

CITY OF MILTON

**Wastewater Treatment Facility Capital Planning
and Selected Administrative Activities**



Sherrill F. Norman, CPA
Auditor General

Mayor, Council Members, and City Manager

During the period October 2022 through December 2023, Heather Lindsay served as the City of Milton Mayor and the following individuals served as City Council Members:

	<u>Ward No.</u>	<u>Seat No.</u>
Mike Cusack from December 13, 2022 ^a	I	I
Vernon Compton through December 13, 2022 ^a	I	I
Matt Jarrett	I	II
Marilynn Farrow from December 13, 2022 ^a	II	I
Shannon Rice through December 13, 2022 ^a	II	I
Roxanne Meiss	II	II
Gavin Hawthorne from December 13, 2022 ^a	III	I
Robert Leek through December 13, 2022 ^a	III	I
Jeff Snow	III	II
Shari Sebastiao from December 12, 2023 ^b	IV	I
Jason Vance from December 13, 2022, ^a through October 31, 2023 ^b	IV	I
Shari Sebastiao through December 13, 2022 ^a	IV	I
Casey Powell	IV	II

^a Seat I outgoing and incoming Council Members served on the same day.

^b Ward IV, Seat I, vacant from November 1, 2023, to December 11, 2023.

Randy Jorgeson served as City Manager through September 5, 2023, and Scott Collins served as City Manager from October 2, 2023. The City Manager position was vacant September 6, 2023, through October 1, 2023.

The team leader was Barbara Sturdivant, CPA, and the audit was supervised by Kenneth C. Danley, CPA.

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

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CITY OF MILTON

SUMMARY

This audit of the City of Milton (City) focused on selected practices, procedures, and activities, including those related to wastewater treatment capital planning and outlays and the application for funds related to the Deepwater Horizon oil spill. Our audit disclosed the following:

Finding 1: The City needs to enhance capital planning policies and procedures and complete a comprehensive multi-year capital plan that includes the proposed new wastewater treatment facility (WWTF) project.

Finding 2: The City had not established grant policies and procedures, which may have resulted in forfeited funding opportunities for the proposed new WWTF project.

Finding 3: City policies and procedures over contracted services need improvement.

Finding 4: The City had not established policies and procedures for direct purchases of construction materials, and the City did not take advantage of sales tax exemptions by directly purchasing construction materials.

Finding 5: The City had not established land acquisition policies and procedures.

Finding 6: The City had not fully complied with a Florida Department of Environmental Protection consent order relating to the existing WWTF.

Finding 7: The City had not established policies and procedures that require and ensure periodic water and sewer rate studies are performed and that the rate studies include consideration of the City's future capital plans.

Finding 8: The City had not established policies and procedures to ensure that resources transferred from the Water and Sewer Fund to the General Fund are calculated using a reasonable and consistent methodology.

Finding 9: The City needs to strengthen its conflict-of-interest policies.

Finding 10: The City needs to enhance public records policies and procedures to ensure that electronic communications are made available to members of the public pursuant to State law.

Finding 11: The City could enhance its anti-fraud policies and procedures for the mitigation, detection, and reporting of suspected or known fraud.

BACKGROUND

The Town of Milton was originally incorporated in 1844 under the Florida Territorial Acts of 1844 and later incorporated as the City of Milton (City) in 1959 under the provisions of Chapter 59-1574, Laws of Florida. The city is located in Santa Rosa County (County), Florida, and had an estimated population of 10,120

as of April 1, 2023.¹ The City Council, composed of eight elected Council Members and a separately elected Mayor, govern the City. The Mayor is recognized as the head of City government but does not vote except in cases of a City Council tie vote. The City Council is responsible for enacting ordinances, resolutions, and policies governing the City, as well as appointing the City Manager, who serves as the chief executive officer and administers all City affairs.

The City provides a variety of services to its citizens and customers in surrounding areas, including public safety, roads and streets, sanitation, natural gas, and water and sewer utility services. The City's current wastewater treatment facility (WWTF) is reaching its permitted capacity. For years, the City has considered ways to effectively deal with increased wastewater treatment demands resulting from growth and development, including acquiring land and constructing a proposed new WWTF. In March 2010, the City solicited requests for qualifications and, in August 2011, contracted with a firm to provide engineering services related to the proposed new WWTF. However, due, in part, to concerns over the cost of construction and funding, as of August 2024, construction of the proposed new WWTF had not begun.

The City's current WWTF discharges effluent (treated wastewater) into the Blackwater River. In June 2020, the Florida Department of Environmental Protection (FDEP) issued an administrative order² requiring the City, in part, to cease discharging effluent into the Blackwater River in two phases. In Phase 1, the City was required to divert 50 percent of the flow into or discharged from the current WWTF to the proposed new WWTF as influent (raw wastewater) or reclaimed water for land application no later than December 31, 2023. In Phase 2, the City is required to divert 100 percent of the flow into or discharged from the current WWTF to the proposed new WWTF no later than December 31, 2025. At the City's request, the FDEP revised the administrative order in January 2024 to extend the compliance date for Phase 1 to June 18, 2025. The City is currently taking actions to comply with the administrative order.

City personnel estimated that, as of December 2023, the City had spent \$4.8 million on professional services, materials and supplies, and other miscellaneous expenses associated with actions taken to comply with the administrative order and plan for the proposed new WWTF.

FINDINGS AND RECOMMENDATIONS

Finding 1: Capital Planning

Capital planning is an important process that governments should undertake to assist in allocating limited financial resources to long-term capital projects such as acquiring new or expanding existing infrastructure. Government Finance Officers Association (GFOA) best practices³ recommend that governments develop and adopt capital planning policies that consider their unique organizational

¹ *Florida Estimates of Population 2023*, Bureau of Economic and Business Research College of Liberal Arts and Sciences University of Florida.

² Florida Department of Environmental Protection Administrative Order No. AO-114NW.

³ GFOA Best Practice, *Capital Planning Policies*.

characteristics including the services they provide, how they are structured, and their external environment, and that the policies include various elements, including:

- A description of how an organization will approach capital planning, including how stakeholder departments will collaborate to prepare a plan that best meets the operational and financial needs of the government.
- Establishment of a capital improvement program review committee and identification of the committee members (e.g., the finance officer or budget officer and representatives from planning, engineering, project management, and the operations departments most affected by capital plans), along with a description of the responsibilities of the committee and its members.
- A description of the role of the public and other external stakeholders in the process, with the level and type of public participation consistent with community expectations and past experiences.
- Identification of how decisions will be made in the capital planning process including a structured process for prioritizing need and allocating limited resources.
- A requirement that the planning process include an assessment of the government's fiscal capacity so that the final capital plan is based on what can realistically be funded by the government rather than being simply a wish list of unfunded needs.
- A procedure for accumulating necessary capital reserves for both new and replacement purchases.
- A policy for linking funding strategies with useful lives of the assets that includes identifying when debt can be issued and any restrictions on the length of debt.
- A requirement that a multi-year capital improvement plan be developed that includes long-term financing considerations and strategies.
- A process for funding to ensure that capital project funding is consistent with legal requirements regarding full funding, multi-year funding, or phased approaches to funding.
- Provisions for monitoring and oversight of the capital planning program that includes reporting requirements and how to handle plan changes and amendments.

