Follow-Up Procedures**

***The City partially corrected this finding.*** Our review of City records disclosed that the City did not report any budget overexpenditures at September 30, 2015, and the City Council was provided information such as balance sheets, profit and loss statements, and vendor payment listings to monitor the City's financial activities. However, for the period May 2015 through August 2015, the City Clerk did not provide the City Council with the monthly budget-to-actual comparison reports needed to monitor the City's budget and actual expenditures. Without appropriate budgetary monitoring, the City Council may misunderstand the City's financial status, mismanage City finances by denying expenditures when funds are available, authorize purchases when funds are not available, and not timely identify and take action to remedy critical budget shortfalls.

**Recommendation:** We continue to recommend that the City periodically provide the City Council with budget-to-actual comparison reports for Council use in monitoring budgeted and actual expenditures.

CASH IN BANK

### **Finding 13: Bank Account Reconciliations**

#### **Previously Reported**

Bank account reconciliations were not adequately prepared or not prepared at all. Additionally, the City incurred \$605 in overdraft fees.

We recommended that the City ensure that bank account reconciliations are timely and properly prepared and the City's bank account balances are monitored to avoid overdraft fees.

#### **Results of Follow-Up Procedures**

***The City partially corrected this finding.*** According to the City Clerk, the City monitors bank account balances to avoid overdraft fees, and our review of the City's bank account statements disclosed that the City did not incur overdraft fees during the audit period. However, our review of the 24 reconciliations prepared for the City's six bank accounts during that period disclosed that the bank account reconciliations were not timely performed or approved. Specifically, the reconciliations were completed 9 to 147 days, or an average of 49 days, after the bank statement dates and lacked documented review and approval. The City Clerk indicated that a contracted bookkeeper performed the reconciliations; however, the City had not established expected reconciliation completion dates or procedures to require the City Clerk's documented review and approval of the reconciliations.

Additionally, our review of the bank account reconciliations disclosed that the City had not taken any actions to review and resolve the outstanding checks and deposits noted in our report No. 2014-100. Specifically, included in the August 2015 bank account reconciliations were 56 outstanding checks totaling \$23,639 and 15 deposits in transit and credits totaling \$11,715. The August 2015 bank account reconciliations also listed 56 checks that had been outstanding 2 to 1,027 days (average of 390 days)

and 15 deposits and credits that had not appeared on the bank statements although 46 to 1,063 days (average of 456 days) had elapsed since those transactions had been recorded in City records. The City Clerk indicated that the City did not intend to take action on the outstanding items until the completion of our audit and the conclusion of the FDLE investigation, which was ongoing as of July 2016. Without timely and appropriate bank account reconciliations and timely resolution of outstanding items identified on the reconciliations, there is an increased risk that errors or fraud could occur and not be timely detected.

**Recommendation: The City should ensure that bank account reconciliations are timely completed, reviewed, and approved. Additionally, the City should establish procedures to timely resolve all outstanding checks, deposits, and credits.**

## **Finding 14: Bank Agreements**

### **Previously Reported**

Bank agreements were outdated and not maintained in the City's records.

We recommended that the City retain copies of all bank agreements and ensure the agreements are periodically reviewed and updated, as appropriate.

### **Results of Follow-Up Procedures**

***The City corrected this finding.*** Our examination of City records disclosed that, in May 2015, the City reviewed and updated the bank agreements for the City's six bank accounts and properly retained copies of the updated agreements in the City's records.

## **Finding 15: Public Deposit Accounts**

### **Previously Reported**

The City failed to file an annual public deposit information report with the State Chief Financial Officer (CFO), contrary to State law.<sup>9</sup>

We recommended that the City ensure compliance with State law regarding public deposit accounts.

### **Results of Follow-Up Procedures**

***The City did not correct this finding.*** Our examination of City records indicated that, as of August 31, 2015, the City had not annually filed the required report with the State CFO. In response to our inquiry, the City Clerk indicated that she was unaware of this requirement and initially believed that the bank, not the City, is required to annually confirm the public deposit information and submit the information to the State CFO. Notwithstanding the City Clerk's initial interpretation of the law, State law<sup>10</sup> provides that "each public depositor shall submit by November 30 an annual report to the Chief Financial Officer" and defines a "public depositor" as the official custodian of funds for a governmental unit who is

<sup>9</sup> Section 280.17, Florida Statutes.

<sup>10</sup> Section 280.17(6), Florida Statutes.

responsible for handling public deposits.<sup>11</sup> Banks, savings banks, and savings associations are defined by State law<sup>12</sup> as qualified public depositories.

Pursuant to State law,<sup>13</sup> if a public depositor does not comply with the filing requirements of State law for each public deposit account, the protection from loss provided by State law<sup>14</sup> is not effective as to that public deposit account.

**Recommendation: We continue to recommend that the City ensure compliance with State law regarding public deposit accounts.**

## PERSONNEL AND PAYROLL ADMINISTRATION

### Finding 16: Hiring Practices

#### Previously Reported

The City did not maintain personnel files to document personnel related actions taken. Additionally, position descriptions and standard pay grades or salary ranges were not established to specify minimum education and experience requirements and starting salaries for job openings.

We recommended, to provide for efficient and effective personnel administration, that the City Council adopt position descriptions that specify minimum education and experience requirements and establish standard pay grades or salary ranges for each position. We also recommended that the City maintain personnel files that include employment applications, documentation that employees meet required education and experience requirements, and evidence of personnel actions.

#### Results of Follow-Up Procedures

***The City partially corrected this finding.*** Our examination of City records indicated that, in June 2015, the City adopted a position description for the City's only employee, the City Clerk, which included a description of job duties, minimum education requirements, and work experience. However, our discussions with the City Clerk and review of City records, as of July 7, 2016, revealed that the City Council had not established a standard pay grade or salary range for the City Clerk position.

