



John A. Carey
Inspector General

OFFICE OF INSPECTOR GENERAL
PALM BEACH COUNTY



Inspector General
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“Enhancing Public Trust in Government”

Audit Report

2018-A-0003

**Town of Manalapan
Water Utility Department**

February 13, 2018



OFFICE OF INSPECTOR GENERAL
PALM BEACH COUNTY



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DATE ISSUED: FEBRUARY 13, 2018

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TOWN OF MANALAPAN – WATER UTILITY DEPARTMENT

SUMMARY

WHAT WE DID

We conducted an audit of the Town of Manalapan's (Town) Water Utility Department operations. This audit was performed as part of the Office of Inspector General, Palm Beach County (OIG) 2017 Annual Audit Plan.

Our audit focused on determining whether (1) water utility services were provided in an economical, efficient, and effective manner; (2) customers were properly billed for services; and (3) internal controls were adequate. We reviewed activities that occurred during Fiscal Year (FY) 2016 from October 1, 2015 – September 30, 2016. We reviewed cross connections for FY 2017 (October 1, 2016 – September 30, 2017).

WHAT WE FOUND

We found internal control weaknesses and operational areas that need improvement for both the Town and the Water Utility Department. Our audit identified

approximately **\$33,212** in Questioned Costs¹ and approximately **\$29,583** in Avoidable Costs.²

During the course of our audit, we found that the Town has been working to establish stronger internal controls.

Inspection Certificates

The Town requires backflow prevention devices at all premises likely to have cross connections and where activities on the premises present a hazard to health should a cross connection occur. This will help ensure that contaminated or polluted water cannot backflow into clean drinking water. The Town did not provide us with annual inspection certificates for backflow prevention devices for approximately 235 customer accounts identified in FY 2016.

In addition, the Town did not comply with Resolution No. R-9-2011, which mandates charging a \$25 administrative fee to any customer who does not provide the backflow prevention inspection certification documents within 30 days of

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.

notice from the Town. As a result, we calculated questioned costs totaling **\$5,875** for the administrative fees not charged in FY 2016.

Further, the Town did not comply with Resolution No. R-4-2017 that mandates charging a \$75 Backflow Registration Fee to 125 customers. Therefore, we calculated **\$9,375** in questioned costs for the annual Backflow Registration Fees not charged as required for FY 2017.

Uncollected Late Fees

The Town's Code of Ordinances §51.51 (A) provides that delinquent water bills shall be assessed a fee of 5%, accumulating monthly, on the unpaid balance due. The Town did not collect late fees on customer accounts for approximately eight months of FY 2016. We are questioning an estimated **\$8,101** in uncollected late fees.

Unread Water Meters

The Town's Code of Ordinances §51.51(A) states, "The town shall read all meters monthly and shall bill users monthly for water consumed each month." We noted that municipally-owned properties were not configured in the hand-held meter reading system and; therefore, not being read each month as required. Further, Hypoluxo Town Hall, a water customer, should have been billed approximately \$9,861 for water usage in FY 2016. We are questioning the **\$9,861** and have calculated approximately **\$29,583** in avoidable costs for future water usage bills that should be charged to this customer.

Accounts Receivable Over 120 Days Old

In our review of the September 30, 2016 Accounts Receivable Aging Report, we noted that approximately \$30,780 of the total accounts receivable of \$68,970 (or 44.63%) were over 120 days old. The Town does not appear to have an established process for the collection and/or write-off of past due accounts.

Weaknesses in the Procurement and Cash Disbursement Processes

Overall, cash disbursements tested were accurate, properly recorded, and supported by purchase requisitions approved by the Town Manager. However, we observed several weaknesses in the procurement and cash disbursement processes.

Security Deposits

Internal controls related to the collection of customer deposits appear to be properly functioning. However, accrued interest³ has not been annually credited to customer accounts, as required by Resolution No. R-4-2017.

Segregation of Duties

In an effort to save money, the Town consolidated the Town Manager and Finance Director positions in January 2011. However, assigning one position the authority to oversee purchasing, accounting, and financial reporting controls, as well as, sign checks and administer operational policies and procedures created a lack of segregation of duties. Similarly, the utility clerk has access and authority to complete the entire billing cycle process. Segregation of duties is a key control in preventing errors and misuse of funds, especially in vulnerable

³ The rate of interest shall be the rate of interest earned by the Town on the deposit monies, which are invested with the State Board of Administration averaged over the previous twelve (12) month period.

areas such as accounting and billing functions.

WHAT WE RECOMMEND

Our report contains seven (7) findings and twenty-one (21) recommendations. Implementation of these recommendations will (1) assist the Town and the Water Utility Department in strengthening internal controls, (2) save the Town approximately \$29,583, and (3) assist the Town with complying with its Ordinances and Resolutions.

