



**CITY OF CALLAWAY, FLORIDA**  
CITY HALL  
6601 East Highway 22, Callaway, FL 32404  
Phone 850-871-6000 • FAX 850-871-2444  
www.cityofcallaway.com

Mayor  
Thomas W. Abbott

Commissioners  
Dennis A. DeLapp  
Pamn Henderson  
David Otano  
Ralph L. Hollister

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**NOTICE OF MEETING**  
CALLAWAY AUDIT COMMITTEE  
AUDIT COMMITTEE MEETING  
TUESDAY, OCTOBER 2, 2012 – 6:00 P.M.  
CALLAWAY ARTS & CONFERENCE CENTER  
500 CALLAWAY PARK WAY, CALLAWAY, FL 32404

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William Castor   Pamn Henderson   John L'Heureux   Shelley McKinney   Doug Smith

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**AGENDA**

CALL TO ORDER  
ROLL CALL  
APPROVAL OF MINUTES – September 12, 2012

**BUSINESS ITEMS:**

- ITEM #1      Review of Final Report Submitted by Ms. Tammy McGaughy,  
Forensic Auditor, Warren Averett O'Sullivan Creel
- ITEM #2      Discussion of Final Report Summary Presentation to the Callaway Board of  
Commissioners – Chairperson McKinney

  
Jennifer M. Vigil, City Clerk

If a person decides to appeal any decision made by the City Commission with respect to any matter considered at the meeting, if an appeal is available, such person will need a record of the proceeding and such person may need to ensure that a verbatim record of the proceeding is made, which record includes the testimony and evidence upon which the appeal is to be based. Any person requiring a special accommodation at this meeting because of a disability or physical impairment should contact Jennifer M. Vigil, Callaway City Clerk, at 6601 E. Highway 22, Callaway, FL 32404; or by phone at (850) 871-6000 at least five calendar days prior to the meeting.

If you are hearing or speech impaired, and you possess TDD equipment, you may contact the City Clerk using the Florida Dual Party Relay System, which can be reached at 1-800-955-8770 (Voice) or 1-800-955-7661 (TDD).

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Fire Department  
P: 850-871-2753  
F: 850-871-5564

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P: 850-874-0031  
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Planning / Code Enforcement  
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Public Works  
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F: 850-871-2416

Arts & Conference Center  
P: 850-874-0035  
F: 850-874-0706

## **CALLAWAY AUDIT COMMITTEE MEETING**

**September 12, 2012**

**TIME: 6:00 P.M.**

Called to order by Ex-Chairperson Henderson at 6:00 P.M.

ROLL-CALL – PRESENT: Ex-Chairperson Pamn Henderson, Shelley McKinney,  
John L’Heureux, Doug Smith

ABSENT: William Castor

ALSO PRESENT: Sandra Hirth

### **APPROVAL OF MINUTES:**

Doug Smith moved to approve the Audit Committee meeting minutes from the June 18, 2012, meeting. Motion was seconded by Shelley McKinney.

All ayes

### **BUSINESS ITEMS**

#### **#1 - ELECTION OF NEW CHAIRPERSON**

Ex-Chairperson Henderson stated that she nor Doug Smith could be the Chairperson or Vice Chairperson per the latest Audit Committee resolution. She asked for volunteers for the Chairperson position. Shelley McKinney volunteered to serve as Chairperson. Robert L’Heureux accepted the Vice Chairperson position. Ex-Chairperson Henderson moved to accept Shelley McKinney as Chairperson and Robert L’Heureux as Vice Chairperson. Motion was seconded by Doug Smith.

All ayes

#### **#2 - STATUS OF INVESTIGATIVE AUDIT VIA TELEPHONE CONFERENCE – MS. TAMMY MCGAUGHY, WARREN AVERETT O’SULLIVAN CREEL**

Chairperson McKinney asked if everyone had a chance to review the “draft” report. All members stated they had reviewed the report. At this point Ms. McGaughy called into the meeting via the conference telephone (6:10 P.M.). Ms. McGaughy stated the most difficult part of completing the report was putting it into the simplest form possible so non-financial individuals would be able to understand it. She discussed each portion of the report with the Committee and stated it was important to understand the timeline. Also important, was to understand the background of what was going on with the accounting system at the time the errors happened. She said the City had difficulty reconciling the accounts from FY02 between the general ledger and the detail reports. The 2003 software caused a conversion problem which compounded the reconciled account issue. In 2004, the auditors said all issues had been resolved but it was found later they had not been resolved. In May, 2005 the City hired a new Finance Director who found the bank accounts had not been reconciled for

## CALLAWAY AUDIT COMMITTEE MEETING

September 12, 2012

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months (back into 2004) and she also found the general ledger issue showing the utility billing and general ledger accounts were not in agreement. It was found that the amount of \$138,000 was posted to the Utility Billing system under a closed customer's account. At the end of 2005, Finance Director Bennett made corrections to the Utility Billing and General Ledger sides with the exception of the one issue (\$138,000). She later had to force an entry to correct this problem. She said since the entry made in 2005, there have been no other issues or forced entries that had to be made.