In March 2015, the City contracted with an employment agency to fill the vacant City Clerk position. The City's agreement with the employment agency provided that the agency would complete a background screening, reference check and prior employment verification, and perform a skills assessment and verification of education, as applicable. The City Council Chairman indicated that the City relied on the employment agency to comply with the agreement and, therefore, had not requested or received any documentation of the employment agency's actions nor had the City established a personnel file for the Clerk.

Absent copies of employment applications and documentation evidencing the conduct of background screenings, reference checks and prior employment verification, and skills assessment and verification

<sup>11</sup> Section 280.02(24), Florida Statutes.

<sup>12</sup> Section 280.02(26), Florida Statutes.

<sup>13</sup> Section 280.17(8), Florida Statutes.

<sup>14</sup> Section 280.18, Florida Statutes.

of education, the City cannot demonstrate that City employees possess the minimum qualifications for their positions. Records of personnel actions are also necessary to support salary payments.

**Recommendation:** To provide efficient and effective personnel administration, the City Council should adopt a standard pay grade or salary range for the City Clerk position. In addition, we continue to recommend that the City maintain personnel files that contain employment applications, evidence that qualifications and experience requirements were met, and documentation of all personnel actions.

## **Finding 17: Attendance and Leave Records**

### **Previously Reported**

Time sheets were not required for all employees to document time worked and leave taken, and unsupported additional compensation totaling \$4,136 was paid to the Water Utility Operator and a former City Clerk; the City Council had not adopted a formal leave policy, although one employee received \$2,573 in lieu of using vacation; and our tests disclosed discrepancies between hours worked per time records and hours paid for police officers.

We recommended that the City require that time records be prepared by all employees to document hours worked and leave taken. We also recommended that time records be verified and used as the basis for preparing the payroll, and that the City Council formally adopt a leave policy for its employees and ensure that such policy is communicated to, and complied with by, City employees. We further recommended that the City take action, as appropriate, to recover the overpayments disclosed by our audit.

### **Results of Follow-Up Procedures**

***The City partially corrected this finding.*** On September 9, 2014, the City eliminated the Police Department, thereby significantly reducing the number of City employees. Our examination of City records for the audit period disclosed that the City Clerk completed weekly time sheets, which the Mayor reviewed and approved as the basis for the Clerk's salary payments. On January 13, 2015, the City Council approved a salary payment for the City Clerk that included payment for holiday leave, but as of July 2016, the City Council had not adopted a leave policy to consistently address, for example, payments for leave taken by City employees. Also, City records did not indicate any efforts by the City to recover, or otherwise address, the unsupported compensation payments noted in our audit report No. 2014-100. In response to our inquiry, the City Clerk indicated that, because of the ongoing FDLE investigation, recovery efforts had been delayed. Notwithstanding this response, timely collection attempts are essential to the successful recovery of funds.

**Recommendation:** We again recommend that the City take action, as appropriate, regarding the overpayments noted in our prior audit. Also, the City Council should formally adopt a leave policy for all types of leave, ensure that such policy is communicated to the current and future City employees, and monitor employee compliance with the policy.

## Finding 18: Clerk and City Council Members' Compensation

### Previously Reported

City officials' salaries were not set by ordinance, contrary to City Charter,<sup>15</sup> and a former Clerk was paid \$361 for unidentified and undocumented work. Additionally, payroll taxes were not withheld from City Council members' salaries, contrary to Internal Revenue Service (IRS) regulations.

We recommended that, as required by the City Charter, compensation of the Clerk and the City Council be fixed by ordinance. We also recommended that, for the purpose of compensation, the City treat City Council members' as employees rather than independent contractors, and contact the IRS to determine what corrective action, if any, should be taken regarding unpaid employment taxes. Additionally, we recommended that the City review the questioned payments to the Clerk totaling \$361 and enter into its records the basis for the payments or recover such payments from the Clerk.

### Results of Follow-Up Procedures

***The City partially corrected this finding.*** In April 2016, the City Council adopted Ordinance No. 2016-1, which established the City Council members' compensation, but did not address the City Clerk's salary. Without an established basis for the City Clerk's salary, there is an increased risk that payments will not be consistent with City Council or employee expectations for the City Clerk position.

Our examination of City records disclosed that in October 2015 the City began treating City Council members as employees for compensation purposes and withholding taxes from their compensation payments. However, the City had not contacted the IRS to determine the corrective action needed, if any, for taxes not withheld from previous compensation payments. As a result, the City may still be liable for unpaid employment taxes.

Additionally, City records did not document the basis for the \$361 paid to the former City Clerk for unidentified and undocumented work nor did the City recover the payments from the former City Clerk. In response to our inquiry, the current City Clerk indicated that the City was waiting for the conclusion of the ongoing FDLE investigation before taking action to recover the \$361.

**Recommendation:** We again recommend that the City adopt an ordinance establishing the City Clerk's salary in accordance with the City Charter. Additionally, the City should contact the IRS to determine what corrective action, if any, should be taken regarding prior compensation payments made to City Council members absent the withholding of taxes. Also, the City should enter into its records the basis for the payments totaling \$361 to the former City Clerk or, alternatively, attempt to recover the funds.

## Finding 19: Employee/Independent Contractor Status

### Previously Reported

The City paid the former City Clerk's daughter and son for services that were not reported to the IRS, contrary to Federal tax law.

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<sup>15</sup> Article II, Section 4, City of Hampton Charter.

We recommended that the City contact the IRS to determine what corrective action, if any, should be taken regarding unreported payments and possible unpaid employment taxes. We also recommended that the City document in its records its determination of whether workers are employees or independent contractors and apply the appropriate IRS regulations.