The Town concurred and accepted all 21 recommendations and it has taken

corrective action that has resolved 12 recommendations.

It should be noted that many of the Town's management responses to our recommendations indicate that, at the time of this report, the actions taken either directly implemented the recommendations or offered an acceptable alternative corrective action. We appreciate the corrective actions and are awaiting supporting documentation for the remaining nine pending recommendations.

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

BACKGROUND



The Town of Manalapan was incorporated in 1931. Manalapan is a coastal community of approximately 406 full time residents. The Town operates under a Commission-Manager form of government with the Town Commission consisting of seven members, including the Town Mayor. In addition to full police and fire services, the Town provides water to the residents of the Town and portions of the Town of Hypoluxo (Hypoluxo) from the municipal water plant located in Hypoluxo.

The Town's original thirty-year Water Franchise and Contract with Hypoluxo dates back to September 30, 1960 and grants the Town the franchise right and privilege to operate a water plant within or near Hypoluxo and supply Hypoluxo and its residents with water at reasonable rates. On September 1, 1990, a ten-year extension to the agreement was executed that included automatic extensions of successive ten-year periods unless the governing bodies terminated the agreement. The agreement is effective through September 1, 2020.⁴

The OIG 2016 Audit Plan had several utility audits scheduled and survey work to select entities for utility audits began in FY 2016. The Town of Manalapan was selected for an audit, and the audit continued as part of the 2017 Audit Plan Multiple Entities – Utilities Audit.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our overall objectives of the audit were to determine whether:

- Water utility services were provided in an economical, efficient, and effective manner;
- Customers were properly billed for services; and
- Internal controls were adequate.

The audit included review of utility operations, billing, collections, and rate setting practices. The initial scope of the audit included activities that occurred during the period of October 1, 2015 through September 30, 2016. Additionally, we reviewed cross connections for the period of October 1, 2016 through September 30, 2017.

⁴ On May 17, 2017, the Hypoluxo Town Council unanimously approved a plan to negotiate an early end of the current water contract with the Town and enter into an Interlocal Agreement with Boynton Beach for water services. As of the date of this report, the Water Franchise and Contract between the Town and the Town of Hypoluxo has not been terminated and no Interlocal Agreement has been executed by the City of Boynton Beach and the Town of Hypoluxo.

The audit approach included, but was not limited to:

- Documenting whether adequate internal controls were in place;
- Reviewing water utility policies, procedures, and compliance requirements;
- Reviewing water utility billing, collection, and rate setting practices;
- Reviewing utility agreements;
- Interviewing appropriate personnel; and
- Performing detailed testing on selected financial transactions.

We gained an understanding of the utility operations by reviewing the Town's policies and procedures and by interviewing utility and administrative staff.

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.

FINDINGS AND RECOMMENDATIONS

Finding (1): Inspection certificates for backflow prevention devices were not properly monitored as required by Town Ordinance.

The Town's Code of Ordinances §51.16(E)(4) was established to comply with the Environmental Protection Agency's (EPA) Safe Drinking Water Act of 1974 and mandates:

"Backflow prevention devices shall be inspected annually or more frequently as the degree of hazard mandates, and tested by a certified backflow prevention device technician. A nominal inspection and/or re-inspection fee shall be charged by the town; the amount of which fee shall be set by resolution of the Town Council."



Backflow prevention devices are used to prevent contaminated fluids or gases from entering into a potable water supply system and are required at all premises likely to have cross-connections as part of the Town's cross-connection control program. "Cross-connections are the links through which it is possible for contaminating materials to enter into a potable water supply through backflow."⁵

Under the provisions of the Safe Drinking Water Act of 1974, the water supplier (Town) "is held responsible for the compliance to the provisions of the Safe Drinking Water Act. This responsibility includes a warranty that water quality provided by his operations is in conformance with the EPA standards at the source, and is delivered to the customer without the quality being compromised as a result of its delivery through the distribution system."⁶

FY 2016

Our audit identified approximately 235 customers who were required to provide backflow prevention device inspection certificates for FY 2016. The Town was unable to provide us with a list of the backflow inspections that occurred or documentation verifying that the inspections on all backflow prevention devices took place for FY 2016.

In addition, the Town did not comply with Resolution No. R-9-2011 which mandates charging a \$25 administrative fee to any customer who does not provide the backflow prevention device inspection certification within 30 days of notice from the Town. As a result, we calculated questioned costs totaling **\$5,875**.⁷

⁵ "Purpose and Scope" located in the Cross-Connection Control Manual issued by the United States Environmental Protection Agency, Office of Water, www.epa.gov/safewater.

⁶ "Administration of a Cross-Connection Control Program", located in the Cross-Connection Control Manual required under the United States Environmental Protection Agency, Office of Water, www.epa.gov/safewater.

⁷ 235 customers multiplied by the \$25 administrative fee required by Resolution No. R-9-2011.