Chairperson McKinney stated that from 2002-2005 ultimately the \$138,000 consisted of more than one customer issue. Ms. McGaughy said the cash at the end of 2004 was in balance but there were coding errors and accounts that were set up incorrectly. Chairperson McKinney questioned why was the \$63,000 forced entry, which made Utility Billing and the General Ledger balance, done to one customer's account to "Cash"? She stated it appears the \$138,000 reversed actual write offs/inactive accounts, noting that some correspondence from within the Finance Department as well as from the auditors alluded to the inactive accounts. Commissioner Henderson asked if she found why the entry was made to cash. Ms. McGaughy stated "no". Commissioner Henderson said the new Finance Director, Alice Bennett, found the \$138,000 error in 2005 and was able to reverse what she knew was bad debt with a forced entry to balance the General Ledger.

Ms. McGaughy explained how she developed her conclusion. She stated she tried to understand the timeline, studied work papers (that were not very noteworthy) from the auditor on record at the time, and tried to see if there was any impropriety. She did not find anything that could be proven with so little backup paperwork. She felt the personnel did not understand how the system worked. She said she printed a year end balance and it did not equal to what the auditors stated in their report. She could not tell the Committee who made up the \$138,000 total entries by looking at the balance at the end of each fiscal year. There were manual adjustments made which she felt comfortable with but she did not have concrete accounts to reflect the figures of the \$138,000 that was eventually written off.

Mr. L'Heureux asked how long work paper copies were to be maintained and was told it was up to the auditor (each auditing firm has their own retention policies for work papers). Commissioner Henderson stated General Ledgers were supposed to be maintained permanently. Commissioner Henderson continued by stating that an audit is not done on 100% of the records only samplings. She stated she was surprised that an audited trial balance could not be found but said Finance Director Bennett may be able to recreate it. Ms. McGaughy said the original error was caused by lack of knowledge on how to correct write-offs.

Commissioner Henderson asked if it would be safe to say these errors were due to sloppy accounting, a lack of understanding and the conversion of new software. Ms. McGaughy agreed. She further stated that no cash was received during the period of time in question so she felt secure in saying there was no cash missing and even though the account holder used for the entry was known by the staff, the account was open for a very short period and had a zero balance at closing. The account reflected normal activity from 1997 to 1999. In 2002, a credit entry of \$138,000 was made to the account.

Commissioner Henderson asked why she thought they wouldn't have set up a "dummy" account. Ms. McGaughy did not have an answer except lack of knowledge and agreed that sloppy bookkeeping took place. Chairperson McKinney asked if this was just a randomly done thing and Ms. McGaughy said it appears City staff knew the account holder, it wasn't an active account and nothing would be sent to him (account holder) to reflect activity.

After further discussion regarding what numbers were used and for what reason each year, Ms. McGaughy agreed to include a "summary" page in the Final Report so it would be clear to the Committee as well as the Commission what happened. The Final Report will be sent to Ms. Hirth to be distributed to the Audit Committee for final review.

Chairperson McKinney thanked Ms. McGaughy for the conference call and the call ended.

Mr. Smith stated it was sad that no one took responsibility for the error, because that appears to be all it was, but had let this issue carry on for all these years. Commissioner Henderson stated the former Finance Director should have found it and reported it.

There being no further business, the meeting was adjourned at 7:37 P.M.

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Sandra B. Hirth, Assistant to the City Manager

**Callaway Audit Committee  
Agenda Item Summary**

October 2, 2012

Review of Final Report Submitted by Ms. Tammy McGaughy,  
Forensic Auditor, Warren Averett O’Sullivan Creel

**1. PLACED ON AGENDA BY:**

Chairperson Shelley McKinney

**2. AGENDA:**

PRESENTATION	<input type="checkbox"/>
PUBLIC HEARING	<input type="checkbox"/>
CONSENT	<input type="checkbox"/>
REGULAR	<input checked="" type="checkbox"/>

**3. IS THIS ITEM BUDGETED (IF APPLICABLE)?:** Yes  No

N/A

**4. BACKGROUND: (WHY, WHAT, WHO, WHERE, WHEN, HOW, & IDENTIFY ALL ATTACHMENTS)**

Ms. Tammy McGaughy previously submitted a “Draft” of the Final Report regarding the investigation of an entry made into the accounting system of \$138,000 to the Audit Committee on September 12, 2012. After discussion, Ms. McGaughy agreed to include a summary page with the Final Report.