### **Results of Follow-Up Procedures**

***The City partially corrected this finding.*** Our examination of City records disclosed that the City appropriately applied IRS regulations during the 2014 calendar year to treat City contractors as independent contractors and issued a Form 1099 for each independent contractor paid at least \$600. However, the City Clerk indicated that the City did not contact, nor do they plan to contact, the IRS to determine what corrective action, if any, should be taken regarding the unreported payments to the former City Clerk's daughter and son because they considered the amounts to be insignificant. The City paid the former Clerk's daughter and son \$3,800 and \$1,140, respectively, in 2011, and \$2,314 and \$680, respectively, in 2012, but, contrary to Federal tax law, did not withhold payroll taxes or, alternatively, issue a Form 1099.

**Recommendation:** We continue to recommend that the City contact the IRS to determine what corrective action, if any, should be taken regarding the unreported payments.

## **Finding 20: Employment of Relatives**

### **Previously Reported**

The City Council had not adopted policies and procedures addressing the employment of relatives and, in 2009, contrary to State law,<sup>16</sup> the City Council reappointed a City Council member's wife as City Clerk while the City Council member was serving on the City Council.

We recommended that the City adopt policies and procedures addressing the employment of relatives and that such policies and procedures be designed to ensure documented compliance with the law.

### **Results of Follow-Up Procedures**

***The City did not correct this finding.*** As of February 2016, the City had not adopted policies and procedures addressing the employment of relatives; however, according to the City Clerk, the City plans to work on a policy to address this issue. The former City Clerk referred to in our prior report resigned on June 3, 2013, and our review of City records for the audit period disclosed that the City did not employ any relatives of employees or City Council members. Policies and procedures addressing the employment of relatives would help ensure the City's future compliance with applicable State law.

**Recommendation:** To promote compliance with State law, we again recommend that the City adopt policies and procedures addressing the employment of relatives.

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<sup>16</sup> Section 112.3135(2)(a), Florida Statutes.

**Finding 21: Credit Cards and Charge Account****Previously Reported**

The City Council had not adopted an ordinance or resolution, or otherwise provided guidance, as to the assignment and proper use of City credit cards and charge accounts. Nor did the City require users of the credit cards and the charge accounts to sign written agreements specifying acceptable uses of credit cards and charge accounts. Additionally, credit card billing statements were not always appropriately approved for payment, and supporting receipts were not always retained in the City's records.

We recommended that the City Council determine whether credit cards and charge accounts should be used and, if so, establish written policies and procedures governing the control and use of credit cards and charge accounts. We also recommended that such policies and procedures require all employees utilizing credit cards or charge account privileges to sign a written agreement evidencing their understanding of, and agreement with, the City's credit card and charge account policies and procedures. Additionally, we recommended that the City enhance its controls to provide for the retention of detailed billing statements and receipts for all charges incurred on City-issued credit cards and charge accounts, approval of credit transactions incurred prior to payment, and timely payments to avoid incurring additional fees and charges.

**Results of Follow-Up Procedures**

***The City partially corrected this finding.*** The City Clerk indicated that she maintains four credit cards (three for retail store accounts and one for an account with a financial institution) in a safe and assigns the cards to the Mayor, City Council members, and herself, as needed. The City also maintained a charge account at a local hardware store, but closed the account in August 2015. The Mayor approved credit card and charge account purchases by signing the check to pay the credit card company or the local hardware store.

To determine whether documentation existed to support charges, we requested documentation supporting 39 selected charges totaling \$7,141 from the March 2015 through August 2015 account statements. We found that City records did not identify the individual making the charges and, for 7 charges totaling \$677, City records did not include charge receipts or other records to document the reasonableness and public purpose of the charges. According to the account statements, the charges were to vendors that generally provide retail merchandise and services. In response to our inquiry, the City Clerk indicated that, since the charges occurred before she was hired, she could not explain the basis for the purchases or why documentation to support the charges was not retained. Absent records that identify the individual making the purchase, responsibility for the charges cannot be readily established. Also, absent documentation supporting the reasonableness and public purpose for the charges, the City cannot demonstrate the propriety of the charges and there is an increased risk that errors or fraud may occur and not be timely detected.

We also reviewed credit card billing statements for the audit period and noted that, due to untimely credit card payments, the City incurred additional fees and penalties totaling \$107; however, before our inquiry,

the City was able to recover \$35 of this amount from the credit card company. Failure to timely pay bills in full results in additional fees and charges, which is an inefficient use of City resources.

In July 2016, the City Council adopted *Purchasing Policies and Practices*, which govern the control and use of credit cards and require:

- Individuals authorized to make charges be identified.
- Individuals authorized to incur charges sign written agreements that limit use to business purposes and evidence the individuals' concurrence to comply with the agreements.
- Credit cards be secured and the process for reporting lost or stolen credit cards be identified.
- Individuals to document the authorized public purpose for charges and provide documentation, such as signed receipts, to identify who incurred each charge.

The recently adopted *Purchasing Policies and Practices* could be further enhanced by identifying allowable purchases, acceptable merchants, and transaction limits. The policies and practices did not address charge accounts since the City no longer maintains charge accounts.

**Recommendation:** We recommend that the City ensure timely payments to credit card companies to avoid incurring additional fees and charges. Additionally, the City should enhance its *Purchasing Policies and Practices* to identify allowable purchases, acceptable merchants, and transaction limits and should also ensure that the *Purchasing Policies and Practices* are followed for all credit card purchases.

## Finding 22: Questioned Expenditures

### Previously Reported

Our audit disclosed expenditures totaling \$27,517, including membership fees of \$3,818 to join a nonprofit organization, for which the City's records did not clearly demonstrate that a public purpose was served.

