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**CITY OF NORTH BAY VILLAGE, FLORIDA**

**REPORT ON APPLYING  
AGREED-UPON PROCEDURES**

**MAY 31, 2012**

**2B(2)1**

City of North Bay Village, Florida  
Report on Applying Agreed-Upon Procedures

May 31, 2012

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**INDEPENDENT ACCOUNTANTS' REPORT  
ON APPLYING AGREED-UPON PROCEDURES**

To The City of North Bay Village

We have performed the procedures enumerated below which were agreed to by The City of North Bay Village pursuant to an engagement letter executed March 29, 2012. Berkowitz Pollack Brant Advisors and Accountants ("BPB") was retained to perform agreed-upon procedures to the City of North Bay Village, Florida ("North Bay Village") internal control procedures over certain budgetary responsibilities and expenditures as of December 31, 2011. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The agreed-upon procedures are as follows:

1. Interview Mayor and Commission either (a) individually not to exceed 15 minutes per elected official or (b) a duly noticed public meeting not to exceed 2 hours where the exact concerns can be better identified.
2. Designate one individual from North Bay Village to act as the liaison for this project and give the authority to refine scope of procedures if and when necessary.
3. Summarize and prioritize list of concerns determined in step 1 to assist in determining which exact procedures will be performed, the size of the samples to examine, the time period to examine and the time frame for reporting our findings.
4. Interview City personnel involved in expenditures and budgeting to determine procedures used for posting, processing, approving and recording expenditures including certain procurement policies.
5. Summarize those procedures and make recommendations for improvement.
6. Test on a sample basis adherence to policies for the posting, processing, approving and recording of expenditures.

7. Test certain basic accounting functions to determine adherence to basic guidelines for timely completion of bank reconciliations, periodic (monthly or quarterly) reporting of financial position and maintenance of basic accounting records.
8. Assist in designing a periodic accounting package and deadlines for submission of these documents to provide the Mayor, the Commission and the public summarized data regarding general financial position.
9. Review budget vs. actual expenditures for selected accounts and determine if policies exist to assist in adherence to budgets.
10. Make general recommendations based upon findings from procedures above and present final report of findings.

The results of our procedures and related findings are contained in the following sections of this report:

- Executive Summary of Agreed-Upon Procedures and Findings
- Agreed-Upon Procedures and Findings

Our observations relating to governance matters are contained in the Potential Governance Considerations section of this report.

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on the internal control procedures over certain budgetary responsibilities and expenditures as of December 31, 2011. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the City of North Bay Village, Florida and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.



Miami, Florida  
June 22, 2012

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City of North Bay Village, Florida

Report on Applying Agreed-Upon Procedures

May 31, 2012

**Executive Summary of Agreed-Upon Procedures and Findings**

BPB interviewed individually the Mayor and Commission as well as the City Manager and Finance Director (who was subsequently terminated) for approximately 15 minutes each. The interviews were conducted to get a better understanding of the exact concerns regarding the budgetary and internal control structure. We also discussed, during our interviews, possible internal control weaknesses and areas where the interviewed parties felt were not receiving adequate information.

We found a range of responses from the Mayor and the Commission regarding specific data and reporting items that they would find beneficial. The City Manager and Finance Director provided additional assistance in understanding these responses. The following issues were communicated by the afore-mentioned interviewed parties:

- The need for more up-to-date and timely financial information which they can easily read and understand. The current format is hard to read difficult to navigate.
- A lack of documented and specific financial policies and procedures.
- Concern regarding whether or not the finance area was adequately staffed and concerns about segregation of duties and the general competency of employees in the finance department .
- Concerns over the City's current capital projects including the state of completion, financial status and adequacy of current funding to complete the projects.
- Deficiencies in the financial reporting to the Commission and a lack of transparency.
- Universal concern over the reserve balance, what it could be used for and why it changed frequently.
- Final completion of the September 30, 2011 audit.