FY 2017

The Town provided us with approximately 110 of the 235 (47%) inspection certificates for FY 2017. For the remaining 125 (53%) customers, a \$75 Backflow Registration Fee should have been paid as required by Resolution No. R-4-2017. Therefore, **\$9,375⁸** in questioned costs was calculated for the annual Backflow Registration Fees not charged as required in FY 2017.

Due to a lack of documentation, we could not determine whether the required monitoring for the cross-connection control program occurred in FY 2016 and partially in FY 2017. Without adequate monitoring and enforcement of the Ordinance requirements, the Town is at risk of violating the Safe Water Drinking Act of 1974 due to backflow prevention devices that may not be functioning properly.

Recommendations:

- (1) The Town establish and comply with internal policies and procedures to ensure proper oversight and monitoring of the annual inspections of cross-connection backflow prevention devices.**
- (2) The Town implement and collect all backflow related fees as required under the Town's Resolutions.**

Management Response Summary:

- (1) The Town has already implemented re-training for appropriate staff on the inspection process, with an emphasis on creating and maintaining complete and accurate documentation of same.**
- (2) The Town Commission has directed that these fees are not to be collected. The Town has already updated its resolutions and fee schedule to reflect this Town Commission direction in terms of the \$75.00 fee, and will further update its resolutions and fee schedule to reflect this Town Commission direction in terms of the \$25.00 fee.**

The Town does not agree that the "questionable fees" are based on violation. As stated above the Town will update its fee schedule to reflect Town commission policy and direction.

OIG Comment:

Recommendation 2: We accept the Town's alternative correction action to update its resolution and fee schedule in response to Recommendation 2.

The OIG audit identified these costs as "questioned costs" based on the Town not collecting fees as required by Resolution No. R-9-2011 and Resolution No. R-4-2017. No written documents were provided to the OIG Audit Division to

⁸ 235 customers less the 110 certificates provided leaves 125 customers for which the Town did not provide inspection certificates. 125 customers multiplied by the \$75 backflow prevention inspection fee required by Resolution No. R-4-2017.

substantiate the waiver of the resolution required fees; therefore, these costs remain questioned costs.

Finding (2): Late fees were not assessed in accordance with Town Ordinance.

The Town's Code of Ordinances §51.51 (A) states that water bills are:



“Due and payable on or before the 28th day of the month during which the bill is rendered and shall thereafter be delinquent. The town reserves the right to discontinue or terminate service to any water user who is delinquent in paying his or her water bill in accordance with the provisions of division (B) of this section. In addition, all water bills, which have become delinquent, as set forth herein, shall have added to the amount due under each such delinquent water bill a penalty of 5% accumulative monthly, on the unpaid balance due.”

We tested forty (40) randomly selected customer invoices for timely payment and noted 13 delinquent payments. Of the thirteen (13) delinquent payments, ten (10) (77%) were not charged the late fee penalty of 5% required under the Town Ordinance.

At our entrance conference, the Town Manager identified and advised us that customers with delinquent accounts were not charged late fees for approximately eight months of FY 2016 and was in the process of taking corrective action. Therefore, we estimated questioned costs totaling **\$8,101⁹** for late fees that were not collected by the Town as required by Ordinance.

Recommendations:

- (3) The Town comply with its ordinance relating to charging late fees and penalties.**
- (4) The Town should ensure that staff is properly trained to process payments and late fees in accordance with its ordinance.**
- (5) The Town take steps to establish review and monitoring procedures for the monthly water billing collection processes.**

⁹ The average late fees of \$8,101 were derived as follows: Late Fees in FY 2013 were \$14,857, in FY 2014 were \$12,459, and in FY 2015 were \$7,444. The combined three-year total of late fees collected was \$34,760. The average of \$11,587 was derived by taking the combined three-year total of \$34,760 and dividing it by the three years. The average late fee was \$11,587 less the \$3,486 collected for FY 2016 to reach \$8,101 of estimated late fees that were not charged.

Management Response:

- (3) **The Town has already done this prior to the entrance interview for this audit. The Town will, of course, continue to comply with its ordinance and continue to train staff to do so.**
- (4) **The Town has already done this prior to the entrance interview for this audit. The Town will, of course, continue to comply with its ordinance and continue to train staff to do so.**
- (5) **The Town has already done this prior to the entrance interview for this audit. The Town will, of course, continue to comply with its ordinance and continue to train staff to do so.**

Finding (3): Water meters were not read monthly as required by Town Ordinance.

The Town's Code of Ordinances §51.51 (A) Billing procedures section states "The town shall read all meters monthly and shall bill users monthly for water consumed each month."

