



OFFICE OF INSPECTOR GENERAL
PALM BEACH COUNTY

John A. Carey
Inspector General



Inspector General
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“Enhancing Public Trust in Government”

Audit Report

2019-A-0009

Town of Hypoluxo Revenue

August 29, 2019

Insight – Oversight – Foresight



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AUDIT REPORT 2019-A-0009

DATE ISSUED: AUGUST 29, 2019

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TOWN OF HYPOLUXO – REVENUE

SUMMARY

WHAT WE DID

We conducted a revenue audit of the Town of Hypoluxo (Town). This audit was performed as part of the Office of Inspector General, Palm Beach County (OIG) 2019 Annual Audit Plan.

Our audit focused on revenue and related cash receipt activities that occurred during Fiscal Year (FY) 2017 through mid-FY 2019 (October 1, 2016 – April 30, 2019).

WHAT WE FOUND

We found control weaknesses for the Town's revenue and permitting processes. In most instances, the Town's employees carried out their work using established processes and procedures; however, some processes were not documented in writing to ensure consistency in performance, standards, and expectations. Our audit identified **\$4,039.80** in questioned costs¹ and **\$164,808** in avoidable costs.²

Investment Revenue

The Town maintained funds in a checking account, a money market account, and an Investment Management Account (IMA) in qualified public depositories in accordance with Florida Statutes.

Our recommendation to optimize Town investment funds may result in approximately **\$28,188** in avoidable costs for the checking and money market accounts and **\$136,620** in avoidable costs for the IMA account.

The Town Mayor stated that the Town completed an extensive assessment of investment options. The Town elected the investment strategy of laddered CDs and investments with various interest rates. This strategy was selected as a more conservative investment strategy in the event that future interest rates decreased.

Revenue

The Town lacked sufficient controls, review, and oversight for revenue processes. The Town lacked adequate

¹ Questioned costs are costs or financial obligations that are questioned by the OIG because of: an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, other agreement, policies and procedures, or document governing the expenditure of funds; a finding that, at the time of the OIG activity, such cost or financial obligation is not supported by adequate documentation; or, a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.

² Avoidable costs are costs an entity will not have to incur, lost funds, and/or an anticipated increase in revenue following the issuance of an OIG report. The maximum period for calculating Avoidable Costs shall typically be three years from the issuance of the OIG report, except in instances where it involves a contract with a specified contract period.

written policies and procedures for revenue and permit processes.

The Town did not follow the uniform accounting practices and procedures promulgated by the Florida Department of Financial Services. We found that the Town's financial account system used 11 of 32 (34%) revenue account codes and 12 of 32 (38%) revenue account titles that did not match the Uniform Accounting System (UAS) Manual³ revenue account codes/titles.

We determined that revenue transactions that lacked adequate documentation and were assessed for the incorrect amount are considered questioned costs totaling **\$2,852.13**.⁴

Controls for Financial Operations and Reporting

Checks were not endorsed upon receipt. The Town did not provide our office with a bank validated deposit slip in accordance with the cash receipts and bank reconciliation processes for two (2) out of 22 (9%) bank deposits we tested.

One (1) cash receipt could not be traced to the deposit slips and did not have a corresponding general ledger entry, resulting in **\$150** of questioned costs.

The Town Council did not authorize or approve financial documents/ statements, as required by the Town's policy.

The Town did not have written guidance for the review and approval of refunds, credits, or overpayments.

The lack of compliance with policies and processes increases the risk of unauthorized access to, fraud, or theft of the Town's funds.

Additionally, 46 out of 210 sampled cash receipts (22%) were deposited six (6) or more days after receipt, with deposits ranging from six (6) to 17 days. By depositing funds more frequently, the Town may reduce the risk of theft and increase interest revenue.

Adjustment Entries

General Ledger adjustment entries for journal entry reversals and voided transactions lacked proper review and oversight.

The Town did not provide supporting documentation for one (1) out of the eight (8) transactions (12%) we tested, which increased general ledger account 322.000 Building Permits/Plan Review revenue and cash by \$308.65. We consider **\$308.65** a questioned cost due to a lack of adequate documentation.

We tested five (5) voided transactions to determine if the general ledger reflected refunds to the customer. There were four (4) voided transactions that showed deposits in the general ledger and bank records with no subsequent refund to the customer. This resulted in **\$20.00** in questioned costs because this amount may be owed to the Town's customers.

We tested seven (7) voided transactions for proper documentation including a copy of the receipt. Seven (7) of the seven (7) voided transactions (100%), totaling

³ The Uniform Accounting System Manual was developed by the State of Florida Department of Financial Services and was last updated for the 2014 Edition.

⁴ Exceptions were only counted once to calculate the questioned costs to avoid duplication.

\$709.02, did not retain copies of receipts; therefore, we could not verify that these amounts were refunded to the customer.⁵ Nine (9) of twelve (12) voided transactions (75%), totaling \$729.02, lacked sufficient information to determine if voiding the transaction was appropriate. This resulted in **\$709.02⁶** of questioned costs for lack of adequate documentation.

WHAT WE RECOMMEND

Our report contains eight (8) findings and twenty-six (26) recommendations.

Implementation of the recommendations will 1) assist the Town in strengthening internal controls, 2) save approximately **\$164,808** in future avoidable costs, and 3) help ensure compliance with regulatory requirements.

The Town is taking corrective actions to implement the recommendations.

We have included the Town's management response as Attachment 1.

⁵ The twelve (12) voided receipts included five (5) receipts which were initially recorded as cash receipts/revenue on the General Ledger and seven (7) receipts which were not recorded as cash receipts/revenue on the General Ledger. Maintaining the customer copy of the receipt provides documentation that the customer was refunded when the refund occurred prior to the weekly bank deposit.

⁶ Exceptions were only counted once to calculate the questioned costs to avoid duplication.

BACKGROUND



The Town was incorporated in 1955. The Charter of the Town was adopted on February 11, 1981, and approved by the voters of the Town on March 3, 1981. The Town is located halfway between West Palm Beach and Boca Raton.

