

**CITY OF DELRAY BEACH**

Interlocal Service Agreement  
With the Town of Highland Beach  
and Selected Administrative Activities  
and Operations



Sherrill F. Norman, CPA  
Auditor General

### **Mayor, Commission Members, and City Manager**

During the period October 2021 through December 2022, Shelly Petrolia served as the City of Delray Beach Mayor; Adam Frankel served as Vice Mayor from April 6, 2022, and Shirley Ervin Johnson served as Vice Mayor prior to that date; Juli Casale and Ryan Boylston served as City Commissioners; and Terrence Moore was the City Manager.

The team leader was Janet N. Case, CPA, and the audit was supervised by Ilene R. Gayle, CPA.

Please address inquiries regarding this report to Derek H. Noonan, CPA, Audit Manager, by e-mail at [dereknolan@aud.state.fl.us](mailto:dereknolan@aud.state.fl.us) or by telephone at (850) 412-2864.

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# CITY OF DELRAY BEACH

## INTERLOCAL SERVICE AGREEMENT WITH THE TOWN OF HIGHLAND BEACH AND SELECTED ADMINISTRATIVE ACTIVITIES AND OPERATIONS

### **SUMMARY**

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This audit of the City of Delray Beach (City) focused on City compliance with the interlocal service agreement (ISA) with the Town of Highland Beach (Town) for comprehensive fire and emergency medical services and selected City administrative activities and operations. Our audit disclosed the following:

**Finding 1:** The City's true-up did not adequately represent the actual expenditures incurred as anticipated in the ISA with the Town resulting in underreporting of actual expenditures totaling \$2.2 million for the 2016-17 through 2020-21 fiscal years.

**Finding 2:** Firefighter salary and benefits amounts recorded in the City's accounting records and billed to the Town did not agree with employee timekeeping records.

**Finding 3:** City purchasing policies and procedures did not ensure that goods and services ordered, received, and distributed to the Town's fire station were accurately billed to the Town.

**Finding 4:** For the Town's nonpayment of billed services totaling \$517,654, the City did not timely perform collection efforts nor initiate the ISA provided non-binding mediation process.

**Finding 5:** During the period October 2019 through December 2022, the City experienced significant turnover in certain key management positions, which may have contributed to the control deficiencies and instances of noncompliance disclosed in this report.

### **BACKGROUND**

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In 1911, an area in Palm Beach County west of the Intracoastal Waterway was incorporated as the Town of Delray. In 1923, the area east of the Intracoastal Waterway was incorporated as the Town of Delray Beach. On May 11, 1927, the Town of Delray and the Town of Delray Beach united to form the City of Delray Beach (City).<sup>1</sup> The City has an estimated population of 67,073,<sup>2</sup> and is governed by the City Commission composed of four elected Commissioners and an elected Mayor. The City Commission is responsible for enacting ordinances, resolutions, and policies governing the City, as well as appointing the City Manager. The City Manager serves as the Chief Administrative and Executive Officer and is responsible for the administration of all City affairs.

The City provides a full range of community services including general government administration, police, fire and emergency medical services, sanitation, water and sewer service, recreational and cultural activities, public improvements, planning, zoning, highways and streets, and general administrative services. In addition to services provided to City residents, the City provides fire protection, emergency

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<sup>1</sup> Chapter 12675, Laws of Florida.

<sup>2</sup> *Florida Estimates of Population 2022*, Bureau of Economic and Business Research, College of Liberal Arts and Sciences, University of Florida.

medical, and limited water services to the Town of Highland Beach (Town), which has a population of 4,302<sup>3</sup> and one fire station.<sup>4</sup>

The 15-year interlocal service agreement (ISA) between the City and the Town provided for comprehensive fire and emergency medical services for the period October 2002 through September 2017. In July 2016, the City and Town extended the ISA through September 30, 2026.

The extended ISA changed the billing methodology and the payment terms from a monthly payment based on “in rank averages”<sup>5</sup> for salaries and benefits and a fixed fee for other operating expenditures, adjusted for cost of living increases each year, to monthly payments based on “in rank averages” for salaries and benefits and budgeted expenditures.

In addition, the extended ISA provided for a year-end true-up process, in which the monthly amounts billed are compared to actual expenditures per City accounting records, and the difference is either refunded or billed to the Town, depending on whether the actual expenditures were less than or greater than the billed expenditures. The Town is responsible for paying the actual salary and benefits costs of City personnel assigned to the Town’s fire station and certain other expenditures, as determined by the true-up calculation after the close of each fiscal year.

The City’s accounting records provide for the accounting of expenditures related to the Town fire station separate from the expenditures of the City fire stations. Although the ISA provides for a true-up of actual expenditures each year, the ISA does not contain provisions that explicitly provide the Town with a right to inspect City records supporting the annual true-up calculations.

Table 1 shows the total of monthly amounts billed by the City to the Town, actual annual expenditures according to the City’s annual true-up process, and the differences identified in the true-up.