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City of North Bay Village, Florida

Report on Applying Agreed-Upon Procedures--Continued

Based on interviews with the City Manager and Finance Director, we noted the following:

- As of the date of this report, no budget modifications for the year ended September 30, 2012 have been prepared.
- There is very little segregation of duties. This may be due to the size of the City and cost/benefit considerations
- Final journal entries to close out the 2011 fiscal year have not been received from the City's independent accounting firm.

We appeared in front of the Citizens Budget and Oversight Board to inform them of the scope of the engagement. We informed the Board that any additional assistance from our Firm in reviewing and suggesting revisions to the fiscal policies of the City was outside the scope of our agreed-upon procedures engagement letter agreement.

We also reviewed the City's current year data vs. the proposed budget to see if any inconsistencies were noted. Due to the change in personnel in the finance department we were unable to have all of our questions adequately answered. As a result we listed our remaining questions for further discussion and our comments for further analysis in Appendix B.

City of North Bay Village, Florida

Report on Applying Agreed-Upon Procedures--Continued

**Agreed- Upon Procedures and Findings**

Interviews

We interviewed the following personnel for approximately fifteen minutes each:

Name	Title
Connie Leon-Kreps	Mayor
Eddie Lim	Vice-Mayor
Stuart Blumberg	Commissioner
Richard Chervony	Commissioner
Dennis Kelly	City Manager
Jerry Pirri	(Former) Finance Director

Commissioner Stuart Blumberg was designated as the liaison for this project.

We reviewed the current budget report designed and used by the Citizens Budget and Oversight Board. See Appendix B for our sample recommended revised report which should be prepared and analysis thereon quarterly for all funds and monthly for the general fund and the capital improvements fund.

We reviewed compliance with standard accounting practices and due to the departure of Mr. Pirri, listed recommended procedures for the future in the Potential Governance Considerations section of this report. We also inquired regarding procedures used for posting, processing, approving and recording expenditures including on certain procurement procedures.

We performed testing of compliance with both journal postings and disbursements procedures during the 2011 fiscal year including adherence to policies for posting, processing, approving and recording of expenditures. See Appendix A for our testing summary and sample of transactions. Generally, we found that the City's finances were being controlled by the City Manager and Finance Director. We observed documented approvals for most disbursements recorded. However, we found some cases where the department director did not sign off and the only authorization was the City Manager and the Finance Director. We also found that the supporting documentation for the all journal postings we tested was inadequate. See our recommendations in the Potential Governance Considerations section of this report for suggestions to improve this area.

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City of North Bay Village, Florida

Report on Applying Agreed-Upon Procedures--Continued

We noted that the external audit was not completed until late June 2012. We also noted that there were significant adjustments proposed by the auditors as a result of their audit. We also noted that the current software used in the City for financial reporting, utility billing and other accounting functions is very old and cumbersome.

We requested copies of supporting documentation for various accounts including bank reconciliations and determined that bank reconciliations were not up-to-date and supporting schedules did not exist for accounts including debt service payments, schedule of capital project draws as well as other schedules not integrated into the accounting system.

We reviewed selected actual vs. budgeted accounts as of February 2012 and noted questions and comments in Appendix B.

Specific comments relating to the results of our compliance test procedures are as follows:

1. Reviewed supporting documentation of approval by department managers, and City Manager. Authorization is indicated by signed approval stamp or request form. We noted that in all 27 items selected for testing we found at a minimum the City Manager's and Finance Director's authorization. We found that 15 of the 27 or 55.6% of the requests also had a department director's approval. The 12 selections without a department director's approval included legal bills, insurance payments and other re-occurring items. However, we found 4 selections (14.8%) which we believe should have had additional approvals. We also noted that the fuel bills are not signed off nor reviewed by the departments being charged. We also noted for the re-occurring items there was no indication of a contract number or other indication of approval of hours on legal bills or for contracted planning hours.
2. Agreed transaction details to supporting vendor invoice/contract/enabling legislation. We found that in some cases enabling legislation or a reference to the enabling legislation was noted, in other cases it was not but an invoice was attached. However, one transaction, representing 3.7% of our test sample, did not have enabling legislation, a reference to enabling legislation or an invoice attached which is an exception.
3. Verified that the transaction details corresponded to the City's. project #s and/or job descriptions. We noted that all postings for all invoices examined appeared appropriate.