The Town has a Mayor and five (5) Council members that are each elected to three (3) year terms. The Council is vested with all legislative powers. The Mayor serves as the Town Manager and is responsible for the administration of all town affairs. The Mayor does not have voting powers, but does have the power to veto any ordinance or resolution adopted by the Council. Each year, the Council elects from among its members a Vice-Mayor who presides at meetings of the Council in the absence or disability of the Mayor. The main sources of revenue for the Town are taxes, licenses and permits, grant revenue, special assessments, and interest revenues. The 2018 population was approximately 2,714.

The OIG 2019 Annual Audit Plan had multiple entities selected for revenue audits. The OIG selected the Town for audit since it has not been previously audited by the OIG.

The FY 2017 revenues totaled \$1,821,517 and expenditures totaled \$2,032,580, the FY 2018 revenues totaled \$1,901,742 and expenditures totaled \$1,741,260 and the FY 2019 adopted budget totals for revenue and expenses totaling \$2,070,300.

OBJECTIVES, SCOPE, AND METHODOLOGY

The overall objectives of the audit were to determine if:

- Revenue controls were adequate for the receipt of revenue and/or cash intake/receipt activities;
- Revenues were recorded appropriately and accurately in compliance with financial requirements;
- Cash receipts were accurately and timely recorded; and
- The Town made efficient use of the revenue through investments.

The scope of the audit included, but was not limited to, revenue and related cash receipt activities that occurred during the period of October 1, 2016 through April 30, 2019.

The audit methodology included, but was not limited to:

- Completion of data reliability and integrity assessment of revenue and related computer systems;
- Review of revenue/cash receipt policies and procedures;
- Review of banking and accounting records;
- Review of potential investment written guidance;
- Interview of appropriate personnel;
- Review of revenue and investment related reports, contracts, and agreements; and

- Detailed testing and reconciliation of selected revenue and cash receipt transactions.

As part of the audit, we completed a data reliability and integrity assessment for the financial computer systems used by the Town for revenue and cash intake activities. We determined that the computer-processed data contained in the QuickBooks financial computer system was sufficiently reliable for purposes of the audit. The Information Management System (IMS) used for permitting and the replacement of the prior permit system, Access, had exceptions⁷ (noted in applicable findings), but the data was sufficiently reliable when traced back to the original source documentation for the purposes of the audit. The previous permit system, Access, was not sufficiently reliable for purposes of the audit because the information was incomplete and inaccurate. Therefore, source documentation was used.

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

⁷ For purposes of this audit report, we are defining the term “exception” as a computer system entry or transaction that does not follow the applicable written guidance (e.g. irregularities, deviation, anomaly).

FINDINGS AND RECOMMENDATIONS

Finding (1): The Town did not invest in higher yield accounts that may lessen the taxpayers' burden.



Certain governmental units, including cities, counties, special districts, in Florida must comply with provisions in chapters 218 and 280, Florida Statutes, regarding the investment of surplus funds. Section 218.415, Florida Statutes, states that the investment activity by a unit of local government must be consistent with a written investment plan adopted by the governing body or in the absence of a written plan, in accordance with section 218.415(17).

The Town approved Resolution 08-354 on March 21, 2008, adopting the list of authorized investments set forth in section 218.415(17), which include:

- the Local Government Surplus Funds Trust Fund administered by the State Board of Administration, or other authorized intergovernmental investment pool;
- Securities and Exchange Commission registered money market accounts,
- interest-bearing time deposit or savings accounts from qualified public depositories, and
- direct obligations of the U.S. Treasury.

Section 280.03(1)(b), Florida Statutes, indicates that public deposits (which include time deposit accounts, demand deposit accounts, and nonnegotiable certificates of deposit) "shall be made in a qualified public depository unless exempted by law." (The Town was in compliance with section 280.03, and maintained its interest-bearing time deposit or savings accounts in a qualified public depository. A list of active qualified public depositories can be found online at www.myfloridacfo.com.

Checking and Money Market Accounts

We completed an analysis of available investment options that meet the Town's accepted risk levels and liquidity needs. We concluded that if the Town moved its funds to a higher yield business money market deposit account at a qualified public depository, the Town could have potentially increased its interest rate yield to 1.75%.

If the Town implements the OIG recommendation to invest excess funds in a higher yield interest-bearing account, over the next three (3) years, the Town could potentially earn additional interest revenue of approximately **\$28,188**. This is considered an avoidable cost because it is an anticipated increase in interest revenue for the Town.

IMA Accounts

We completed an analysis of available investment options that met the Town's accepted risk levels and liquidity needs and were similar to the IMA account investment strategy. We concluded that if the Town moved its funds to a higher yield one-year business CD at a qualified public depository, the Town could have potentially increased its interest rate yield to 2.55%.

If the Town implements the OIG recommendation to invest excess funds in a higher yield one-year business CD, over the next three (3) years, the Town could potentially earn additional interest revenue of approximately **\$136,620**. This is considered an avoidable cost because it is an anticipated increase in interest revenue for the Town.

The Town Mayor stated that the Town completed an extensive assessment of investment options. The Town elected the investment strategy of laddered CDs and investments with various interest rates. This strategy was selected as a more conservative investment strategy in the event that future interest rates decreased.

Recommendation:

-
- (1) **The Town consider investing excess funds in higher yield interest bearing accounts at a qualified public depository or utilizing one of the other investment options available under Resolution 08-354.**

Management Response:

- (1) **The Town of Hypoluxo utilizes a laddered Certificate of Deposit (CD) program. This program invests the Town's monies in fully insured FDIC CDs with varying maturity dates ranging from six months to three years. This affords the Town the ability to obtain an "averaged" market interest rate. The Town does not get the highest rate but avoids the lowest rate on their investments. This investment technique is widely accepted and demonstrates our prudent, fiduciary responsibility over the Town's investments.**

Finding (2): Revenue was not posted to the appropriate revenue account.

Section 218.33(2), Florida Statutes, states

Each local governmental entity shall follow uniform accounting practices and procedures as promulgated by rule of the department [of Financial Services] to assure the use of proper accounting and fiscal management by such units. Such rule shall include a uniform classification of accounts.