We recommended that the City document in its public records the authorized public purpose of the questioned expenditures totaling \$27,517. We also recommended, should the City Council determine that the membership in the nonprofit organization serves a public purpose, the City seek a determination from the nonprofit organization as to whether the City's use of the organization's merchandise is in compliance with the terms of its membership.

### Results of Follow-Up Procedures

**The City partially corrected this finding.** Our discussions with the City Clerk and review of City records for the audit period disclosed that the City was no longer a member of the nonprofit organization and, therefore, made no membership payments to the organization during that period. However, our examination of City records, as of November 2015, also indicated that the City made no efforts to identify the public purpose of the \$27,517 in questioned expenditures noted in our previous audit. According to the City Clerk, the City focused on enhancing business functions prospectively, instead of retroactively. Absent the documented public purpose of the \$27,517, the City cannot demonstrate that these expenditures served a public purpose.

As discussed in Finding 5, the City eliminated the petty cash fund in February 2016 and began reimbursing City officials, the City Clerk, or other individuals by check for minor purchases. We requested City records supporting the 11 reimbursements totaling \$1,024 made during the audit period to City officials, the City Clerk, and other individuals. Although requested, City records could not be provided to evidence the public purpose for reimbursing:

- A City Council member \$150 to attend a Libertarian Party Convention.
- The City Clerk \$150 for commuting mileage to and from work that the City Council did not approve.

Records evidencing the public purpose is necessary to demonstrate the appropriate use of public resources for these reimbursements.

**Recommendation:** We continue to recommend that the City document the authorized public purpose of the previously questioned expenditures totaling \$27,817. The City should ensure that the public purpose be documented for all expenditures, including reimbursements. If the City is unable to document a public purpose for the payments to the City Council member and City Clerk, the City should recover the funds from these individuals.

### Finding 23: Cellular Telephones

#### Previously Reported

The City Council had not established policies and procedures regarding employee use of City-assigned cellular telephones.

We recommended that the City Council establish written policies and procedures for the use and monitoring of cellular telephones. Such policies and procedures should require supervisory review of cellular telephone billings prior to payment.

#### Results of Follow-Up Procedures

**City actions made this finding no longer relevant.** The City no longer provides cellular telephones to employees and, according to the City Clerk, the City does not anticipate providing cellular telephones in the future.

### Finding 24: Sales Tax Exemption

#### Previously Reported

The City did not always utilize its sales tax exemption<sup>17</sup> and failed to timely renew its sales tax exemption certificate, resulting in the City paying sales tax it could have avoided.

We recommended that the City timely renew its sales tax exemption certificate with the Florida Department of Revenue and utilize the exemption to avoid paying sales tax on purchases.

#### Results of Follow-Up Procedures

**The City partially corrected this finding.** Based on our discussions with the City Clerk and examination of City records, we determined that the City renewed its sales tax exemption certificate but did not always

<sup>17</sup> Section 212.08(6), Florida Statutes.

use it for purchases. From the population of 176 transactions totaling \$96,795 during the audit period, we reviewed City records supporting 65 selected transactions totaling \$27,639. We found that City records indicated that the City paid sales tax totaling \$31 for 4 transactions and did not evidence whether the City paid sales tax for 7 transactions totaling \$677. The City Clerk could not explain why the City paid the sales tax as these transactions occurred before she was hired. Use of a sales tax exemption reduces purchasing costs and helps conserve the City's limited resources.

**Recommendation:** We continue to recommend that the City utilize its sales tax exemption to reduce purchasing costs.

## CONTRACTS

### Finding 25: Written Contracts

#### Previously Reported

Contractual services were not evidenced by written agreements; therefore, the basis for contract payments was not evident in the City's records.

We recommended that the City ensure that future payments for contractual services are made pursuant to a written contract documenting the responsibilities of each party, the nature of the services to be performed, and the basis for the compensation for such services.

#### Results of Follow-Up Procedures

***The City partially corrected this finding.*** To determine whether payments for services were properly supported by written contracts or other authorizing documentation, we selected 20 payments totaling \$41,041 from the population of 50 payments totaling \$49,981 made during the audit period to individuals or firms that are independent contractors. We found that the City made 2 payments totaling \$1,985 to independent contractors for services that were not identified in the respective contracts, 2 payments totaling \$580 that were not supported by a written contract, and a \$555 payment for services rendered by a contractor prior to the effective date of the contract. Further, the City did not have other documentation, such as purchase orders, to preauthorize these services and related payments. These deficiencies demonstrate the City's need for a policy that requires written agreements to authorize contractual services, as well as procedures that limit payments to those amounts and services supported by written contracts.

In September 2015, the City adopted a policy requiring the City Council to routinely consider whether particular services should be provided by City staff or through contracts with other parties. Without written contracts or other records to preauthorize services and related payments, City records did not evidence the responsibilities of the City and respective independent contractors, the services to be provided, and the basis for payments.

**Recommendation:** The City should continue efforts to ensure that future payments for services are made pursuant to a written contract documenting the responsibilities of the City and the respective independent contractors, the services to be provided, and the basis for payments.

## Finding 26: Auditor Selection and Contract

### Previously Reported

For the 2011-12 financial audit required by State law,<sup>18</sup> the City did not establish an audit committee, did not competitively select the auditor, and did not include certain statutorily required provisions in the contract for audit services, contrary to law.<sup>19</sup>

We recommended that the City ensure compliance with the auditor selection and contract requirements prescribed in law.