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<sup>3</sup> *Florida Estimates of Population 2022*, Bureau of Economic and Business Research, College of Liberal Arts and Sciences, University of Florida.

<sup>4</sup> In addition to the Town of Highland Beach, the City provides water, fire protection, emergency medical, police dispatch, building permits and inspections, and limited sewer services to the Town of Gulfstream, which has a population of 975.

<sup>5</sup> “In rank averages” refers to the average salary and benefits paid for each rank; for example, the in rank average for an emergency medical technician (EMT) would be calculated by adding all City EMT employee compensation and computing average compensation. The City would then bill the Town for the average compensation of one EMT multiplied by the number of EMTs assigned to the Town’s fire station.

**Table 1  
True-Up Variance Summary**

**For the 2016-17 Through 2021-22 Contract Years**

<b>Contract Year</b>	<b>Amount Billed</b>	<b>True-Up Amount</b>	<b>Difference</b>
2016-17	\$ 3,642,575	\$ 3,722,074	\$ 79,499
2017-18	3,890,169	3,910,572	20,403
2018-19	4,223,795	4,114,029	(109,766) <sup>a</sup>
2019-20	4,439,682	4,472,005	32,323
2020-21	4,657,148	4,778,661	121,513 <sup>b</sup>
2021-22	5,149,096	5,545,237	396,141 <sup>b</sup>
<b>Totals</b>	<u>\$26,002,465</u>	<u>\$26,542,578</u>	<u>\$ 540,113</u>

<sup>a</sup> True-up identified an overbilled amount, so City refunded the Town for the difference.

<sup>b</sup> The Town disputed these amounts and, as of August 2023, had not paid these amounts to the City.

Source: City records.

In addition, the ISA stated that the City has no obligation to provide any specific types of personnel or equipment within a specific time frame.<sup>6</sup> Instead, the Palm Beach County Fire Rescue Department will dispatch and assign the closest, appropriately staffed and available vehicles to the emergencies within the Town consistent with the level of need and resources available. The ISA contains no provisions regarding credits for expenditures associated with the Town fire station staff being dispatched for emergencies outside the Town, nor for the Town to pay for expenditures incurred for the City fire stations to respond to emergencies inside the Town. Per the City Fire Chief, it is customary for neighboring municipalities to have reciprocal interlocal arrangements to assist each other at no cost. The ISA requires the City to annually provide the Town information regarding fire-rescue activities by the Town fire station.<sup>7</sup>

Table 2 shows the number and percentage of responses by the Town fire station for the 2019-20 through 2021-22 fiscal years. As indicated in Table 2, over the 3-year period, 34 percent of the Town fire station responses were for emergencies occurring outside the Town limits; however, consistent with the ISA provisions, the Town did not receive any billing credits for those responses.

**Table 2  
Town Fire Station Call Response Activity**

<b>Response Location</b>	<b>2019-20 Fiscal Year</b>	<b>2020-21 Fiscal Year</b>	<b>2021-22 Fiscal Year</b>	<b>Total</b>	<b>Percentage</b>
Outside Town Limits	449	392	467	1,308	34%
Within Town Limits	828	845	843	2,516	66%
<b>Totals</b>	<u><b>1,277</b></u>	<u><b>1,237</b></u>	<u><b>1,310</b></u>	<u><b>3,824</b></u>	<u><b>100%</b></u>

Source: City records.

<sup>6</sup> Section 3.6, Interlocal Service Agreement Between the City of Delray Beach and the Town of Highland Beach.

<sup>7</sup> Section 3.15, Interlocal Service Agreement Between the City of Delray Beach and the Town of Highland Beach.

# **FINDINGS AND RECOMMENDATIONS**

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## **Finding 1: Interlocal Agreement (ISA) True-up Process**

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The City's ISA, dated July 7, 2016, with the Town for comprehensive fire and emergency medical services requires:

- The Town pay an annual service fee of the related City fire personnel salaries, overtime, fringe benefits, operating overhead, and other specified expenditures.<sup>8</sup> The City is to bill the Town monthly based upon estimated amounts.
- No later than December 1 following the end of the prior fiscal year, the City to provide the Town a true-up accounting of the actual expenditures amount for the prior fiscal year. If the actual expenditures amount exceeds the estimated amount billed, the Town is responsible for payment of the difference. If the previously estimated amount billed exceeds the actual expenditures amount, the City shall refund the Town for the difference. Payments by either party based on the true-up shall be made on or before December 31 following the end of the prior fiscal year.<sup>9</sup>
- The Town pay the City an annual administrative fee of 5 percent of the total amount billed to the Town. The annual administrative fee shall be estimated, invoiced, and paid in the same manner as the service fee and shall be subject to the same annual true-up.<sup>10</sup>

As noted in Table 1, the true-up expenditures reported by the City relating to the fire and emergency medical services provided to the Town totaled \$26.5 million for the 6-year period October 1, 2016, through September 30, 2022. Our review of City accounting records determined that, although the amounts reported by the City to the Town were supported by City accounting records, the City underreported actual true-up expenditures by \$2.2 million, or 8.2 percent during the 6-year period reviewed. The largest differences, totaling \$2.0 million, occurred because the City:

- Did not consistently use actuarial report information as the basis for determining the amount of Firefighters Retirement Pension Plan Trust Fund (pension) contributions, resulting in the City underreporting actual expenditures totaling \$1.8 million on the annual true-ups.
- Did not calculate the actual true-up for the portion of the City's Fire Rescue Department (Department) operating overhead expenditures attributable to the Town's fire station. Instead, the City used the budgeted overhead amounts for purposes of the true-up, resulting in the City underreporting actual expenditures by a total of \$264,361.

