

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2017-107
February 2017

**CITY OF PALATKA
AND
PALATKA DOWNTOWN
REDEVELOPMENT AGENCY**



Sherrill F. Norman, CPA
Auditor General

City of Palatka
Mayor, Vice Mayor, City Commissioners, and City Manager

During the period October 2014 through January 2016, the following individuals served as Mayor, Vice Mayor, Commissioner, or City Manager:

Terrill Hill, Mayor from 1-5-15
Vernon Myers, Mayor to 1-4-15
Mary Lawson Brown, Vice Mayor
James Norwood, Jr., Commissioner
Rufus Brown, Commissioner from 1-5-15
Justin Campbell, Commissioner from 1-5-15
Phil Leary, Commissioner to 1-4-15
Allegra Kitchens, Commissioner to 1-4-15
Terry Suggs, City Manager from 6-11-15 ^a
Michael Czymbor, City Manager to 2-26-15 ^a

^a Position was vacant from 2-27-15 through 6-10-15.

Palatka Downtown Redevelopment Agency (PDRA)
Chairman, Vice Chairman, Commissioners, and Director

During the period October 2014 through January 2016, the Mayor, Vice Mayor, City Commissioners, and City Manager served as the PDRA Chairman, Vice Chairman, Commissioners, and Director, respectively, along with the following appointed Commissioners:

Karl Flagg
Sam Deputy, from 6-12-15
Kathy Griffin, to 6-11-15

The team leader was Brian J. Hartsfield, CPA, and the audit was supervised by Derek H. Noonan, CPA.

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

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CITY OF PALATKA AND PALATKA DOWNTOWN REDEVELOPMENT AGENCY

SUMMARY

This operational audit of the City of Palatka (City) and the Palatka Downtown Redevelopment Agency (PDRA) focused on selected City and PDRA processes and administrative activities. Our operational audit disclosed the following:

City of Palatka

Finding 1: City records did not document that infrastructure surtax proceeds were always expended for authorized purposes.

Finding 2: The City did not always follow the required competitive procurement process.

Finding 3: City procedures were not sufficient to ensure that a project developer provided the letter of credit, payment and performance bond, or other form of security necessary to protect the interests of the City.

Finding 4: The City had not established anti-fraud policies and procedures for the mitigation, detection, and reporting of suspected or known fraud.

Palatka Downtown Redevelopment Agency

Finding 5: Procedures for awarding and monitoring PDRA grants need enhancement to better ensure and demonstrate that the grants are awarded to eligible recipients and that grant terms and conditions are appropriately met.

BACKGROUND

The City of Palatka (City) was incorporated as a municipality in 1853. The City is located in Putnam County, governed by the City Commission, which is composed of four elected commissioners and an elected mayor, and operates under a Commission-Manager form of government. The longest serving non-mayor Commissioner serves as vice mayor.

In 1983, the City established the Palatka Downtown Redevelopment Agency (PDRA), a community redevelopment agency. The City Commission serves as the governing board of the PDRA along with two other appointed individuals, including one from the Board of County Commissioners and one from Palatka Downtown, Inc.¹ The Mayor serves as PDRA Chairman and the City Manager serves as PDRA Director.

In 2014, the City had an estimated population of 10,377. The City provides citizens with services including general government, public safety, planning and zoning, and community enrichment and

¹ Palatka Downtown, Inc. is a non-profit merchants association that supports the economic development, enhancement, and promotion of downtown Palatka.

development. The City also operates a municipal golf course and airport, and provides sanitation, water, and wastewater utility services.

FINDINGS AND RECOMMENDATIONS

CITY OF PALATKA

Finding 1: Local Government Infrastructure Surtax

State law² provides that the governing authority in each county may levy a discretionary sales surtax pursuant to an ordinance enacted by a majority of the members of the county governing authority and approved by a majority of the electors of the county voting in a referendum on the surtax. State law³ restricts the expenditure of surtax proceeds to specified uses. For example, while municipalities are permitted to pledge surtax proceeds to service new bond indebtedness incurred pursuant to law, use of the proceeds for operational expenses is generally prohibited. The Florida Attorney General has opined⁴ that the proceeds from a local government infrastructure surtax may not be used to service debt incurred prior to the surtax referendum approval. This opinion also referenced another Florida Attorney General Opinion,⁵ which indicates that surtax proceeds must be pledged for servicing new debt, thereby precluding use of the surtax for refunding or paying off bond indebtedness incurred prior to the surtax approval.