Pursuant to section 218.33, the Department promulgated rule 69I-51.0012, Florida Administrative Code, which indicates that the uniform classification of accounts, as

organized under the Department's Uniform Accounting System Manual (UAS)⁸, 2014 Edition, provides guidance to reporting entities regarding reporting their assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, and expenditures. The UAS Manual mandates that reporting units use the UAS Chart of Accounts as the standard for recording and reporting to the State of Florida.

The UAS Manual, which is in accordance with generally accepted accounting principles, provides that revenues of a local government should be classified by fund and source to provide the information necessary to (1) prepare and control the budget, (2) record the collection of revenues, (3) prepare financial statements and schedules and (4) prepare financial statistics. The manual defines each revenue account code and the local government is responsible for recording and reporting each revenue item in the revenue account titles as prescribed therein.

In FY 2017, FY 2018, and FY 2019, the Town used QuickBooks as the Town's financial computer system. In comparing the QuickBooks revenue account codes and descriptions, we determined that there were 11 of 32 (34%) revenue account codes and 12 of 32 (38%) revenue account descriptions that did not match the UAS Manual revenue account codes/titles. The inconsistencies were as follows:

Inconsistent Chart of Accounts			
QuickBooks Revenue Accounts (what is)		UAS Revenue Accounts (should be)	
Account Number	Account Title	Account Number	Account Title
322.200	Radon Gas Fee	322200	Building Permit (Surcharges)
329.000	Registrations	367000	Licenses
329.100	Election Fees	341900	Other General Government Charges and Fees
329.200	Filing Fees	341900	Other General Government Charges and Fees
329.400	FRDAP Town Hall Grant	334700	State Grant – General Government
330.000	PBC Solid Was Auth.	335340	State Revenue Sharing – Garbage/Solid Waste System
335.185	Sales Tax Capital	312600	Discretionary Sales Surtaxes
338.100	County Business Tax	335120	County Revenue Sharing
359.500	Fines (False Alarms, Parking & Code	354000	Fines – Local Ordinance Violation
369.000	Miscellaneous Income	369900	Other Miscellaneous Revenues
369.100	Expense Recovery	369300	Settlements
600.050	Misc Income Cap Pro Fnd	369900	Other Miscellaneous Revenues

The Town's general ledger chart of accounts does not conform to the UAS Manual for revenue account codes. The Town's accounting policies and procedures do not provide sufficient guidance for selecting the correct account in accordance with the UAS Chart of Accounts.

⁸ The Uniform Accounting System Manual was developed by the State of Florida Department of Financial Services and was last updated for the 2014 Edition.

Revenues may be misclassified in the financial statements between the revenue accounts. Account codes are out of compliance with UAS Manual.

Recommendations:

- (2) The Town update its general ledger chart of accounts to be in compliance with statutory requirements.
- (3) The Town develop and implement policies and procedures to provide guidance for Chart of Account selections.
- (4) The Town record/post revenue transactions in the proper revenue account based on the UAS Chart of Accounts.

Management Response:

- (2) The Town, working with their external auditing firm, will update the chart of accounts to be in compliance with statutory requirements. This will be accomplished as part of our September 30, 2019 fiscal year-end audit.
- (3) The Town, working with their external auditing firm, will develop and implement policies and procedures to provide guidance for Chart of Account selections. This will be accomplished as part of our September 30, 2019 fiscal year-end audit.
- (4) The Town, working with their external auditing firm, will develop and implement policies and procedures to provide guidance for Chart of Account selections. This will be accomplished as part of our September 30, 2019 fiscal year-end audit.

Finding (3): The Town's controls for financial operations and reporting could be enhanced.

According to the Town's Internal Control Memo, the Town utilizes the following processes,

Financial Reporting and Computer System

...All accounting functions are initiated by the Deputy Town Clerk and authorized by the Mayor and the Town Council. Original source documents such as invoices, ACH notifications, payroll cards are used to capture information for entry in the accounting system.

...

Cash Receipts

The Administrative Assistant opens all mail, and makes a copy of the checks received. The Deputy Town Clerk then endorses checks with a stamp, and enters them in the Quick-Books. The Administrative Assistant

makes the bank deposits on a weekly basis, unless there are significant cash receipts. In such case, the deposit is made the same day. The Deputy Clerk normally notifies the Mayor in case of large receipts. The checks are kept inside an envelope, in the Deputy Clerk's desk.

...

The Deputy Town Clerk reconciles the bank accounts monthly...

Journal Entries

...The financials are reviewed and approved [sic] the Town Council. There is no manual or electronic approval of the financial statements.

...

We made the following observations regarding the Town's cash receipts activities:

- The Town does not require the Deputy Town Clerk to endorse checks at the time of receipt. Checks were endorsed when they were ready for deposit.
- The Town Administrative Assistant did not make bank deposits within a week (5 business days) for 46 out of 210 cash receipts (22%) which totaled \$7,445.40.⁹ Deposits ranged from six (6) to 17 business days from the date of receipt.
- One (1) of the cash receipts, which totaled \$150, could not be traced to the deposit slips and did not have a corresponding general ledger entry.
- The Town did not provide a bank validated deposit slip in accordance with the cash receipts and bank reconciliation processes for two (2) out of 22 (9%) bank deposits tested, which totaled \$7,412.87.¹⁰
- The Mayor approved bank reconciliation reports for eight (8) out of fourteen (14) months (57%); however, the Town did not provide documentation showing the Town Council authorized each bank reconciliation tested (100%), as described by the Town's Internal Control Memo.
- The Town Council received the monthly financial documents/statements, such as, profit and loss statements, balance sheet as of the period end, and budget versus actual reports; however, the Town Council did not authorize or approve the financial documents/statements, as described by the Town's Internal Control Memo.
- The Town did not have written guidance for the review and approval of refunds, credits, or overpayments.

The Town has no policies or procedures specifying when checks should be endorsed prior to the deposit.

⁹ The total amount of \$7,445.40 was deposited in 6 or more days after receipt, which is a not considered questioned costs because it is not related to a cost or financial obligation, but rather a timing delay in the deposit.