### Results of Follow-Up Procedures

***The City partially corrected this finding.*** Our review of City records and discussions with the City Clerk disclosed that the City established an audit committee and solicited requests for proposals for the City's 2012-13 fiscal year financial audit. In November 2014, based on a competitive selection process, the City selected and contracted with an independent certified public accounting firm to perform the audit. However, contrary to State law, the City excluded contract provisions specifying the fees for audit services and conditions under which the contract could be terminated or renewed. As of July 2016, the audit was still in progress. To demonstrate compliance with State law and protect the City's interests, audit contracts should include all necessary provisions, including provisions specifying fees for services and conditions under which the contract may be terminated or renewed.

**Recommendation:** The City should ensure future audit contracts include provisions specifying the fees for audit services and the conditions under which the contracts could be terminated or renewed.

GRANT ADMINISTRATION

## Finding 27: Florida Recreation Development Assistance Program

### Previously Reported

Grant expenditure reimbursements, totaling \$34,753, were claimed from the grantor prior to expending the moneys, contrary to the grant agreement.

We recommended that the City ensure that grant reimbursement requested are in accordance with the grant terms.

### Results of Follow-Up Procedures

***The City had no occasion to correct this finding.*** Although the City had three reimbursement-based grants during the audit period, the City expended no moneys related to the three grants and, accordingly, claimed no reimbursements during this period. Additionally, the City contracted with a grant administrator in May 2015 for assistance in properly administering the grants.

<sup>18</sup> Section 218.39, Florida Statutes.

<sup>19</sup> Section 218.391(7), Florida Statutes.

## MOTOR VEHICLES

### Finding 28: Motor Vehicle Usage and Insurance

#### Previously Reported

The City Council had not established policies and procedures for the assignment of the City-owned vehicles on a 24-hour basis. In addition, the City's records did not demonstrate that the assigned vehicles were used primarily for a public purpose and used only incidentally for the personal benefit of the employees assigned the vehicles. Vehicle usage logs were not maintained and the personal use of the vehicles was not included in the employees' gross compensation reported to the IRS. Also, automobile insurance on City vehicles was not consistently maintained.

We recommended that the City Council establish policies and procedures for the assignment of motor vehicles to employees for 24-hour use and ensure that the fringe benefit of providing a City vehicle to employees for personal use is documented through the use of vehicle usage logs and appropriately reported to the IRS. We also recommended that the City ensure that all motor vehicles are appropriately insured.

#### Results of Follow-Up Procedures

**City actions made this finding no longer relevant.** Our review of City records indicated that the City disposed of all 11 City-owned motor vehicles noted in our audit report No. 2014-100, and made no vehicle purchases during the audit period. According to the City Clerk, the City had no plans to purchase any motor vehicles in the foreseeable future and, therefore, there was no need to establish policies and procedures for vehicle usage and related insurance.

## PUBLIC RECORDS

### Finding 29: Public Records Retention

#### Previously Reported

The City's public records were not adequately maintained and safeguarded, contrary to law,<sup>20</sup> City Charter,<sup>21</sup> and the Florida Department of State (FDOS) record retention schedule.

We recommended that the City ensure that public records are maintained as required by law, the City Charter, and FDOS guidelines.

#### Results of Follow-Up Procedures

**The City partially corrected this finding.** During our previous audit, we noted that the City had not adopted a records retention policy, and the City did not have a systematic method of maintaining public records. As part of our follow-up procedures, we reviewed City records and noted that the City maintained an index to ordinances that, as of September 26, 2015, was updated through the 2013 calendar year. In

<sup>20</sup> Chapter 119, Florida Statutes.

<sup>21</sup> Article IX, Section 1, City of Hampton Charter.

addition, the City maintained signed copies of resolutions adopting the 2013-14 and 2014-15 fiscal year budgets, as well as signed copies of resolutions adopting millage rates for the 2013-14 and 2014-15 fiscal years. However, as of September 26, 2015, the City had not adopted a records retention policy or included two 2014 ordinances in the index. In response to our inquiry, the City Clerk indicated that the City had other priorities that needed to be addressed before establishing a records retention policy and updating the City index to ordinances. However, without effective policies and procedures related to City records retention, records may not be appropriately maintained and public access may be limited.

**Recommendation: The City should adopt a records retention policy and ensure that adopted ordinances and resolutions are timely included in the City index to ordinances.**

### **Finding 30: City Council Meeting Notices and Minutes**

#### **Previously Reported**

City Council meetings were not properly noticed and meeting minutes were incomplete.

We recommended that the City ensure that all City Council meetings are reasonably noticed, held, and the meeting minutes are timely recorded, appropriately signed and approved, and retained in the City's records for public inspection.

#### **Results of Follow-Up Procedures**

***The City corrected this finding.*** Our review of City records for the audit period indicated that City provided reasonable notice of all Council meetings held and the meeting minutes were timely recorded, appropriately signed and approved, and retained in the City's records for public inspection.

### **Finding 31: Charter Amendments**

#### **Previously Reported**

An ordinance (Ordinance 85-4) containing a City Charter amendment was not filed with the FDOS, contrary to law.<sup>22</sup>

We recommended that the City ensure that all ordinances amending its Charter are filed with FDOS.

#### **Results of Follow-Up Procedures**

***The City corrected this finding.*** Subsequent to our prior audit, the City filed Ordinance 85-4 with the FDOS. For the period April 2013 through August 2015, the City did not adopt any ordinances that amended the City Charter and, therefore, was not required to file any ordinances with the FDOS.

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<sup>22</sup> Section 166.031, Florida Statutes.

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

Pursuant to Section 11.45(3)(a), Florida Statutes, we conducted an operational audit of the City of Hampton (City) and issued our report No. 2014-100 in February 2014. Pursuant to Section 11.45(2)(j), Florida Statutes, no later than 18 months after the release of a report on the audit of a local government, we must perform appropriate follow-up procedures as we deem necessary to determine the audited entity's progress in addressing the findings and recommendations contained within our previous report. The objectives of this follow-up audit were to determine the progress the City had made, or was in the process of making, in addressing the findings and recommendations in our report No. 2014-100.