Attachment: Final Report

**5. REQUESTED MOTION/ACTION:**

Approval and acceptance of the Final Report submitted to the Audit Committee.

# WARREN AVERETT

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## O'SULLIVAN CREEL

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September 4, 2012

Audit Committee  
City of Callaway, Florida  
6601 E. Highway 22  
Panama City, Florida 32404

### **Forensic Services Report – Utility Billing Adjustments**

#### ***Background***

In July 2012, the City of Callaway, Florida engaged Warren Averett, LLC to investigate adjustments made to its Utility Billing System (UBS) during the period FY 2002-2004. In FY 2002, the annual financial statement audit contained a management comment indicating the UBS subsidiary did not agree to the general ledger control accounts. UBS did not reflect customer account write-offs previously approved by the Commission. The approved write-offs however were adjusted in the general ledger control accounts in the water, sewer and sanitation funds. In the FY 2003 audit, the comment regarding the write-offs of inactive accounts was indicated as resolved. A new comment relating to software conversion indicated that during and subsequent to conversion, several procedural problems were encountered, which created reporting problems in the general ledger and utility systems. In FY 2003, the City converted accounting software systems and in the FY 2004 audited financial statements the auditors reported that all prior issues relating to the Utility Billing System had been resolved.

In May 2005, the City hired a new Finance Director. When the Finance Director began employment she discovered the City bank accounts had not been reconciled since December, 2004 and the UBS subsidiary did not agree to the general ledger control accounts. In trying to determine why the UBS subsidiary did not reconcile to the control accounts, the Finance Director found a credit adjustment to a single utility customer account of approximately \$138,000 in the subsidiary detail. The customer account had been inactive since 1999. No underlying detail could be found to support the credit entry to that specific customer's account. In addition, the new Finance Director found a questionable adjustment was created by the former Finance Director per computer system records. The entry made was to credit the utility billing control accounts in the operating, water, sewer and sanitation funds with a corresponding debit to the City's pooled cash account.

Ultimately under the direction of the new Finance Director, the credit posted to the inactive customer account was properly applied to the open inactive accounts that had been approved for write off by the Commission in 2003 and 2004, the adjustment to cash (and the accounts receivable control accounts) was reversed as there was no corresponding cash deposit for that amount, and after adjusting the UBS system properly, in compliance with instruction of the Springbrook accounting system, the UBS subsidiary and general ledger control accounts have been in agreement.

### ***Scope***

Our investigation was to evaluate the nature of adjustments, analyze available underlying support, and determine whether possible improprieties existed relating to the City's UBS adjustments in FY 2002-2004.

### ***Approach***

We met with the City's current Finance Director to gain an understanding of the activities relating to UBS, the timeline of events, and to independently review documents accumulated by the City. We analyzed UBS reports, past minutes, and other correspondence. We requested the City obtain additional records from the previous auditors including UBS aging reports, subsidiary reconciliations, customer adjustment details, bank reconciliations, and other pertinent data. Audit reports from 2001 to 2004 were utilized to evaluate a timeline of UBS issues and final resolution of such matters.

### ***Records Reviewed***

#### From Previous Auditors

- Note Disclosures and Management Letter Comments (2001, 2002, 2003, 2004)
- UBS Outstanding Aging Report - Totals Page Only Retained (2001, 2002, 2003, 2004)
- Auditor Accounts Receivable Reconciliations - (2001, 2002, 2003, 2004)
- Bank Reconciliation (2003, 2004)

#### From City

- Aged Accounts Receivable Report (9/30/04)
- General Ledger Utility AR Balance (9/30/02)
- Customer Account History where credit of approximately \$138,000 was posted
- User ID report from Springbrook for entry made
- Batch 111 report showing no cash receipts in UBS
- Reversing Entry posted by Finance Director on 10/22/04 (posted sometime after May 2005)
- Emails approving write off amounts (total) - (1998 – 2001); (2004); (2005); (2009-2011)
- Report to Audit Committee in 2008 (regarding performance of 2007 audit), and past issues by the Finance Director
- Recap prepared by the Finance Director regarding Summary Analysis of Audit Provided Working Papers

### ***Findings***

1. A lack of auditable records exist for the \$138,000 utility billing adjustment in order to determine whether possible improprieties existed relating to this and other adjustments to the UBS system in the FY 2002-2004 time period.
  - a. The UBS subsidiary detail in the FY 2002, 2003 and 2004 audit workpapers does not agree to the related general ledger control accounts at September 30, 2002, 2003 and 2004. Manual reconciliation adjustments, primarily relating to customer account write-offs, were necessary for the auditors to reconcile the detail to the control account balances. UBS reconciliation differences existed with respect to uncollectible accounts approved for write off by the Commission in the old accounting and utility billing system that was still in place during FY 2002. Those issues seemed to compound upon conversion to the new accounting and utility billing system in FY 2003.