¹⁰ The total amount of \$7,412.87 was not considered a question cost because it is not a violation of a policy, but rather a process issue.

The Town has no policies or procedures requiring that bank validated deposit slips be maintained and filed with the bank reconciliation reports to show the date and amount of each bank deposit.

The Town Council reviewed certain financial statements at monthly Council Meetings; but did not approve or authorize the statements or the general fund bank reconciliations, as described by the Town's Internal Control Memo.

One (1) cash receipt showed cash was received that could not be traced to bank deposits or the general ledger. This resulted in **\$150** of questioned costs for lack of adequate documentation.

Deposits, held for long periods of time or that are not supported by bank validated deposit slips, have an increased risk of theft and errors. Additionally, if the Town deposits funds soon after receipt, the deposited funds would earn additional interest. The Town is losing interest revenue by holding deposits.

By not reviewing and properly approving bank reconciliations and financial documentation/statements, there is also risk of fraud or theft, and that errors may go unnoticed.

Recommendations:

- (5) **The Town revise its Internal Control process to require that checks are endorsed immediately upon receipt.**
- (6) **The Town comply with its Internal Control process by completing deposits weekly.**
- (7) **The Town should ensure that all cash receipts have a corresponding deposit slip and general ledger entry.**
- (8) **The Town revise its Internal Control process to require that deposits and bank reconciliations be supported by bank validated deposit slips.**
- (9) **The Mayor review, sign, and date reconciliation reports when reconciliations are completed to evidence authorization.**
- (10) **The Town Council review and approve reconciliation reports and financial documents/statements at monthly meetings, as described by the Town's Internal Control Memo.**
- (11) **The Town develop and implement policies for the review and approval of credits, refunds, and overpayments.**

Management Response:

- (5) All checks received will be restrictively endorsed upon receipt and the Internal Control memo will be revised to reflect this new policy.
- (6) The Town will make a weekly deposit of all funds received during that week.
- (7) All receipts of cash and checks will be issued a completed deposit slip and each deposit will be appropriately recorded in the general ledger.
- (8) The Town's Internal Control process will be revised to state that all deposits and bank reconciliations are supported by bank validated deposit slips.
- (9) The Mayor will review and sign and date the reconciliation reports when reconciliations are completed to evidence authorization.
- (10) The Town Council will be presented the monthly financial statements for their approval. The Town's Internal Control Memo will be revised to indicate such. Monthly bank reconciliations will be approved by the Mayor as stated in the response to recommendation 9 above and the Town's Internal Control Memo will be revised to indicate such.
- (11) The Town will include a refund policy in its Internal Control Memo and will implement said policy.

Finding (4): Adjustment entries lacked proper oversight.

Management's authority to override controls without oversight or review provides the opportunity to commit fraud. Management is responsible to analyze and respond to identified risks so that they are effectively mitigated. Mitigation occurs through implementation of controls, such as, policies and procedures, reviews, and oversight.¹¹

The Town's Internal Control Memo states,

Cash Receipts

...

The Town keeps copies of the receipts in the "Blue Book" (receipt book); the white copy of a two carbon copy receipt is provided to the customer when cash or check payments are received. Voided receipts have the white copy stapled to the yellow copy and both are kept in the book.

¹¹ This best practice is provided in The Government Accountability Office (GAO) Standards for Internal Control in the Federal Government issued by the U.S. Comptroller of the Treasury dated September 2014.

Journal Entries

...

The Deputy Town Clerk prepares all journal entries in the system and reviews all entries prior to posting with the Mayor. The Deputy Town Clerk is responsible for ensuring proper documentation is available for all journal entries. There is no formal review/approval process for journal entries. The Deputy Town Clerk posts the entry which updates the general ledger. Support for the journal entries are kept on the shared drive in the form of cash receipts, invoices, bank and trust statements, requisitions and payroll registers. Each month financials are prepared for the Town. The financials are reviewed and approved [sic] the Town Council. There is no manual or electronic approval of the financial statements.

We selected eight (8) adjusting journal entries for review. The Town did not provide supporting documentation for one (1) out of the eight (8) (12%) transactions, which increased general ledger account 322.000 Building Permits/Plan Review revenue and cash by \$308.65; therefore, **\$308.65** is considered a questioned cost due to a lack of adequate documentation.

We selected 12 voided cash receipt transactions for review. We observed the following:

- We tested five (5) voided transactions to determine if the general ledger reflected refunds to the customers. Four (4) of five (5) voided transactions (80%), totaling \$40.00, were not properly reversed on the General Ledger or refunded to the customer;
- We tested seven (7) voided transactions for documentation including a copy of the receipt. Seven (7) of the seven (7) voided transactions (100%), totaling \$709.02, did not comply with the process described in the Town's Internal Control Memo for maintaining the customer copy of the receipt with the yellow carbon copy for the Town; therefore, we could not verify that these amounts were refunded to the customer;¹² and
- Nine (9) of twelve (12) voided transactions (75%), totaling \$729.02, lacked sufficient information to determine if voiding the transaction was appropriate.

We considered **\$709.02** as questioned costs for non-compliance with the internal control process described in the Town's Internal Control Memo, and **\$20.00** as questioned costs for voided receipts that lacked sufficient documentation to determine if a refund was issued to the customer.¹³ A total of 11 out of 12 receipts tested may not have been properly refunded to the customer when voided.

The Town's Internal Control process does not require review of voided cash receipts to ensure that amounts are properly refunded to customers and reversed in the general

¹² The twelve (12) voided receipts included five (5) receipts which were initially recorded as cash receipts/revenue on the General Ledger and seven (7) receipts which were not recorded as cash receipts/revenue on the General Ledger. Maintaining the customer copy of the receipt provides documentation that the customer was refunded when the refund occurred prior to the weekly bank deposit.

¹³ Exceptions were only counted once to calculate the questioned costs to avoid duplication.

ledger, if applicable, or documented review of journal entries. As a result, adjusting journal entries and voided cash receipts did not have a documented review or approval of management decisions to override, reverse, or void transactions.