City of North Bay Village, Florida

Report on Applying Agreed-Upon Procedures--Continued

4. Verified that the disbursement was recorded in the proper G/L account and traced disbursement to the respective G/L account. We noted that all general ledger postings appeared reasonable.
5. Verified that the invoice was recorded in the proper year. We noted one transaction with an incorrect invoice date that was recorded in the proper period (3.7% of what was tested). We noted an additional transaction recorded in the incorrect fiscal year which is an exception. This exception represents 3.7% of what was tested in number of transactions and .13% of the total dollars tested.
6. Noted that there was insufficient detail for all journal entries or journal postings. Payroll had supporting documentation but it did not have an indication that it agreed to budget nor that it was adequately reviewed by the City Manager or their designee. We noted insufficient documentation to support these entries.

Potential Governance Considerations

The following items should be considered for potential discussion and actions to be taken:

1. Timely audits must be performed in the future as failure to meet the statutory deadline may compromise grant opportunities. Additionally, at a minimum of semi-annually, the books must be adjusted on a modified accrual basis so a budget modification can be done in an effective manner, if necessary.
2. Quarterly (for the current year semi-annually since half the year is over) budget transfers must be done and timely financial information disseminated to the Commission so the current financial position is documented and reviewed by the Commission.
3. The current financial reporting and utility billing software must be replaced with a comprehensive integrated municipal software system so that all departments work with the same database. This will help the goal that data will be entered timely, correctly and is useful to Management and the Commission.

City of North Bay Village, Florida

Report on Applying Agreed-Upon Procedures--Continued

4. As part of the newly designed monthly report, the City Manager should complete a checklist that documents the following: a. the bank reconciliation has been performed b. the status of grants, c. the date the last financial statements have been reconciled through, and c. all journal postings have been posted and reviewed by appropriate management personnel.
5. All expenditures over a designated amount (i.e. \$1,500) should be listed and included as part of the agenda each month as an information item to provide for greater transparency.
6. A complete listing of all current contracts needs to be prepared and a complete review of all current contracts needs to be performed. We suggest that you establish a procedure to review all previous contracts currently in effect in a reasonable period of time. We also suggest that at a minimum, this list of all current contracts be presented to the Commission annually.
7. Due to limited internal controls, we recommend that a City Commissioner be designated to open and peruse the bank statements on a periodic basis.
8. The budget needs to be started no later than June of each year. As of the date of this report, there is no schedule for when the budget will be delivered to the Commission. Ideally, the Commission should give general direction of budget priorities no later than early June so a tentative millage can be set in July.
9. The Police budget represents over 60% of the Village's general fund expenditures. Long-term, there needs to be a plan to control this as it could jeopardize the Village's ability to control tax rates and/or the ability to provide other essential services.
10. Due to the size of the Village, there are and will continue to be significant segregation of duties limitations in the Finance area. The City Manager must have sufficient financial skills to be able to assist in this area.
11. All capital requests during the year should be deferred to the next budget cycle unless they were budgeted in that fiscal year or are considered an emergency item usually defined as putting residents in danger or distress.

City of North Bay Village, Florida

Report on Applying Agreed-Upon Procedures--Continued

12. We recommend that reserves be determined only once per year after the audit has been completed and presented to the City Commission. The audited fund balance should be the only amount available as a reserve. We further recommend that the City Commission or its designee determine the amount of emergency reserves needed and a formal policy on those reserves be developed that can be enacted as an ordinance or resolution.
  
13. We recommend that comments and questions regarding the budget to actual monthly presentation be addressed to the Administration. Appendix B illustrates a sample of this.