In July 2002, the Putnam County Board of County Commissioners approved an ordinance⁶ to levy a local government infrastructure surtax, also known as the Better Place Plan (BPP) surtax. The BPP surtax, for use for various capital outlay projects, was approved by Putnam County voters in September 2002. The City accounts for the surtax activities in the BPP Fund and, during the period October 2014 through January 2016, surtax revenues totaled \$1.02 million. During that same time period, surtax moneys expended totaled \$1.72 million, and \$225,327 of the amount expended was transferred to the Golf Course Fund for debt service payments on the Taxable Golf Course Revenue Note, Series 2013 refunding debt, which was originally issued in 1988 and refunded in 1994, 2000, 2008, and 2013. In addition, for the period January 2014 through September 2014, the City transferred \$114,266 from the BPP Fund to the Golf Course Fund for debt service payments on the 2013 refunding debt. A City Commission resolution⁷ authorized the use of a portion of the 2008 refunding debt proceeds to reimburse the General Fund for advances to cover operating expenses and for “prior advances from certain enterprise funds for golf course operating deficits.” However, although we requested, the City did not provide documentation to demonstrate that the transfers were not used for debt incurred prior to the 2002 surtax approval or the extent to which the 2008 refunding debt proceeds were used for operating expenses or prior advances for golf course operating deficits.

² Section 212.055(2)(a)1., Florida Statutes.

³ Section 212.055(2)(d) and (e), Florida Statutes.

⁴ Florida Attorney General's Opinion No. 90-96, dated November 26, 1990.

⁵ Florida Attorney General's Opinion No. 88-59, dated December 30, 1988.

⁶ Putnam County Ordinance No. 2002-33.

⁷ Resolution No. 8-47, dated September 7, 2008.

In response to our inquiries, City personnel indicated that the City intended to use the net operating revenues of the Golf Course Fund and taxes to pay the debt service costs; however, due to the Golf Course Fund net operating losses, the City instead used the surtax proceeds to make the debt service payments.

Since the 2013 refunding debt includes a portion of debt originally issued in 1988, which predates voter approval of the surtax in 2002, City use of the surtax proceeds to pay the 2013 refunding debt does not appear to be authorized by law. Further, the City's use of the 2008 refunding debt proceeds for operating expenses or prior advances for golf course operating deficits would not be authorized by law.

Recommendation: The City should enhance procedures to ensure that surtax proceeds are expended only as authorized by State law. Additionally, the City should either document the allowability of surtax proceed transfers totaling \$339,593 to the Golf Course Fund, as well as any 2008 refunding debt proceeds used for operating expenses or prior advances for golf course operating deficits, or restore the applicable amounts to the BPP Fund.

Finding 2: Competitive Selection Process

To provide an effective means of equitably procuring goods or services at the lowest possible cost consistent with desired quality, City rules and regulations require solicitation of competitive, formal bids for construction exceeding \$200,000, electrical work exceeding \$50,000, and purchases of commodities or contractual services exceeding \$25,000. According to City personnel, the City solicits bids by advertising requests for proposals (RFPs) in local newspapers, mailings to local vendors, and postings to the City Web site.

To determine the extent to which the City complied with the required competitive procurement process, we identified 164 individual City expenditures that exceeded \$25,000 for the period October 2014 through January 2016. These 164 expenditures totaled \$10 million. We selected 22 expenditures totaling \$1.8 million from the 164 expenditures and examined the supporting documentation. We also examined documentation supporting 3 other selected expenditures totaling \$256,000 made by the City prior to October 2014.

Our audit tests disclosed that, on August 13, 2015, the City paid \$289,257 for a garbage truck that, according to City personnel, was purchased based on a bid made to another governmental entity. However, City rules and regulations did not authorize purchases based on a bid made to another governmental entity and, although we requested, City records could not be provided to document the bid made to the other governmental entity.