A properly prepared capital plan is essential to the cost effective and quality delivery of services to citizens and businesses. As such, GFOA best practices⁴ also recommend that governments prepare and adopt a comprehensive, fiscally sustainable, multi-year capital plan. The plan should cover a period of 5 to 25 years or more and identify and prioritize expected needs based on a strategic plan, establish project scope and cost, detail estimated amounts of funding from various sources, and project future operating and maintenance costs.

According to City personnel, the City's capital planning policies are included in the City's comprehensive plan⁵ adopted by the Board in January 2021. Our review of the comprehensive plan disclosed that, while it included goals, objectives, and policies relating to capital improvements, the comprehensive plan did not include the following capital planning policy elements recommended by GFOA best practices:

- A description of how stakeholder departments will collaborate to prepare a plan that best meets the operational and financial needs of the City.

⁴ GFOA Best Practice, *Multi-Year Capital Planning*.

⁵ The comprehensive plan was defined as "a document based upon relevant and appropriate data and analysis and permanent and seasonal population projections and estimates which provides the principles, guidelines, standards, and strategies for the orderly and balanced growth of all aspects of an area including but not limited to 5 and 10 year planning periods."

- A description of the role of the public and other external stakeholders in the process.
- Identification of how decisions will be made in the capital planning process, including a structured process for prioritizing need and allocating limited resources.
- A requirement that the planning process includes an assessment of the City's fiscal capacity.
- A procedure for accumulating necessary capital reserves for both new and replacement purchases.
- A policy for linking funding strategies with useful lives of the assets that includes identifying when debt can be issued and any restrictions on the length of debt.
- A process for funding to ensure that capital project funding is consistent with legal requirements regarding full funding, multi-year funding, or phased approaches to funding.

In response to our inquiries, City personnel indicated that, although not in formal policy, the City has informal procedures that address several of the recommendations. For example, City personnel indicated that public and external stakeholders are engaged in the capital planning process via the City's advisory boards and City Council meetings.⁶

The City began working on plans to construct the proposed new WWTF in 2009 and contracted with an engineering firm in August 2011 for services related to the proposed new WWTF. However, according to City records, with no reasonable funding sources secured, plans for the proposed new WWTF were put on hold for several years. In October 2019, the project engineer estimated the total cost for the proposed new WWTF project at \$33.6 million. Once potential funding sources were identified, the City requested bids for certain phases of the proposed new WWTF project and, in February 2021, received low responsive bids totaling \$57.2 million. After consulting with the low bidders and the project engineer, the City rejected all bids and began to seek additional funding.

Subsequently, the City revised the proposed new WWTF project scope to include additional elements such as increased plant capacity, additional spray fields and piping, and the decommissioning of the existing WWTF. City records indicated that, as of March 2024, the proposed new WWTF project was estimated to cost \$96 million. In August 2024, the City requested bids for a portion of Phase 1 of the proposed new WWTF project with an October 2024 response deadline.

The City Council approved the City's 2023-24 through 2027-28 fiscal year *Capital Improvements: Multi-Year Plan* (Capital Plan) on September 12, 2023. Our examination of the Capital Plan found that the document did not include any requests related to the proposed new WWTF project or requests for any projects for the final year of the Plan. The Capital Plan indicated that no capital requests were included for the final year of the Plan as the City was in a transition period with the anticipated construction of the new WWTF and the hiring of a new City Manager. In response to our inquiries, City personnel indicated that requests regarding the proposed new WWTF project were excluded due to the complexity, enormity, and fluidity of the yet-to-be-authorized project and, although not included in the Capital Plan, City personnel indicated that they have identified potential funding sources for the proposed new WWTF project.

⁶ Chapter 2, *Capital Improvement Elements*, of the City's comprehensive plan provides that the City shall make efforts to seek public input for the projects being proposed for inclusion in the "5-Year Schedule of Improvements;" however, the plan does not describe how such public input is to be solicited and considered.

In the absence of comprehensive capital planning policies and a comprehensive, fiscally sustainable, multi-year capital plan, there is an increased risk that the City may not effectively plan for and fund future capital projects, and that critical projects such as the proposed new WWTF project may be unnecessarily delayed, resulting in increased costs to the City, its citizens, and utility customers.

Recommendation: The City Council should enhance existing capital planning policies to include all elements recommended by the GFOA and prepare and approve a comprehensive, fiscally sustainable, multi-year capital plan that includes proposed projects, including the proposed new WWTF project.

Finding 2: Grant Management Policies and Procedures

Governments often apply for significant grant funding from other governments and organizations to support programs and activities. Effective grant management policies and procedures provide guidance to staff regarding the related processes and procedures necessary to maximize benefits and minimize risks. GFOA best practices⁷ recommend that governments develop a formal grants policy that addresses steps to take prior to applying for or accepting grants, including a requirement that the government obtain a detailed understanding of grant terms and conditions and specify how the grant will be monitored. For example, a grants policy should require the establishment of procedures requiring the identification of, and proper training for, the personnel responsible for carrying out the grant and ensuring that the proper resources are available to support the grant. Effective grant management policies and procedures would also include steps to ensure that, prior to submitting applications to the grantor, the information included in the grant application is verified and approved. In response to our inquiry in September 2024, City personnel indicated that draft grant management policies and procedures were developed in March 2020 but that formal approval by the City Council was not pursued.

To evaluate City processes related to grant applications and awards, we examined City documentation related to selected grant awards from the Federal Government and a grant pre-application to Triumph Gulf Coast, Inc. Our examination found that:

- **Federal Grant Awards.** In September 2021 and August 2022, respectively, the United States Department of Defense, through the Office of Local Defense Community Cooperation (OLDCC), and the United States Department of Commerce, Economic Development Administration (EDA), made grant awards to the City totaling \$8.9 million. The OLDCC award provided support for the construction of a sewer line from Naval Air Station Whiting Field to the proposed new WWTF, and the EDA award provided support to the complementary construction of the proposed new WWTF. Both awards included a requirement that the City comply with the provisions of the National Environmental Policy Act (NEPA). Correspondence from the OLDCC and EDA indicated that a technically sufficient NEPA document was necessary to conclude the NEPA process and to proceed with the respective awards.

In a July 2024 letter to the City, the OLDCC and the EDA indicated that they had determined the City's environmental assessment submission was still not legally sufficient in accordance with the NEPA requirements and requested the City to voluntarily terminate both awards or the OLDCC and the EDA would terminate the awards for material failure to comply with award terms and conditions. In a letter to the OLDCC and EDA later that month, the City voluntarily terminated the awards, indicating that the City understood the environmental assessment remained legally

⁷ GFOA Best Practice, *Establishing and Effective Grants Program*.

insufficient for an OLDCC finding of no significant impact within the critical timeframes of both grants, and that all time extensions available to address all public concerns and comments, obtain all permits for all project components, and comply with the NEPA were exhausted.