We made the following observations with respect to monthly meter readings performed by the Town:

- Of the forty (40) customer invoices randomly selected for testing, sixteen (16) (40%) had estimated water consumption amounts (rather than actual consumption amounts obtained from a meter reading), which is not in compliance with the Ordinance. The Town confirmed that water meter reads were performed every other month through August 2016, after which meters reads were performed monthly.
- Municipally-owned properties were not maintained in the handheld meter reading systems; instead, manual lists of these properties were provided to meter readers monthly to perform meter reads. As a result, the water meters for eleven (11) of the twelve (12) municipally-owned properties were not read for five (5) months in FY 2016.
- The Town does not have a formal, written process for handling seasonal customers. The Town allows seasonal customers to request that service to their residence is turned off when they are not residing in the Town. Accounts that are turned off become inactive and are removed from the handheld meter-reading device. Seasonal accounts that are reactivated are manually entered back in the system and the hand-held meter readers. The account is at risk for billing errors, if the address is not manually reentered into the handheld device.
- The Hypoluxo Town Hall was not billed for water usage during FY 2016. We estimated that Hypoluxo Town Hall water bills for FY 2016 total approximately **\$9,861**. We are questioning the **\$9,861**¹⁰ and have calculated approximately

¹⁰ We calculated the estimated FY 2016 water charges to determine the questioned cost of approximately \$9,861. The calculation of the FY 2016 bill is as follows (\$289.21 Water Demand Charge x 12 months = \$3,471) + (Water Usage of 1,879 thousands of gallons x \$2.34 rate = \$4,397) + (\$35 Franchise Fee x 12 = \$420) + ((Water Demand

\$29,583¹¹ in avoidable costs for future water usage bills that should be charged to the customer.

Recommendations:

- (6) The Water Department strengthen controls for the monthly water meter readings and billings to ensure all meters are read and billed monthly for actual water consumed as required by the Town's ordinance.
- (7) The Water Department establish a formal, written process to facilitate seasonal shut-offs / turn-ons. Additionally, training should be provided to staff on the process.
- (8) The Town invoice Hypoluxo for its Town Hall water usage during FY 2016 and going forward for each month services are provided.

Management Response Summary:

- (6) The Town resumed monthly meter reads as of November, 2016 and will continue to do so, and will continue to ensure staff is trained properly in this regard.
- (7) Town procedures require payment of a \$50.00 fee for any temporary shut-off. This will continue to be utilized.
- (8) The Town has never historically, charged the Town of Hypoluxo for water usage at the Hypoluxo Town Hall. The Town does not believe this is a questioned cost based on violation. If records cannot be produced, the Town will seek retroactive approval to not charge the Town of Hypoluxo for the Town Hall water usage.

Finding (4): As of September 30, 2016, 44.63% of water accounts receivable were over 120 days.

In our review of the September 30, 2016 Accounts Receivable Aging Report, we noted that approximately \$30,780 of the total accounts receivables of \$68,970 (or 44.63%) were over 120 days old. These outstanding balances spanned from 2008 to 2016. An account may become uncollectible for many reasons such as the customer cannot be located, the customer becomes insolvent, lack of proper documentation, or statute of limitations. As accounts receivable age, the risk increases that the amount outstanding will not be collected.

Charge \$3,471 + Water Usage \$4,397) x 20% = \$1,574 Franchise Surcharge Fee) = Total FY 2016 Bill of approximately \$9,861.

¹¹ Avoidable costs were estimated for the following three years based on the estimated FY 2016 water charges. \$9,861 x 3 years = \$29,583 in avoidable costs. The avoidable cost calculated is for FY 2017, FY 2018, and FY 2019. Even though Hypoluxo has provided notice that they will be terminating water services with Manalapan, the avoidable costs were calculated because the current agreement continues through 2020 and no dates have been agreed upon.

In addition, we noted an inconsistency between financial policy and practice for the accounting of uncollectible accounts. Note 1 – Summary of Significant Accounting Policies in the Town’s FY 2016 financial statements states, “An allowance for doubtful accounts has not been provided for accounts receivables because the Town feels that all receivables are collectible.” Subsequently, the Town provided us with a list of customer accounts over 120 days old totaling approximately \$9,395 that were written off during the FY 2016 year-end closing process. As a result, the Town’s FY 2016 current assets improperly included the accounts receivable balances written off. Reporting uncollectible accounts as current accounts receivable could temporarily distort the Town’s financial position and potentially have a negative impact on contingency loans that require a minimum current asset balance.

Recommendations:

- (9) The Town establish policies and procedures for the collection and write-off of water utility accounts receivable.**
- (10) The Town establish an allowance for doubtful accounts.**
- (11) The Town monitor accounts receivable and provide timely notice and follow-up for customer account balances due that are aging.**

Management Response:

- (9) The Town will establish policies and procedures for the collection of water utility accounts receivable, and will ensure staff is trained properly in this regard.**
- (10) Having reconciled all past write-offs, and having resolved past issues and having made appropriate staffing and training adjustments, the Town does not anticipate future doubtful accounts.**
- (11) The Town already monitors, and will continue to monitor, accounts receivable and will provide timely notice and follow-up for customer account balances that are aging.**

Finding (5): Weaknesses exist in the procurement and cash disbursement processes.