According to City personnel, the calculation errors occurred due to changes in accounting staff. We noted additional calculation errors associated with employee compensation and other expenditures for the 2021-22 fiscal year, as discussed in Findings 2 and 3, respectively.

As a result of the above miscalculations and approximately \$27,000 in various other recalculation differences, the basis for the 5 percent annual administrative fee was understated, resulting in additional underreporting of approximately \$103,000 for the annual administrative fees. Although the ISA provisions provided for the Town to pay for actual expenditures associated with fire and emergency medical

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<sup>8</sup> Section 4.3, Interlocal Service Agreement Between the City of Delray Beach and the Town of Highland Beach.

<sup>9</sup> Section 4.3 H., Interlocal Service Agreement Between the City of Delray Beach and the Town of Highland Beach. The City and Town fiscal years both begin on October 1 and end on September 30.

<sup>10</sup> Section 4.4, Interlocal Service Agreement Between the City of Delray Beach and the Town of Highland Beach.

services, the City's true-up did not adequately represent the actual expenditures incurred; therefore, the City did not bill the Town for all expenditures incurred for the fire and emergency medical services provided to the Town in accordance with the ISA.

**Recommendation:** To ensure compliance with the ISA true-up provisions that allow the City to recover the actual expenditures of providing fire and emergency medical services to the Town, the City should:

- Consistently use the pension actuarial report information as the basis to allocate pension contributions attributable to the firefighters staffing the Town fire station.
- Invoice the Town for actual Department overhead expenditures rather than budgeted overhead expenditures as part of the true-up process.
- Assess the 5 percent administrative fee based upon actual expenditures subject to the annual true-up process.

## Finding 2: Employee Compensation

The ISA-provided true-up process is to ensure that the City is reimbursed for actual expenditures relating to operations of the Town fire station<sup>11</sup> including firefighter salaries and benefits. During the City's budgeting process prior to the beginning of each fiscal year, City personnel identify firefighters in the payroll records to the various fire stations, including the Town fire station. During payroll processing, costs for firefighters assigned to the Town fire station are charged to the station in the City accounting records, and the City uses the payroll expenditure data to perform the year-end true-up.

The Department utilizes a timekeeping system (Telestaff) to document the actual time and location worked by each firefighter. Telestaff does not interface with the City payroll records. Although shifts and locations are established at the beginning of each fiscal year based on a seniority system stipulated in the firefighter collective bargaining agreement;<sup>12</sup> changes may occur throughout the year. For example, Battalion Chiefs determine where the openings are at each location and assign a 'floater' to the open positions or locations each month and again daily. Firefighters may also have an unexpected schedule change due to sick leave. Although firefighters do not sign in or out for each shift, Telestaff has system rosters denoting any scheduling changes. The Department's Budget Coordinator obtains the daily rosters via the Telestaff system and then logs hours worked by each firefighter into the City payroll records. However, City personnel do not update the payroll records for changes in duty locations recorded in Telestaff and do not reconcile the Telestaff rosters to payroll records as part of the year-end true-up process. Consequently, the firefighter salary and benefit amounts billed to the Town based on payroll records do not necessarily correspond to the locations where firefighters actually worked based on the Telestaff roster.

During the period October 1, 2021, through October 14, 2022, City accounting records disclosed 624 regular gross salary expenditures totaling \$2.3 million for the Town fire station. Our examination of records supporting 30 payroll transactions totaling \$114,459 for 18 employees disclosed 13 transactions totaling \$46,304 for 9 employees charged to the Town for hours worked at a location other than the Town

<sup>11</sup> Section 4.3 H., Interlocal Service Agreement Between the City of Delray Beach and the Town of Highland Beach.

