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September 20, 2023

Mr. Jeff Crigler
Chief Executive Officer
Holley-Navarre Water System, Inc.
8574 Turkey Bluff Road
Navarre, Florida 32566

Re: Forensic Examination of Holley-Navarre Water System, Inc.

Dear Mr. Crigler:

Our firm was engaged to perform an inquiry concerning the internal controls of Holley-Navarre Water System, Inc. (Holley-Navarre or HNWS) with a specific focus on the internal controls related to its chief executive officer. This inquiry was predicated on concerns raised in relation to the former chief executive officer's tenure. Attached is Carr, Riggs & Ingram, LLC's Forensic Examination Report detailing the procedures performed and the resulting findings.

We have performed this engagement in accordance with the Statement on Standards for Forensic Services No. 1 as promulgated by the American Institute of Certified Public Accountants (AICPA) and the Code of Professional Standards of the Association of Certified Fraud Examiners (ACFE). While our work involved analysis of accounting records, our engagement did not constitute an audit in accordance with generally accepted auditing standards, an examination of internal controls, or any other attestation or review service in accordance with standards established by the AICPA. Had other procedures been performed, other matters may have come to our attention that may have affected the findings reported herein.

This report is intended solely for the use of Holley-Navarre and should not be used for any other purpose without prior permission from CRI. We have no obligation, but reserve the right, to update this report for information that comes to our attention after the date of this report.

Sincerely,

Carr, Riggs & Ingram, LLC
Carr, Riggs & Ingram, LLC
Certified Public Accountants



Holley-Navarre Water System, Inc.

Forensic Examination Report and Supplementary Information

September 20, 2023





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Holley-Navarre Water System, Inc. Forensic Examination Report

Background

Holley-Navarre Water System, Inc. (Holley-Navarre or HNWS) was established on or around April 15, 1970 as a member-owned, not-for-profit corporation. Holley-Navarre operates, maintains and constructs a water and sewer (wastewater treatment services) for domestic, commercial, agricultural and industrial purposes to its members. Holley-Navarre is primarily located at 8574 Turkey Bluff Road, Navarre, Florida. Holley-Navarre has an exclusive franchise agreement with Santa Rosa County, Florida, to operate and maintain a public water supply and public sewer system in southeastern Santa Rosa County.

Holley-Navarre is governed by seven elected board members (Board), who appoint a chief executive officer (CEO) to supervise the daily operations of Holley-Navarre. The Board is elected by the members for a three year term, and they do not receive any compensation for their service. HNWS serves more than 14,000 customers throughout southern Santa Rosa County. HNWS has three main departments including Administration, Wastewater and Water. The Administration department includes management, finance, billing, information technology, customer service, human resources, etc. Wastewater and Water departments include wastewater collections, wastewater treatment, field service, water field operations and water operations.

Holley-Navarre is a Florida not-for-profit corporation designated as 501(c)(3) organization under the Internal Revenue Code and Holley-Navarre has two related-party entities. The Club at Hidden Creek, LLC (The Club) is a single-member limited liability company formed by Holley-Navarre in 2012 to acquire and operate the Hidden Creek Golf Course in Navarre. Municipal Engineering Services, Inc. (MESI) was formed in 2014 to perform engineering services for both HNWS and other entities. While the books and records of the related entities are maintained separately, the three entities are consolidated into one set of audited financial statements under Holley-Navarre.

In or around November 2020, Dr. Dallas Peavey was appointed as Holley-Navarre's chief executive officer by the Board. Dr. Peavey signed a three year contract with HNWS effective December 7, 2020. Dr. Peavey's employment ended with HNWS on August 3, 2022.

In or around November 2022, Holley-Navarre accepted proposals for forensic accounting services related to its internal controls. Areas of concern included internal controls related to the chief executive officer. In or around May 2023, CRI was subsequently engaged to provide the requested forensic accounting services.

Scope

Our investigation was for the period beginning January 1, 2022 through June 30, 2022 (review period). Our work was limited to those specific areas identified by Holley-Navarre. Had additional documents been provided to CRI or additional individuals interviewed, additional information may have been discovered that could impact the findings in this report.

During interviews with Holley-Navarre employees, various allegations regarding potential conflicts of interest and other items were denoted. It was apparent during the interviews as well as during our subsequent analysis of the financial activities within the review period that these allegations related to periods prior to the review period. These allegations were discussed with the current chief executive officer for potential further review by Holley-Navarre.

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Approach

Our engagement was conducted in accordance with the Statement on Standards for Forensic Services No. 1 (SSFS), applicable professional standards promulgated by the American Institute of Certified Public Accountants (AICPA) and the Code of Professional Standards of the Association of Certified Fraud Examiners (ACFE). The AICPA's SSFS does not specifically require or promote the use of certain methodologies, techniques, etc. for forensic engagements. This is due to the fact that no single standard can be extensive enough to consider all of the potential methodologies, techniques, etc. that could be applied to every forensic engagement.

Rather, this statement implements general standards that should be followed during a forensic engagement. These standards include that an AICPA member should have the professional competence to perform the engagement and exercise due professional care during the performance of the engagement. These standards were followed during the course of our engagement.

As indicated by the SSFS, "forensic accounting services generally involve the application of specialized knowledge and investigative skills by a member to collect, analyze, and evaluate certain evidential matter and to interpret and communicate findings." Due to the nature of the concerns involved, CRI was required by professional standards to conduct this engagement under SSFS. It should not be construed that attest standards (i.e., audit related engagements under the professional standards) would be more applicable to the subject engagement or yield a different/more reliable result. It should be noted that auditors conducting financial statement audits consider fraud, specifically as to whether it would result in a material misstatement of the financial statements.¹ It is an organization's management that is responsible for the design, implementation of programs and controls to prevent, deter and detect fraud.² The SSFS requires that practitioners "obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations." CRI obtained such sufficient relevant data to support the basis for its conclusions and recommendations.

We confirm that the authors and other professional staff involved in preparing this report acted independently and objectively. The fees for this engagement were based on professional time expended. Our fees were not contingent upon the final results, conclusions or resolutions.

Using the data provided to us, we performed the procedures enumerated in our engagement letter dated May 2, 2023 as delineated below. We also applied various commonly used forensic data mining techniques to the provided data to identify trends, patterns and areas of noncompliance in the data provided. These techniques and the identified trends/patterns/noncompliance are outlined below.