City of North Bay Village, Florida

Report on Applying Agreed-Upon Procedures--Continued

Check Number	Check Date	Amount	Vendor	Invoice#	Invoice Date	Description G/L Name	Project#
73160	02/02/2011	\$ 591,415	Metro Equipment Services Inc.			Sewer Improvements	WW803060
73667	05/25/2011	\$ 976,319	Metro Equipment Services Inc.			Sewer Improvements	RFP2009-03
74213	08/09/2011	\$ 16,665	Kimley-Horn and Associates Inc.			Sewer Improvements	043138006.1/43138010.0
72871	12/23/2010	\$ 7,692	Central Plumbing-W.S. Co.			Sewer Operations	
733703	06/01/2011	\$ 182,875	Lift Stations "R" Us			Sewer Operations	
74465	09/30/2011	\$ 4,062	Metro Equipment Services Inc.			Sewer Operations	
72474	10/08/2011	\$ 172,557	M. Vila & Associates, Inc.			Sewer Operations	
73994	07/14/2011	\$ 96,604	M. Vila & Associates, Inc.			Landscaping Improvements	JFK CSWY
73722	06/01/2011	\$ 21,721	Ground Keepers			Landscaping Improvements	JFK CSWY
73951	07/07/2011	\$ 4,237	Pegasus Interiors			Public Works	
74449	09/30/2011	\$ 3,345	Intelligent Products Inc.			Public Works	
72637	11/10/2010	\$ 20,417	The Lexi Development Company			Public Works	
73237	03/02/2011	\$ 6,391	Dibri Inc.			Public Works	
73747	06/10/2011	\$ 2,600	Alexander Morales			Public Works	
73111	02/03/2011	\$ 7,920	M.T. Causley, Inc.			Public Works	
74307	09/01/2011	\$ 10,510	M.T. Causley, Inc.			Public Works	
73026	01/07/2011	\$ 9,730	Wright Express			Public Works	
74547	10/11/2011	\$ 14,908	Wright Express			Public Works	
72810	12/06/2010	\$ 68,056	Neighborhood Health Partn. Inc.			Public Works	
72954	12/23/2010	\$ 10,489	Neighborhood Health Partn. Inc.			Public Works	
73412	04/08/2011	\$ 3,313	Jefferson Financial Ins. Comp.			Public Works	
		\$ 430,394	City of North Bay Village			Public Works	
		\$ 464,451	City of North Bay Village			Public Works	
		\$2,616,231	City of North Bay Village			Public Works	
WIRE	06/15/2011	\$ 32,929	Florida Dept. of Env. Serv.			Public Works	
72904	12/23/2010	\$ 4,582	Iler Planning			Public Works	
73773	06/10/2011	\$ 3,500	Gerstle, Rosen & Goldenberg, PA			Public Works	
		n/a	2010			Professional Services	803060
		n/a	2011			Professional Services	Isle of Dream Site Plan
		n/a	2011			Professional Services	
		803060	05/25/2011			Professional Services	
		5601	12/08/2010			Revised site landscape & parking plans	
		n/a	05/11/2011			Professional Services	

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City of North Bay Village Florida

Appendix A – Testing Summary--Continued

<u>Check Number</u>	<u>Check Date</u>	<u>Amount</u>	<u>Vendor</u>	<u>Invoices#</u>	<u>Invoice Date</u>	<u>Description</u>	<u>G/L Name</u>	<u>Project#</u>
73345/73346	03/22/2011	\$ 34,137	Weiss Serota Helfman Pastoriza	Various	02/15/2011	Professional Services	Legal Counsel	
74622/74623	10/25/2011	\$ 32,004	Weiss Serota Helfman Pastoriza	Various	10/17/2011	Professional Services	Legal Counsel	
73873	06/23/2011	\$ 6,789	Robert D. Soloff, PA	n/a	06/09/2011	Legal Services	Legal Counsel	
74397	09/26/2011	\$ 23,916	Weiss Serota Helfman Pastoriza	Various	07/14/2011	Professional Services	Legal Counsel	
74870	12/07/2011	\$ 5,940	James L. Reynolds	n/a	07/21/2011	Professional Services	Legal Counsel	
		<u>\$5,886,707</u>						

