

CALLAWAY AUDIT COMMITTEE MEETING

October 2, 2012

TIME: 6:00 P.M.

Called to order by Chairperson McKinney at 6:00 P.M.

ROLL-CALL – PRESENT: Shelley McKinney, Bill Castor, Pamn Henderson,
John L'Heureux, Doug Smith

ALSO PRESENT: Sandra Hirth

APPROVAL OF MINUTES:

Commissioner Henderson moved to approve the Audit Committee meeting minutes from the September 12, 2012, meeting. Motion was seconded by Bill Castor.

All ayes

BUSINESS ITEMS

#1 - REVIEW OF FINAL REPORT SUBMITTED BY MS. TAMMY MCGAUGHY, FORENSIC AUDITOR, WARREN AVERETT O'SULLIVAN CREEL

Chairperson McKinney asked if everyone had reviewed the Final Report. All members stated they had reviewed the Report. Chairperson McKinney stated she found it to be accurate and included all the requested information on the chart on page three. Doug Smith moved to accept the Final Report as submitted by Tammy McGaughy from Warren Averett O'Sullivan Creel. Motion was seconded by John L'Heureux.

All ayes

#2 - DISCUSSION OF FINAL REPORT SUMMARY PRESENTATION TO THE CALLAWAY BOARD OF COMMISSIONERS

Chairperson McKinney distributed a "draft" of her proposed presentation to the Commission on Tuesday, October 9, 2012 and asked for comments and requests for revisions/additions.

Commissioner Henderson asked that a statement be added to the third paragraph after the sentence ending in "improprieties". She would like to have it stated that it was the forensic auditor's opinion that she did not feel there was any cash missing. Chairperson McKinney asked that a statement be added to the second paragraph that states this problem began with a lack of understanding of the system. The consensus of the Committee was to add the two above statements to the presentation. Vice Chairperson L'Heureux felt the third paragraph should be moved to the beginning of the presentation. Bill Castor moved to accept the Final Report with the added statements from Commissioner

Henderson and Chairperson McKinney. Motion was seconded by Commissioner Henderson.

All ayes

Chairperson McKinney asked to add an item to the agenda and received no objections. The item was: Should employees have a direct line to the City's auditors to report directly to them any impropriety they may have knowledge of or see? Mr. Castor stated that per the Personnel Manual, employees are not supposed to talk to citizens or the Commission. Mr. David Griggs, audience member, stated the function of the Audit Committee was to select the City's auditors and other duties as defined in the recent Resolution only.

Commissioner Henderson said she would put this issue on the October 23rd agenda for the Commission to discuss regarding employees who need to report fraud or improprieties. Ms. Melba Covey, audience member, said she understands the Audit Committee's duties are defined by the Commission and that some thought needs to be put into this issue due to Callaway having a City Manager style of government.

Chairperson McKinney stated if an employee has concerns (fraud/misconduct only, not harassment, discrimination, issues with their supervisors, etc.) there should be a procedure to investigate these type reports. She appreciates Commissioner Henderson offering to place it on the agenda to define the responsibilities of the Audit Committee regarding fraud/misconduct so that it is spelled out how the Commission wants these type issues handled.

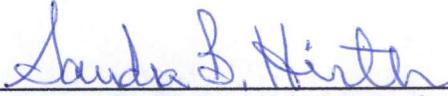
Mr. John Malone, audience member, shared his previous experience with the issue reported on by the forensic auditor and stated that he agrees with the auditor. He stated the auditors found the accounts were not balanced in 2003 and then in 2004 they were balanced without telling how they were balanced. He further stated that he asked the Commission in 2007 if they had reviewed the auditor's report and only two of them reported they had. Mr. Malone feels there is a lack of control not only at the staff level but the Commission as well. He stated he is glad we have a decent auditor now. He feels the Audit Committee needs to get more involved than just selecting the auditor and they should use the power the State has given to Audit Committees.

Ms. Melba Covey stated she was concerned that Chairperson McKinney did not make a report at the last Commission meeting regarding the teleconference between the Audit Committee and the forensic auditor. Chairperson McKinney stated she probably should have withdrawn the agenda item since she said she did not have the Final Report only a "draft". She did not want the Commission or citizens to be confused if there happened to have been changes from the "Draft Report" to the Final Report.