¹ AU Section 316, *Consideration of Fraud in a Financial Statement Audit*.

² Ibid.

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Expert Qualifications

Carr, Riggs & Ingram, LLC (CRI) is a regional certified public accounting and consulting firm with roots going back to 1972. Currently ranked among the top 25 public accounting firms in the United States, CRI is the South's largest regional firm. The CRI forensic team provides a spectrum of forensic and litigation services ranging from prevention to detection in response to fraud. The CRI forensic team include members who have received forensic accounting designations from the most widely recognized forensic accounting associations. These designations include Certified Public Accountants, Certified Fraud Examiner and Certified in Financial Forensics.

Ben Kincaid, CPA, CFE, CVA, CFF

Ben Kincaid has over 11 years of experience in public accounting and in providing a variety of forensic accounting services. These forensic accounting services include litigation support, financial fraud investigations, business valuations, lost profit calculations, etc. Mr. Kincaid has served as a consultant for several state, county and other local law enforcement agencies/governments and serves on the AICPA's Forensic and Litigation Support Education Task Force.

Additionally, Mr. Kincaid is a Certified Public Accountant, which is the premier designation in the accounting industry. The Certified Public Accountant license is regarded as a symbol that an accountant has mastered the vital elements of the accounting profession and is a high standard that is globally recognized as an assurance of skill, dedication and quality. Mr. Kincaid has also received the Certified Fraud Examiner and Certified in Financial Forensics designations. These forensic accountant designations are considered to be the most valuable forensic certifications. Holders of these forensic accountant designations are required to demonstrate a high level of knowledge and competence within the field of forensic accounting. Mr. Kincaid is also a Certified Valuation Analyst, which is the most widely recognized business valuation credential. A summary of Mr. Kincaid's résumé and qualifications is included in Appendix A of this report.

Donna Melillo, CPA, CFE

Donna Melillo has over six years of experience in accounting and consulting services. She specializes in forensic accounting, fraud detection and fraud prevention. Ms. Melillo has extensive experience performing forensic investigation and consulting services for a wide variety of clients including for-profit, nonprofit and local governments. She has also provided internal control consulting to clients.

Additionally, Ms. Melillo is a Certified Public Accountant, which is the premier designation in the accounting industry. The Certified Public Accountant license is regarded as a symbol that an accountant has mastered the vital elements of the accounting profession and is a high standard that is globally recognized as an assurance of skill, dedication and quality. Ms. Melillo has also received the Certified Fraud Examiner designation. This forensic accountant designation is considered to be one of the most valuable forensic certifications. Holders of this forensic accountant designation are required to demonstrate a high level of knowledge and competence within the field of forensic accounting. A summary of Ms. Melillo's résumé and qualifications is included in Appendix A of this report.

Summary of Procedures Performed

1. Conducted interviews with the following individuals to obtain an understanding of HNWS' operations and books and records:
 - a. Jeff Crigler, current Chief Executive Officer;
 - b. Barbara Carawan, current Director of Finance;
 - c. Tyrus "Ty" Campbell, former Director of Finance;
 - d. Jarod Cross, Director of Organizational Resources;
 - e. Laura Sloan, Procurement Specialist;
 - f. Emerald McDaniel, Executive Coordinator;
 - g. Amber Bucholtz, Director of Administration/Customer Service; and,
 - h. Dorothy Teeter, Accounting Specialist.
2. Reviewed HNWS' current internal controls and internal control environment of HNWS.
3. Analysis of HNWS' general ledgers, selected transactions, related supported documentation and financial activities directly related to the chief executive officer.
4. Provided recommendations to enhance and improve HNWS' internal controls.

Source Documentation

We reviewed and relied upon the documentation listed in Appendix B of this report during our investigation. These documents included, but were not limited to, Company policies and procedures, financial statements, bank statements and credit card statements.

Finding 1

Understanding

The interviews provided us with an understanding of Holley-Navarre's books, records, procedures and internal controls. The interviews also provided us with an understanding of the role and responsibilities of Holley-Navarre's CEO, as well as the services rendered by the various departments within HNWS, specifically as they relate to the procurement of goods and services and finance.

During the interviews, it was consistently noted that there was employee turnover within the administration/management of HNWS over the last several years. Interviewees indicated that the HNWS finance and procurement department changed its processes and procedures throughout the last few years and lacked consistency.

Management indicated that HNWS' external auditors communicated deficiencies in HNWS' internal controls related to its 2022 audit. These deficiencies included, but were not necessary limited to, purchasing approvals, expense classifications, year-end close processes, segregation of duties and standardized accounting procedures. There were no communicated internal control deficiencies related to the 2021 audit.

Finding 2

Current Internal Controls

Holley-Navarre has implemented policies and procedures for various departments under the purview of HNWS. These policies include, but are not limited to, the Employee Handbook and Policy Manual (the Handbook), the HNWS Purchasing and Procurement Policy and Procedures Resolution, a HNWS Revenue and Cash Receipts Cycle control document, a HNWS Accounting Policy for Capitalization of Assets and a Board of Directors Code of Conduct Policy.

CRI was provided with several internal control memorandums that documented HNWS' accounting processes and internal controls. Several key HNWS employees indicated that they were unaware of any formal accounting policies and procedures and they did not recognize the internal control memorandums provided. In certain cases, the internal control memorandums did not align with HNWS' actual processes as delineated during the interviews. It was subsequently confirmed that, with certain exceptions, no formal accounting policies and procedures are maintained by HNWS.

Procurement Policies and Procedures

On or around November 17, 2020, the HNWS Board approved a resolution regarding procurement policies and procedures, which established a protocol for purchasing goods and services. Certain key HNWS employees interviewed indicated that they were aware of HNWS' procurement policies and procedures. Other key HNWS employees indicated that they were not aware of HNWS' procurement policies and procedures or had only recently been advised that such policies and procedures existed.

Management indicated that The Club followed HNWS' procurement policies and procedures for HNWS and The Club were more centralized. The procurement processes for MESI were decentralized, and certain key HNWS employees did not perform any oversight functions or have access to MESI's accounting books and records during the review period.³ As MESI provides engineering services, its purchases of goods and services is limited. However, best practices would dictate that MESI follow HNWS' accounting and procurement processes.