We selected 25 cash disbursements from the Water Department to determine whether the Town was complying with the “Procurement Policy and Procedures, Amended Effective 11/18/14”.

Overall, the cash disbursements tested were accurate, properly recorded, and appropriately supported by purchase requisitions approved by the Town Manager. However, we observed the following weaknesses in the procurement and cash disbursements processes:

- None of the purchase requisitions were approved by the Water Department Head as required by the Town's Procurement Policy and Procedures.
- One service agreement was paid prior to services being rendered.
- Seven (7) out of ten (10) paid invoices requiring verbal or written quotes lacked proper documentation showing quotes had been obtained.
- Two invoices were not paid timely.
- Ten paid invoices lacked a date stamp to document receipt of goods/services.
- Minor variances between invoice and purchase requisition pricing were not detected for two purchases.

The weaknesses observed above increase the risk that the Town pays for goods and services not received, does not obtain the lowest and best price for goods and services, loses payment discounts, and incurs late fee penalties for untimely payments. Additionally, without adequate review or oversight, the opportunity for fraud without detection exists.

Recommendations:

- (12) The Town ensure compliance with the Procurement Policy and Procedures for all aspects of the purchasing process.**
- (13) The Department Heads review and approve purchase requisitions as required by the Procurement Policy and Procedures.**
- (14) The Town implement a formal, written approval process for invoices to validate and document the receipt of the goods or services prior to authorization of payment.**
- (15) The Town provide training to ensure all staff understand and follow the Town's Procurement Policy and Procedures.**

Management Response Summary:

- (12) The Town will continue to comply with its purchasing policies and procedures, and will ensure that staff is trained in same.**
- (13) The Town will continue to comply with its purchasing policies and procedures, and will ensure that staff is trained in same.**
- (14) The Town will continue to comply with its purchasing policies and procedures, and will ensure that staff is trained in same. In the Town's opinion the current policies and procedures are appropriate.**
- (15) The Town will continue to comply with its purchasing policies and procedures, and will ensure that staff is trained in same.**

Finding (6): Accrued interest on customer security deposits was not distributed to customers, as required by Town Resolution.

We tested security deposits for forty (40) randomly selected customer accounts. Overall, internal controls over the collection of customer service deposit charges were properly functioning. However, we found that none of the customer accounts over one-year old included annual interest accrued on the service deposit charges in accordance with Town Resolution No. R-2-2011. Interest had not been properly accrued and was not distributed to customers.

The relevant resolutions, Resolution No. R-2-2011, dated January 25, 2011, and Resolution No. R-4-2017, dated May 15, 2017, provide,

“Interest on all service deposit charges shall be accrued annually as of June of each year at which time such interest will be credited to each customer’s account. Rate of interest shall be the rate of interest earned by the Town on the deposit moneys which are invested with the State Board of Administration averaged over the previous twelve (12) month period.”

Recommendations:

- (16) The Town comply with Resolution No. R-2-2011 and Resolution No. R-4-2017, as applicable, for the accrual of interest on customer deposits.**
- (17) The Town consider retroactively crediting customer accounts for interest accrued on service deposit charges to comply with the Resolution.**
- (18) The Town develop and implement a process for monitoring interest accrued and distributed on customer deposits and compliance with the Resolution.**

Management Response:

- (16) Resolution R-9-17 eliminated the requirement for distribution of accrued interest. This was done because the expense of complying with the requirement exceeded the value of the accrued interest. As such, the Town is in compliance with its current policy.**
- (17) The expense of doing so far exceeds the value of accrued interest. Further, current Town policy, pursuant to Resolution R-9-17 does not require this practice.**
- (18) Resolution R-9-17 eliminated the requirement for distribution of accrued interest. This was done because the expense of complying with the requirement exceeded the value of the accrued interest. As such, the Town is in compliance with its current policy.**

Finding (7): The Town lacks proper segregation of duties in key areas.



In an effort by the Town to save money, both the Town Manager and Finance Director positions were consolidated in January 2011. This effectively assigned one position the authority to oversee purchasing, accounting and financial reporting controls, as well as, signing checks and administering operational policies and procedures.

Additionally, the utility clerk was provided the access and authority to complete the entire utility billing cycle which includes generating bills, adjusting customer accounts (i.e. accounts receivable) for variances, applying customer payments, and reconciling reports. These two observations reflect a lack of proper segregation of duties in key areas.

Segregation of duties helps prevent fraud, waste, and abuse in the entity by considering the need to separate authority, custody, and accounting in the entity's structure.¹² Most entities apply segregation of duties to the most vulnerable and mission critical elements of the government or business. To implement segregation of duties, management divides or segregates key duties and responsibilities among different people to ensure no one person has control over the entire process, thus reducing the risk of error, misuse, or fraud.