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	AS ADOPTED		Actual February 28, 2012		Budget February 28, 2012	
	General Fund	% Gen Fund Rev & Exp	General Fund	% Gen Fund Rev & Exp	General Fund	% Gen Fund Rev & Exp
<b>Revenue:</b>						
Ad Valorem Taxes	2,926,283	38.73%	2,417,385	76.77%	1,758,988	67.25%
Ad Valorem Taxes - Debt Service		0.00%		0.00%		
Local Option Gas Tax		0.00%		0.00%		
Sur-tax Transportation		0.00%		0.00%		
Franchise Fees	364,500	4.82%	90,718	2.88%	151,875	5.85%
Utility Tax	726,449	9.61%	268,730	8.53%	268,729	10.27%
Licenses and Permits	72,600	0.96%	20,334	0.65%	15,000	0.55%
Grants/ Intergovernmental Revenue	706,748	9.35%	259,183	8.23%	294,676	11.26%
Charges for Services	54,400	0.72%	18,067	0.57%	22,666	0.85%
Fines and Forfeitures	206,500	2.73%	56,540	1.80%	85,625	3.27%
Miscellaneous Revenue	43,700	0.58%	18,067	0.57%	18,288	0.69%
	5,101,180	67.52%	3,149,024	100.00%	2,615,570	100.00%
Transfers In						
Fund Balance/Reserve/Net Asset	2,454,223	32.48% n/a				
	7,555,403	100.00%	3,149,024	100.00%	2,615,570	100.00%
<b>Expenditures:</b>						
City Commission	65,221	0.86%	22,129	1.19%	27,175	1.25%
City Manager	161,727	2.14%	41,507	2.22%	67,386	3.15%
City Clerk	148,441	1.96%	49,424	2.65%	61,850	2.85%
Finance	124,624	1.65%	41,407	2.22%	51,927	2.59%
Legal	300,000	3.97%	99,276	5.32%	125,000	5.77%
General Government	772,710	10.23%	247,462	13.26%	333,398	15.39%
Police	3,245,500	42.96%	1,226,224	65.73%	1,352,297	62.37%
Recreation	36,193	0.48%	12,806	0.69%	23,759	1.10%
Reserve		0.00%				
Capital Improvements	4,854,416	64.26%	1,740,235	93.28%	2,042,785	94.27%
Total Exp & Cap Improvements	4,854,416	64.26%				
Transfers Out	301,011	3.98%	125,421	6.72%	125,421	5.76%
Fund Balance/Reserve/Net Asset	2,398,976	31.76%				
	7,554,403	100.00%	1,865,656	100.00%	2,168,206	100.00%

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	ADOPTED	ACTUAL \$	PRO-RATED	BUDGET	ADOPTED	ACTUAL \$	PRO-RATED	BUDGET	ADOPTED	ACTUAL \$	PRO-RATED	BUDGET
		2/29/2012	2/29/2012	2/29/2012		2/29/2012	2/29/2012	2/29/2012		2/29/2012	2/29/2012	2/29/2012
Revenue:												
Local Option Gas Tax												
Licenses and Permits												
Grants/ Intergovernmental Revenue												
Charges for Services												
Fines and Forfeitures												
Miscellaneous Revenue												
Water/Sewer Revenue												
Storm Water Fees												
	109,772	37,193		45,447								
	5,300											
	109,072	37,193		45,447								
Transfers In												
Fund Balance/Reserve/Net Assets	218,318	90,966		90,966								
	327,390	128,159		136,413								
Expenditures:												
Building												
Public Works												
Reserve	327,390	159,170		136,413								
	327,390	159,170		136,413								
Capital Improvements												
Total Exp & Cap Improvements												
Transfers Out												
Fund Balance/Reserve/Net Assets												
	327,390	159,170		136,413								

	ADOPTED	ACTUAL \$	PRO-RATED	BUDGET	ADOPTED	ACTUAL \$	PRO-RATED	BUDGET
		2/29/2012	2/29/2012	2/29/2012		2/29/2012	2/29/2012	2/29/2012
School/Sum								
mer Maint								
	134,720	39,268		56,133				
	134,720	39,268		56,133				
	27,445	11,435		11,435				
	162,165	50,703		67,568				
	162,165	50,703		67,569				
	162,165	50,703		67,569				
	162,165	50,703		67,569				