Management override circumvents existing control activities and increases the risk of fraud. By not having a sufficient review and oversight process for reversals and voided transactions, the Town is exposed to risk of fraud or errors. Errors may occur and go unnoticed, which leads to inaccurate financial information.

Recommendations:

- (12) **The Town update the Internal Control process to implement documented review and approval procedures for adjustment transactions including, but not limited to: journal entries, voids, and reversals.**
- (13) **The Town review the eleven (11) voided transactions and determine if a refund is owed to the Town's customers.**
- (14) **The Town provide training to staff for adjustment transactions.**

Management Response:

- (12) **The Town will review its Internal Control process and will, where necessary, update the process covering review and approval procedures for adjustment transactions as enumerated above.**
- (13) **The Town will review all eleven (11) voided transactions noted above and will determine if a refund is owed to the customer.**
- (14) **The Town's staff will be trained in properly processing and recording adjustment transactions.**

Finding (5): Intentionally left blank.

Finding (6): General revenue amounts were not recorded accurately, revenue was not properly collected, general ledger entries lacked adequate documentation and independent review, and revenue amounts were not posted to the appropriate account.

Classification of Accounts

Section 218.33(2), Florida Statutes, states

Each local governmental entity shall follow uniform accounting practices and procedures as promulgated by rule of the department [of Financial Services] to assure the use of proper accounting and fiscal management by such units. Such rule shall include a uniform classification of accounts.

Pursuant to section 218.33, the Department of Financial Services (DFS) promulgated rule 69I-51.0012, Florida Administrative Code, which states that the uniform classification of accounts, as organized under the DFS's Uniform Account Systems Manual, 2014 Edition provides guidance to reporting entities regarding the reporting of their assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, and expenditures. The UAS mandates that reporting units use the UAS Chart of Accounts as the standard for recording and reporting to the State of Florida.

According to the UAS Manual, which is in accordance with generally accepted accounting principles, revenues of a local government should be classified by fund and source to provide the information necessary to (1) prepare and control the budget, (2) record the collection of revenues, (3) prepare financial statements and schedules, and (4) prepare financial statistics. The manual defines each revenue account code and the local government is responsible for recording and reporting each revenue item in the revenue account titles as prescribed therein.

Collecting Permit Fees

Section 468.631, Florida Statutes, requires that a surcharge be assessed pursuant to section 125.56(4) or section 166.201 at the rate of 1.5% of all permit fees associated with enforcement of the Florida Building Code, as defined by the uniform account criteria and specifically the uniform account code for building permits adopted for local government financial reporting pursuant to section 218.32, in order to fund the Building Code Administrators and Inspectors Fund. The unit of government responsible for collecting permit fees to collect such surcharge and remit the funds to the Department of Business and Professional Regulation (Department).

Additionally, section 553.721, Florida Statutes, provides that in order for the Department to administer and carry out the purposes of the Florida Building Code and related activities, there is a surcharge assessed at the rate of 1 % of the permit fees associated with enforcement of the Florida Building Code as defined by the uniform account criteria and specifically the uniform account code for building permits adopted for local government financial reporting pursuant to section 218.32. The unit of government responsible for collecting a permit fee must collect the surcharge and remit the funds collected to the Department.

A sample of 201 revenue account general ledger entries were selected for review consisted of 175 non-permit related revenue transactions and 26 permit related revenue transactions.

Of the 175 non-permit related transactions tested:

- Two (2) transactions (1%) totaling \$75.00 lacked adequate documentation to trace the transaction from the General Ledger to the source record (e.g. Revenue System (IMS), payment, invoice, etc.).
- One (1) transaction (1%) totaling \$2,540.14 lacked adequate documentation to determine if the amount was accurate based on the Solid Waste Recycling and

Vegetative Waste Collection Franchise Agreement because only a copy of the check was provided.

- Four (4) transactions (2%) totaling \$200.00 lacked adequate documentation to determine if the amount was accurate because no fee schedule, agreement, invoice, etc. was provided.
- One (1) transaction (1%) totaling \$139.30 was coded to the incorrect revenue general ledger account which is a violation of the UAS.

Of the 26 permit related transactions tested:

- Ten (10) transactions (38%) were for the incorrect surcharge fee amount. The difference between the amount charged and the fee amount according to sections 468.631 and 553.721 totaled \$32.99.
- One (1) transaction (4%) totaling \$54.00 lacked adequate documentation to trace the transaction from the general ledger to the permit documentation.
- Two (2) transactions (8%) totaling \$24.00 were not coded to the correct general ledger account, which is a violation of the UAS.

We determined that the transactions that lacked adequate documentation and that were assessed for the incorrect amount are considered questioned costs totaling **\$2,852.13**.¹⁴

The Town's written guidance did not require that revenue transactions posted to the general ledger be independently reviewed at the transaction level. Additionally, the Town did not independently review permit transactions posted in the permitting and licensing system (i.e. IMS) for accuracy and completeness. The Town's policies did not require independent review for accuracy or completeness. Permit fee amounts were also manually calculated and entered into the system rather than automatically calculated by the system.

By not having a sufficient review and oversight process, the Town is exposed to risk of fraud and errors. Errors may occur and go unnoticed which leads to inaccurate financial information. Additionally, the lack of written guidance may lead to higher risk of improper transactions, non-compliance with requirements, and fraud, waste, or abuse.

Recommendations:

- (15) The Town assess the surcharges for the proper rate for all of the permit fees associated with enforcement of the Florida Building Code, in accordance with the Florida Statutes.**
- (16) The Town implement additional review and oversight processes as needed to ensure revenue transactions are adequately documented in the general ledger, adequately supported, and properly posted in the Revenue System (IMS) and the general ledger (QuickBooks).**

¹⁴ Exceptions were only counted once to calculate the questioned costs to avoid duplication.

- (17) The Town provide staff training on the additional review and oversight processes.

Management Response:

- (15) The assessment for surcharges for all permit fees associated with enforcement of the Florida Building Code will be reviewed for the proper rate in accordance with the Florida Statutes. The Town's staff involved in these calculations of the fees will be reminded of the necessity of accuracy in their work.
- (16) The Town's staff involved in recording these transactions will be informed of the need for accurate recording and adequate documentation of the transactions in the Revenue System and general ledger.
- (17) See responses to Recommendations 15 and 16 above.