This follow-up audit was conducted in accordance with applicable generally accepted government auditing standards. Those standards require that we plan and perform the follow-up 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.

An audit by its nature does not include a review of all records and actions of City management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, waste, abuse, or inefficiency.

For those activities and functions included within the scope of our follow-up audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the activities and functions; exercising professional judgment in considering significance and audit risk in the design and execution of interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included transactions, as well as events and conditions, occurring during the audit period of March 2015 through August 2015, and selected City actions taken prior and subsequent thereto. Our audit included the examination of pertinent City records and transactions, inquiry of the City Clerk, observation of procedures in practice, and additional follow-up procedures as appropriate. Unless otherwise indicated in this report, records and transactions were not selected with the intent of projecting the results, although we have presented for perspective, where practicable, information concerning the relevant population value or size and quantifications relative to the items selected for examination. Specifically, we:

- Evaluated the propriety of the City's written policies and procedures for business-related functions during the audit period. Specifically, we evaluated whether the written policies and procedures provided adequate and sufficient controls over budgets, revenues and cash receipts, cash management, credit memoranda issued for customer water accounts, capital assets, personnel and payroll, procurement of goods and services, and grant administration.
- Reviewed City records for the audit period and held discussions with the City Clerk, to determine whether duties had been adequately separated for receiving collections, preparing deposits, taking deposits to the bank, preparing checks, recording accounting transactions, and reconciling bank account statements to the accounting records. We also assessed whether any

compensating controls had been implemented since our prior audit to mitigate the inadequate separation of duties noted.

- Observed City operations, examined City records, and held discussions with the City Clerk to gain an understanding of the City's control environment. Specifically, we:
  - Evaluated City procedures to account for all checks, including sequentially numbered, voided, altered, stale-dated, and duplicate checks. We also assessed City actions to account for and dispose of the 26 checks voided during the audit period.
  - Determined whether written reports showing a list of outstanding checks and cash balances were provided to the City Council as required by the City Charter and whether the City Clerk received training on the City's accounting software.
  - From the population of 176 expenditures totaling \$96,795 during the audit period, selected and tested 24 expenditures totaling \$20,498 to determine whether the expenditures were properly and accurately recorded in City accounting records; the applicable prenumbered checks were issued in sequential order; and check numbers were not duplicated.
  - Evaluated City records supporting the 13 water customer credits totaling \$618 issued during July 2015 and August 2015 to determine whether the credits were properly supported and City records evidenced appropriate supervisory review and approval.
- Evaluated City policies, procedures, and records maintained to support petty cash transactions and related balances for the audit period. Additionally, we performed a surprise count of the petty cash and change funds, and reconciled our count to City records and selected 11 recorded disbursements totaling \$1,024 to determine whether disbursements were adequately supported. We also evaluated City policies and procedures of the new reimbursement process that, effective February 2016, replaced the petty cash fund.
- From the population of 226 cash receipt forms totaling \$8,869 during the audit period, examined City records supporting 20 selected cash receipt forms totaling \$1,027 to determine whether the forms were issued in sequential order, complete and legible copies were retained, and the corresponding collections were recorded in the accounting records.
- Evaluated City policies and procedures, as of November 2015, to determine whether the City had established a minimum target level of working capital funds to be maintained in the Water Fund.
- Determined whether the City obtained a water rate study or performed other documented procedures to assess the sufficiency of water rates to cover the costs of providing the water services.
- From the population of 1,171 water bills totaling \$36,054 during the audit period, tested 30 water bills totaling \$907 to determine whether rates charged were in accordance with the approved fee and rate schedule. For the audit period, we also:
  - Determined whether the City amended Ordinance 2009-1 to specify the security deposit amount and time frames within which water bills must be paid before services are terminated.
  - Evaluated City procedures for establishing customer accounts.
  - Evaluated City procedures for discontinuing water service to delinquent accounts.
- Examined the master listing of water meter locations to determine whether locations were indexed to customer accounts so that all water customer accounts would be included in the water billing system. Additionally, we inquired of the City Clerk to determine whether the City took any action to identify unbilled water accounts and recover unpaid fees and charges. We also examined City records to determine whether payments for water services were timely and whether water service was discontinued for delinquent accounts.