We also examined the population of 10,426 expenditures totaling \$17.9 million for the period October 2014 through January 2016 and identified 43 service providers and vendors that received multiple payments that collectively totaled more than \$25,000. We selected 19 of the 43 service providers and vendors that received 1,242 payments totaling \$1.7 million and our further examination of City records associated with these payments disclosed that, during the period October 2014 through January 2016:

- The City paid a total of \$634,527 to one service provider for golf course management services. City personnel indicated that the City acquired the services pursuant to a competitive bid process, and the January 2010 City Commission meeting minutes recorded discussions about

review of the bid accepted. These discussions addressed, for example, the identification of three bidders, a presentation from the highest ranked bidder, and current golf course conditions. However, although we requested, City records could not be provided to support the bids obtained, service provider rankings, basis for selecting the provider, or to evidence compliance with the City-required competitive, formal bid process for services with costs exceeding \$25,000.

- The City paid one vendor a total of \$171,239 for water treatment plant chemicals. In response to our inquiries, City personnel indicated that quotes from other companies were received; however, bids were not solicited for the chemicals purchases and documentation of the quotes was unavailable. While City records demonstrate that the City was able to obtain the chemicals at a lower price than previously paid, City personnel did not follow City rules and regulations and solicit bids.

Without adherence to and documentation of the required competitive procurement process, there is an increased risk that the City may not select vendors and service providers in a fair, equitable, and economical manner or obtain goods and services at the lowest cost consistent with desired quality.

Recommendation: The City should adhere to and document compliance with the required competitive procurement process to demonstrate the City's fair, equitable, and economical selection of service providers and vendors and the procurement of goods and services at the lowest cost consistent with desired quality.

Finding 3: Guarantee for Payment – Development Project

Project developers are typically required to provide written guarantees for payment specific to each project in the event that the developer is unable to satisfy the contract job requirements. These guarantees include letters of credit, payment and performance bonds, or other forms of security, and protect the interests of the local government in the event of a developer's unsatisfactory performance or inability to complete a development project. The City issued an RFP in March 2013 for various projects to revive and improve the City downtown area. The RFP required the respondent to provide a written guarantee for payment.

To determine whether City records evidenced the required written guarantees, we requested for our examination written guarantees for 13 construction payments totaling \$1.2 million and for a development project on a land parcel sold by the City to a developer for \$150,000. We found that, for the 13 construction payments tested, City records demonstrated that the contractors provided sufficient guarantees for payment and the contract for the \$150,000 land parcel included a nonperformance clause that allowed the developer to sell the land back to the City for the original purchase price. However, although we requested, City personnel could not provide any guarantees for payment related to the satisfactory completion of the development project associated with the \$150,000 land sale. According to City personnel, because neither the RFP nor the contract with the developer estimated the total cost of the project, City personnel did not establish an amount for the developer to guarantee. Also, according to City personnel, the City did not require a letter of credit until the developer completed the project demolition phase and began the construction phase. During a February 2016 City Commission meeting, the developer indicated that he was not prepared to give the City a letter of credit. Instead, the developer proposed a contract amendment to remove the letter of credit requirement from the contract and to insert a provision allowing the City to repurchase the land for \$1 in the event of the developer's nonperformance.

In March 2016, the City Commission approved the amended contract. As of October 2016, City staff estimated that improvements on the land parcel were valued at approximately \$1.2 million based on the permits issued. While the amended contract allows the City to repurchase the land for \$1, the City had no further assurance of financial protection should the developer not perform in accordance with the contract. Absent properly executed payment guarantees prior to contract execution, there is an increased risk that the City may be financially obligated to finish any work a developer fails to complete.

Recommendation: To protect the City's interests in the event of unsatisfactory developer performance or incomplete development projects, the City should establish procedures to require a developer to provide written guarantees for payment, such as letters of credit, payment and performance bonds, or other forms of security, prior to executing a contract with the developer. Additionally, the City should ensure that developers provide total project cost estimates during the RFP and contracting processes to establish the appropriate dollar amounts for the guarantees.

Finding 4: Anti-Fraud Policy

Appropriate policies and procedures for communicating and reporting known or suspected fraud are essential to aid in the mitigation, detection, and prevention of fraud. Such policies and procedures identify actions constituting fraud and establish incident reporting procedures, responsibility for fraud investigation, and consequences for fraudulent behavior. Effective incident reporting policies and procedures allow individuals to anonymously report known or suspected fraud and provide an appropriate process for communicating and reporting known or suspected management fraud directly to those charged with governance or to an entity's legal counsel.