Had the City established effective grant management policies and procedures, it may have been better positioned to timely resolve the NEPA concerns and retain the grant funding.

- **Triumph Gulf Coast, Inc., Grant Pre-Application.** Pursuant to State law,⁸ Triumph Gulf Coast, Inc. (Triumph) makes awards for projects or programs that meet priorities for economic recovery, diversification, and enhancement of counties disproportionately affected by the Deepwater Horizon oil spill that occurred in April 2010. Triumph created a pre-application process to provide initial consideration of eligibility for potential ideas of projects or programs that may seek an award of funding, and applicants were required to participate in the pre-application process.

In February 2020, the City submitted to Triumph a grant pre-application form requesting \$6 million to help construct the proposed new WWTF to increase wastewater treatment capacity and allow for the development of industrial parks on which a company would construct a new facility. On the pre-application form, the City indicated that the company would make a capital investment of \$12 million and bring 150 additional jobs to the area with an average wage of \$42,000 and that total project costs were estimated to be \$42.5 million.

We requested City records to support the number of additional jobs, the average wage of the jobs, and the estimated cost of the proposed project included in the grant pre-application. In response to our inquiry, City personnel indicated that the pre-application information was provided by the Santa Rosa County Office of Economic Development (County OED) and, because the information was considered confidential pursuant to State law,⁹ the City did not have records supporting the pre-application information. Subsequent to our inquiry, City personnel requested supporting records from the County OED. However, County OED personnel indicated that supporting records were unavailable as the project information was verbally provided by the company due to the uncertainty of the project.

In March 2020, Triumph determined that the project met the minimum requirements for further consideration and informed the City that it could submit a full application for formal consideration. However, according to City personnel, due to unforeseen circumstances, such as economic and supply chain issues resulting from the COVID-19 pandemic, the project was indefinitely delayed and, as of August 2024, the City had not submitted a full application for the grant funding.

When unverified information is provided to a grantor as part of the grant application process, there is an increased risk that the grantor may make incorrect decisions regarding project eligibility and potential grant funding.

Recommendation: The City should continue efforts to establish City Council approved grant management policies and procedures that address steps to take prior to applying for or accepting grants. Such policies and procedures should include:

- **Requirements that the City obtain a detailed understanding of grant terms and conditions, assign responsibility and provide proper training for the specific City personnel carrying out the grant, and ensure that proper resources are available to support the grant.**
- **Consideration of the City's ability to meet grantor deadlines and ensure that grant terms and conditions are fulfilled should the grant be awarded to the City.**
- **Steps to ensure that information included in grant pre-applications and applications is verified for accuracy and supported prior to submitting the applications to the grantor.**

⁸ Section 288.8017, Florida Statutes.

⁹ Section 288.075, Florida Statutes.

Finding 3: Contracted Services

Effective construction project management policies and procedures require that significant project additions or modifications (task orders) be approved by authorized personnel before implementation or payment to ensure that the task orders are necessary, align with the project's scope and objectives, are within the project's budget, and are consistent with existing contract provisions. Such policies and procedures should also include provisions to verify that contractor proposals or billings for task orders are correctly calculated and consistent with existing contract provisions. While City policy¹⁰ does not specifically address task orders, it does require City Council approval prior to making a purchase or authorizing a service to be performed with costs exceeding \$10,000.

As part of our audit procedures, we examined City records supporting 23 payments totaling \$1.4 million during the period October 2022 through December 2023 relating to two projects: the Blackwater River Directional Drill Project (Drill Project) and the Spray Field¹¹ Disposal Area Project. These projects were designed to ensure compliance with the FDEP administrative order¹² requiring the City to cease discharging effluent into the Blackwater River. Our examination disclosed that:

- The City made 8 payments totaling \$43,210 to the Drill Project engineer under the terms of a task order and task order amendment totaling \$93,580 without City Council approval, contrary to City policy. In response to our inquiries, City personnel indicated that the City Council did not approve the task order or task order amendment due to oversight.
- The City made an additional \$78,375 payment to the Drill Project engineer under the terms of a \$96,340 task order dated September 2023. However, the contractor completed the services in May 2023, prior to the City Council approving the task order in September 2023. City personnel indicated that they gave the contractor verbal authorization to proceed because the services were urgently needed to obtain permitting from the FDEP.
- The Drill Project engineer billed the City for subcontractor services at a factor greater than that allowed by the engineer's contract with the City, and City procedures to review engineer invoices submitted for payment did not detect the billing errors. Subsequent to our inquiry, the City performed a review of all invoices submitted by the engineer through April 2024 and determined that the engineer overbilled the City \$41,418 due to the incorrect factor and for a task that was not required. According to City personnel, the overbilled amount was reflected as a credit in subsequent payments to the engineer, and our examination of supporting documentation for a July 2024 payment to the engineer confirmed that a credit for \$41,418 had been applied.

Absent City Council approval for significant project additions or modifications and effective procedures for reviewing contractor billings, there is an increased risk that the City may incur expenses for unauthorized or unnecessary services and overpay for services provided.

Recommendation: The City should establish effective construction project management procedures that ensure City Council approval is obtained for all existing contract additions or modifications with costs exceeding \$10,000 in accordance with City policies. The City should also enhance contractor billing review procedures to verify that such billings are accurate and in accordance with contract rates and provisions before payment is made.

¹⁰ City Policy 9.0, *Purchasing Policy*.

¹¹ A spray field is a land surface onto which effluent is sprayed.

¹² FDEP Administrative Order No. AO-114NW.

Finding 4: Direct Purchase of Construction Materials

Sales tax exemptions for direct purchases can significantly reduce costs for governments. Pursuant to State law,¹³ the City is exempt from paying sales tax on direct purchases, including certain directly purchased goods (e.g., materials, equipment, and fixtures) for construction projects. Consequently, City policies and procedures should require and ensure that this exemption is applied when in the City's best interests. However, as of August 2024, City policies and procedures did not require the direct purchase of construction materials or, alternatively, documentation in City records explaining how the contractor's purchase of the materials would result in greater savings.

In January 2021, the City contracted with an underground utility contractor to complete the Drill Project. However, the City's contract with the contractor did not contain a provision for the City to take advantage of its sales tax-exempt status by directly purchasing the Project's construction materials. Our review of City records also disclosed that the City did not make any direct purchases that resulted in sales tax savings on the Drill Project. According to City personnel, the City decided not to make direct purchases so that the contractor would be fully liable for the materials. However, although we requested, City records were not provided to document whether any cost savings were realized by the contractor's purchase of the materials.