In smaller government organizations, segregation of duties may not always be possible, so there should be controls to mitigate the risks, such as independent reviews, reassignment of incompatible functions, and increased supervisory oversight. With just a few employees assuming the Town's administrative responsibilities, the duties may need to be spread across the team with each person assuming responsibility for a portion of each function to ensure that no one person "owns" an entire process.

Recommendations:

- (19) The Town Commission re-evaluate and revise the dual responsibilities of the Town Manager / Finance Director to ensure proper segregation of duties.**
- (20) The Town Manager review and document approval for billing/accounts receivable adjustments.**
- (21) The Town Commission consider revising the various duties related to the billing/accounts receivable processes to separate incompatible functions and strengthen the internal controls.**

¹² Internal Control Standards established by the US Government Accountability Office for Internal Control Standards in Federal Government, which are similar to standards that should apply in local government.

Management Response:

- (19) The Town Commission will be advised of this recommendation.**
- (20) The Town Manager has done this since mid-year, 2017. Currently, multiple Town staff are involved with the process. Thus, the Town feels that given its staffing capabilities, strong internal controls exist.**
- (21) This is not a Town Commission function. Further, multiple Town staff are involved in the process. Thus the Town feels that given its staffing capabilities, strong internal controls exist.**

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

Questioned Costs

Finding	Description	Questioned Costs
1	FY 2016 Cross-Connection Uncollected Administrative Fees	\$5,875
1	FY 2017 Cross-Connection Backflow Prevention Inspection Fees	\$9,375
2	Unassessed Late Fees	\$8,101
3	Unbilled Water – Hypoluxo Town Hall (for period 10/1/15-9/30/16)	\$9,861
	TOTAL QUESTIONED COSTS	\$33,212

Avoidable Costs

Finding	Description	Avoidable Costs
3	Estimated Avoidable Costs based on future water utility payments from Hypoluxo Town Hall (\$9,861 x 3 years)	\$29,583
	TOTAL AVOIDABLE COSTS	\$29,583

ATTACHMENT

Attachment #1 – Town of Manalapan’s Management Response, page 17-22.

ACKNOWLEDGEMENT

The Inspector General's audit staff would like to extend our appreciation to the Town of Manalapan’s management and 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 MANALAPAN'S MANAGEMENT RESPONSE



Keith W. Davis, Esq.

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February 8, 2018

Megan Gaillard, Director of Audit
Palm Beach County Office of Inspector General
P.O. Box 16568
West Palm Beach, Florida 33416

Re: Town of Manalapan Draft Audit Report – Audit of Water Utility Department

Dear Ms. Gaillard:

On behalf of Town Manager Linda Stumpf and the Town of Manalapan Water Utility Department, please accept this response to the above referenced draft audit report. As requested, the following will respond to the finding and recommendations contained in said report, and will offer Town management's proposed corrective action.

There are seven (7) findings in the report, each containing a number of recommendations. The findings and recommendations will be addressed here in the order that they are presented in the Draft Audit Report.

Despite the findings contained in the draft report, however, it is equally important to stress that the draft audit report acknowledges that the Town was aware of certain findings prior to the audit process beginning, and that the Town was already implementing multiple corrective measures. In addition, during the exit interview with Town staff, the Office of Inspector General, through Mr. Carey himself, acknowledged that the findings in the draft report are not outside the realm of normal or typical findings when this type of audit is conducted, and that they are meant to make a good process even better.

With this in mind, the specific recommendations associated with each finding meant to improve the Town's current system will be addressed in turn, along with Town management's proposed corrective action thereto:

Finding 1. Inspection certificates for backflow prevention devices were not properly monitored as required by Town Ordinance.

February 8, 2018
Management Response to Audit of Water Utility Department

This finding states that there is a lack of documentation to evidence compliance with the backflow prevention device inspection program. This finding also states that the Town failed to charge inspection fees and late fees as contained in the Town's fee schedule.

RECOMMENDATIONS:

1. Establish and comply with internal policies and procedures to ensure proper oversight and monitoring of the annual inspections of cross-connection backflow prevention devices.

RESPONSE: The Town has already implemented re-training for appropriate staff on the inspection process, with an emphasis on creating and maintaining complete and accurate documentation of same.

2. Implement and collect all backflow related fees as required under the Town's Resolutions (fee schedule).

RESPONSE: The Town Commission has directed that these fees are not to be collected. The Town has already updated its resolutions and fee schedule to reflect this Town Commission direction in terms of the \$75.00 fee, and will further update its resolutions and fee schedule to reflect this Town Commission direction in terms of the \$25.00 fee.