<sup>12</sup> Professional Fire Fighters of Delray Beach, Local 1842, International Association of Fire Fighters, Inc. Collective Bargaining Agreement, Section 5.

fire station based on Telestaff staff rosters. Further analysis of City payroll records for regular full-time salaries totaling \$1.9 million and the Telestaff rosters for the 2021-22 fiscal year disclosed both additional hours paid and recorded in the Town's account that were not worked at the Town fire station and hours worked at the Town fire station that were not paid and recorded in the Town's account. Specifically, we noted that:

- A total of 21,899 hours recorded to the Town's account, or 44 percent of total hours recorded, were not worked at the Town fire station. As a result, the regular gross salary expenditures were overstated by a total of \$783,095 for the 23 employees whose salaries were recorded in the Town's account for the 2021-22 fiscal year. The overstatement resulted from the inclusion of:
  - Regular gross salary expenditures totaling \$342,640 for 5 employees with an average hourly rate of approximately \$33 who did not work at the Town Fire station.
  - All the regular gross salary expenditures for 6 employees who worked less than 50 percent of their time at the Town fire station.
- 66 other employees worked a total of 18,060 hours at the Town fire station but the hours were not recorded in the Town's account. As a result, the regular gross salary expenditures were understated by \$592,614. Five of the 66 employees worked more than 50 percent of their time at the Town fire station and were paid an average hourly rate of approximately \$36.

Overall, the net differences noted relating to 3,839 hours resulted in a net overstatement of \$190,481, or 10 percent, of the regular gross salary expenditures recorded in the Town's account. Although the City provided to the Town an accounting of the actual expenditures per the accounting records as required by the ISA, City accounting records did not reflect actual Town-related activities performed by City firefighters as recorded in the Telestaff rosters.

In response to our inquiries, City personnel indicated that the employee assignments were intended to reflect the average expenditures for each position. Notwithstanding, insofar as the ISA requires the City to bill the Town for the actual staffing expenditures of the Town fire station, the practice of billing the Town based on payroll-record-assigned locations rather than actual information on the Telestaff rosters, is contrary to the ISA.

**Recommendation: The City should enhance procedures to periodically reconcile payroll records to Telestaff rosters to ensure that the accounting records and true-up reports properly reflect the actual salary and benefits expenditures incurred for employees that actually worked at the Town fire station. The City should also recalculate the employee compensation portions of the true-ups for the 2015-16 and subsequent fiscal years based upon the Telestaff rosters to ensure that amounts billed to the Town accurately reflect City firefighter time and effort at the Town fire station.**

### **Finding 3: Other Expenditures**

In addition to employee compensation and overhead expenditures, the ISA provided that the Town must reimburse the City for actual expenditures relating to the Town fire station operations.<sup>13</sup> The Department orders equipment, supplies, and uniforms for its five fire stations and the Town fire station. Department logistics personnel receive such items at a centralized location, log them into an asset management system, and distribute the items to the six fire stations upon request. Although the City established two

<sup>13</sup> Section 4.3 H., Interlocal Service Agreement Between the City of Delray Beach and the Town of Highland Beach.



cost centers in its accounting records, one cost center for the five City fire stations and a second cost center for the Town fire station, the centralized purchasing process does not separately account for the distribution of supplies from the Department central supplies inventory to the Town fire station. Rather, Department personnel recorded purchased goods and services in the Town's account, based upon either a one-sixth (16.7 percent) allocation of the amount invoiced or the remaining available budgeted expenditures in the Town's account. Consequently, City accounting records did not reflect the actual other expenditures related to items actually used at the Town fire station.

During the 2021-22 fiscal year, the City recorded in the Town's account 112 other expenditures totaling \$157,342 for the Town fire station. Our test of 24 transactions totaling \$112,633 disclosed:

- \$19,170, or 73 percent, of annual maintenance service contract expenditures totaling \$26,324 for 19 cardiac monitors was allocated to the Town's account. However, City records indicated that only 2 of the 19 cardiac monitors, with maintenance expenditures of \$2,771, were located at the Town fire station, resulting in an overcharge of \$16,399, or 86 percent of the amount charged to the Town. In response to our inquiries, City personnel indicated that the \$19,170 was allocated to use up the balance of the Town's account equipment maintenance budget and that other equipment service contracts that benefited the Town were fully paid by the City. Notwithstanding, the ISA requires the Town to pay for actual expenditures, not budgeted amounts.
- The purchase of 20 outfits (protective jackets, trousers, and suspenders) totaling \$54,480, or \$2,724 per outfit, was allocated to the Town's account at \$14,197, or 26 percent. The amount allocated to the Town was equivalent to the cost of 5.2 outfits and, although we requested, City personnel did not provide documentation evidencing the number of outfits actually distributed to the Town fire station.

According to City personnel, prior to 2016 the ISA required the Town to pay the City a flat fee for non-payroll related expenditures and did not require the City to report actual expenditures to the Town. After the ISA was revised, the City did not update its purchasing process to separately account for purchases by fire station.

Absent a purchasing and distribution process that accurately tracks receipt and actual costs of items distributed to the Town fire station, City records do not provide an accurate accounting of the actual expenditures incurred for items used to provide fire and emergency medical services to the Town as required by the ISA.