The most recent contractor payment application for work performed through April 2024 indicated that the City paid \$1.9 million to the contractor for work completed on the Drill Project. Insofar as the Drill Project included substantial purchases of piping and other accessory materials, we requested City records supporting the values of the purchased materials; however, the contractor's schedule of values and payment applications did not separately identify these costs. While it may not be feasible for the City to directly purchase all construction materials, the City could have directly purchased a portion of the required construction materials and benefited from the resulting sales tax savings. For example, for every \$100,000 of construction materials directly purchased, the City would have realized savings of \$7,000, assuming a sales tax rate of 7 percent.

Recommendation: City policy and procedures over construction projects should be established to require and ensure that the City takes advantage of sales tax exemptions by making direct purchases of construction materials or, alternatively, documents in City records how the contractor's purchase of the materials would result in greater savings.

Finding 5: Land Appraisals

The City is responsible for establishing effective land acquisition policies and procedures that, among other things, require sufficient independent appraisals of current property values be obtained and considered by the City Council prior to purchasing real property. State law¹⁴ provides that, when a municipality seeks to purchase property for a municipal purpose, every appraisal, offer, or counteroffer must be in writing. Such appraisals, offers, and counteroffers are not available for public disclosure or inspection and are exempt from the provisions of State law¹⁵ until an option contract is executed or, if no

¹³ Section 212.08(6), Florida Statutes.

¹⁴ Section 166.045(1), Florida Statutes.

¹⁵ Section 119.07(1), Florida Statutes.

option contract is executed, until 30 days before a contract or agreement for purchase is considered for approval by the governing body of the municipality. If the public disclosure exemptions allowed by State law are utilized by the municipality, two appraisals are required for purchases over \$500,000. If the agreed purchase price exceeds the average appraised price of the two appraisals, the governing body is required to approve the purchase by an extraordinary vote.

According to City personnel, as of August 2024 the City had not established land acquisition policies and procedures. During the period January 2024 through March 2024, the City purchased three parcels of land totaling 274 acres for use as spray fields for effluent. The City paid over \$500,000 for each parcel of land, and the purchase prices for all three parcels of land totaled \$1.8 million. Our review of City records and inquiries with City personnel disclosed that, although the City utilized the public disclosure exemptions allowed by State law, the City only obtained one appraisal each for the three parcels of land. In response to our inquiries, City personnel indicated that the City contracts with a firm for land acquisitions and, due to an oversight, the City did not ensure that two appraisals were obtained for each of the three land parcels.

Absent effective land acquisition policies and procedures, there is an increased risk that the City will not acquire real property at a fair and appropriate price and, without obtaining the required number of appraisals, City records do not demonstrate compliance with State law.

Recommendation: To ensure compliance with State law and promote the acquisition of real property at a fair and appropriate price, the City should establish land acquisition policies and procedures that require sufficient independent appraisals of current property values be obtained and considered by the City Council prior to purchasing real property.

Finding 6: Florida Department of Environmental Protection Consent Order Compliance

Pursuant to State law,¹⁶ the FDEP has the power and duty to control and prohibit pollution of air and water in accordance with the law and rules adopted and promulgated by the FDEP. Among other things, for this purpose, the FDEP may issue orders to effectuate the control of air and water pollution and enforce the same by all appropriate administrative and judicial proceedings.

On January 23, 2023, the City and the FDEP entered into a consent order¹⁷ to settle certain matters such as effluent exceedances and sanitary sewer overflows relating to the City's existing WWTF. The consent order required the City to pay the Department \$50,500 in fines and to implement the following corrective actions:

- Immediately comply with interim copper effluent limits through September 2024.
- Within 30 days of the consent order (subsequently extended until March 12, 2023), submit an evaluation performed by a certified engineer to discover the causes for the violations.

¹⁶ Section 403.061, Florida Statutes.

¹⁷ FDEP Office of General Counsel File No. 22-2517.

- Within 90 days of submitting the evaluation (subsequently extended until September 30, 2023), submit WWTF design modifications to ensure that the WWTF functions in full and consistent compliance with all applicable FDEP rules.¹⁸
- Within 60 days of the consent order, submit a plan and schedule to bring all WWTF lift stations into compliance with specified standards.
- Within 60 days of the consent order, submit a plan and schedule to reduce infiltration and inflow into the collection system to acceptable levels with planned actions to reduce infiltration and inflow completed no later than October 21, 2023.

The consent order stated that failure to timely comply with the requirements of the consent order could result in stipulated penalties of \$100 per day (in addition to the \$50,500 settlement already paid) and that the City must submit written quarterly reports to the FDEP containing information about the status and projects being completed under the consent order until all corrective actions have been completed.

Our review of the quarterly reports submitted to the FDEP during the period June 2023 through July 2024 indicated that the City reported compliance with all corrective actions except for the City efforts to reduce infiltration and inflow into the collection system to acceptable levels. City efforts included ongoing testing and repairs by maintenance crews that, at the levels undertaken, did not result in corrective action being completed by the October 2023 deadline. The City's contracted engineering firm estimated that compliance could be achieved by April 2028. In response to our inquiries, City personnel indicated that, as of August 2024, the FDEP had not requested payment of stipulated penalties relating to this noncompliance.

Recommendation: The City should continue efforts to implement all corrective actions and comply with the FDEP consent order.

Finding 7: Water and Sewer Fund Rate Studies

Enterprise funds are established in governmental entity financial records to report activities for which a fee is charged to external users for goods and services. The City provides water and sewer services to customers and accounts for the associated revenues and expenditures in a water and sewer enterprise fund (Water and Sewer Fund). City ordinances¹⁹ establish rates for the water and sewer services, and the City Council may periodically adjust the rates. Periodic rate studies are essential to evaluate the adequacy of existing rates and to recommend potential rate adjustments based upon the City's unique circumstances, including future capital plans such as the proposed new WWTF.

Our examination of City records and inquiries with City personnel disclosed that, as of August 2024, the City did not have policies or procedures that require periodic water and sewer services rate studies and City personnel could not recall the last time a rate study was performed. According to City personnel, the City Council annually adjusts rates based on a variety of factors, including inflation, perceived needs, projected capital improvement estimates, and required revenue to augment the City's General Fund operating expenses (as further discussed in Finding 8). City personnel also indicated that they compare

¹⁸ On September 28, 2023, a City-contracted engineer responded to the FDEP that no significant WWTF modifications were determined necessary and requested that the FDEP approve a pilot study to use chemical additives to address the copper effluent exceedances. On August 20, 2024, the FDEP approved the pilot study through December 2024.

¹⁹ Chapter 48, Article II, Division 3, Section 48, City of Milton Code of Ordinances, *Commercial Charges for Water and Sewer*.

rate surveys of other Florida communities to City utility rates. Notwithstanding, periodic rate studies would provide the City with additional insight into the adequacy and fairness of current rates and whether those rates align with and support future utility capital projects, including the proposed new WWTF.

Recommendation: The City should establish policies and procedures that require periodic water and sewer utility rate studies and that such rate studies consider the City’s future capital outlay needs.