Mr. Griggs commented that it was good that she at least stood up and explained why there would be no report. He stated he heard everything that was said at

the teleconference meeting and others could have heard it also if they had wanted to do so.

There being no further business, the meeting was adjourned at 6:38 P.M.



Sandra B. Hirth, Assistant to the City Manager

Draft

Presentation

In July 2012 Warren Averett, CPAs and Consultants was contracted by the City of Callaway to investigate a discrepancy made to the Utility Billing System (UBS) in the amount of \$137,962.00. This investigation was completed by Tammy S. McGaughy, CPA, CFF, CFE and a final report entitled Forensic Services Report – Utility Billing System, dated 9/4/2012 was submitted to the Audit Committee detailing the methodology and findings of this investigation.

The discrepancy occurred over a three year period from 2002 – 2004, involved more than one customer and two different software systems along with coding errors. The system was audited during this time and discrepancy identified and communicated in the annual audits however, attempts to reconcile the discrepancies were done incorrectly compounding the problem. In 2005, a new Financial Director was hired who completed an audit discovering the ongoing discrepancy which was brought to the attention of management and the Commission.

As stated in the report, detailed city records were not available and “there is insufficient evidence to determine whether adjustments posted in the UBS or general ledger were a result of improprieties.” As a resolution, the Finance Director, in 2005, reversed the identified discrepancy and adjusted the general ledger and Utility Billing System acting in compliance with the instruction of the Springbrook accounting system and with the approval of the Callaway Commission 2003-2004. Since 2005 the ledger and Utility Billing System remain in agreement.

Recommendations

1. The report submitted by Warren Averett be consider as conclusive as possible given the absence of auditable records and that this matter be considered closed.
2. That the city consider developing policies and procedures to retain records beyond record retention statute requirements in the event future situations occur that warrant an investigation or audit.

SUBJ: Odor Problem at Veterans Park

2 October 2012

TO : Commissioner Henderson

INFO: Mayor Abbott, Commissioner De Lapp, Commissioner Hollister, Commissioner Otano, City Manager Collins and City Clerk Vigil. Interested Taxpayers of Callaway

I have been a taxpayer of Callaway since February 2005. And when I visit businesses on Tyndall Parkway. I note the ODOR problem driving by Veterans Park. At the Commissioners Meeting of January 8, 2008, I addressed the Sewer Problem at Veterans Park. Initially, the City contracted Bay County Utilities Department for information regarding Callaway contracts with CDM (Camp, Dresser & McKee, Inc.) to conduct an in-depth evaluation on the Sewer overflow/odor issue in the vicinity of Veterans' Park. The evaluation cost would be \$37,405.00. And it was paid

Enclosed for the readers are copies of correspondence between all parties, taxpayers of Callaway, Bay County Utilities and the City. They are for your perusal. However, I am "High-lighting" correspondence that should be reviewed by the elected commissioners.

1. Letter to Director Jamie Jones, Bay City Utilities, dated, 18 April 2011. My letter requested a meeting of 26 April 2011. It was a very good meeting with Mr. Paul Lackenmacher, Assistant Utility Services Director.
2. Newspaper Article, dated 6 January 2008 that describes the C-6 Lift Station is considered a "master" station because it collects wastewater from numerous points to carry on to Military Point Plant, Bay County is the permit holder and operator of the Military plant and OPERATES THE LIFT STATION, CALLAWAY OWNS AND MAINTAINS THE INFRASTRUCTURE LEADING TO THE LIFT STATION. "Before I was in office, everyone jumped on the county, saying this was their problem, they were causing it. We're convinced now that it's not the county's fault" said Callaway Commissioner Tom Abbott. "We're having an engineering study done to see where we can reroute some of the lines." He said. Director Jones, Bay County Utility Services said the county is willing to provide labor to increase the size of the sewage pipe in that area, if that's what the City chooses to do. **(NOTE: What action, if any, was taken by the City?)**
3. Executive Session of June 2, 2009 regarding a lawsuit between Callaway and a citizen. Page 64 has Commissioner De Lapp stating: "You may be putting an 8 inch main into a manhole so shallow that it can't handle it, and we will have the same thing we had on Cherry Street."

Mr. Smith: Vineyard's (phonetic spelling) Park.

Mr. De Lapp: on some of them, and Vineyard's Park we've had.