Finding (7): The Town's controls for the permitting process could be enhanced.

Section 109.3, Florida Building Code requires that "The applicant for a permit shall provide an estimated permit value at the time of application. Permit valuations shall include total value of work..."

The Town's Internal Control Memo states,

Financial Reporting and Computer System

As in Prior Year due to limited staff size client [Town] does not have complete segregation of duties. However, procedures are in place such as: the checks require two signatures, and financial statements are reviewed by the Town Council monthly which help mitigate the lack of segregation of duties. The Town's government officials have deemed it is not cost-beneficial to have further segregation of duties other than those described below under cash receipts.

Major Sources of Revenue

...

Building Permits/ Filing Fees -Fees for building permits as well as other fees arising from planning such as filing fees, zoning and building functions are collected in order to offset the cost of administering the planning, zoning and building division functions. The Town requires that a property owner or the licensed contractor desiring to manufacture, design, construct, erect, alter, modify, repair, and demolish manufactured buildings, shall pay a permit fee as required at the time of filing the application in accordance with the fee schedule and related charges adopted; new fees were adopted effective September 1, 2018. Filing fees are associated with variances or modifications in connection with planning and

zoning, development order amendments, etc.; new fees were adopted effective September 1, 2018.

Management designs control activities in response to the entity's objectives and risks to achieve an effective internal control system. Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives to achieve the entity's objectives and address related risks. Control activities include reviews by management at the functional or activity level, controls over information processing, segregation of duties, accurate and timely recording of transactions, and appropriate documentation of transactions and internal control.¹⁵

We noted the following weaknesses in the permitting process:

1. One person can enter the permit into the permitting system and accept the payment for the permit.
2. Revenue amounts were manually calculated and entered into the permitting and licensing system (i.e. IMS).
3. Independent review of the individual permitting transactions in the permitting and licensing system for accuracy and completeness was not required by the Town's processes or procedures and is not completed.
4. Documentation supporting the estimated job cost, which is the basis for the permit fee calculations, was not required to be maintained by the Town.

The Town assessed permit fees are based on the estimated job cost. The Town's policies and procedures did not require that supporting documentation for the estimated job cost be maintained.

The Town's policies and procedures did not require that revenue transactions posted to the general ledger be independently reviewed at the transaction level. The Town's Internal Control Memo stated that the Town has deemed it not cost-beneficial to further segregate duties.

By not having a sufficient review and oversight process, there is risk for data entry and calculation errors leading to incorrect information and inaccurate revenue/cash collected, in addition to fraud, waste, and abuse.

Recommendation:

-
- (18) The Town require supporting documentation for estimated costs.**

Management Response:

- (18) Every permit issued by the Town includes the estimated job cost upon which the permit fees are calculated.**

¹⁵ This best practice is provided in The Government Accountability Office (GAO) Standards for Internal Control in the Federal Government issued by the U.S. Comptroller of the Treasury dated September 2014.

Finding (8): Written guidance and processes for permits, surcharges, and service fees were inconsistent.



The Town had multiple forms of written guidance related to the permit fees, surcharges, and service fees, which include: Building Code Administrators and Inspectors Fund - Surcharge: Section 468.631, Florida Statutes; Building Construction Standards - Surcharge: Section 553.721, Florida Statutes: Resolution(s) – Building Permit Fee Schedule: 07-336 and 18-467; and Town's Internal Control Memo.

Permit Fee Collections

The Town's permitting process was not consistent with the Town's Internal Control Memo for the timing of the permit fee collection. The Town should collect the permit fees at the time the permit application is filed according to the Town's Internal Control Memo. The Town collected the permit fees after the permit was entered into the system and approved by the Building Official.

Permit Fee Rates

The Town's permitting process was not consistent with the Florida Statutes for the assessment of building code surcharges with the respect to the percentage collected, the permit fees to which the surcharge is applied, and the name of the fee used in the permit application. Section 468.631, Florida Statutes, requires that a surcharge, to be assessed at the rate of 1.5% percent of all permit fees associated with enforcement of the Florida Building Code in order to fund the Building Code Administrators and Inspectors Fund. Section 553.721, Florida Statutes, provides that in order for the Department of Business and Professional Regulation to administer and carry out the purposes of this part and related activities, there is created a surcharge assessed at the rate of 1% of the permit fees associated with enforcement of the Florida Building Code as defined by the uniform account criteria and specifically the uniform account code for building permits adopted for local government financial reporting pursuant to s. 218.32. These surcharges total to 2.5 percent of permit fees. The Town assessed the surcharges as a "Radon Fee" that is 3% of the permit fee and excludes plan review fees. Chapter 553.98(3) Building Construction Standards allows radon fees to be charged if adopted by ordinance. The Town's Code of Ordinance did not establish radon fees.

The written guidance was developed and approved at different times which may have contributed to the inconsistencies. Regular review of the written guidance adopted by the Town and the Florida legislature would have revealed inconsistencies that should be corrected or resolved.

Operations are more prone to error and/or user confusion when there are inconsistencies in the written guidance. Written guidance should be consistent to provide the same

guidance throughout each related document. Inconsistencies potentially decrease the efficiency of the process and increase the risk of errors and non-compliance.

Recommendations:

-
- (19) The Town collect permit fees at the time the permit application is filed in accordance with the Town's Internal Control Memo.
 - (20) The Town consider configuring the revenue system to automatically calculate the permit fees and surcharges.
 - (21) The Town assess the surcharges on the permit application and in the revenue and financial systems using the proper permit fee names, in accordance with the Florida Statutes.
 - (22) The Town update its written guidance to be in compliance with applicable Florida law and consistent throughout all written documents for permits and surcharges.
 - (23) The Town periodically review its written guidance to ensure consistency across all requirements.
 - (24) The Town provide staff training for the revised written guidance and processes.