Anti-fraud policies and procedures are also necessary to educate employees about proper conduct, create an environment that deters dishonesty, and maintain internal controls that provide reasonable assurance of achieving management objectives and detecting dishonest acts. In addition, such policies and procedures serve to establish the actions for investigating potential fraud, reporting evidence of such actions to the appropriate authorities, and avoiding damaging the reputations of persons suspected of fraud but subsequently found innocent.

Our review of City policies and procedures and discussions with City personnel disclosed that, as of October 2016, the City had not established any anti-fraud policies or procedures. Absent such, there is an increased risk that known or suspected fraud may not be reported to the appropriate authority for resolution.

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

Finding 5: Tax Increment Funds

State law⁸ authorizes any county or municipality to create a public body corporate and politic to be known as a community redevelopment agency (CRA). CRAs redevelop slums and blighted areas that are injurious to the public health, safety, morals, or welfare of the residents of the State. Pursuant to State law,⁹ CRA funding is attained through tax increment revenues provided by each taxing authority in the redevelopment area. State law¹⁰ requires a community redevelopment plan be established and approved and CRA expenditures must comply with the approved plan.

In November 1983, the City established the Palatka Downtown Redevelopment Agency (PDRA) as a CRA. As such, the PDRA received tax increment revenues to fund various programs and improvements intended to revitalize the downtown area. The PDRA used the tax increment revenues, in part, to fund Building Improvement Grant (BIG), Home Improvement Program (HIP), and Façade projects and to enable qualifying grant recipients to enhance buildings based on specified grant requirements. With regard to the use of the tax increment revenues:

- The PDRA established design and evaluation committees to review and rank all BIG and Façade grant project applications, considering the strength and the need of the applicant, as well as the appropriateness of the project to address conditions of blight, before selecting a grant recipient. Once recipients are selected, grant agreements are to be prepared that include such items as total grant award, applicable recipient match amount, PDRA and recipient rights and responsibilities, and the recipient signature.
- The City established a project manager position to oversee City and PDRA activities. The project Manager responsibilities include ensuring that the PDRA followed the City's financial rules and regulations for purchasing and payments, ensuring that PDRA grant agreements are properly completed and maintained, confirming that required recipient grant matches are met, verifying the eligibility of grant recipients, monitoring potential conflicts of interest, and ensuring that grant projects are properly completed. While the City established procedures for monitoring most potential conflicts of interest, the PDRA had not, as of October 2016, established procedures to prohibit grant recipients from having a business relationship with a City Commissioner.
- The PDRA follows City purchasing rules and regulations for grant-funded construction contract services. For contract services that exceed \$5,000 but are less than \$25,000, those rules and regulations require the PDRA to obtain three quotes from different contractors and to acquire the services from the most qualified contractor with the lowest quote. The PDRA may either directly pay the vendor who performs the work or allow the grant recipient to pay the vendor and then subsequently reimburse the grant recipient, as specified in the grant agreement.
- Applicable recipients of BIG, HIP, and Façade project grant awards are required to provide matching amounts for projects based on their adjusted gross income.
- BIG project grant recipients are required to repay the grant if the recipient transfers, sells, or divests their interest in the grant-funded property or business within 5 years of receiving the grant. According to PDRA personnel, PDRA procedure is to place a lien on any property purchased with BIG funds for the duration of the payback period and to rely on the title company

⁸ Section 163.356, Florida Statutes.

⁹ Sections 163.335 and 163.362, Florida Statutes.

¹⁰ Section 163.360, Florida Statutes.

to collect and remit the lien amount should the property be sold before the 5-year period lapses. However, as of October 2016, the PDRA had not established independent monitoring procedures to identify sales of BIG-funded properties before the expiration of the 5-year period and ensure repayment of the grant.

- PDRA procedures require that, after projects are completed, the City Building Official physically inspect all grant-funded projects to determine whether the funds were expended only for projects designated in grant agreements and the work quality of the projects was acceptable.