Mr. Meer: I understand.

Mr. De Lapp: So that may be the reason they cut-across to a little deeper manhole, to handle the flow from that 8 inches force main.

Mr. Abbott: I think etc.:

(NOTE: It is apparent that this executive session made reference to the Veteran's Odor Problems.)

4. My transcription of the Callaway Commission meeting of January 8, 2008 whereby I advised the commissioners of their behind-the-scenes with Bay County Utilities. Bay County claims: "The only requirement is a larger sewer. And Bay County would be willing to furnish the labor.

(NOTE: This coming January will be five years with no satisfaction to the ODOR PROBLEM.)

5. Letter dated September 10, 2009 from GAC, Inc. to CDM and Director of Public Works, Callaway, a proposal of \$61,357.00 for direct connecting to the existing Bay County wet well. Hand-written note states: Think this is too much etc."

6. Letter, dated September 17, 2009 from Assistant Director, Bay County Utility Director "regarding Callaway's force main project I confirm that Bay County does not object to the projects original pipe lay

out (as shown sheet C-2) IF YOU (Callaway) are assured (this design and subsequent piping configuration will eliminate the odor problems in Callaway's manhole adjacent to C-6 lift station.

7. Letter from Director of Public Works, Callaway, dated, September 22, 2009 to Assistant Director of Bay County Utility Director states: "Thank you for the e-mail, dated 09/17/09 confirming Bay County does not object to the original design to connect the new force main to the manhole directly adjacent to the C-6 wet well. While we cannot be 100 percent assured this design will eliminate all odor problems in this area. I believe we can safely say, as you have stated in the past, removing two major force mains from the existing gravity system will certainly contribute immensely to resolving any odor problems associated with the Callaway system. **(NOTE: See memo as Item 8.)**

8. Memorandum, dated September 22, 2009 from Public Works Director to the City Manager states: " I do not recommend approval of the attached change order request from GAC due to the amount they are asking for. **(NOTE: Two staff members have decided, without review by the elected commissioners, to continue with the ODOR problems, due to additional monies being requested.)**"

9. Page from the Annual Budget, FY 2010/2011 for Bay County. Page 9 UTILITY SERVICES states: The Wastewater Divisions wastewater collection was able to rehabilitate a Master Lift Station located at Veteran's Park that feeds the Regional Wastewater Treatment Facility located on Tyndall Air Force Base. By making these repairs themselves, they save the County over \$60,010. **(NOTE: What action, if any, was Callaway involved regarding the ODOR problem?)**

10. Article from the News Herald, dated 17 January 2010 states: " County utilities staff, however, are hoping that a \$67,000 odor control system will make Veteran's Park safe for nasal passage." Also, "County Utilities Director said that a city of Callaway manhole adjacent to the lift station also contributed to the stink, and that the odor control system; combined with improvements Callaway has made to the piping there should alleviate the problem." **NOTE: I don't recall the County and Callaway Cooperating to eliminate the ODOR problem. May I suggest the taxpayers be made aware what occurred.**

11. My comments at the 19 October 2010, Callaway Commissioner's Meeting:

Stench of Sewage Plagues Veterans Park – Back in January 8, 2008, I brought to the commissioners attention of the ODOR down at Veteran's Park. The new problem has been the inadequate piping. The commissioners are aware of it but hold-off on the expense to repair the problem

SYNOPSIS

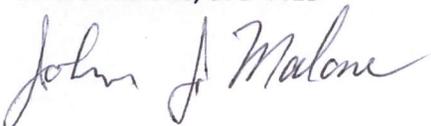
Between the years 2008 and 2009, the City fully attempted to identify and correct the ODOR PROBLEM at Veteran's Park. The elected commissioners left the majority of the "leg-work" to the city manager and the director of Public Works. Initially, the City paid \$37,405 to Camp, Dresser & McKee (CDM) to conduct an in-depth evaluation of the sewer/overflow issue. Somehow or another, GAC Contractors enter the picture with a proposal of \$61,357.00 for direct connecting to the existing Bay County wet well. As noted in the enclosed correspondence, the elected commissioners "walked-away" from the ODOR PROBLEM. As noted, in the enclosed correspondence, the city manager and the Director of Public works recommended disapproval of a change order from GAC – DUE TO THE AMOUNT THEY ARE ASKING FOR. It is my observation, the commissioners did nothing more.