Finding 8: Water and Sewer Fund Transfers to the General Fund

Municipalities that provide water and sewer services to its customers often transfer utility resources to the General Fund to support general government services. To balance the competing priorities of providing reliable utility services to customers and financially supporting general government services, it is imperative that the City use a reasonable and consistent methodology for determining transfer amounts. Such methodologies should consider all relevant factors, such as future utility capital outlay plans and the associated long-term financial implications (e.g., debt issuance).

As shown in Table 1, the Water and Sewer Fund provided substantial support for general government services by transferring \$10.9 million over the past 4 years to the City’s General Fund.

Table 1
Water and Sewer Fund Transfers to the General Fund
For the 2019-20 Through 2022-23 Fiscal Years
(in Millions)

	2019-20	2020-21	2021-22	2022-23
Water and Sewer Fund Transfer to the General Fund	\$ 2.3	\$ 2.3	\$ 2.9	\$ 3.4
General Fund Revenue and Other Financing Sources	\$10.2	\$10.5	\$12.4	\$13.9
Transfer as a Percentage of General Fund Revenue and Other Financing Sources	22.5%	21.9%	23.4%	24.5%
Water and Sewer Fund Income ^a	\$ 3.4	\$ 4.2	\$ 4.0	\$ 8.6
Transfer as a Percentage of Water and Sewer Fund Income	67.6%	54.8%	72.5%	39.5%

^a Income was calculated as operating revenues and capital contributions less operating and non-operating expenses. Per the City’s notes to the financial statements for the 2022-23 fiscal year, capital contributions represent impact fees and capital grant funding for engineering fees associated with the proposed new WWTF.

Source: City’s Audited Financial Statements.

Although we requested, City records evidencing the specific methodology used and calculations made to support the amounts of the Water and Sewer Fund transfers to the General Fund were not provided. In response to our inquiries, City personnel indicated that the methodology for the transfers is not governed by City policy; however, the budget is governed by City policy that requires a balanced budget. City personnel also indicated that transfer amounts are generally determined by adjusting the amount of the previous fiscal year’s transfer for various factors, such as changes in water and sewer rates, departmental budget projections, overall City capital outlay requests, and City Manager and City Council directives.

Notwithstanding, absent City records evidencing the specific methodology used and calculations made to support the amounts of the Water and Sewer Fund transfers to the General Fund, City records do not demonstrate that the City considered the effect of the transfers on the provision of reliable utility services to customers or the impact on the financing of future capital projects such as the proposed new WWTF.

Recommendation: The City should adopt and consistently utilize a sustainable methodology to calculate Water and Sewer Fund transfers to the General Fund. Such methodology should consider the provision of reliable utility services and all relevant factors, such as future utility capital outlay plans and the associated long-term financial implications.

Finding 9: Conflicts of Interest

The Legislature has declared that it is essential to the proper conduct and operation of government that public officials be independent and impartial and that public office not be used for private gain other than the enumeration provided by law, and the public interest requires that the law protect against any conflict of interest.²⁰ It is the policy of the State that no officer or employee of a governmental entity have any interest, financial or otherwise, direct or indirect; engage in any business transaction or professional activity; or incur any obligation of any nature which is in substantial conflict with the proper discharge of his or her duties in the public interest.²¹ State law²² provides that no public officer or employee is to have or hold any employment or contractual relationship with any business entity or any agency that is subject to the regulation of, or is doing business with, the agency of which he or she is an officer or employee. State law²³ also requires certain local officers, as applicable, to file a statement of financial interests within 30 days of appointment, no later than July 1 of each year, and within 60 days of leaving office or employment. Local officers include, among others:

- Elected officials.
- Chief administrative employees of a municipality.
- Municipal attorneys.
- Municipal finance directors.
- Municipal clerks.
- Chief municipal building code inspectors.
- Appointed members of the planning and zoning board or other boards having the power to recommend, create, or modify land planning or zoning within a political subdivision.
- Purchasing agents having the authority to make any purchase exceeding \$35,000 on behalf of a municipality.

To assist the City in identifying an existing or potential conflict of interest, City policies²⁴ require employees to complete a Conflict-of-Interest Disclosure Form (COI Form) identifying any personal or business relationships which may pose or may appear to pose a conflict of interest. While not required by City policies, City practice is to require a similar COI Form from all vendors bidding on contracts or

²⁰ Section 112.311(1), Florida Statutes.

²¹ Section 112.311(5), Florida Statutes.

²² Section 112.313(7)(a), Florida Statutes.

²³ Section 112.3145(1) and (2), Florida Statutes.

²⁴ City Policy 1.3, *Conflict of Interest*.

purchases over \$25,000. City Employee COI Forms are filed in the Human Resources Department and vendor COI forms are filed in the Purchasing Department. However, the City has not established procedures for periodic documented reviews of the COI Forms to increase the assurance of detecting potential conflicts of interest. In response to our inquiries, City personnel indicated that, if a conflict-of-interest concern is brought to their attention, City practice is to refer the concern to the City Attorney for a legal opinion. Notwithstanding, in the absence of established procedures for documented reviews of conflict-of-interest disclosure forms submitted by employees and vendors, there is an increased risk that City personnel may be unaware of potential conflicts of interest when procuring goods or services.

Additionally, although we requested, we were not provided records evidencing that City personnel responsible for approving purchases routinely reviewed and considered the statements of financial interests filed by local officers. Our audit procedures disclosed that, as of May 2024, 9 current or former local officers (5 City Council members, 2 City Managers, a City Clerk, and a City Planning Board member) of the 44 local officers required by State law to file statements of financial interests did not file for the 2022 or 2023 calendar years or both. Specifically, 3 local officers did not file a statement of financial interests for the 2022 calendar year, 5 local officers did not file a statement of financial interests for the 2023 calendar year, and 1 local officer did not file a statement of financial interests for either the 2022 or 2023 calendar years. In response to our inquiries, City personnel indicated that the City had not established written policies and procedures to ensure compliance with the statutorily required statement of financial interests filings, and the 9 local officers failed to file the required forms due, in part, to a lack of oversight by City personnel who did not inform the local officers of the filing requirements.

Disclosures of financial interests are essential to provide a public record of the financial interests, activities, and associations of local officers, as well as potential conflicts of interest. Also, absent the required statements of financial interests, and the routine review and consideration of the disclosures on those statements by City personnel responsible for approving purchases, there is an increased risk that City personnel may be unaware of potential conflicts of interest when procuring goods or services.

Recommendation: The City should enhance its conflict-of-interest policies and procedures. Such enhancements should require and ensure that local officers complete and timely submit the required statements of financial interests and that City personnel responsible for approving purchases routinely review and consider the statement disclosures along with employee and vendor COI Forms to avoid potential conflicts of interest when procuring goods and services.

Finding 10: Public Records – Electronic Communications

State law²⁵ requires the City to maintain public records in accordance with the records retention schedule²⁶ established by the Florida Department of State, Division of Library and Information Services. The schedule specifies that the retention periods for electronic communications, including e-mail and text messages, are determined by the content, nature, and purpose of the messages, and are based on their

²⁵ Section 119.021(2)(b), Florida Statutes.