Management Response:

-
- (19) The Town currently collects permit fees at the time the permit is issued rather than when the permit application is filed. This avoids having to issue excessive refunds for permits never issued due to job cancellations. The Town's Internal Control Memo will be modified to reflect this practice.
 - (20) The Town will attempt, through its software vendor, to have the system automatically calculate the permit fees and surcharges. This may not be possible or may be cost prohibitive to modify the software.
 - (21) The Town will investigate modifying the permit fee names in the revenue and financial systems. These will be changed to be in accordance with Florida Statutes if possible.
 - (22) In all cases where practical, the Town's written guidance will be modified to be consistent and to be in compliance with Florida law.
 - (23) The Town will take every effort to ensure consistency in its written guidance across all requirements.
 - (24) The Town, where warranted, will provide its staff sufficient training to ensure their understanding of the Town's written guidance and processes.

Finding (9): Lack of written guidance for IT processes.



The audit included review of data reliability and integrity for the computer systems related to the revenue operations, including the Financial Computer System and the Permitting Computer System. We found that the Town had processes with controls to ensure the integrity of information in the computer systems; however, there were no written policies and procedures for any of the Information Technology (IT) processes. The Town Mayor stated there were no written policies and procedures to provide guidance to new employees or system users for the IT processes.

Basic computer system controls include written IT policies, procedures, and definitions that are clearly communicated; access to and use of the system, assets and records are reasonable and restricted to authorized individuals; and system users are granted only the access needed to perform their duties.

The Town had independent contractors/vendors that handled IT operations. The Town has had limited turnover and had processes in place. Since the processes were in place and the Town outsourced the IT function, the Town did not develop written policies and procedures for their IT operations.

Lack of written policies and procedures increases the risk of inconsistent operations and unauthorized access to the system records.

Corrective Action

On March 21, 2019, the Town implemented an IT Policy. The IT Policy provides guidance for assigning and removing user rights, authorizing user access, and requiring user unique user IDs and passwords. This policy was implemented immediately after discussion of the finding.

Recommendations:

- (25) The Town develop and implement written IT policies and procedures to ensure consistency of operations that provide guidance, at a minimum, for how to:**
 - a. Assign and remove user rights and a reasonable time for completion,**
 - b. Authorize user access,**
 - c. Limit system access requiring unique user IDs and passwords,**
 - d. Provide for user change management (new and separated employees), and**

- (26) The Town provide training to staff for the IT policies and procedures, as needed.**

Management Response:

- (25) The Town will develop and implement a written IT policy to address all four items listed above.
- (26) The Town will provide adequate training to its staff for the IT policy and procedures.

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

Questioned Costs

Finding	Description	Questioned Costs
3	Cash Receipts	\$ 150.00
4	Voided receipts may not have been refunded; lacked documentation	\$ 729.02
4	Journal entries lacked adequate documentation	\$ 308.65
6	Revenue amounts were not accurate, lacked adequate documentation, and were not posted to the appropriate account	\$ 2,852.13
	TOTAL QUESTIONED COSTS	\$ 4,039.80

Avoidable Costs

Finding	Description	Avoidable Costs
1	Investments Checking and Money Market Account	\$ 28,188
1	Investments IMA Account	\$ 136,620
	TOTAL AVOIDABLE COSTS	\$ 164,808

ATTACHMENT

Attachment 1 – Town of Hypoluxo’s Management Response, page 24 - 29

ACKNOWLEDGEMENT

The Inspector General’s audit staff would like to extend our appreciation to the Town of Hypoluxo’s staff for their assistance and support in the completion of this audit.

This report is available on the OIG website at: <http://www.pbcgov.com/OIG>. Please address inquiries regarding this report to Director of Audit, by email at inspector@pbcgov.org or by telephone at (561) 233-2350.

ATTACHMENT 1 – TOWN OF HYPOLUXO’S MANAGEMENT RESPONSE



TOWN OF HYPOLUXO
“Home of the Barefoot Mailman”
7580 South Federal Highway
Hypoluxo, Florida 33462-6034

MAYOR

Michael C. Brown

VICE MAYOR

Richard Roney

COUNCIL

Richard J. Roney

Brad R. Doyle

Christine Nagy

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(561) 582-0155

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Web Site
<http://www.hypoluxo.org>

August 28, 2019

Megan Gaillard, CFE, CIA, CISA, CGAP, CIGA, CGFM, CRMA, MSAT
Director of Audit
Palm Beach County - Office of Inspector General
PO Box 16568
West Palm Beach, FL 33416

Dear Ms. Gaillard:

This is the Town of Hypoluxo’s response to the findings in your Audit Report 2019-A-0009. Your audit was a revenue audit of the Town of Hypoluxo’s cash receipts activities during fiscal year 2017 through-mid fiscal year 2019 a period covering October 1, 2016 through April 30, 2019.

Finding 1: The Town did not invest in higher yield accounts that may lessen the taxpayers’ burden.

Recommendation 1: The Town consider investing excess funds in higher yield interest bearing accounts at a qualified public depository or utilizing one of the other investment options available under Resolution 08-354.

Response: The Town of Hypoluxo utilizes a laddered Certificate of Deposit (CD) program. This program invests the Town’s monies in fully insured FDIC CDs with varying maturity dates ranging from six months to three years. This affords the Town the ability to obtain an “averaged” market interest rate. The Town does not get the highest rate but avoids the lowest rate on their investments. This investment technique is widely accepted and demonstrates our prudent, fiduciary responsibility over the Town’s investments.

Finding 2: Revenue was not posted to the appropriate revenue account.

Recommendation 2: The Town update its general ledger chart of accounts to be in compliance with statutory requirements.

Response: The Town, working with their external auditing firm, will update the chart of accounts to be in compliance with statutory requirements. This will be accomplished as part of our September 30, 2019 fiscal year-end audit.

Recommendation 3: The Town develop and implement policies and procedures to provide guidance for Chart of Account selections.



Response: The Town, working with their external auditing firm, will develop and implement policies and procedures to provide guidance for Chart of Account selections. This will be accomplished as part of our September 30, 2019 fiscal year-end audit.

Recommendation 4: The Town record/post revenue transactions in the proper revenue account based on the UAS Chart of Accounts.