During the period October 2014 through January 2016, the PDRA recorded 8 BIG, HIP, and Façade grant project expenditures totaling \$68,241. As part of our audit, we tested 6 selected expenditures totaling \$68,078, each related to a separate grant project. Additionally, we examined PDRA records supporting 12 selected expenditures totaling \$35,974 incurred prior to that period related to four grant projects. We identified control deficiencies and instances of noncompliance associated with nine of the ten projects included in our testing. Table 1 shows the year, related grant project type, and amount for each of the nine projects.

**Table 1
Nine Projects with Noted
Control Deficiencies and Noncompliance**

No.	Year/ Grant Project Type	Amount
1	2010/Façade	\$ 7,974
2	2010/HIP	10,945
3	2010/HIP	19,100
4	2011/BIG	11,680
5	2011/HIP	12,725
6	2014/BIG	46,211
7	2014/HIP	5,990
8	2014/HIP	3,450
9	2014/HIP	7,200
Total		<u>\$125,275</u>

The control deficiencies and noncompliance we noted for the nine projects listed in Table 1 included instances in which:

- Recipient eligibility was not documented. PDRA records did not demonstrate that the grant project recipients for projects 1, 2, 4, and 5 were eligible recipients. Although we requested, PDRA records could not be provided to demonstrate that:
 - The applicants were appropriately ranked for projects 1 and 4. While PDRA meeting minutes identified the total ranking score for projects 1 and 4, PDRA personnel could not locate documentation to demonstrate the number of applicants for project 1, and related grant applicant rankings were not provided for either of the two projects.
 - The grant recipients' adjusted gross income amounts for projects 2 and 5 exempted the recipients from the grant matching requirements or, alternatively, the recipients contributed any amounts toward the projects.

Absent evidence that grant recipients meet respective requirements, there is increased risk that recipients are ineligible for the grants and may use grant proceeds for unauthorized purposes.

- Recipient matching requirements were not documented. Although we requested, PDRA personnel could not provide documentation to demonstrate that the project 6 grant recipient contributed the required \$16,211 match. Without the documentation to support that the match was met, there is an increased risk that grant funds may not be expended in accordance with the agreement.
- Project inspections were not documented. Although we requested, PDRA personnel could not provide documentation to demonstrate that inspections were performed for five HIP grant projects (projects 3, 5, 7, 8, and 9), including one project completed in 2010, another project completed in 2011, and three projects completed in 2014. Without documented inspections, there is limited assurance that grant funds were expended on the projects designated in the grant agreements and that the project work quality met the requisite standards.
- Project agreements were not signed by recipients. Although we requested, PDRA personnel could not provide copies of recipient-signed agreements for projects 2, 7, and 9. Absent signed agreements, there is an increased risk that the grant recipient may not have a record of, or understand, the recipient's responsibilities. As a result, the recipient may not fully comply with the grant terms.
- Projects were not supported by required contractor service quotes. According to PDRA records, the PDRA paid contractors a total of \$18,145 for projects 2 and 9. However, PDRA records indicated that only one quote for contractor services was obtained for each project, contrary to City purchasing rules and regulations that require a minimum of three quotes. PDRA staff indicated that other quotes may have been obtained but could not be located. As such, PDRA records do not demonstrate that the projects were performed at the lowest cost consistent with acceptable quality, and the PDRA may be subject to legal disputes should the PDRA's contractor selection process be challenged.
- BIG-funded property was sold, but the grant funds were not repaid. Project 4 was funded in 2011 and, according to Putnam County property records, the grant recipient sold the BIG-funded property in 2015. However, upon the sale, the grant recipient did not comply with the grant requirement to repay the BIG funds to the PDRA. In addition, according to PDRA records, the PDRA paid the grant recipient directly, contrary to the grant agreement that required payment be made to the contractor.

In response to our inquiries, PDRA personnel indicated that payment may have been made to the grant recipient as reimbursement for paying the contractor. However, although we requested, PDRA records could not be provided to evidence that the recipient paid the contractor. According to PDRA personnel, the PDRA had a lien on the property to protect the PDRA should the property be sold; however, when the property was sold, the title company failed to discover the lien. As the PDRA had not established procedures for monitoring BIG-funded property sales, PDRA personnel were unaware of the sale. PDRA personnel further indicated that, in July 2016, the PDRA requested the title company to pay the PDRA for the grant amount. Appropriate monitoring procedures to identify BIG-funded property sales that occur before the 5-year period, or any other time period specified in the grant agreement, lapses and procedures that limit payments only to contractors could help ensure grant funds are properly safeguarded.