**Recommendation: The City should establish policies and procedures to ensure that goods and services purchased and distributed to the Town fire station are separately tracked and accurately reflected in City accounting records.**

#### **Finding 4: Past Due Balance Collection Efforts**

As previously noted, the ISA required the City to provide the Town an accounting of the actual expenditure amounts from the prior fiscal year no later than December 1 following the end of the fiscal year. Payment for the difference between the true-up and monthly billed estimated expenditures, is to be made on or before December 31 following the end of the prior fiscal year.<sup>14</sup> In the event of a breach of the ISA by one party, the other party shall give notice of its intent to terminate the ISA at the end of a contract year.

<sup>14</sup> Section 4.3 H., Interlocal Service Agreement Between the City of Delray Beach and the Town of Highland Beach.

Such notice must be in writing and be provided at least 12 months prior to any contract year, which commences on October 1 and terminates on September 30. In the event of an impasse, the ISA provides that the parties are to first attempt to resolve the dispute through non-binding mediation<sup>15</sup> and that either party may terminate the ISA with 36 months of written notice.<sup>16</sup>

On April 20, 2021, in accordance with the ISA, the Town sent a notice of its intent to terminate the ISA on April 30, 2024, based on the results of a feasibility study, which indicated that the Town could save costs by operating the fire station. Beginning in May 2021, the Town began disputing the reported City expenditures for providing fire services to the Town and requesting supporting City records. Specifically:

- On May 4, 2021, the Town requested payroll data for the Town fire station for the 2015-16 through 2019-20 fiscal years and “in rank” payroll data for all City firefighters. Per City records, this request was completed, and the records were provided.
- During the period May 10, 2021, through September 30, 2021, the Town submitted three requests through the City’s public records request system. The requested records included, but were not limited to, source documents for the Department’s payroll data, the Firefighter Collective Bargaining Agreement approval process, and the contract between the City and the Town, and detailed support for the true-ups for the 2016-17 through 2019-20 fiscal years. According to City records, these requests were completed, and the requested records were provided to the Town for a fee of \$229.
- On January 27, 2022, the Town Manager, City Fire Chief, City Attorney, and City Finance Director met to discuss the disputed expenditures reported by the City as a result of the true-ups. The Town Manager asserted that the true-ups were supposed to be based on average in-rank expenditures and not actual expenditures for the Town fire station; however, City personnel correctly stated that, according to the ISA, the true-up is to be based on actual expenditures for the Town fire station.
- On July 5, 2022, the Town requested incident and response data for the 2016-17 through 2020-21 fiscal years. Per City records this request was completed and records were provided.
- On January 12, 2023, the Town requested copies of personnel and payroll files for all individuals employed by the Department for each rank between October 1, 2017, through September 30, 2022. Upon receiving this request, the City estimated a cost to process this request to be \$8,534. The Town did not remit the fee, and the City closed the request.

As provided for in the ISA, on November 29, 2021, the City sent the Town a true-up bill totaling \$121,514 for the 2020-21 fiscal year. On December 1, 2022, upon sending the true-up bill in the amount of \$396,140 for the 2021-22 fiscal year, the City Fire Chief was made aware by the Finance Director hired in March 2022 that the Town had not yet paid the true-up bill for the 2020-21 fiscal year, which was 11 months past due. Although the City had procedures in place to track receipt of payments received related to monthly billings to the Town, the City lacked procedures to track the additional amounts due resulting from the annual true-up process. Therefore, no additional efforts were made to collect the past due true-up bill until December 29, 2022, when the City sent the Town a notice of breach for nonpayment of \$517,654 for the 2020-21 and 2021-22 fiscal years. The Town acknowledged receipt of the letter but disputed the breach, indicating that additional documentation was requested but was not received. The

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<sup>15</sup> Section 5.3 A., Interlocal Service Agreement Between the City of Delray Beach and the Town of Highland Beach.

<sup>16</sup> Section 5.3 B., Interlocal Service Agreement Between the City of Delray Beach and the Town of Highland Beach.

Town continued to make the estimated monthly payments to the City during the 2021-22 and 2022-23 fiscal years.

Upon audit inquiry, we were provided correspondence between the City and the Town dated January 2023 through March 2023 evidencing that the ongoing disagreement regarding the methodology used in preparing the true-up calculations. In correspondence dated March 10, 2023, the Town indicated that funds would not be remitted for unsubstantiated true-up amounts and requested the City to pay the Town \$237,852, which represented the difference between in-rank expenditures and the amount billed in the true-ups for the 2020-21 and 2021-22 fiscal years. Although an impasse was reached after the January 27, 2022, meeting, and the disagreement between the City and Town was ongoing as of March 2023, contrary to the ISA provisions, as of September 2023, the City had not pursued a mediation process subsequent to the breach of contract notification. As of June 2023, the Town had not paid the City for the 2020-21 or 2021-22 fiscal year true-up bills totaling \$517,652.

**Recommendation:** The City should enhance procedures to ensure and document that collection follow-up procedures are timely performed, disputes are promptly resolved, and all payments owed to the City are timely received. In addition, the City should initiate the non-binding mediation process in accordance with the ISA.