²⁶ State of Florida General Records Schedule GS1-SL for State and Local Government Agencies. The records retention schedule applies to records regardless of the format in which they reside; therefore, records created or maintained in electronic format must be retained in accordance with the minimum retention requirements presented in the schedule.

legal, fiscal, administrative, and historical values, regardless of the format in which they reside or the method by which they are transmitted. Failure to maintain records in accordance with State law could result in City officials being subjected to the penalties specified in State law.²⁷

City ordinances²⁸ provide that the Mayor and City Council are responsible for preserving, or providing to the custodian of records for preservation, public records created on cell phones, whether issued by the City or privately owned. According to City personnel, as of June 2024 the City owned 129 active cell phones. However, our examination of City records and discussion with City personnel disclosed that, as of August 2024, the City had not established procedures to provide for the collection and retention of public records from City-owned cell phones.

City policy²⁹ outlines legal requirements, responsibilities, and procedures for providing access to public records and states that City officials and employees who elect to use personal computers, communication devices, or e-mail accounts to conduct City business must ensure that all public records on such computers, devices, and accounts are retained according to law and that access to such records is provided pursuant to a request for inspection. Additionally, City officials and employees who elect to use personal computers, communication devices, or e-mail accounts to conduct City business are advised to copy their respective City accounts in connection with all transactions of official business. In response to our inquiry, City personnel indicated that, while e-mails sent and received from City e-mail accounts are retained on City computer servers, e-mail and text messages related to City business that are sent and received from personal e-mail accounts and personal wireless communication devices are not collected and retained.

In May 2024, the City filed a Complaint to Enforce Florida's Public Records Act Declaratory Relief and Petition for Writ of Mandamus in the Circuit Court of the First Judicial Circuit in and for Santa Rosa County, Florida. The complaint alleges that the Mayor refused to produce certain communication records, including e-mails and text messages, that were the subject of public records requests by the City Attorney. The complaint requests the court to declare the Mayor in violation of the Public Records Act and issue a writ of mandamus compelling the Mayor to produce the requested public records in her possession.

While City policy requires City officials and employees electing to conduct City business using personal computers, communication devices, or e-mail accounts retain and provide access to City-related public records, the City has no means to verify that all such records are maintained in accordance with State law. Absent effective public records retention policies and procedures and adequate controls to ensure compliance with record retention laws, the City has limited assurance that City officials and personnel consistently and appropriately maintain public records.

Recommendation: The City should enhance policies and procedures to ensure compliance with State public records laws. Such enhancements should include provisions for the collection and retention of public records from City-owned cell phones. In addition, we recommend that the City prohibit the use of personal e-mail accounts and personal wireless communication devices when

²⁷ Section 119.10, Florida Statutes.

²⁸ Chapter 2, Article II, Section 2-33, City of Milton Code of Ordinances, *Compliance*.

²⁹ City Policy 1.13, *Public Records Policy*.

conducting City business or implement a process that ensures the City captures and archives all City-related communications from such devices.

Finding 11: Anti-Fraud Policy

Appropriate policies and procedures for communicating, reporting, and investigating known or suspected fraud is essential to aid in the mitigation, detection, and prevention of fraud. GFOA best practices³⁰ recommend that governments establish policies and procedures to encourage and facilitate the reporting of fraud and that, at a minimum, governments should:

- Widely distribute and publicize policies that can serve as a practical basis for identifying potential instances of fraud.
- Establish practical mechanisms (e.g., a hot line) to permit the confidential, anonymous reporting of concerns about fraud.
- Regularly publicize, both internally and externally, the availability of reporting mechanisms and encourage individuals who may have relevant information to provide it to the government.

The City Council adopted a fraud policy³¹ in December 2019 with a requirement that the policy be provided to new employees and posted on the City Web site. The policy includes, in part, definitions of fraud and corruption, responsibilities for reporting fraud or corruption, protections for those reporting such activity, and internal controls to help deter, detect, and prevent such activity. The policy also indicates that reported concerns may be made anonymously and that all reported concerns will be forwarded to the City Manager who will designate appropriate personnel to perform an investigation, and, if deemed necessary, notify law enforcement.

While the City's fraud policy has many positive features, the policy does not:

- Establish practical mechanisms to report fraud confidentially and anonymously.
- Indicate how concerns regarding the City Manager or the City Council should be reported and investigated.

In addition, although the City's fraud policy is posted on the City's Web site under the Purchasing Department Web page and new employees are provided with a copy of the policy, City personnel indicated that the policy is not otherwise widely distributed or publicized, internally or externally, to encourage and facilitate the reporting of fraud.

Absent effective policies and procedures for communicating, reporting, and investigating known or suspected fraud that are widely distributed and publicized, there is an increased risk that fraud will not be detected and reported. In response to our inquiries, in May 2024, City personnel indicated that senior staff were conducting a review of all City policies for revision and approval by the City Council.

Recommendation: The City should strengthen policies and procedures to encourage and facilitate the reporting of fraud. Specifically, the policies and procedures should:

- **Establish practical mechanisms for the confidential and anonymous reporting of concerns about fraud.**

³⁰ GFOA Best Practice, *Whistleblowing*.

³¹ City Policy 9.1, *City of Milton Fraud Policy*.

- **Address how concerns regarding the City Manager or the City Council should be reported and investigated.**
- **Be widely distributed and publicized.**

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 December 4, 2023, meeting, directed us to conduct this operational audit of the City of Milton (City). In addition, Section 288.8018(2), Florida Statutes, provides that, every 2 years, the Auditor General shall conduct an operational audit of a local governmental entity's funds related to the Deepwater Horizon oil spill.

We conducted this operational audit from February 2024 through August 2024 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 Milton focused on selected processes and administrative activities. 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 2022 through December 2023, 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, grants, 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 Council 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 comprehensive capital planning policies and procedures and a comprehensive, multi-year capital plan that includes the proposed new Wastewater Treatment Facility (WWTF) project.
- Determined whether the City had established written policies and procedures that address the periodic performance of rate studies, and whether the City had performed a recent rate study for the water and sewer services provided to its customers.
- Evaluated the financial condition of the City's General Fund and Water and Sewer Enterprise Fund.
- From the population of \$1.6 million in expenses during the audit period that relate to City actions taken to comply with the Florida Department of Environmental Protection (FDEP) Administrative Order AO-114NW and plan for the proposed new WWTF, examined expenses totaling \$1.4 million to determine whether key controls over the procurement of goods and services were properly designed and operating effectively.
- Determined whether the City took advantage of sales tax exemptions by making direct purchases of construction materials or documented in City records how the contractor's purchase of the materials would result in greater savings.
- Examined City records supporting City purchases of land relating to the proposed new WWTF project totaling \$1.8 million during the period October 2022 through March 2024 to determine whether the purchases were made in accordance with State law, City ordinances, City policies and procedures, and good business practices.