Per HNWS' procurement policies and procedures, purchases should facilitate competitive bidding when practicable. HNWS' procurement process also requires various approval levels depending on the dollar amount of the requested goods or services. For individual purchases under \$50, no purchase order is required. These low dollar purchases are typically made on a HNWS company credit card, which is reconciled at the end of the month. Credit card purchases are discussed in more detail in a subsequent section of this report. Non-recurring budget item purchases between \$50 and \$2,500 require a purchase order, and the purchase order is to be signed by the appropriate department manager. Interviewees generally stated that purchase orders must be received prior to the good or service being obtained. This practice is in line with accounting and industry best practices; however, this requirement is not explicitly stated within the HNWS' procurement policies and procedures.

³ Per Management, key HNWS employees including the finance director currently perform oversight functions and have access to MESI's accounting books and records.



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For non-recurring purchases between \$2,500 and \$25,000, the purchase order must be signed by the appropriate department manager as well as the CEO. In addition, a cost analysis must be performed for any transactions over \$10,000, which considers the reasonableness, allocability and allowability of the purchase. A comparison of costs for purchases under \$25,000 is encouraged, but not required. For purchases in excess of \$25,000, the procurement records should document the basis for contractor selection, justification for lack of competition when competitive bids are not obtained and the basis for the awarded contract.

For non-recurring goods and services procured in excess of \$25,000, but less than \$50,000, the purchase must be approved by the Board of Directors. While a formal bid process is not required, a minimum of two bids/quotes must be solicited. Single bid purchases must be Board approved. Purchases in excess of \$50,000 require a Call for Bids to be publicly advertised for potential vendors to respond, as well as other means necessary to obtain a minimum of three bids. The policy states, "The HNWS Board shall select the lowest or best responsive bid from qualified/responsive bidders in their sole/absolute discretion." However, the policy further states that "Goods and services specifically approved within the budget process may be acquired without further approval of the Board subject to the limitations above." These policy provisions appear to contradict each other.

For recurring goods and services, the annual aggregate value of the contract is used to determine the level of approval required. The policy reiterates that items specifically approved within the budget may be acquired without further approval of the Board. While not addressed directly within HNWS' procurement policies and procedures, it was noted that blanket purchase orders can be created/approved annually for the annual aggregate value of the selected contract. For example, HNWS contracts lawn care services, and a blanket purchase order is created at the beginning of the year. This blanket purchase order is included with each month's invoice from the contracted entity. All contracts between HNWS and a vendor must be reviewed and approved by the CEO, and all contracts over \$100,000 require proof of insurance and bonding by the vendor.

For established policies and procedures to be effective, adequate training should be provided to all relevant personnel. As previously indicated, certain HNWS employees interviewed indicated that there was no official procurement policies and procedures for HNWS. Others indicated they were aware of a procurement policy, but they were not confident of the terms of the policy. As noted in the following sections of this report, this lack of awareness and thereby lack of compliance with certain procurement policies and procedures was apparent during this analysis.

Compliance with Solicitation Requirements

HNWS provided formal procurement documents for the eight solicitations that occurred during the review period. One project had limited information, and it does not appear that the project resulted in a full solicitation or project. Of the remaining seven solicitations, two solicitations resulted in bids over the \$50,000 threshold that required a formal solicitation process. These two solicitations included the HBTS Gravity Sewer Easement Clearing (HBTS Easement Clearing) and Standby Generators Well 1, 3, & 4-5 Holley WWRF (Standby Generators).

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The solicitation documentation for HBTS Easement Clearing (Solicitation 9-0047-03-006-22) included re-bid documentation; such as, updated bid due dates. There was no information provided to support that the re-bid solicitation was published as required.

The HBTS Easement Clearing solicitation was originally posted on March 3, 2022 with a due date of March 24, 2022. The solicitation documentation indicated that there was a mandatory pre-bid conference scheduled for March 17, 2022. Attendance was recorded for the pre-bid conference, and the awarded entity, [REDACTED], was not recorded as having attended the pre-bid conference. Subsequently, a re-bid due date was set for May 13, 2022, with a mandatory pre-bid conference scheduled for April 27, 2022. No attendance records for this additional pre-bid conference were provided. As delineated further below, it does not appear that a re-bid solicitation was actually performed.

The executed contract documents between HNWS and [REDACTED] reflect that the bid submitted by [REDACTED] was executed on April 5, 2022. This is twelve days after the proposal due date. The executed contract documents reflected the solicitation posted on March 3, 2022, not the re-bid solicitation documents dated April 14, 2022. Per analysis of Dr. Peavey's e-mail correspondence, we identified the following communications related to this solicitation.

April 4, 2022: Series of e-mail correspondence between HNWS employees and [REDACTED]

[REDACTED]: "[REDACTED], Please submit your questions regarding the Woodmont Easement bid here, please..."

[REDACTED]: "I appreciate the opportunity to bid on this project but do not have enough information to be able to give you a fair estimate. If you have time for a quick call please do let me know..."

[REDACTED]: "Dr. [Peavey], Please see below, I thought he was going to submit his questions."

[REDACTED]: "Just spoke with [REDACTED]. He said he was likely going to opt out of bidding on this project as he did not feel confident that he had the ability to complete this project himself. He said he was more of a one man operation and there were some parts of this contract that would require more manpower to handle."

Dr. Peavey: "I just spoke with [REDACTED]-he stated he is going to submit by Wednesday COB, just ask for more time to collect the necessary information! I agreed to give him until Wednesday COB."

A bid sheet prepared on or around April 14, 2022 reflected [REDACTED] as the lowest responsive bidder at \$185,723.50. The next lowest bid was \$221,000. It is important to note that the original hand written bid package submitted by [REDACTED] had a bid price of \$180,673.50, which is a difference of \$5,050 from the award amount. The executed contract documents included a computer generated bid reflecting the higher bid of \$185,723.50. It is unclear why the bid price increased.

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Dr. Peavey's apparent solicitation of [REDACTED] bid resulted in three bids being received and at a lower cost. However, these actions did not comply with HNWS' procurement policies and procedures and resulted in Dr. Peavey overriding various components of HNWS' internal controls. No insurance/bonding documentation was noted within HNWS' procurement file for [REDACTED] as required. HNWS' accounting and procurement personnel noted that they do not maintain, request or track whether the insurance/bonding documentation was provided as required and whether or not the insurance/bonding documentation is still valid for ongoing projects.