- There was an apparent conflict of interest. Project 1 was granted to a PDRA Commissioner's business in 2010. State law¹¹ prohibits a public officer from holding a contractual relationship with any business entity doing business with an agency of which he or she is an officer. In response to our inquiries, PDRA personnel indicated that the PDRA Commissioner did not vote on the project. Notwithstanding this response, State law prohibits a PDRA Commissioner from having a

¹¹ Section 112.313(7)(a), Florida Statutes.

contractual relationship with any business entity that does business with (e.g., receives a grant award from) the PDRA.

According to the State of Florida General Records Schedule GS1-SL for State and Local Government Agencies, the PDRA is required to maintain records for 5 fiscal years after the completion of the grant cycle. Completion of the grant cycle occurs on the date that the PDRA makes the final disbursement to the grant recipient. As such, during the period that we made our audit requests (March 2016 through June 2016), none of the records associated with the projects listed in Table 1 were eligible for destruction.

Recommendation: The PDRA should enhance procedures to:

- **Verify, of record, the eligibility of grant recipients. Such documented verifications should include records to demonstrate appropriate rankings of grant applicants and recipient contributions of required matching amounts.**
- **Conduct, and maintain records of, physical inspections of grant-funded projects to verify that grant funds are expended only for projects designated in grant agreements and that the work quality of the projects is acceptable.**
- **Maintain copies of recipient-signed agreements establishing the recipient's grant agreement responsibilities.**
- **Document that grant-funded construction contract services costing more than \$5,000 but less than \$25,000 are selected based on three quotes from different contractors. Such procedures should also ensure that the services are acquired from the most qualified contractor with the lowest quote before contracting for the services.**
- **Independently monitor BIG-funded properties and, if sold within 5 years, promptly seek recovery of the BIG funds from the recipient.**
- **Ensure that grants are not awarded to an entity with a business relationship with a PDRA Commissioner.**

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations. Pursuant to Section 11.45(3)(a), Florida Statutes, the Legislative Auditing Committee, at its November 30, 2015, meeting, directed us to conduct this operational audit.

We conducted this operational audit from March 2016 through June 2016, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of this operational audit were to:

- Evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, ordinances, bond covenants, contracts, grant agreements, and other guidelines.

- Examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those controls.
- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in management's internal controls; instances of noncompliance with applicable laws, ordinances, bond covenants, contracts, grant agreements, and other guidelines; and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities, and functions included within the scope of our 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 program, activity, or function; exercising professional judgment in considering significance and audit risk in the design and execution of the research, 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 the selection and examination of transactions and records during the audit period of October 2014 to January 2016, and selected transactions made prior and subsequent thereto. Unless otherwise indicated in this report, these transactions and records were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

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

In conducting our audit we:

- Reviewed applicable laws, rules, regulations, and City and PDRA policies and procedures, and interviewed City and PDRA personnel to gain an understanding of City and PDRA operations.
- Evaluated whether the City and PDRA had established reasonable written policies and procedures for major City and PDRA functions, such as procurement and tax increment fund grant management.
- Examined the minutes of City Commission meetings during the audit period and the minutes of selected meetings prior and subsequent to the audit period to determine the propriety and sufficiency of actions taken related to the scope of this audit.