- Evaluated whether City records evidenced a reasonable and sustainable methodology to calculate transfers of resources from the Water and Sewer Fund to the General Fund.
- Reviewed City records and correspondence with the FDEP to determine whether the City obtained required wastewater discharge permits.
- Evaluated City actions taken to comply with administrative and consent orders issued by the FDEP relating to the existing City WWTF and effluent discharge.
- Evaluated the adequacy of City policies and procedures to identify potential conflicts of interest. For selected City officials, reviewed statements of financial interests, internally developed conflict of interest forms, and other City records to identify any potential relationships that represented a conflict of interest with City vendors.
- Determined whether the City had established effective policies and procedures for the collection and retention of public records from electronic communications.
- Determined whether the City had established effective policies and procedures for communicating, reporting, and investigating known or suspected fraud.
- Determined whether the City had established effective grant policies and procedures necessary to utilize grant resources during their period of availability to assist in construction of the proposed new WWTF. In addition, we evaluated the accuracy of information submitted by the City to Triumph Gulf Coast, Inc., as part of the grant application process.
- Inquired of City personnel to determine whether the City entered into any contracts under the authority granted by a state of emergency, declared or renewed during the audit period.
- Examined City records, including City Council meeting minutes, for our audit period and inquired of City personnel to determine whether any construction or electrical projects with estimated or actual costs exceeding the thresholds specified in Section 255.20, Florida Statutes, were performed using City services, employees, and equipment.
- 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

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



November 14, 2024

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

RE: Wastewater Treatment Facility Capital Planning and Selected Administrative Activities Audit

Dear Ms. Norman:

Enclosed is a written statement of explanation concerning the eleven (11) preliminary and tentative audit findings and recommendations, including our actual or proposed corrective actions. The City of Milton wishes to thank the staff for providing insight and guidance throughout the audit process.

All required resources to accomplish the Improvement Plan tasks within the allotted timeframes are committed. Please do not hesitate to contact me with any questions, additional requests, or concerns.

Respectfully,

Edward E. Spears
City Manager

Enclosure

cc: Mayor Heather Lindsay
Members of Milton City Council

*P. O. Box 909 * Milton, Florida 32572 * (850) 983-5400 * Fax (850) 983-5415*

CITY OF MILTON
PRELIMINARY AUDIT FINDINGS, EXPLANATIONS, AND
IMPROVEMENT PLANS

The City of Milton (City) wishes to thank the staff of the Auditor General of the State of Florida for their professional, timely and thorough review of its operations and specifically its management of the North Santa Rosa Regional Water Reclamation Facility Project (NSRRWRF).

The City takes the audit findings seriously and it is convinced that the implementation of the Improvement Plans, as identified for each finding, will result in better management practices to make our City stronger and better prepared for future project success. While having identified areas for improvement, it is our sincere hope that the public can view these results as evidence that, overall, the City is committed to serving the best interest of its citizens by remaining responsible stewards of the public's financial and environmental resources.

As discussed with the state auditors, this audit does not highlight all the positive achievements and successful practices we have implemented. The auditors undertook a comprehensive review of our policies, procedures, actions, transactions, decisions and millions in project expenditures. The purpose was to evaluate and assess the performance and integrity of the City's management in establishing and maintaining internal controls and fulfilling assigned responsibilities in accordance with laws, rules, regulations, contracts, grant agreements, and other guidelines. There were no incidences of fraud, waste or abuse identified.

The City of Milton appreciates the Auditor's time and recommendations and looks forward to the Auditor's 18-month review of its recommended Improvement Plans as identified below.

- 1. The City needs to enhance capital planning policies and procedures and complete a comprehensive multi-year capital plan that includes the proposed new wastewater treatment facility (WWTF) project.***

EXPLANATION: The City only included goals, objectives, and policies relating to capital improvements in its adopted Comprehensive Plan. While the City's past capital improvement processes did include department collaboration, prioritization and resource allocation, fiscal capacity assessment, and public and external stakeholder involvement activities, the City agrees that these and all other elements recommended by GFOA need to be included in the Comprehensive Plan and that a comprehensive, multi-year capital plan that includes the proposed new wastewater treatment facility (WWTF) project needs to be completed.

IMPROVEMENT PLAN: The City's Chief Financial Officer will work with the City's Budget Coordinator to begin enhancing existing capital planning policies to include all elements recommended by GFOA and prepare a comprehensive, fiscally sustainable, multi-year capital plan that includes all proposed projects as recommended for City Council Approval.

IMPLEMENTATION TIMELINE: On or before FY 2026 Budget Workshop (July 2025).

2. *The City had not established grant policies and procedures, which may have resulted in forfeited funding opportunities for the proposed new WWTF project.*

EXPLANATION: The City agrees that its drafted grant policies and procedures need to be finalized and approved. It is important to note that the City mitigated risks associated with a newly formed department by hiring an experienced federal/state grants manager and by developing close partnerships with grantor-assigned project managers, as well as by partnering with other government agencies and by hiring multiple specialty grant (CDBG, EDA) and environmental consultants as needed.

Specifically related to the new WWTF project, it is also important to note that NEPA team meetings were ongoing throughout the process. These NEPA team meetings included representatives from the City, hired consultants (environmental, EDA, and engineering), and each grantor. In 2022, NEPA compliance requirements and detailed grant deadlines were presented to City Council.

IMPROVEMENT PLAN: The City's Assistant City Manager will work with the City's Grant Manager to continue efforts to establish City Council approved grant management policies and procedures that address steps to be taken prior to applying for or accepting grants as recommended. Such policies and procedures will include:

- A requirement that the city obtain a detailed understanding of grant terms and conditions, assign responsibility and provide proper training for specific City personnel carrying out the grant, and ensure the proper resources are available to support the grant.
- A consideration of the City's ability to meet grantor deadlines and ensure that grant terms and conditions are fulfilled should the grant be awarded to the City.
- Identify steps to ensure the information included in grant pre-applications and applications are verified for accuracy and supported with documentation prior to submitting the applications to the grantor.

IMPLEMENTATION TIMELINE: On or before January 2025.

3. *City policies and procedures over contracted services need improvement.*

EXPLANATION: The City acknowledges the need for policy and procedure improvements over contracted services. As a note of clarification, the identified overbill was due to an oversight regarding a percentage cap placed on a specific service type within a single contract that impacted multiple task orders. Unfortunately, the oversight was not detected within current purchasing verification systems. Once identified, City and vendor staff immediately implemented improvements within their processes to prevent any future overbillings of this kind and the City was issued a credit for the overbilling by the vendor.

The Purchasing Team will continue to research Naviline system software capabilities for catching billing errors effectively and quickly to maintain compliance with 715.12 Florida Statutes the Prompt Payment Act and will revise policies and procedures to include task order processing and approval in urgent and exigent situations to ensure City policy compliance.

IMPROVEMENT PLAN: The City's Assistant City Manager will work with the City's Purchasing Director to establish effective construction project management procedures that ensure City Council approval will be obtained for all existing contract additions or modifications that exceed the established threshold costs in accordance with City policies. The City's Purchasing Team will also continue to enhance contractor billing review procedures to verify that such billings are accurate and in accordance with contract rates and provisions, before payments are made.