The solicitation for Standby Generators (Solicitation 9-0040-01-020-22) was posted on February 10, 2022 with a due date of February 24, 2022. The due date was subsequently extended until March 3, 2022. [REDACTED], the only respondent, submitted a bid on March 3, 2022, and entered into a contract with HNWS on or around March 28, 2022. Based on the contracted amount of \$569,213, HNWS policies and procedures require a minimum of three bids. HNWS only notated one responsive bid in its files. No other information or justification was documented as required as to why the solicitation was not re-bid and/or why this contract may have been sole-sourced.

As previously mentioned, the procurement policies and procedures for non-recurring goods/services in excess of \$50,000 require a formal solicitation process. Additionally, the policy states that the "HNWS Board shall select the lowest or best responsive bid form qualified responsive/responsible bidders in their sole/absolute discretion." This language appears to indicate that all formal procurements for good/services over \$50,000 require not only Board approval, but also the Board will review the bids and select the appropriate bidder. These procurement policies and procedures contradict themselves in the same section, stating that "Goods and services specifically approved within the budget process may be acquired without further approval of the Board." According to the Board meeting agendas and meeting minutes during the review period, the Board did not discuss or approve the contracts or vendors for either of the above projects.

Of the five remaining solicitations, none included a signed contract or confirmed award in the provided documentation. Two of the solicitations were subsequently re-bid, but no documentation was included in the files regarding the reason(s) for the re-bid. One of the re-bids did have a documented public notice/solicitation for the re-bid, but the other re-bid did not. Three of these five solicitations had multiple applicant responses with bid amounts less than \$25,000. No documentation was denoted within the procurement files whether a comparison of costs was completed or not. As previously indicated, for purchases under \$25,000, "Comparison of costs is encouraged where possible...but not required" by HNWS' procurement policies and procedures.

Apparent inconsistent application of HNWS' procurement policies and procedures were also noted within these bid documents. For example, both the Reef St LS54 Pump Replacement solicitation (9-0030-30-013-22) and the Williams Creek LS38 Pump Replacement solicitation (9-0030-30-014-22) required mandatory site visits. Of the 4 respondents, only one respondent had a letter from HNWS stating a site visit was completed. Another respondent indicated in their quote that a site visit was performed, but no HNWS confirmation letter was included in the bid. A third respondent had a confirmation letter from HNWS related to a different bid stating they completed a site visit for four

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separate solicitations at once. The fourth respondent made no comment as to whether or not a site visit was performed. These inconsistencies and the limited documentation maintained by HNWS reflect limited controls over the procurement process as a whole. A summary of the seven formal solicitations and the corresponding results are presented in the below table.

Project Number	Project Name	Signed Contract	Formal Solicitation Required	Public Notice of Solicitation	Multiple Applicants	Re-bid	Public Notice/ Solicitation for Re-bid
9-0030-30-012-22	Fox Den LS44 Pump Replacement			X		X	
9-0030-30-013-22	Reef St LS54 Pump Replacement			X	X		
9-0030-30-014-22	Williams Creek LS38 Pump Replacement			X	X		
9-0030-30-015-22	Country Breeze LS09 Pump Replacement			X			
9-0030-40-002-20	Navarre East LS56 Bypass Pump Modifications			X	X	X	X
9-0040-01-020-22	Standby Generators Well 1, 3, 4-5 & Holley WWRF	X	X	X			
9-0047-03-006-22	Easement Clearing HBTS Gravity Sewer	X	X	X	X	X	

Compliance with Procurement Policies and Procedures

A haphazard selection of 20 expenditures from HNWS' general ledger during the review period was made to determine HNWS' compliance with its procurement policies and procedures. These expenditures totaled \$141,742.53. As part of the sample selections, CRI requested the underlying documentation including, but not limited to, invoices, applicable purchase orders (PO), quotes, etc. A summary of the sampled transactions is presented in the below table.

Vendor	Invoice Tested	General Ledger Amount	PO Required?	PO Present?	CEO Signature Required?	CEO Signature Present?
	Invoice: 6076 01/21/22 / R-OFF&STOR	\$ 4,708.00	Yes	Yes	Yes	No
	Invoice: 220001 / DEV PROJ W/S	\$ 2,468.75	Yes	No	Yes*	No
	Invoice: 220003 / R & U - MULTI PROJ	\$ 474.00	Yes	No	Yes*	No
	Invoice: 74513 / 2021 EXP CHL WWTP	\$ 2,137.50	Yes	Yes	Yes	Yes
	Invoice: 8450 03/04/2022 /	\$ 93.67	Yes	No	N/A	N/A
	Invoice: 2978910 / OFF FURN EMYLEE	\$ 1,113.00	Yes	Yes	N/A	N/A
	Invoice: 107081 / PROF ENGIN SVC	\$ 1,200.00	Yes	Yes	N/A	N/A
	Invoice: 2204NMAR / WWTP TESTING	\$ 2,328.00	Yes	Yes	Yes	Yes
	Invoice: 2986 / MAR22 SLUDGE	\$16,872.30	Yes	Yes	Yes	Yes
	Invoice: 220038 / MULTI PROJ	\$ 1,668.88	Yes	No	Yes*	No
	Invoice: 0955 04/10/22 /	\$ 484.20	Yes	Yes	N/A	N/A
	Invoice: P02766 / R&M PUMP TRUCK 2	\$ 1,339.65	Yes	Yes	Yes*	No
	Invoice: 8206 04/15/22 /	\$ 1,567.55	Yes	Yes	N/A	N/A
	Invoice: 75745236 / MAY22 HEALTH	\$87,639.05	Yes	No	Yes	No
	Invoice: IN47858 / R&M DUVAL LS 1	\$ 5,122.39	Yes	Yes	Yes	Yes
	Invoice: 8206 05/27/22 / MISC EXP W/	\$ 1,806.36	Yes	Yes	Yes*	No
	Invoice: 3858 / JUN22 WW LAWN SVC	\$ 7,491.67	Yes	Yes	Yes	Yes
	Invoice: 6213942 / R&M WWTP	\$ 4,037.75	Yes	Yes	Yes	No
	Invoice: BJ267 06/16/2022 / VEH/EQUIP	\$ 377.29	Yes	No	Yes*	No
	Invoice: 6242022 / 2/2 PMT RPLC OFF	\$ 2,096.31	Yes	Yes	Yes	No

*Although the individual charge tested was less than the CEO approval threshold of \$2,500, the total purchase in that transaction was higher than \$2,500, requiring CEO signature.