- Examined documentation supporting 30 of 23,852 water bill receipts from July 2015 through November 2015 to determine whether the water bills agreed with City-established rates and to verify that payment amounts were properly recorded in utility accounts.
- To determine whether the City complied with competitive procurement rules and regulations, examined documentation supporting 25 expenditures (22 expenditures totaling \$1.8 million from the population of 164 expenditures totaling \$10 million incurred during the audit period and 3 expenditures totaling approximately \$256,000 incurred prior to the audit period).
- Examined documentation supporting 30 of the 8,781 payments made to vendors for the same amount more than once during the audit period to determine whether the City made any duplicate payments.
- Examined documentation supporting payments to 19 of the 43 vendors that did not receive a single payment that exceeded the City bid thresholds, but received multiple payments that collectively exceeded the bid threshold to determine whether projects were appropriately bid.
- Examined supporting documentation for the three Federal Emergency Management Agency grant agreements in effect October 2011 through September 2013 to determine whether City information contained in the grant applications was accurate and supported by City records.
- Examined documentation supporting the 12 insurance claims filed by the City during the audit period to determine whether the City appropriately filed the claims.
- Examined supporting documentation for \$225,327 of local government infrastructure surtax (Better Place Plan (BPP) tax) funding transferred to the City Golf Course Fund during the audit period to determine whether the transfers and subsequent uses constituted allowable BPP expenditures.
- Examined documentation supporting 18 tax increment fund grant expenditures totaling \$104,052 (6 of the 8 expenditures made during the audit period and 12 expenditures made prior to the audit period) to determine whether the PDRA complied with grant guidelines, agreements, and good business practices.
- 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

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



Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE

TERRILL L. HILL
MAYOR - COMMISSIONER

MARY LAWSON BROWN
VICE MAYOR - COMMISSIONER

RUFUS J. BOROM
COMMISSIONER

JUSTIN R. CAMPBELL
COMMISSIONER

JAMES NORWOOD, JR.
COMMISSIONER



CITY of *Palatka*
FLORIDA

Regular meeting 2nd and 4th Thursdays each month at 6:00 p.m.

TERRY K. SUGGS
CITY MANAGER

BETSY JORDAN DRIGGERS
CITY CLERK

MATTHEW D. REYNOLDS
FINANCE DIRECTOR

JASON L. SHAW, SR.
CHIEF OF POLICE

MICHAEL LAMBERT
CHIEF FIRE DEPT

DONALD E. HOLMES
CITY ATTORNEY

January 27, 2017

The Honorable Sherrill F. Norman, CPA
Auditor General, State of Florida
Claude Denson Pepper Building, Suite G74
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Mrs. Norman:

Please find the City of Palatka's responses to the preliminary and tentative audit findings below.

Finding 1: City records did not document that infrastructure surtax proceeds were always expended for authorized purposes.

Response: *The City will implement a policy to review all expenditures utilizing surtax proceeds to ensure compliance with all applicable laws and restrictions. The City will also restore all applicable amounts that were transferred from the Better Place fund to the Golf Course fund that were utilized for debt service.*

Finding 2: The City did not always follow the required competitive procurement process.

Response: *The City will review its purchasing policy and modify as needed to ensure that the policy is adhered to while maintaining a competitive procurement process. The City will also ensure that documentation supporting purchases are maintained.*

Finding 3: City procedures were not sufficient to ensure that a project developer provided the letter of credit, payment and performance bond, or other form of security necessary to protect the interests of the City.

Response: *The City of Palatka City Commission has had extensive conversation pertaining to its ability to protect the City's interest in the event of unsatisfactory performance by developers. The City will require a verified letter of credit, performance bond or a cash equivalent to the amounts outlined in future developer agreements or similar projects that require security. Since the inception of the subject project these established practices have been discussed with staff, management, counsel, and the City Commission.*

PHONE: (386) 329-0100

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www.palatka-fl.gov

FAX: (386) 329-0106

Finding 4: The City had not established anti-fraud policies and procedures for the mitigation, detection, and reporting of suspected or known fraud.

Response: *The City is in the process of revising its personnel manual. An anti-fraud policy will be included in the revised personnel manual.*

Finding 5: Procedures for awarding and monitoring PDRA grants need enhancement to better ensure and demonstrate that the grants are awarded to eligible recipients and that grant terms and conditions are appropriately met.

Response: *The PDRA will develop procedures to ensure that documentation of eligibility, inspections, signed agreements, and purchasing policies are maintained. The PDRA will include in these procedures a process for monitoring grant-funded properties to ensure that if they are sold, recovery of the grant funds per the grant agreement is secured from the recipient. The PDRA will also ensure that grants are not awarded to an entity with a business relationship with a PDRA Commissioner.*

Sincerely,



Terrill L. Hill
Mayor, City of Palatka