Response: The Town, working with their external auditing firm, will develop and implement policies and procedures to provide guidance for Chart of Account selections. This will be accomplished as part of our September 30, 2019 fiscal year-end audit.

Finding 3: The Town's controls for financial operations and reporting could be enhanced.

Recommendation 5: The Town revise its Internal Control process to require that checks are endorsed immediately upon receipt.

Response: All checks received will be restrictively endorsed upon receipt and the Internal Control memo will be revised to reflect this new policy.

Recommendation 6: The Town comply with its Internal Control process by completing deposits weekly.

Response: The Town will make a weekly deposit of all funds received during that week.

Recommendation 7: The Town should ensure that all cash receipts have a corresponding deposit slip and general ledger entry.

Response: All receipts of cash and checks will be issued a completed deposit slip and each deposit will be appropriately recorded in the general ledger.

Recommendation 8: The Town revise its Internal Control process to require that deposits and bank reconciliations be supported by bank validated deposit slips.

Response: The Town's Internal Control process will be revised to state that all deposits and bank reconciliations are supported by bank validated deposit slips.

Recommendation 9: The Mayor review, sign, and date reconciliation reports when reconciliations are completed to evidence authorization.



Response: The Mayor will review and sign and date the reconciliation reports when reconciliations are completed to evidence authorization.

Recommendation 10: The Town Council review and approve reconciliation reports and financial documentations/statements at monthly meetings, as described by the Town's Internal Control Memo.

Response: The Town Council will be presented the monthly financial statements for their approval. The Town's Internal Control Memo will be revised to indicate such. Monthly bank reconciliations will be approved by the Mayor as stated in the response to recommendation 9 above and the Town's Internal Control Memo will be revised to indicate such.

Recommendation 11: The Town develop and implement policies for the review and approval of credits, refunds, and overpayments.

Response: The Town will include a refund policy in its Internal Control Memo and will implement said policy.

Finding 4: Adjustment entries lacked proper oversight.

Recommendation 12: The Town update the Internal Control process to implement documented review and approval procedures for adjustment transactions including, but not limited to: journal entries, voids, and reversals.

Response: The Town will review its Internal Control process and will, where necessary, update the process covering review and approval procedures for adjustment transactions as enumerated above.

Recommendation 13: The Town review the eleven (11) voided transactions and determine if a refund is owed to the Town's customers.

Response: The Town will review all eleven (11) voided transactions noted above and will determine if a refund is owed to the customer.

Recommendation 14: The Town provide training to staff for adjustment transactions.

Response: The Town's staff will be trained in properly processing and recording adjustment transactions.

Finding 5: There was no Finding 5 documented in the Audit Report.



Finding 6: General revenue amounts were not recorded accurately, revenue was not properly collected, general ledger entries lacked adequate documentation and independent review, and revenue amounts were not posted to the appropriate account.

Recommendation 15: The Town assess the surcharges for the proper rate for all of the permit fees associated with enforcement of the Florida Building Code, in accordance with the Florida Statutes.

Response: The assessment for surcharges for all permit fees associated with enforcement of the Florida Building Code will be reviewed for the proper rate in accordance with the Florida Statutes. The Town's staff involved in these calculations of the fees will be reminded of the necessity of accuracy in their work.

Recommendation 16: The Town implement additional review and oversight processes as needed to ensure revenue transactions are adequately documented in the general ledger, adequately supported, and properly posted in the Revenue System (IMS) and the general ledger (QuickBooks).

Response: The Town's staff involved in recording these transaction will be informed of the need for accurate recording and adequate documentation of the transactions in the Revenue System and general ledger.

Recommendation 17: The Town provide staff training on the additional review and oversight processes.

Response: See responses to Recommendations 15 and 16 above.

Finding 7: The Town's controls for the permitting process could be enhanced.

Recommendation 18: The Town require supporting documentation for estimated costs.

Response: Every permit issued by the Town includes the estimated job cost upon which the permit fees are calculated.

Finding 8: Written guidance and processes for permits, surcharges and service fees were inconsistent.

Recommendation 19: The Town collect permit fees at the time the permit application is filed in accordance with the Town's Internal Control Memo.

Response: The Town current collects permit fees at the time the permit is issued rather than when the permit application is filed. This avoids having to



issue excessive refunds for permits never issued due to job cancellations. The Town's Internal Control Memo will be modified to reflect this practice.

Recommendation 20: The Town consider configuring the revenue system to automatically calculate the permit fees and surcharges.

Response: The Town will attempt, through its software vendor, to have the system automatically calculate the permit fees and surcharges. This may not be possible or may be cost prohibitive to modify the software.

Recommendation 21: The Town assess the surcharge on the permit application and in the revenue and financial systems using the proper permit fee names, in accordance with the Florida Statutes.

Response: The Town will investigate modifying the permit fee names in the revenue and financial systems. These will be changed to be in accordance with Florida Statutes if possible.\

Recommendation 22: The Town update its written guidance to be in compliance with applicable Florida law and consistent throughout all written documents for permits and surcharges.

Response: In all cases where practical, the Town's written guidance will be modified to be consistent and to be in compliance with Florida law.

Recommendation 23: The Town periodically review its written guidance to ensure consistency across all requirements.

Response: The Town will take every effort to ensure consistency in its written guidance across all requirements.

Recommendation 24: The Town provide staff training for the revised written guidance and processes.

Response: The Town, where warranted, will provide its staff sufficient training to ensure their understanding of the Town's written guidance and processes.

Finding 9: Lack of written guidance for IT processes.

Recommendation 25: The Town develop and implement written IT policies and procedures to ensure consistency of operations that provide guidance, at a minimum, for how to:

- a. Assign and remove user rights and a reasonable time for completion,
- b. Authorize user access,
- c. Limit system access requiring unique user IDs and passwords.



d. Provide for user change management (new and separated employees).

Response: The Town will develop and implement a written IT policy to address all for items listed above.

Recommendation 26: The Town provide training to staff for the IT policy and procedures as needed.

Response: The Town will provide adequate training to its staff for the IT policy and procedures.

If you have any questions, please do not hesitate to contact me.

Sincerely,

Michael C. Brown, Mayor