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As aforementioned, purchase orders are required for all goods or services over \$50. As each of the items requested was above \$50, each selected transaction should have an approved purchase order. As noted in the above table, purchase orders were not provided for 6 of the 20 transactions. Of the 6 transactions with no purchase order, 3 were payments made to HNWS' subsidiary, MESI. There is no exception in HNWS' procurement policies and procedures for purchase orders not to be created for payments made to HNWS subsidiaries. As previously mentioned, recurring payments must be approved under the same policies and procedures, using the annual aggregate amount to determine levels of approval. Purchase orders were not provided for two recurring payments including a payment to HNWS' health insurance provider, [REDACTED], and HNWS' fuel card vendor, [REDACTED]. Lastly, a credit card purchase for [REDACTED] did not have a corresponding purchase order as required.

HNWS purchase order forms include three signature lines: requestor/manager approval, procurement approval and CEO approval. Per HNWS procurement policies and procedures, all purchases over \$2,500 require CEO approval. Of the 20 transactions selected, 15 required CEO approval. As noted with an asterisk in the above table, 6 of the 15 general ledger entries were not individually over \$2,500, but they were part of a total purchase above \$2,500; thus, requiring CEO approval. Of the 15 transactions, 10 did not have CEO approval denoted on the purchase order as required.

The original purchase order for [REDACTED] was for \$2,467.37, which included estimated freight charges of \$200. The final invoice totaled \$2,679.29, as the freight charges increased to \$411.92. Upon receiving the final invoice for over \$2,500, the CEO should have been required to sign the purchase order, indicating it was approved for payment; however, it was not signed by Dr. Peavey. The credit card purchase for [REDACTED] totaled \$3,432.84, which is above the required threshold for CEO approval. However, the "Authorized by CEO" line on the purchase order was replaced with "Authorized by General Manager," and it was signed by the general manager for operations and maintenance. No notations were made as to whether or not the general manager was the CEO's authorized designee for these purchases. As such, this purchase was not in line with HNWS' procurement policies and procedures. Other various purchase orders in excess of \$2,500 were not signed by the CEO as noted in the above table.

In May 2022, HNWS hired an independent contractor to remove and replace six interior doors within the HNWS main offices. The purchase order dated May 2, 2022 for \$4,192.31 was not signed by the CEO as required. We were not provided with any documentation indicating whether or not any additional quotes were requested or received for these services. A deposit for these services was paid on May 13, 2022, and the remaining balance was invoiced on June 24, 2022. The second invoice was stamped approved on July 6, 2022.

An additional invoice dated June 24, 2022 from the same independent contractor for \$150 was provided. This additional invoice included \$100 for "Two service calls – Hung picture in Dr. [Peavey's] Office on 6/2, Installed Blind in [Employee] Office on 6/6." It also included a \$50 charge with a memo stating, "Prepared the gift bags for the company appreciation party..." This invoice was also stamped approved on July 6, 2022. A purchase order dated June 27, 2022 was provided for

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these additional services; however, this purchase order was not only created after the date the invoice was received, but also after the services were rendered. A copy of the check totaling \$2,246.31 was provided and dated June 30, 2022. It is unclear why the check was issued prior to the invoice being approved.

CRI also analyzed an additional 190 transactions related to HNWS and denoted lack of compliance with other internal controls related to procurement. As previously mentioned, HNWS procurement policies and procedures do not explicitly state that purchase orders must be obtained and approved prior to requesting a good or service; however, interviewees stated that this was the understood protocol for requested purchases. We noted numerous instances where the purchase order date was after the date the good or service was purchased, or that the good was purchased before all required levels of approval were obtained.

We also identified additional instances where no purchase order was obtained as required or the appropriate approval signatures (both department manager and CEO) were missing. Certain purchase orders only included a digital signature. As the purchase orders are created from templates in Microsoft Excel, it is not possible to confirm that these digital signatures were authorized.

Conflict of Interest Analysis

The procurement policies and procedures outline certain requirements for the procurement of goods and services including striving to obtain the maximum value for each dollar of expenditure, granting all competitive suppliers equal consideration, conducting business in good faith without misrepresentation, etc. The policies also include HNWS' Conflict of Interest policy in regards to procurement of goods and services. According to the policy, "Employees having a real or potential conflict of interest should not be involved in the selection, negotiation, or administration of contracts or agreements where a conflict of interest would exist." The policy defines a conflict of interest to be an employee, family member, business partner or organization having a financial or other interest and/or gain in the vendor selected. If a conflict of interest should exist or appear to exist, the policy requires that the employee should report the conflict to his/her supervisor.

Employees are also barred from soliciting or accepting gratuities, favors or anything of monetary value from contractors, potential contracts, subcontractors or potential subcontractors with the exception of meals, training for applicable equipment, processes and products and all related expenses; such as, travel and accommodations.

The Handbook was also reviewed. This document delineates HNWS' policies regarding the disclosure of conflicts of interest. The Handbook states that employees are required to fully disclose situations "that reasonably could be expected to give rise to a conflict of interest." This includes reporting both actual conflicts of interest or something "that others could reasonably perceive as a conflict of interest" to the general manager. These conflicts of interest can only be waived by the Board or an appropriate committee of the Board.

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The Board of Director's Code of Conduct (Code) also delineates the conflicts of interest policy related to the Board. Per the Code, "No member of the Board shall derive any personal profit or gain, directly or indirectly, by reason of his or her service as a Board member with the HNWS." Since it is understood that conflicts may arise, additional guidelines are provided within the Code.

An analysis of HNWS' books and records for the review period was conducted for known conflicts of interest. As HNWS does not require Board members or key personnel to disclose conflicts of interest annually, we were limited as to the level of review regarding conflicts of interest. CRI also analyzed HNWS' master vendor list for potential conflicts and/or addresses associated with HNWS employees. CRI noted that several employees were noted as vendors. Per management, these employees were setup as vendors in order to issue expense reimbursements to these employees. Limited payments outside of payroll were noted to these employees during the review period. Management also noted that the master vendor list is not updated on a regular basis.