**Findings (continued)**

In various records examined, references were made regarding “prior year bad debt accounts” not written off in the UBS system. The Software Vendor (Springbrook) provided assistance to the City to correct import issues associated with the Utility Billing System detail conversion. City records also referenced a recap by year of uncollectible accounts that required manual write off. No detail was available that clearly supported the differences, write-offs or related approvals, other than Commission minutes which were summarized totals.

At the end of FY2004, total credits in the UBS for inactive accounts were nearly \$151,000, which included the \$138,000 adjustment previously mentioned and highlighted below. A recap summary of the credits at FY 2003, and FY 2004 is provided below.

Year	Per City (Email)	Per Audit Working Papers	Per UBS Adjustment/ Credits	
1997	\$ 245		-	
1998	1,971	-	-	
1999	3,695		-	
2000	1,476	-	-	
2001	1,116	-	-	
2002	56,783	-	-	
2003	53,905	\$ 43,644	\$ 43,644	
2003-Additional	319	-	18,452	A
Prior Year Import		75,866	75,866	
<b>Total FY 2003</b>	<b>\$ 119,510</b>	<b>\$ 119,510</b>	<b>\$ 137,962</b>	
2003-Additional (Reversed)	-	-	(18,452)	A
2004	37,632	31,089	31,089	
2004-Reduction to actual	(6,543)	-	-	
<b>Total FY 2004</b>	<b>\$ 150,599</b>	<b>\$ 150,599</b>	<b>\$ 150,599</b>	

- b. Data from the City’s old UBS system was not available for review. The Finance Director indicated that the City no longer maintains the old UBS software. She was also unable to locate paper copies of reports from the City’s storage files.

**Summary**

There is insufficient evidence to determine whether adjustments posted in the UBS system or general ledger were a result of improprieties. It was evident that reconciliation issues existed, and were communicated in the annual audits. It is unclear as to the manner of how those issues were resolved as stated in the FY 2004 audit.

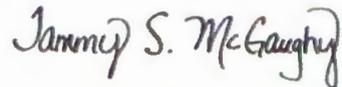
In 2005, the Finance Director reversed the \$138,000 journal entry impacting the utility billing control accounts and the pooled cash account, and adjusted the general ledger and Utility Billing System for any remaining differences using proper Springbrook protocol. Further, under her direction, the \$138,000 credit to the single customer account in the Utility Billing detail was allocated properly to open inactive accounts. Since 2005, the UBS subsidiary ledger and the general ledger control accounts are in agreement. In addition the pooled cash account, after reversal of the entry, properly reconciled.

City of Callaway, Florida  
September 4, 2012  
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***Summary (continued)***

My collective experience as a CPA and auditor would indicate that the City's system of internal control was not functioning properly at the time the events took place. The fact that bank accounts were not reconciled timely, subsidiary records were not reconciled to the related control accounts and journal entries could be posted into the City's accounting system without proper support would be indicative of material weaknesses in the City's system of internal control.

The above letter was prepared solely for the information of Management and Audit Committee of the City of Callaway, Florida. It is not intended to be, and should not be, used by anyone other than these specified parties.



Tammy S. McGaughy, CPA, CFF, CFE  
**WARREN AVERETT, LLC**

**Callaway Audit Committee  
Agenda Item Summary**

October 2, 2012

Discussion of Final Report Summary Presentation to Callaway Board of Commissioners

**1. PLACED ON AGENDA BY:**

Chairperson Shelley McKinney

**2. AGENDA:**

- PRESENTATION
- PUBLIC HEARING
- CONSENT
- REGULAR

**3. IS THIS ITEM BUDGETED (IF APPLICABLE)?:** YES  NO

N/A

**4. BACKGROUND: (WHY, WHAT, WHO, WHERE, WHEN, HOW, & IDENTIFY ALL ATTACHMENTS)**

Chairperson McKinney will be submitting the Final Report of the forensic investigation to the Callaway Board of Commissioners at the October 9, 2012 meeting. She would like to review her summarized report with the Audit Committee.

**5. REQUESTED MOTION/ACTION:**

Approval of the Final Report Summary Presentation to be given by Chairperson McKinney to the Callaway Board of Commissioners at the October 9, 2012 Regular Meeting.