**Finding 5: Key Management Turnover**

The City Manager and other key management positions in the City are responsible for designing and implementing effective internal controls and ensuring consistent application of City policies and procedures. The implementation and consistent application of policies and procedures can be particularly challenging when significant turnover in key management positions is experienced. Our examination of City records and discussions with City personnel disclosed that the City experienced significant turnover in certain key management positions during the period October 2019 through December 2022 as shown in Table 3.

**Table 3  
Turnover in Key Management Positions  
For the Period October 2019 Through December 2022**

Position	Number of Resignations	Number of Dismissals	Number of Times Position Was Vacant	Number of Days Position Was Vacant <sup>a</sup>
City Manager	-	1	2 <sup>b</sup>	712
Assistant City Manager 1	1	1	3	474
Assistant City Manager 2 <sup>c</sup>	2	-	1	145
Finance Director	2	-	3	361

- <sup>a</sup> Includes days vacant prior to October 2019.
- <sup>b</sup> Interim City Manager served during both vacancies.
- <sup>c</sup> Position was not budgeted starting October 2021.

Source: City records.

Significant turnover in key management positions results in the loss of institutional knowledge and impacts the oversight and consistent application of established policies and procedures and may lead to

inefficient operations and reduced service quality. Accordingly, any actions that may increase management turnover require careful consideration, including documented assessments of the effects of such actions and strategies to limit any negative effects.

The significant turnover in key management positions may have contributed to the control deficiencies and instances of ISA noncompliance disclosed in this report. Although we inquired, City personnel did not explain why the turnover occurred, and our review of the resignation letters did not disclose a particular cause. However, because employees in many of the management positions are appointed by and report to the City Manager, the turnover in the City Manager position may have contributed to the turnover in other key management positions.

**Recommendation: To promote efficient operations, high quality services, and the consistent application of City policies and procedures, the City should strive to provide stability in key management positions. Such efforts should include documented consideration of any City actions that may increase turnover in key management positions and strategies to limit the negative effects of such actions.**

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations. Pursuant to Section 11.45(3)(a), Florida Statutes, the Legislative Auditing Committee, at its March 13, 2023, meeting, directed us to conduct this operational audit of the City of Delray Beach.

We conducted this operational audit from April 2023 through September 2023 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.

This operational audit of the City of Delray Beach (City) focused on an interlocal service agreement (ISA) between the City and the Town of Highland Beach (Town) for comprehensive fire and emergency medical services and selected administrative activities and operations. For those areas addressed by this audit, our objectives were:

- To evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, administrative rules, contracts, grant agreements, and other guidelines.
- To examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, the reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those internal controls.
- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, weaknesses in management's internal controls significant to our audit objectives, instances of noncompliance with applicable governing laws, rules, or contracts and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; identifying and evaluating internal controls significant to our audit objectives; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included transactions, as well as events and conditions, occurring during the audit period October 2021 through December 2022, and selected City actions taken prior and subsequent thereto. Unless otherwise indicated in this report, these transactions and records were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature does not include a review of all records and actions of management, staff, and vendors and, as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, abuse, or inefficiency.

In conducting our audit, we:

- Reviewed applicable laws, contracts, City ordinances, policies and procedures, and other guidelines, and interviewed City personnel to obtain an understanding of applicable processes and administrative activities and the related requirements.
- Examined minutes of City Commission meetings held during the audit period, and the minutes of selected meetings held prior and subsequent to the audit period, to determine the propriety and sufficiency of actions taken related to the programs, activities, and functions included in the scope of this audit.
- Determined whether the City had established anti-fraud policies and procedures to provide guidance to employees for communicating known or suspected fraud to appropriate individuals.
- Examined City records for the period October 2021 through December 2022 and inquired of City personnel to determine whether any construction or electrical projects with estimated or actual expenditures exceeding the thresholds specified in Section 255.20, Florida Statutes, were performed using City services, employees, and equipment.
- Inquired with City personnel to determine whether the City entered into any contracts utilizing the authority granted by a state of emergency declared or renewed on or after July 1, 2021.