IMPLEMENTATION TIMELINE: On or before January 2025.

4. *The City had not established policies and procedures for direct purchases of construction materials, and the City did not take advantage of sales tax exemptions by directly purchasing construction materials.*

EXPLANATION: The City agrees that direct material purchases policies and procedures need to be established and that sales tax exemption advantage evaluations need to be conducted on construction projects. The potential need for warehousing materials, the potential for fraud, the potential liabilities assumed by the City staff under direct construction material purchases have been deterrents to direct material purchases. The City is currently reviewing Sales Tax Exempt Purchasing Agreements that could mitigate the liabilities and risks associated with direct material purchases.

IMPROVEMENT PLAN: The City's Assistant City Manager will work with the City's Public Works Director and Purchasing Director to establish a construction project policy and procedures to require and ensure that the City takes advantage of sales tax exemptions by making purchases of construction materials or, alternatively, ensure that City documents how the contractor's purchase of the materials would result in greater savings.

IMPLEMENTATION TIMELINE: On or before January 2025.

5. *The City had not established land acquisition policies and procedures.*

EXPLANATION: The City recognizes the need to ensure State law compliance in all situations and will require the submission of complete and accurate records of every land acquisition appraisal, offer, and counteroffer to be submitted to the City's Purchasing Department for review and determination of State law compliance prior to any future land acquisitions. For the record, it may be important to note, the specific land acquisitions identified were not funded by Federal or State dollars and the acquired land was needed to meet exigent demands.

IMPROVEMENT PLAN: The City's Assistant City Manager will work with the City's Economic Development Director and Purchasing Director to establish land acquisition policies and procedures that require sufficient independent appraisals of current property values be obtained and considered by the City Council prior to purchasing real property to ensure compliance with State law and promote the acquisition of real property at a fair and appropriate price.

IMPLEMENTATION TIMELINE: On or before January 2025.

6. *The City had not fully complied with a Florida Department Environmental Protection consent order relating to the existing WWTF.*

EXPLANATION: On October 24, 2024, FDEP deemed the City was compliant with the terms of the first amended consent order executed on October 18, 2024.

IMPROVEMENT PLAN: The City Manager will work with the City's Public Works Director to continue efforts to implement all corrective actions and comply with FDEP consent orders on or before the established deadlines. The City will continue to comply with the implementation of the Inflow and Infiltration (I&I) Plan and complete the actions found within that plan no later than April 30, 2028. If the City is unable to submit any of the corrective actions timely, the City will submit a formal extension request to avoid stipulated penalties.

IMPLEMENTATION TIMELINE: Currently, the City is up to date on the consent order compliance actions relating to the existing WWTF.

7. *The City had not established any policies and procedures that require and ensure periodic water and sewer rate studies are performed and that the rate studies include consideration of the City's future capital plans.*

EXPLANATION: The City recognizes the need identified within the findings. It is important to note that the City of Milton did conduct a Water and Wastewater Study that was published in the 2020 UNC Utility Rate Study. The City's utility rates were compared to approximately 270 other cities across the State of Florida within this study.

IMPROVEMENT PLAN: The Chief Financial Officer will work with the City's Planning and Public Works Directors to establish policies and procedures that ensure periodic water and sewer utility rate studies are performed and ensure such rate studies consider the City's future capital outlay needs as recommended.

IMPLEMENTATION TIMELINE: On or before January 2025.

8. *The City had not established any policies and procedures to ensure the resources transferred from the Water and Sewer Fund to the General Fund are calculated using a reasonable and consistent methodology.*

EXPLANATION: The City has previously acknowledged the need for policy and procedures for Enterprise Transfers to the General Fund. Improvements are already underway through the development of a cost allocation plan.

IMPROVEMENT PLAN: The Chief Financial Officer will work with the Budget Coordinator to continue the development of a cost allocation plan. The City will also adopt and consistently utilize a sustainable methodology to calculate Water and Sewer Fund transfers to the General Fund. Such methodology will consider the provision of reliable utility services and all relevant factors, such as future utility capital outlay plans and the associated long-term financial implications.

IMPLEMENTATION TIMELINE: Prior to FY 2026 budget preparation cycle (April 2025).

9. *The City needs to strengthen its conflict-of-interest policies.*

EXPLANATION: The City recognizes the need that was identified within the findings to create and implement policy and procedures to ensure that certain local officers file their statement of financial interests with the Commission on Ethics within 30 days of appointment, annually, no later than July 1st of each year, and within 60 days of leaving his/her office or employment. Additionally, the policy will include documented periodic reviews and comparisons of the Conflict-of-Interest Forms (signed by employees & vendors) with the Financial Disclosure Forms that are being filed with Commission on Ethics.

IMPROVEMENT PLAN: The City Clerk will work with the Human Resource Director to formalize an official on-board training for newly elected council members and board appointees with an annual refresher that will include a review of the strengthened conflict-of-interest policies. The City Clerk will enhance the conflict-of-interest policies and procedures to ensure the local officers complete and timely submit the required statements of financial interest. Additionally, the City Clerk will include documented periodic reviews and comparisons of the Conflict-of-Interest Forms (signed by employees & vendors) with the Financial Disclosure Forms that are being filed with the Commission on Ethics.

The Assistant City Manager will work with the City's Purchasing Director to incorporate in the procurement of goods and services procedures, the routine review and consideration of statement disclosures, along with employee and vendor Conflict-of-Interest Forms to avoid potential conflicts of interest when procuring goods and services.

IMPLEMENTATION TIMELINE: On or before January 2025.

10. *The City needs to enhance public records policies and procedures to ensure the electronic communications are made available to members of the public pursuant to State law.*

EXPLANATION: The City recognizes the need identified within the findings. Due to the findings, the City accepts the recommendations and will also formalize an official on-boarding for newly elected council members and board appointees with an annual refresher that will include a review of the enhanced public records policies and procedures.

IMPROVEMENT PLAN: The City Clerk will enhance policies and procedures to ensure compliance with State public records laws. Such enhancements will include the regular inventory and routine maintenance and backup provisions for the collection and retention of public records from City-owned cell phones through the City's IT Department. In addition, the City will strongly recommend against the use of personal e-mail accounts and personal cell phones when conducting city business.

IMPLEMENTATION TIMELINE: On or before January 2025.

11. The City could enhance its anti-fraud policies and procedures for the mitigation, detection and reporting of suspected or known fraud.

EXPLANATIONS/COMMENTS: The City recognizes the need identified within the findings. The City's IT team has already created an email account for employees to anonymously report fraud.

IMPROVEMENT PLAN: The Chief Financial Officer will strengthen policies and procedures to encourage and facilitate the reporting of fraud. Specifically, the policies and procedures will:

- Establish practical mechanisms for the confidential and anonymous reporting of concerns about fraud.
- Address how concerns regarding the City Manager or the City Council should be reported and investigated.
- Be widely distributed and publicized.

IMPLEMENTATION TIMELINE: On or before January 2025.