Whistleblower Policy

The Handbook includes a section regarding HNWS' whistle-blower policy regarding an employee's rights regarding the reporting of violations, conditions or practices contrary to HNWS' policies. It states that the employee should first report the alleged violation, condition or practice to a person with supervisory authority over the employee. HNWS does not currently provide an option to report violations or alleged breaches of HNWS policies and procedures anonymously. Certain HNWS employees indicated that they were pressured directly or indirectly to approve of certain items that they did not agree with. Providing HNWS employees with a known process to anonymously report purported violations may help increase employee's willingness to report such activities and increase the effectiveness of the reporting process.

Employee Background Checks

The Handbook indicates that offers made to potential employees are contingent upon satisfactory completion of a criminal background check by Human Resources. The Handbook details the rights/responsibilities of HNWS and the candidate upon the results of the background check. The Handbook does not delineate a policy regarding the level of background check to be completed based on the potential employee's position. We reviewed the background check related to Dr. Peavey performed by Landrum Human Resources Companies, Inc. prior to Dr. Peavey's employment. Per the background check provided, the background check appeared to have a limited level of review. This was confirmed by management. Management also indicated that HNWS has since obtained more detailed background checks on potential key employees. HNWS has not updated its policies and procedures to reflect this updated policy.

Finding 3

Financial Records Analysis

CRI analyzed HNWS, The Club and MESI's general ledgers and sampled various financial and other records for the review period with a specific focus on financial activities related to the chief executive officer.

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Bank Statement Analysis

During the review period, Holley-Navarre maintained multiple bank accounts with Ameris Bank including an operating checking account, as well as Impact Fee, Sewer Deposit and Water Deposit accounts. HNWS also maintained a checking account with Centennial Bank, which was mainly utilized to deposit funds received from customers paying their utilities bills in person at the HNWS office. HNWS also maintains a bond fund at Hancock Whitney Bank. CRI compared the bank statements to the general ledger records and no discrepancies were identified.

CRI also reviewed the bank reconciliations for each month. For January through April 2022, the bank reconciliation was prepared and internally reviewed by HNWS finance personnel within the month following the applicable bank statement period. The May and June 2022 bank reconciliations were not internally approved by HNWS finance personnel until July and August 2022, respectively. This could indicate a slow degradation in HNWS' internal controls. CRI also noted that the bank reconciliations are prepared manually within a Microsoft Excel spreadsheet. This manual process can be inefficient, prone to error and prone to potential manipulation.

Credit Card Analysis

During the review period, HNWS maintained a credit card account with Capital One. The CEO, Department directors and other key HNWS personnel are issued credit cards. There are also two HNWS office cards. The first office card is a "virtual" card, which is used to pay bills via credit card. The second office card is a physical card used for various purchases. Although HNWS maintains policies and procedures related to procurement, no substantive policies and procedures exist for credit card purchases. A general understanding of the understood credit card process was obtained through interviews.

If an employee who was not issued a company credit card needs to use a card to purchase goods or services, the employee can "check out" a company card from the main office. The individual signs the card out by recording their name, department, the date, reason for purchase, estimated amount of purchase, etc. Upon returning the card to the office, the employee also turns in a copy of the receipt.

Credit card statements are sent to Holley-Navarre every two weeks, and the statements are delineated by individual card. Upon receipt of the credit card statement, the finance department sends each individual's credit card statement to them for verification of charges. The employee is then to return the statement with all receipts and purchase orders (if applicable). Employees interviewed indicated that there was a short turnaround time between the statements being received and the credit card's due date. As such, it is not unusual for the finance department to pay the credit card bill prior to receiving the individual approvals and all corresponding receipts and/or purchase orders.

CRI reviewed and analyzed all of the credit card statements and supporting documents related to Dr. Peavey, the former CEO, for the review period. During the six month review period, Dr. Peavey's credit card purchases totaled \$10,598.52. Dr. Peavey's credit card showed recurring charges to Executive Fitness LLC totaling \$557.29 for his personal gym membership. Internal file

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communication received indicated that Dr. Peavey's gym membership charges should be listed as a deduction to Dr. Peavey's payroll. Payroll reports indicated that Dr. Peavey had a total of \$321.04 deducted for his gym memberships. The remaining cost of Dr. Peavey's gym membership totaling \$236.25 was not deducted from his paycheck.⁴

We also noted one credit card charge for \$100 in fuel purchases at Tom Thumb on February 28, 2022, and the supporting documentation provided stated this was to fuel Dr. Peavey's vehicle. It is unclear why the fuel charge was placed on Dr. Peavey's credit card instead of a HNWS-issued fuel card.

The largest category of expenditures on Dr. Peavey's credit card was meal/food purchases, totaling \$3,809.21. The backup provide by HNWS indicated that the majority of these purchases were for refreshments for meetings, work lunches, board of director meetings, planning committees, etc. There is no explicit expectation in the CEO's job description, employment agreement or offer letter that provides information or limitations regarding the discretionary spending of the CEO. A summary of credit card charges by category is presented in Schedule A of this report. A graphical summary reflecting Dr. Peavey's credit card expenditures during the review period is presented below.



Fuel Card Usage

Employees with regular usage of company vehicles are issued a pin-protected fuel card for fuel purchases. Interviewees noted that fuel card usage is not regularly reviewed by management. HNWS does not have a formal fuel card policy in place, and fuel receipt submission is not required for later reconciliation with the fuel card report received semi-monthly. HNWS' informal policy is for departmental managers to review the semi-monthly Fleet Management Report from [REDACTED] and communicate anything that looks out of the ordinary. There is no express approval of the fuel charges by the departmental managers.

⁴ It is possible that Dr. Peavey's gym membership charges related to other HNWS employee gym memberships. No supporting documentation was included with Dr. Peavey's credit card charges to reflect that this gym membership related to other HNWS employees. During the review period, the "Employee Deduction – Gym" account retained a balance indicating that the gym membership charges were not fully reimbursed.

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CRI reviewed Fleet Management Reports from [REDACTED]. No unusual or questionable entries or purchases were identified. Several instances were noted where the odometer reading was either not entered as required or appeared to be a fictitious reading. For example, one diesel fuel purchase made on June 13, 2022 had an odometer reading entered as "123456." HNWS vehicles are equipped with GPS tracking devices. HNWS periodically monitors the GPS geolocation data and compares it with fuel purchases to see if the HNWS vehicle was present when fuel was purchased.