	ADOPTED	ACTUAL \$	PRO-RATED	BUDGET	ADOPTED	ACTUAL \$	PRO-RATED	BUDGET
		2/29/2012	2/29/2012	2/29/2012		2/29/2012	2/29/2012	2/29/2012
2000000								
35248								
174217								
352465								
124260								
124269								
109138								
238388								

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	ADOPTED ACTUAL \$	PRO RATED BUDGET	ADOPTED ACTUAL \$	PRO RATED BUDGET
	2/29/2012	2/29/2012	2/29/2012	2/29/2012
Revenue:				
Ad Valorem Taxes	229,312	229,312	229,312	229,312
Ad Valorem Taxes - Debt Service				
Local Option Gas Tax				
Licenses and Permits				
Grants/ Intergovernmental Revenue	6,476	6,476	6,476	6,476
Miscellaneous Revenue				
Water/Sewer Revenue	1,853,941	1,853,941	1,853,941	1,817,083
Storm Water Fees	1,817,083	1,817,083	1,817,083	1,817,083
Transfers In				
Fund Balance/Reserve/Net Asset	2,066,624	2,066,624	2,066,624	2,066,624
Expenditures:				
Capital Projects				
Utilities Admin/Water/Sewer/Sanitation	3,271,897	1,063,356	1,345,790	1,345,790
Storm Water				
Debt Service				
Reserve	391,172	1,063,356	1,345,790	1,345,790
Water Improvement Trust				
Sewer Improvement Trust				
Sanitation Improvement Trust				
Capital Improvements				
Total Exp & Cap Improvements	239,029	99,596	99,596	99,596
Transfers Out				
Fund Balance/Reserve/Net Asset	3,902,096	1,162,952	1,445,386	1,445,386

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City of North Bay Village Florida

Appendix B – Budget Analysis--Continued

**Questions for Administration to Answer Regarding the Budget Analysis**

1. Is the increase in property taxes in 2012 due to a change in assumption or due to back collections from a prior year? Please split out the difference so it can be properly budgeted for the next fiscal year.
2. Are all positions filled either with a permanent or an interim employee, please provide a list of all unfilled positions and the length of time that position has been unfilled.
3. Please explain the funding for the Street Maintenance and Transportation Funds including where the funds come from and when the funds are expected to be collected.
4. Please explain the funding for the Capital fund including the expected timing for collection.
5. Please list the contracts in effect for the Capital program including the amount spent to date for the project for each contract.
6. Please prepare a schedule of debt service and when payments are due. Please list the term of that debt for future years.

Observations as per recommended as per recommended revised report

1 Tax collections through Feb 2012 which included county collections through January 2012 is running approximately 83% of budget which appears to indicate that the 2012 collections will exceed the budget, if so is a budget modification needed?

2 This is running behind expectations, it needs to be researched to see if a budget modification is in order

3 This is running behind expectations, it needs to be researched to see if a budget modification is in order

4 This is running behind expectations, it needs to be researched to see if a budget modification is in order

5 The building fund appears to be running at a surplus, this needs to be researched further. Additionally, there is no administration allocation here

6 Both revenue and expenses in the transportation fund are below expectation, since this fund has very specific rules about how dollars can be spent, all formal plans should be presented and approved by the City Commission

City of North Bay Village Florida

Appendix B – Budget Analysis--Continued

11	It appears that the general revenue has not (may not) be received. It is imperative that a plan of expected revenue and expenses be presented to ensure that only expected revenue is spent and you do not end up running out of money. In order for you to maintain the project, the funding needs to be secured prior to doing the work, this is a critical activity and must be identified.
8	Based upon the budget and the year to date results this fund appears to be generating a significant surplus. If so, how will the surplus be used and where is the reserve portion in the current numbers?
9	As with the other above, this appears to be a surplus that is not being used, if you have the surplus, it is imperative that the surplus be identified. As a result of the service payments for the year would be identified.

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