



**CITY OF CALLAWAY, FLORIDA**  
**CITY HALL**  
6601 East Highway 22, Callaway, FL 32404  
Phone 850-871-6000 • FAX 850-871-2444  
[www.cityofcallaway.com](http://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  
Wednesday, November 7, 2012 – 5:30 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 – October 25, 2012

**BUSINESS ITEMS:**

ITEM #1      Discussion/Development of Fraud Reporting Procedure With City Manager –  
                  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

Leisure Services  
P: 850-874-0031  
F: 850-874-9977

Planning / Code Enforcement  
P: 850-871-4672  
F: 850-871-2404

Public Works  
P: 850-871-1033  
F: 850-871-2416

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

**CALLAWAY AUDIT COMMITTEE MEETING**

**October 25, 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:**

Bill Castor moved to approve the Audit Committee meeting minutes from the October 2, 2012, meeting. Motion was seconded by John L'Heureux.

All ayes

**BUSINESS ITEMS:**

**ITEM #1 DISCUSSION OF THE FY12 AUDIT PLAN WITH POWERPOINT PRESENTATION – ANGELA BALENT, WARREN AVERETT O'SULLIVAN CREEL**

Ms. Angela Balent, partner at Warren Averett O'Sullivan Creel, introduced herself to the Audit Committee. She stated they are in the last year of a three-year agreement with the City. She said she was at the meeting to answer/educate the Committee regarding Audit Committee responsibilities and the audit process. The interim process for the audit has already begun. She and Amy Ayers met with the Director of Finance and the City Manager to discuss the audit procedure for FY12.

Ms. Balent went over a copy of her PowerPoint presentation with the Audit Committee. She reviewed the Schedule (Calendar) and noted we are on schedule at this time. She went over the three areas the auditors have already began covering – Internal Control Understanding (they followed major transaction cycles and updated their understanding of internal controls), Disbursements (the auditors performed test of controls, test of details and test of compliance over a sample of 40 disbursement transactions during the period October 1, 2011 and July 17, 2012) and Utility Billing (they performed test of controls over various cycles of the utility billing process). Other areas they have covered are Cash Receipts, Capital Assets, General Journal Entry Review, Expense vs. Budget Review, Legal Expense Review and Test of Compliance with selected Florida Statutes. There were no exceptions noted.

Ms. Balent explained to the Audit Committee the reason the City had to be changed to a Single Audit for FY12. This is due to the City receiving more than \$500,000 in grants. She stated this was the reason the Engagement Letter had to be addressed since it will cost more to have to audit the grants in addition to their normal auditing activities.

The next part of the presentation focused on Prior Year Management Comments. The recommendation for the City to develop a debt service strategy and perform an analysis of rates in the water and sewer utility fund is still in "Open" status. The City increased utility rates by 2.5% and has contacted Florida Rural Water Association to conduct a rate study to evaluate the rate schedule for future years is underway. The auditors recommended the City upgrade its accounting software and prepare a written disaster recovery plan which is already being moved forward. The City's accounting software, Springbrook, has been approved by the Commission to be upgraded. The City's system is on the list for early 2013 for the upgrade and the City Clerk is working on an Information Technology Disaster Recovery Plan. The auditors' had a recommendation for the City to establish a formal policy of inspection of the service provider's records and reconciliation of amounts remitted to the City on a periodic basis to enhance the internal control over the completeness of the Solid Waste Revenue. Per the auditor's comment, the City has updated its permitting requirements for Garbage Haulers in that now we have a structured reporting process and during FY12 the City performed a test of customer "poll slips" to evaluate completeness of solid waste revenue. The final comment was regarding their recommendation to the City to formalize the adoption of a new cost allocation plan which was adopted by the City Commission and was used for FY12 budgeting purposes.

The final portion of the presentation concentrated on areas of interest for the FY12 audit. These areas are: Sandy Creek – assessment and recording of special capital extension fees; Federal Single Audit – test controls and test of compliance over grant expenditures; Fraud inquiry – answering questions about allegations or actual instances of fraud or illegal acts during fiscal year 2012, is the City currently involved in lawsuits and what is their status or predicted outcome, etc.