Payroll Analysis

Per discussions with management, the Board determines and approves all Cost of Living Adjustments (COLA). For the review period, the Board approved a 6.61% increase in pay for all employees. A comparison of the 2022 annual payroll reports by employee to the 2021 annual payroll reports by employee reflect that the 6.61% COLA was applied appropriately. No questionable pay increases were noted.

HNWS' payroll system is managed by the human resources department. The finance department does not have access to the payroll system. Payroll reports are generated and approved by the human resources department. Payroll reports generated by the human resources department are provided to the finance department for entry into HNWS' books. These payroll reports are generated in aggregate form, and employee level detail is not provided to the finance department. The human resources department enters and self-reviews all payroll entries in the payroll system. As such, there are limited internal controls related to the addition of employees and modifications of compensation amounts within the payroll system.

CEO Compensation Analysis

We also reviewed Dr. Peavey's pay records. Dr. Peavey's contract with HNWS indicated that his annual salary was \$156,000. Dr. Peavey's contract also allowed for up to \$25,000 in relocation expenses. Per the information provided by HNWS, a total of \$17,710.12 was paid on behalf of Dr. Peavey for relocation expenses, which aligned with the terms of his contract.

Dr. Peavey's contract with HNWS was for three years beginning December 7, 2020. As previously indicated, the contracted annual salary was \$156,000. The contract provides that, at the discretion of the Board, the "annual salary is subject to review and modification on each anniversary of the Employment Date." No such review or modification of Dr. Peavey's annual salary was denoted in the HNWS board agendas and board meeting minutes. Per the HNWS human resources department, no COLA was initially processed for Dr. Peavey as he was a contracted employee. Dr. Peavey subsequently indicated that he was entitled to the 6.61% COLA that the Board awarded HNWS employees for 2022 and requested that the COLA be processed. Per HNWS human resources department, Dr. Peavey called a board member and requested clarification that he was entitled to the COLA. The board member indicated that if Dr. Peavey's COLA was included as part of the budget then Dr. Peavey was entitled to the COLA. It does not appear that Board specifically reviewed and approved a modification to Dr. Peavey's salary as required. As such, Dr. Peavey's COLA may not have been appropriately authorized. Dr. Peavey's COLA totaled \$5,148 during the review period.

Finding 4

Recommendations

Based on the aforementioned observations and findings, HNWS should consider implementing the following recommendations for improving its internal controls:

1. Documentation of Accounting Policies and Procedures

Finding: Various accounting policies and procedures for HNWS are not appropriately documented or approved.

Effect: Employees may be unaware of the proper policies and procedures. Policies and procedures may not be complied with, and policies and procedures may not be updated as needed.

Recommendation: HNWS should require that all accounting policies and procedures be documented and approved by the Finance Director and CEO. A central depository for these policies and procedures should be established as well. HNWS should also implement a regular review of its policies and procedures for adequacy and relevance.

2. Mandatory Purchase Order Approvals

Finding: HNWS' stated policies and procedures do not require that purchase orders be approved by the appropriate manager and/or CEO prior to purchasing the good or service.

Effect: HNWS may purchase goods or services that have not been approved/reviewed by the appropriate manager and/or CEO.

Recommendation: HNWS should implement a written policy and require that purchase orders be approved and signed by the appropriate manager and/or CEO prior to purchasing the requested goods or services.

3. Lack of Awareness and Understanding regarding Procurement Policies and Procedures

Finding: HNWS employees appeared to have limited knowledge of HNWS procurement policies and procedures.

Effect: Employees may be unaware of the proper procurement policies and procedures. Employees may not comply with the proper procurement policies and procedures.

Recommendation: HNWS should provide training regarding its procurement policies and procedures to relevant personnel on a regular basis.

4. Board Approval of Solicited Contracts

Finding: HNWS' procurement policies and procedures surrounding formal solicitations and Board involvement are contradictory and do not outline a formal process for evaluating solicitation responses.

Effect: HNWS may purchase goods or services that were not properly approved by the Board.

Recommendation: HNWS should consider clarifying its current procurement policies and procedures for formal solicitations. HNWS should also consider implementing formal bid review policies and procedures for transparency and effective bid rating.

Holley-Navarre Water System, Inc. Forensic Examination Report

5. Internal Vendor Management

Finding: HNWS did not comply with its stated procurement policies and procedures for obtaining insurance/bond documentation from the applicable vendors. HNWS does not regularly update its master vendor list.

Effect: HNWS may not be in compliance with its own policies and procedures. Vendors may not be insured/bonded as required.

Recommendation: HNWS should consider developing policies and procedures regarding management of vendor files including the master vendor list and insurance documentation. HNWS should establish a central depository for these files as well.

6. Management Override and Lack of Compliance with Procurement Policies and Procedures

Finding: Dr. Peavey overrode HNWS' internal controls related to procurement for a formal solicitation. HNWS did not comply with its own procurement policies and procedures for solicitations and purchase order approvals.

Effect: HNWS may not be in compliance with its own policies and procedures. Goods and/or services may be procured without proper authorization.

Recommendation: HNWS should consider strengthening its procurement policies and procedures.

7. Procurement Cost Analyses

Finding: HNWS does not adequately perform or document its cost/vendor comparisons for formal solicitations.

Effect: HNWS may not adequately analyze its formal solicitations, which may lead to increased costs.

Recommendation: HNWS should consider developing a formalized process for the evaluation and comparison of vendor bids/costs.

8. Background Checks for Key Financial Services Employees and Other Key Employees

Finding: HNWS does not have written policies and procedures surrounding the level of background checks to be performed for potential Board members, key financial services employees and other key employees.

Effect: Employees may have financial situations or past criminal history not notated in a basic background check that may cause pressure to circumvent HNWS' internal controls.

Recommendation: HNWS should implement regular financial background checks for potential Board members, key employees that supervise the financial process or exercise significant control over HNWS operations. If concerns are raised in these background checks, appropriate actions or safeguards should be implemented and documented.

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9. Bank Reconciliations

Finding: HNWS does not require that bank reconciliations be completed within a designated time period after the end of the month, and bank reconciliations were not always timely completed. The bank reconciliations were also being completed manually.

Effect: Bank reconciliations may not be completed on a timely basis, and any differences between the book and bank balances may not be investigated in a timely manner. Bank reconciliations may be prone to error or manipulation during a manual process.