It is the Town's position therefore, that \$5,875.00 (FY 2016) and \$9,375.00 (FY 2017) in fees were not to be collected pursuant to Town Commission direction, and as such are not "questionable fees" - fees based on a violation of law, regulation, agreement, etc. as indicated in the Draft Audit Report. As stated above, the Town will update its fee schedule to reflect Town Commission policy and direction.

Finding 2. Late fees were not assessed in accordance with Town Ordinance.

This finding correctly acknowledges that at the audit entrance conference, the Town Manager was already aware of this issue, that employees responsible had already been re-assigned or released from employment, and that new staff had already been hired / assigned to these responsibilities and had been trained to properly implement the Town Ordinance.

RECOMMENDATIONS:

1. Comply with Town Ordinance related to charging late fees and penalties.

RESPONSE: The Town had already done this prior to the entrance interview for this audit. The Town will, of course, continue to comply with its ordinance and continue to train staff to do so.

2. Ensure staff is properly trained to process payments and late fees in accordance with its ordinance.

RESPONSE: The Town had already done this prior to the entrance interview for this audit. The Town will, of course, continue to comply with its ordinance and continue to train staff to do so.

February 8, 2018

Management Response to Audit of Water Utility Department

3. Take steps to establish review and monitoring procedures for the monthly water billing collection process.

RESPONSE: The Town had already done this prior to the entrance interview for this audit. The Town will, of course, continue to comply with its ordinance and continue to train staff to do so.

Finding 3. Water meters were not read monthly as required by Town Ordinance.

This finding states that of a random sampling of customer invoices, it was found that 40% contained "estimated water consumption amounts" and had not actually been read monthly as required by Town ordinance. This finding also questions the manner in which water meters associated with Town facilities are read; notes that the Town does not have a written policy for handling seasonal customers; and mentions that the Town of Hypoluxo's Town Hall facility was not billed for water consumption in FY 2016.

RECOMMENDATIONS:

1. Strengthen controls in the Water Department for monthly water meter readings and billing to ensure that all meters are read and billed monthly as required by the Town's ordinance.

RESPONSE: The Town resumed monthly meter reads as of November, 2016 and will continue to do so, and will continue to ensure staff is trained properly in this regard.

2. Establish a formal, written process to facilitate seasonal shut-offs / turn-ons, as well as training in process implementation.

RESPONSE: Town procedures require payment of a \$50.00 fee for any temporary shut-off. This will continue to be utilized.

3. Invoice the Town of Hypoluxo for its Town Hall water usage during FY 2016 and going forward for each month services are provided.

RESPONSE: The Town has never, historically, charged the Town of Hypoluxo for water usage at the Hypoluxo Town Hall. All residents and businesses in the Town of Hypoluxo are water customers of the Town, and have been so since 1960. However, there is no record in the Town of the Town ever billing for water usage at Hypoluxo Town Hall. The Town has requested from the Town of Hypoluxo any such records as well, but has received none.

It is the Town's position that that the \$9,861.00 (FY 2016) and \$29,583.00 (FY 2017, 2018 and 2019) are not "questionable fees"- fees based on a violation of law, regulation, agreement etc. as indicated in the Draft Audit Report. If historical records memorializing this arrangement are not obtained, the Town will seek to have this arrangement ratified by the Town Commission on a retroactive basis in order to establish appropriate documentation for the practice which has been understood to be appropriate for more than 50 years.

February 8, 2018

Management Response to Audit of Water Utility Department

Finding 4. As of September 30, 2016, 44.63% of water accounts receivable were over 120 days.

This finding states that the Town's September 30, 2016 Accounts Receivable Aging Report reflected total accounts receivable of \$30,780.00 (or 44.63%) of the total receivables of \$68,970.00, spanning from 2008 to 2016. It also notes inconsistencies between financial policy and practice for the accounting of uncollectible accounts. Specifically, it notes that the policy note indicates a position that all accounts are collectible, but that the Town nevertheless wrote off approximately \$9,395.00 in accounts receivable.

RECOMMENDATIONS:

1. Establish policies and procedures for the collection and write-off of water utility accounts receivable.

RESPONSE: The Town will establish policies and procedures for the collection of water utility accounts receivable, and will ensure staff is trained properly in this regard.

2. Establish an allowance for doubtful accounts.

RESPONSE: Having reconciled all past write-offs, and having resolved past issues and having made appropriate staffing and training adjustments, the Town does not anticipate future doubtful accounts.

3. Monitor accounts receivable and provide timely notice and follow-up for customer account balances due that are aging.

RESPONSE: The Town already monitors, and will continue to monitor, accounts receivable and will provide timely notice and follow-up for customer account balances due that are aging.

Finding 5. Weaknesses exist in the procurement and cash disbursement processes.