- Examined City records and inquired of the City Clerk to evaluate City efforts to reduce unaccounted for water.
- Examined the City's 2014-15 and 2015-16 fiscal year budgets to determine whether fund balances were carried forward from the respective prior fiscal year, and whether the City appropriately considered fund balance deficits from prior fiscal years in establishing the beginning fund balance amounts. We also inquired of the City Clerk and reviewed City records to determine whether the City's 2014-15 and 2015-16 tentative and final fiscal year budgets were timely transmitted for posting on the Bradford County Web site in accordance with State law.<sup>23</sup>
- Compared the City's 2014-15 year-end budget with actual financial reports to determine whether expenditures were limited to budgeted amounts. We also reviewed the minutes of City Council meetings to determine whether budget-to-actual financial comparison reports were provided to the City Council for the audit period.
- Examined the 24 bank account reconciliations performed for the audit period to determine whether the reconciliations were timely prepared and reviewed and approved by the City Clerk. Also, we examined the bank account statements for that period to identify any overdraft fees assessed and to determine whether the items listed on the reconciliations (2 outstanding checks and 5 deposits in transit) for the period March 2015 through July 2015 cleared the August 2015 bank statement.
- Compared bank agreements with a list of City bank accounts, as of August 2015, to determine whether the accounts were supported by a current agreement. We also held discussions with the City Clerk and reviewed City records, to determine whether the City Clerk timely reviewed and evaluated the bank agreements for reasonableness and timely updated the signature card and transaction authority.
- Reviewed City records to determine whether public deposit information forms were timely filed with the State Chief Financial Officer.
- Examined City records to determine whether the City Council adopted position descriptions that specified minimum education and experience requirements and standard pay grades or salary ranges. Additionally, we evaluated the adequacy of position descriptions, standard pay grades or salary ranges, minimum education and experience requirements, and starting salaries for job openings. Also, we tested personnel records for the two individuals in the City Clerk position during the audit period to determine the sufficiency of documentation for personnel-related actions taken during that period.
- Inquired of the City Clerk and reviewed City records for the period March 2015 through August 2015, to determine whether:
  - The City Council adopted and appropriately communicated a leave policy.
  - Employees were required to prepare time records documenting hours worked and leave taken, and whether such records were used as the basis for payroll payments. Specifically, we tested all 17 payroll transactions recorded during the period March 2015 through August 2015 to determine whether the time records appropriately supported the transactions and whether the transactions complied with City policy.
  - The City made attempts to recover payroll overpayments totaling \$361, noted in our report No. 2014-100, Finding 18, or, alternatively, documented the basis for the payments.
  - Payroll expenditures were reasonable based on our examination of payroll records for the audit period.

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<sup>23</sup> Section 166.241(3), Florida Statutes.

- Examined City records to determine whether the City Council adopted an ordinance to establish employee salaries. Additionally, we tested all 17 salary payments totaling \$7,459 for the audit period to determine whether the payments were approved by the City Council. Also, we evaluated the propriety of documentation supporting the 42 salary payments totaling \$5,250 made to City Council members during the audit period to determine whether the City Council members were paid as employees or independent contractors. Further, we inquired of the City Clerk and reviewed City records to determine whether the City contacted the Internal Revenue Service (IRS) to resolve issues identified in our report No. 2014-100, and whether the City took actions to recover the overpayments cited in Finding 19 of that report.
- Examined City records for the audit period and evaluated the City's basis for classifying employees and independent contractors. We also inquired of the City Clerk regarding whether the City had contacted the IRS to determine what corrective action, if any, should be taken regarding unreported payments and possible unpaid employment taxes identified in our report No. 2014-100.
- Examined City records to determine whether the City Council adopted policies and procedures addressing the employment of relatives. We also reviewed City records to determine whether the City employed any related individuals contrary State law.<sup>24</sup>
- Inquired of the City Clerk regarding whether the City had adopted policies and procedures governing the control and use of credit cards and charge accounts. We also reviewed documentation supporting the 39 credit card charges totaling \$7,141 made during the audit period to determine whether the documentation adequately demonstrated that the charges were authorized, reasonable, necessary for a public purpose, and timely paid to avoid additional fees and surcharges.
- From the population of 176 expenditures totaling \$96,795 for the audit period, examined documentation supporting 24 selected expenditures totaling \$20,498 to determine whether the expenditures served a public purpose. We also reviewed vendor payments for the audit period to determine whether the City continued to do business with the nonprofit organization noted in our report No. 2014-100, Finding 22. Additionally, we evaluated City actions, if any, to document that membership in the nonprofit organization served a public purpose.
- Examined City records to determine whether the City had a current and valid State sales tax exemption form. We tested the City's use of the sales tax exemption in various expenditure tests.
- From the population of payments totaling \$49,981 for contractual services during the audit period, requested and examined the contract documents and other supporting documentation for 20 selected expenditures totaling \$41,041 to determine whether written contracts existed and to evaluate whether the payments complied with contract terms. We also examined the contract documents to determine whether those documents included provisions specifying the responsibilities of each party, nature of the services to be performed, and basis for making payments.
- Evaluated City records to determine whether the City competitively selected an independent certified public accountant to conduct the City's financial audit in accordance with State law.<sup>25</sup>
- Discussed with the City Clerk whether policies and procedures had been established for the assignment of the City-owned motor vehicles. As the City had disposed of all their motor vehicles, we also examined City records associated with the disposal of the vehicles to evaluate whether the records demonstrated that the City had utilized an appropriate disposal process.

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<sup>24</sup> Section 112.3135(2), Florida Statutes.

<sup>25</sup> Section 218.391, Florida Statutes.

- Examined City records to determine whether the City adopted a records retention policy or established a systematic method for maintaining public records. We also evaluated the adequacy of the City's records retention practices.
- Evaluated the adequacy of the related advertisements and notices for the 9 City Council meetings held during the audit period, and determined whether the City Council timely approved the meeting minutes.
- Examined City Council meeting minutes and ordinances and determined whether any ordinances amended the City Charter and, therefore, were required to be filed with the Florida Department of State. We also determined whether the City had filed Ordinance 85-4 previously noted in Finding 31 of our report No. 2014-100 as unfiled.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

## **AUTHORITY**

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Pursuant to the provisions of Section 11.45(2)(j), Florida Statutes, I have directed that this report be prepared to present the results of our follow-up procedures regarding the findings and recommendations included in our operational audit of the City of Hampton, report No. 2014-100.



Sherrill F. Norman, CPA  
Auditor General

# MANAGEMENT'S RESPONSE

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August 19, 2016

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## CITY COUNCIL

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Bill Goodge  
Vice Chairman

Michael Armes  
Council

Frank Bryant  
Council

Douglas Williamson  
Council

Mary Lou Hildreth  
City Clerk

John Cooper  
Attorney

Ms. Sherrill Norman, CPA  
Auditor General  
State of Florida  
Claude Denson Pepper Building Suite G74  
11 West Madison Street  
Tallahassee, FL 32399-1450

Re: Preliminary and Tentative Audit Findings/Prior Audit Follow UP

Dear Ms. Norman:

Please find below the City of Hampton's responses to the above referenced document.