- Evaluated the adequacy of City policies and procedures related to identifying potential conflicts of interest. For selected City officials, reviewed Department of State, Division of Corporations, records; statements of financial interests; and City records to identify any potential relationships that represented a conflict of interest with City vendors.
- Examined City records related to certain key management positions during the period October 2019 through December 2022 to determine the frequency of turnover in these positions.
- Examined City records and inquired with City personnel to determine whether the City complied with the provisions of the ISA with the Town.
- Inquired of City personnel regarding the methodology for estimating expenditures billed to the Town for the 2015-16 through 2021-22 fiscal years and evaluated whether the allocation methodology was in accordance with the ISA. Reviewed the true-up calculations for the same time frame and recalculated the amounts to determine whether amounts billed to the Town were reasonable, reflected actual City expenditures, and were in accordance with the ISA.
- Reviewed the City salary schedules for the 2020-21 and 2021-22 fiscal years and compared the salaries and benefits of the City Fire Rescue Department employees assigned to the Town fire station to the salaries and benefits of employees in similar positions assigned to City fire stations for reasonableness.
- From the population of 624 regular salary payments totaling \$2.3 million to 28 City Fire and Rescue Department (Department) employees and recorded in the Town's account during the audit period, selected 30 payments totaling \$114,459 made to 18 employees and examined City records to determine whether:
  - Firefighter salaries recorded in the Town's account were paid according to the City's salary schedules.
  - Payroll expenditures charged to the Town's account agreed with actual time worked at the Town's fire station.
- From the population of payments for unused leave totaling \$56,496 paid to two Department employees who separated from City employment during the audit period, of which \$37,160 was recorded in the Town's account, examined City records to determine whether the employees were paid according to City policies and procedures.
- From the population of 297 overtime payments totaling \$373,317 to 83 Department employees recorded in the Town's account during the audit period, selected payments totaling \$70,031 made to 30 employees and examined City records to determine whether the employees were paid according to the City's policies and procedures.
- From 112 other expenditure transactions totaling \$157,342 during the 2021-22 fiscal year and recorded in the Town's account, selected 24 transactions totaling \$112,633 to determine whether expenditures were properly approved, supported, and accurately recorded in the Town's account.
- Reviewed City payments totaling \$236,134 to reimburse the Town for emergency medical services (EMS) transport fees received by the City during the 2020-21 and 2021-22 fiscal years for reasonableness, propriety, and compliance with ISA provisions.
- Evaluated the adequacy of City corrective actions to address a consent order issued by the Florida Department of Health (DOH) in November 2021 regarding the City's cross connection control program. Determined if the City timely complied with the consent order by:
  - Issuing a public notice for failure to implement its cross-connection/backflow prevention program.
  - Installing backflow prevention devices at all applicable properties or discontinued reclaimed water service until backflow prevention devices were installed.

- Providing the DOH a complete inventory of all properties connected to the potable water distribution system, including type of property served, type of backflow protection installed, the backflow manufacturer (if known), date of installation and the date of replacement in accordance with the manufacturer's specifications.
- Supplying the DOH with required monthly, quarterly, and annual inspection reports and backflow device inventories, as required by the consent order.
- Timely (within 30 days) paying the DOH \$1,021,194, representing \$1 million for civil penalties and \$21,194 for DOH incurred costs during the investigation, in settlement of the regulatory matters noted in the consent order.
- From the 10,689 purchasing (P-card) expenditures totaling \$2.6 million during the audit period, examined City records supporting 30 P-card expenditures totaling \$38,020 to determine whether expenditures were made in accordance with City policies and procedures and served a documented valid public purpose.
- From the 316 public records requests received during the audit period, examined City records to determine whether 30 requests were timely fulfilled and that fees charged totaling \$2,617 associated with those requests were reasonable and calculated in accordance with City policies and procedures.
- Examined City records supporting timelines for fulfillment of 5 public records requests received from the Town during the period October 2021 through February 2023 and 2 additional requests received during May 2021 and verified that the fees totaling \$229 charged to the Town were reasonable and calculated in accordance with City policies and procedures.
- Examined City records, including City Commission meeting minutes, and inquired of City personnel regarding proposed funding sources for a potential Delray Beach Golf Course redevelopment project. As of August 2023, the City Commission had not determined the funding sources to be used, and the City had not contracted for the project.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

## ***AUTHORITY***

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Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.



Sherrill F. Norman, CPA  
Auditor General

# MANAGEMENT'S RESPONSE

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## CITY OF DELRAY BEACH

OFFICE OF THE CITY MANAGER  
100 N.W. 1<sup>ST</sup> AVENUE • DELRAY BEACH • FLORIDA 33444 • (561) 243-7015



November 27, 2023

Ms. Sherrill F. Norman, CPA  
Auditor General  
Claude Denson Pepper Building, Suite G74  
111 West Madison Street  
Tallahassee, Florida 32399-1450

### **RE: Audit of the Interlocal Service Agreement with the Town of Highland Beach**

Dear Ms. Norman:

Please find attached the City of Delray Beach's response to your preliminary and tentative audit findings in connection with the audit of the Interlocal Service Agreement between the City of Delray Beach and the Town of Highland Beach.

As always, we appreciate the opportunity to strengthen our procedures and controls. Should you have any additional questions, please call me at (561) 243-7015.

Sincerely,

A handwritten signature in blue ink, appearing to read "T. Moore".

Terrence R. Moore, ICMA-CM  
City Manager

Cc: *Honorable Mayor and City Commissioners*  
*Lynn Gelin, Esq., City Attorney*  
*Hugh Dunkley, CPA, CPFO, CGFO, Chief Financial Officer*

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# CITY OF DELRAY BEACH

## OFFICE OF THE CITY MANAGER

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November 27, 2023

Ms. Sherrill F. Norman, CPA  
Auditor General  
Claude Denson Pepper Building, Suite G74  
111 West Madison Street  
Tallahassee, Florida 32399-1450

### **RE: Audit of the Interlocal Service Agreement with the Town of Highland Beach**

Dear Ms. Norman:

The City of Delray Beach (City) has conducted a review of the findings of the Office of the Auditor General in connection with the above-referenced audit. Below are the City's responses to the findings and our corresponding action plan relative to your recommendations.