My suggestion is for the present commissioners and the city manager Collins assign the project o the Director of Public Works. And determine how much money was spent to date by Bay County and the City of Callaway. Furthermore, what company CDM or GAC was assigned to determine the source of the ODOR at Veteran's Park. Mayor Abbott and Commissioner De Lapp may be able to offer more.

Thank you for my input using the materiel prepared by Bay County and the City of Callaway. Commissioner Henderson has all the correspondence which the city clerk can Xerox for interested parties.

John J. Malone, 871-4415

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SUBJ: Critique of Present Code Enforcement Procedures

2 October 2012

TO : Commissioner David Otano

INFO: Mayor Abbott, Commissioner De Lapp, Commissioner Henderson, Commissioner Hollister, City Manager Collins, City Clerk Vigil and Interested Taxpayers of Callaway.

I have reviewed the Notice of Order of Abatement pertaining to the property on 6810 Forsythe Drive, Callaway, FL 32404. And I offer the following comments:

1. As a resident of Callaway for the past seven (7) years, I have complained continuously about the blight of Callaway. And primarily, it is due to the failure of the elected commissioners to establish and enforce the policies regarding nuisances in Callaway. I gave a copy of an Ordinance to former Mayor Meer over three (3) years ago for his use. Nothing was done. Former Commissioner Jones commented at a Commissioner's Meeting we try to have the citizens maintain their properties without any pressure from the City.

2. To enforce the policies of the City, it is necessary to get all policies current. My review disclosed that the property in question, quotes City Ordinance 508, dated August 13, 1996 and Chapter 9.7, Code of Ordinances, dated, unknown. A further review of the present Ordinances of Callaway disclose the majority were adopted July 9, 1985 and effective August 1, 1985. And codified June 26, 2007. As this is the Code that establishes policies for the citizens of Callaway, it needs to be periodically reviewed.

3. Presently, the Code Enforcement is not being properly enforced for the good of the City and the citizens.

a. First of all, the City is dealing with a law firm that has a Ms. Amy Ross handling land use and CODE ENFORCEMENT. Ms. Ross deals directly with the Code Enforcement Officer. To me the, the present city attorney is not current about the status of code enforcement. And neither are the elected commissioners at regular commissioner's meetings unless the commissioners have it as a regular AGENDA ITEM.

b. The commissioners should initiate an update of the Code Enforcement Ordinances. This can be done with the joint use of the Planning Office, Callaway and the law firm. Their finished product should be brought to the Commissioners for their action.

c. Priority should be given to UPDATING Chapter 9.7 NUISANCES, **PARTICULARLY THE AUTHORITY TO FORECLOSE ON THE PROPERTY.**

d. Consider establishing a Code Enforcement Board comprised of Callaway citizens to enforce the Code Enforcement Policy established by the Commissioners.

4. Enclosed is a copy of Ordinance 2009-02, approved by the Town of Melbourne Beach, Brevard County, FL that I previous presented to former Mayor Meer, 2 July 2009. And he did nothing with it. I suggest the Commissioners and the city attorney review it. And use it as a guide in preparing a similar ordinance for Callaway. Please note how other towns in Florida are handling code enforcement.

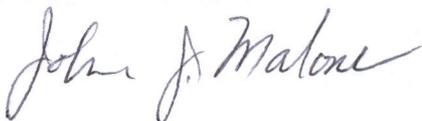
5. From the address on the property in question, it appears the owner may be in the military. Consequently, a different approach will be needed. However, it is evident the Code Enforcement Officer would not have to wait almost a year for satisfaction.

6. For you information, the City of Orlando, has a policy for going-in and do the required maintenance. And place a lien on the property. This is after the property owner fails to do what is required of them.

Finally, the Commissioners need to appoint a Code Enforcement Committee of Callaway Citizens Committee to properly initiate enforcement of the Code, i. e. a court to administer the proper use of Callaway's Code.

John J. Malone 871-4415

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Encls:

1. Melbourne Beach Ordinance 2009-02.
2. Callaway's Chapter 9-7.
3. Code of Ordinance Callaway – June 26, 2007
4. Letter from City's Law Firm, dtd, Feb 7, 2011

NOTE: Enclosures may be obtained from Commissioner Otano.