This finding acknowledges that "overall, the cash disbursements tested were accurate, properly recorded, and appropriately supported by purchase requisitions approved by the Town Manager." However, the finding also identifies certain "weaknesses" in the processes, those being that the water department head did not approve purchase requisitions per policy; that one service agreement was paid prior to services being rendered; that 7 of 10 paid invoices requiring verbal or written quotes were missing support documentation; that two invoices were not paid timely; that ten invoices were missing date stamps; and that there were minor variances (less than \$1.00) between the requisition amount and the amount actually paid.

RECOMMENDATIONS:

1. Ensure compliance with Procurement Policy and Procedures for all aspects of the purchasing process.

RESPONSE: The Town will continue to comply with its purchasing policies and procedures, and will ensure that staff is trained in same.

February 8, 2018

Management Response to Audit of Water Utility Department

2. Have department heads review and approve purchase requisitions as required by Procurement Policy and Procedures.

RESPONSE: The Town will continue to comply with its purchasing policies and procedures, and will ensure that staff is trained in same.

3. Implement a formal, written approval process for invoices to validate and document the receipt of the goods and services prior to authorization of payment.

RESPONSE: The Town will continue to comply with its purchasing policies and procedures. In as much as this audit, which took one year to complete, discovered one single occurrence of a payment made prior to services being rendered, it is the Town's opinion that its current policies and procedures are appropriate. The Town will ensure that staff is trained in same.

4. Provide training to ensure all staff understand and follow the Town's Procurement Policy and Procedures.

RESPONSE: The Town will continue to comply with its purchasing policies and procedures, and will ensure that staff is trained in same.

Finding 6. Accrued interest on customer security deposits was not distributed to customers, as required by Town resolution.

This finding acknowledges that "overall, internal controls over the collection of customer service deposit charges were properly functioning." This finding goes on to note that none of the customer service accounts over one-year old included annual interest accrued on the service deposit charges in accordance with Town Resolution R-2-2011.

RECOMMENDATIONS:

1. Comply with Resolution R-2-2011 and Resolution R-4-2017, as applicable, for the accrual of interest on customer deposits.

RESPONSE: Resolution R-9-17 eliminated the requirement for distribution of accrued interest. This was done because the expense of complying with the requirement exceeded the value of the accrued interest. As such, the Town is in compliance with its current policy.

2. Consider retroactively crediting customer accounts for interest accrued on service deposit charges to comply with the resolution.

RESPONSE: The expense of doing so far exceeds the value of the accrued interest. Further, current Town policy, pursuant to Resolution R-9-17 does not require this practice.

3. Develop and implement a process for monitoring interest accrued and distributed on customer deposits and compliance with the Resolution.

RESPONSE: Resolution R-9-17 eliminated the requirement for distribution of accrued interest. This was done because the expense of complying with the requirement exceeded the value of the accrued interest. As such, the Town is in compliance with its current policy.

February 8, 2018
Management Response to Audit of Water Utility Department

Finding 7. The Town lacks proper segregation of duties in key areas.

This finding acknowledges that the Town Commission made a decision in 2011 to consolidate the Town Manager and Town Finance Director positions for cost saving purposes. This finding also recognizes that the Town utility clerk has access and authorization to complete the entire utility billing cycle. This finding further recognizes that in smaller governmental organizations (Such as the Town), segregation of duties is not always possible, and suggests implementation of certain controls to mitigate risk.

RECOMMENDATIONS:

1. That the Town Commission re-evaluate and revise the dual responsibility of Town Manager / Town Finance Director.

RESPONSE: The Town Commission will be advised of this recommendation.

2. That the Town Manager review and document approval for billing/accounts receivable adjustments.

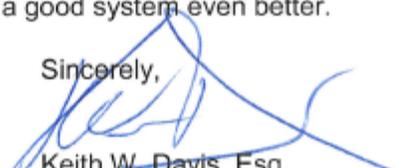
RESPONSE: The Town Manager has done this since mid-year, 2017. Currently, multiple Town staff are involved with the process. Thus, the Town feels that given its staffing capabilities, strong internal controls exist.

3. That the Town Commission consider revising the various duties related to the billing/accounts receivable processes to separate incompatible functions and strengthen the internal controls.

RESPONSE: This not a Town Commission function. Further, multiple Town staff are involved with the process. Thus, the Town feels that given its staffing capabilities, strong internal controls exist.

On behalf of the Town Manager and the staff of the Water Utility Department, I want to thank you and your team for your observations and suggestions for improved operations at the Town's existing Water Utility Department. Even though the Town's current system is working properly and, as Mr. Carey noted during the audit exit interview, that the findings contained in the draft report are not outside the realm of normal or typical findings when this type of audit is conducted, we understand and agree that that they are meant to make a good process even better. We also acknowledge and agree that implementation of the above recommendations as noted in this response will only serve to make a good system even better.

Sincerely,



Keith W. Davis, Esq.
General Counsel, Town of Manalapan

cc: Linda Stumpf, Town Manager