- 1. Finding 1:** The City's true-up did not adequately represent the actual expenditures incurred as anticipated in the ISA with the Town resulting in underreporting of actual expenditures totaling \$2.2 million for the 2016-17 through 2020-21 fiscal years.

Recommendation 1(a):

Consistently use the pension actuarial report information as the basis to allocate pension contributions attributable to the firefighters staffing the Town fire station.

Response 1(a)

The City is in agreement with this recommendation. Moving forward, City staff will use the pension actuarial valuation reports as the basis to recover the actual expenditures of providing fire and emergency medical services.

Recommendation 1(b):

Invoice the Town for actual Department overhead expenditures rather than budgeted overhead expenditures as part of the true-up process.

Response 1(b):

The City intends to submit an invoice to the Town of Highland Beach for

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**T**EAMWORK

actual department overhead expenditures, after these costs have been re-calculated by a third-party consultant, which the City hopes to engage for this specific purpose.

Recommendation 1(c):

Assess the 5 percent administrative fee based upon actual expenditures subject to the annual true-up process.

Response 1(c):

The City is in agreement with this recommendation. The 5% administrative fee will be based upon actual expenditures.

2. **Finding 2:** Firefighter salary and benefits amounts recorded in the City's accounting records and billed to the Town did not agree with employee timekeeping records.

Recommendation:

The City should enhance procedures to periodically reconcile payroll records to Telestaff rosters to ensure that the accounting records and true-up reports properly reflect the actual salary and benefits expenditures incurred for employees that actually worked at the Town fire station. The City should also recalculate the employee compensation portions of the true-ups for the 2015-16 and subsequent fiscal years based upon the Telestaff rosters to ensure that amounts billed to the Town accurately reflect City firefighter time and effort at the Town fire station.

Response:

The City will engage a third-party consultant to re-calculate the employee compensation portions of the true-ups for the 2015-16 fiscal years and all subsequent fiscal years. On a quarterly basis, City staff will be reviewing the payroll records to ensure that personnel assigned to different stations are in fact charged to their respective cost centers. This endeavor will be accomplished by also comparing the daily line-up records with information that is reflected in our payroll records.

3. **Finding 3:** City purchasing policies and procedures did not ensure that goods and services ordered, received, and distributed to the Town's fire station were accurately billed to the Town.



Recommendation:

The City should establish policies and procedures to ensure that goods and services purchased and distributed to the Town fire station are separately tracked and accurately reflected in City accounting records.

Response:

The City will ensure that all goods and services that are charged to the Town's cost center are in fact received by same. Moving forward, Finance staff will require indication of a receiving report for all items delivered to the Town's station or for services that are rendered on behalf of the Town by third-party vendors; the invoices must clearly state that services were rendered on the Town's behalf.

4. **Finding 4:** For the Town's nonpayment of billed services totaling \$517,654, the City did not timely perform collection efforts nor initiate the ISA provided non-binding mediation process.

Recommendation:

The City should enhance procedures to ensure and document that collection follow-up procedures are timely performed, disputes are promptly resolved, and all payments owed to the City are timely received. In addition, the City should initiate the non-binding mediation process in accordance with the ISA.

Response:

It is the City's intention to make all necessary efforts to collect all amounts due and owing. We plan to take all necessary steps to resolve this matter, including but not limited to pursuing resolution via the non-binding mediation process in accordance with the ISA.

5. **Finding 5:** During the period October 2019 through December 2022, the City experienced significant turnover in certain key management positions, which may have contributed to the control deficiencies and instances of noncompliance disclosed in this report.

Recommendation:

To promote efficient operations, high quality services, and the consistent application of City policies and procedures, the City should strive to provide stability in key management positions. Such efforts should include

documented consideration of any City actions that may increase turnover in key management positions and strategies to limit the negative effects of such actions.

Response:

The key management positions to which this report referred, namely City Manager, Assistant City Manager and Chief Financial Officer (formerly Finance Director), have all been filled. The individuals currently occupying these positions have served longer tenures than most of their immediate predecessors. It is the City's overall goal to improve the recruitment and retention of all employees, including those at the senior management level. To this end, we have implemented several measures to achieve this goal, including commissioning a classification and compensation study.

As always, we appreciate the opportunity to strengthen our procedures and controls. Should you have any additional questions, please call me at (561) 243-7015.

Sincerely,



Terrence R. Moore, ICMA-CM  
City Manager

Cc: *Honorable Mayor and City Commissioners*  
*Lynn Gelin, Esq., City Attorney*  
*Hugh Dunkley, CPA, CPFO, CGFO, Chief Financial Officer*