Finding 1: The City concurs that yearly audits should be done and the findings resolved as soon as possible. Again, with a significant amount of records being held by the authorities the City, nor its auditor, are able to move forward. With only one employee, separation of duties is difficult, however compensating control has been added by have a contracted bookkeeper to perform bank reconciliations (untimeliness was only for a short period of time due to her hospitalization and recovery).

Finding 2: The City will continue to establish comprehensive, written policies and procedures. The next policy that is currently be drafted is a Personnel Policy.

Finding 3: The City will continue its efforts to ensure adequate compensating controls are in place. For example, recently implemented, the City Clerk provides a monthly report from the water utility software system to the bookkeeper to reconcile deposits on that system to deposits in QuickBooks.

Finding 4: The City continues to develop written policies and procedures. The City Attorney is currently updating the City Charter and the provision regarding reporting outstanding checks will be removed as it is not necessary. It is one of the bookkeeper's responsibilities. The bookkeeper has not voided the stale dated checks due to the ongoing investigation and delayed audit.

Finding 5: The bookkeeper has since added the \$75.00 change fund to the water fund on QuickBooks.

Finding 6: Currently, the City uses prenumbered cash receipts in sequential order. The software system recently provided an update so that cash receipt numbers can be entered. The Clerk provides the bookkeeper with a monthly report off of Rural Billing to reconcile to QuickBooks. These procedures will become a part of forthcoming written policies. The City will investigate the five cash receipts totaling \$172 but know that moving forward there are procedures in place that will prevent that from happening in the future.

Finding 7: The City will establish a minimum target level of working capital funds for the Water Fund and amend the Financial Policies and Practices accordingly.

Finding 8: Ordinance No. 2009-1 will be updated upon completion of the rate study and will include details regarding security deposits. The new deposit amount (\$100) and shorter time frame for service discontinuation (60 days) was voted on as an agenda item. New customers are established electronically in Rural Billing. The City will investigate the six deposits totaling \$300 but know that moving forward there are procedures in place that will prevent this from happening in the future.

Finding 9: There are no “unbilled” accounts on Rural Billing. Any past due balances on QuickBooks were transferred to the customers’ accounts in February 2015 when the new software system went online. The City does not find it economically feasible to search for unbilled accounts prior to 2015.

Finding 10: The City will continue efforts to reduce unaccounted for water to an acceptable level.

Finding 11: The City will timely transmit the tentative budget to the County to post on their website.

Finding 12: Currently, the Clerk provides the City Council with monthly budget-to-actual comparison reports as part of the Consent Agenda at the regularly scheduled monthly Council meeting.

Finding 13: Again, the bookkeeper was delayed for a short time in reconciling due to hospitalization/recovery. There were also some computer/internet issues and construction that prevented her from performing on a timely basis during that time. Moving forward, the City will ensure they are timely completed and approved. In order to resolve all outstanding checks, deposits and credits we need to have the financial audit done.

Finding 14: Agreed.

Finding 15: The original interpretation was regarding a different form. The correct form has since been completed and retroactively (for 2015) submitted to the State CFO and the City has been added to their e-mail list to receive the form yearly.

Finding 16: The City will adopt a standard pay grade for the City Clerk position (as part of the forthcoming Personnel Policy) and with maintain personnel files that contain applications, qualifications and experience documentation and personnel actions.

Finding 17: The forthcoming Personnel Policy will address leave issues. The former City Clerk has been arrested and the City expects criminal restitution for "overpayments". Potential civil litigation would need to be determined based on assets (i.e. if the person is "judgment proof" the City would not wish to incur additional expenses).

Finding 18: In updating the City Charter, the City Clerk's salary will be removed and the salary grade will be included in the Personnel Policy, which will be adopted by the Council. The Council received 1099 IRS forms prior to being paid as employees. Again, regarding any monies owed by the former Clerk please see prior answer.

Finding 19: Agreed, the City bookkeeper will contact the IRS to determine if any corrective action is needed.

Finding 20: The City will address the employment of relatives in the forthcoming Personnel Policy.

Finding 21: All credit accounts are now current. The City will review and follow the currently adopted Purchasing Policies and Practices.

Finding 22: The City Council voted and approved the \$150 for the City Councilwoman's travel to the Libertarian Party Convention. She alleged she was receiving an award related to her work in Hampton. The City Council has approved a \$50 per month flat stipend for the City Clerk's mileage to run various errands on the City's behalf, such as the bank, post office, etc.

Finding 23: Agreed

Finding 24: Agreed.

Finding 25: Agreed

Finding 26: Agreed.

Finding 27: Agreed.

Finding 28: Agreed

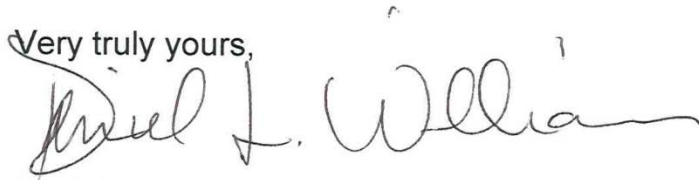
Finding 29: The City will update the indexes for the resolutions and ordinances and will adopt a records retention policy.

Finding 30: Agreed

Finding 31: Agreed

Please do not hesitate to contact me if you have any questions or require further information.

Very truly yours,

A handwritten signature in black ink that reads "Daniel J. Williams". The signature is written in a cursive style with a large initial "D" and a distinct "J" before the last name.

Daniel Williams  
Council Chairman