Ms. Balent then opened the floor for questions from the Audit Committee. Mr. L'Heureux asked if their company had experience with other cities to which Ms. Balent listed seven cities. Chairperson McKinney asked if fraud letters were sent out to all employees. Ms. Balent stated that on their first year, letters were sent to everyone, last year a sampling was sent out as it was this year. Ethics training is a possibility for this year also.

**#2 - DEVELOPMENT OF PROCEDURE FOR REPORTING  
SUSPECTED FRAUD FOR COMMISSION APPROVAL -  
COMMISSIONER PAMN HENDERSON**

Commissioner Henderson stated the Commission asked the Audit Committee for their recommendation for a procedure for employees to report fraud. She said there is a possibility of having a different venue rather than using the chain of command. She stated that our Director of Finance, Alice Bennett, is the only certified fraud examiner in the City and that auditors usually do not catch fraud perpetrators. Ms. Balent said that in small organizations such as our City, the reporting procedure is a problem whereas larger places have internal auditors who would know what to do regarding a report of fraud. Ms. Balent feels that legal counsel needs to be involved and aware of a potential fraud issue. She knows of a company that has a hotline where it could be reported but then you

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have to worry about the cost. Mr. Smith asked what the concerns are with the chain of command reporting process. He feels that any employees would not have a problem telling their supervisor or another supervisor about suspected theft or mishandling of money or supplies. Commissioner Henderson suggested an anonymous report to the City Manager and Mr. Smith asked if a box where an employee's concerns could be looked into could be used.

Chairperson McKinney suggested that all employees should receive training regarding fraud and that a policy should be in place prior to the training. She suggested that the Audit Committee should investigate and if they felt there was a possibility of fraud; refer it to the City Manager who would then report it to the Commission. She feels they need to be able to report to someone without prejudice, possibly an Audit Committee member who could do preliminary research without it being made into a public record especially if it had no merit. Mr. Smith said he is worried about the costs associated with possible attorney fees since Ms. Balent reiterated that legal counsel needs to be aware of any possible fraud issue. Chairperson McKinney clarified that counsel would only be needed if there was an official investigation. Ms. Balent said the attorney definitely needs to be included in the process.

Chairperson McKinney stated the Audit Committee needs to meet with the City Manager and the City Attorney for clarification on procedural issues and development of a policy for Commission approval. Ms. Hirth suggested the Committee may want to meet with the City Manager and not the City Attorney at this time since it would cost money if the Attorney attended the meeting. After further discussion, it was decided that the Audit Committee could meet on any Wednesday at 5:30 P.M. or 6:00 P.M. if the City Manager was available. It was stated the City Attorney could be brought in later in the development process.

Ms. Balent asked if there were any other questions. Mr. Smith asked a question regarding a Sandy Creek issue. He asked how the \$750,000 (loan) could be monitored. Ms. Balent said she would be back before the audit is completed and would address this issue at that time.

Chairperson McKinney asked Ms. Hirth to distribute the PowerPoint presentation given by Ms. Balent to the elected officials prior to the next Commission meeting.

There being no further business, Mr. Smith moved to adjourn the meeting. Mr. Castor seconded the motion. The meeting was adjourned at 6:55 P.M.

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Sandra B. Hirth, Assistant to the City Manager

**City of Callaway Audit Committee  
Agenda Item Summary**

November 7, 2012

Discussion/Development of Fraud Reporting Procedure With City Manager

**1. PLACED ON AGENDA BY:**

Chairperson 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)

The Audit Committee requested the Commission to allow them to develop a procedure for employees to follow if they become aware of a possible fraud situation. The Committee met previously on October 25, 2012, at which time it was decided they want input from the City Manager to move forward with the development of a fraud procedure.

**5. REQUESTED MOTION/ACTION:**

Audit Committee Approval of Fraud Reporting Procedure to be presented to the City Commission for adoption and implementation.