Recommendation: HNWS should require that all bank reconciliations be completed within a designated time period after the end of the month, and any exceptions should be immediately reported to the CEO for appropriate action. HNWS should evaluate processes related to the manual bank reconciliations to increase oversight related to potential errors or manipulations.

10. Conflict of Interest Disclosure Statement

Finding: HNWS does not require annual conflict of interest disclosures for key HNWS personnel, HNWS Board members or individuals serving on bid evaluation committees.

Effect: There may be a conflict of interest for key HNWS personnel, HNWS Board members or between a bid rater and the bidding organization that is not disclosed to HNWS.

Recommendation: HNWS should require that key personnel and Board members complete an annual conflict of interest disclosure statement. Individuals serving on a bid evaluation committee should sign a conflict of interest disclosure statement as well.

11. Fraud Hotline

Finding: HNWS whistleblower program is limited as there is no audit committee or internal control function to handle/investigate complaints, etc.

Effect: Employees may not report information that could prevent or detect fraud or other misconduct that would be detrimental to HNWS. An employee may not report suspicions or knowledge of fraud or misconduct if he/she does not know to whom to report, especially if the misconduct allegation is management.

Recommendation: HNWS should consider strengthening its whistleblower program as well as implement the use of a fraud hotline. Hotline tips should be directed to an independent body other than management; such as, the Board of Directors.

12. Fraud Awareness Training

Finding: HNWS does not currently provide fraud awareness training to its employees.

Effect: Employees may not notice or report certain behaviors or red flags of fraud, waste or abuse.

Recommendation: HNWS should provide fraud awareness training to all employees on a regular basis.

13. Credit Card Policies and Procedures

Finding: HNWS has not developed substantive credit card policies and procedures.

Effect: Credit cards may not be used effectively or appropriately.

Recommendation: HNWS should develop credit card policies and procedures and ensure that all policies and procedures are developed in a timely manner.

Holley-Navarre Water System, Inc. Forensic Examination Report

14. Review of Fuel Cards

Finding: HNWS' fuel card purchases are not formally reviewed and approved.

Effect: Employees may charge personal or unauthorized fuel purchases to HNWS.

Recommendation: HNWS should provide each department with the department's fuel usage by employee and approve of the fuel use on a monthly basis. HNWS could also implement random audits of HNWS vehicle GPS locations that correspond with HNWS fuel purchases.

15. Review of Payroll Entries

Finding: There is no proper segregation of duties regarding changes to the payroll system including compensation and new employees.

Effect: Lack of proper segregation of duties regarding the payroll process could lead to incorrect or improper compensation for employees.

Recommendation: HNWS should implement additional controls over payroll, including routine reviews of detailed payroll reports.

Conclusion

Based upon the foregoing information, Holley-Navarre had various internal control deficiencies during the review period (January-June 2022). These internal control deficiencies were in part due to the lack of formal accounting policies and procedures and a lack of awareness regarding certain policies and procedures. Holley-Navarre did not adequately comply with its stated and understood procurement policies and procedures. It also appears that Dr. Peavey knowingly overrode Holley-Navarre's procurement policies and procedures related to one formal solicitation.

HNWS' current management has made informal efforts to improve its processes. This has included acquiring a new accounting/payroll system and requiring more in-depth background checks for incoming key employees. There are additional areas of improvement needed in HNWS' policies and procedures, training and documentation. To help further improve HNWS' internal controls, we recommend that Holley-Navarre consider implementing the above 15 recommendations.

Supplementary Information

Holley-Navarre Water System, Inc.
Forensic Examination Supplementary Information
Schedule A - Summary of Dr. Peavey's Credit Card Charges

Category	Total Charges
Dr. Peavey's Credit Card Charges by Category	
Automobile	\$ 297.16
Easement	791.57
Event	1,216.82
Flowers	279.98
Fuel	100.00
Gift Cards	1,220.00
Gym	557.29
Mailing	376.21
Meals	3,809.21
Memberships	504.96
Office	869.07
Other	133.75
Sunbiz Registrations	442.50
Total Credit Card Charges by Dr. Peavey	\$ 10,598.52

Holley-Navarre Water System, Inc.
Forensic Examination Supplementary Information
Appendix A – Expert Qualifications



Ben Kincaid, CPA, CFE, CFF, CVA
Partner in the Forensic, Litigation and Valuation Services
Group
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Experience

Known for his data analytics and translating the data into defensible, investigative results, Ben Kincaid has over 11 years of experience in providing forensic accounting, litigation support and business valuation services across CRI's footprint. These services have included investigating compliance, employee malfeasance, hidden asset schemes, breach of contract claims, business interruption losses, economic damages, due diligence and valuation disputes. Ben has provided these services to a wide range of clients and industries; such as, state, county and local governments as well as private companies, non-profit organizations and publicly traded companies.

Ben speaks regularly on the topics of fraud prevention, fraud detection and business valuations. Ben has also worked with various law firms and law enforcement on civil and criminal matters and presented findings to various law enforcement agencies including the FBI, FDLE, DOJ and GBI. Ben also provides expert witness services and has qualified as an expert witness in various state courts. Ben is a graduate from Pensacola Christian College with a Bachelor of Science Degree in Business with a double concentration in Accounting and Finance. Ben served on the FICPA's Valuation, Forensic Accounting and Litigation Committee.

Education, Licenses & Certifications

- BS, Business, Pensacola Christian College
- Certified Public Accountant (CPA) – Indiana and Florida
- Certified Fraud Examiner (CFE)
- Certified Valuation Analyst (CVA)
- Certified in Financial Forensics (CFF)

Professional Affiliations/Awards

- American Institute of Certified Public Accountants (AICPA)
- Florida Institute of Certified Public Accountants (FICPA)
- Association of Certified Fraud Examiners (ACFE)
- National Association of Certified Valuators and Analysts (NACVA)
- 2021 AICPA Forensic and Valuation Services Standing Ovation Award Recipient

Holley-Navarre Water System, Inc.
Forensic Examination Supplementary Information
Appendix A – Expert Qualifications



Donna Melillo, CPA, CFE

Manager in the Forensic, Litigation and Valuation Services Group
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Experience

Donna Melillo has over six years of experience in forensic accounting and consulting services. Her forensic experience includes investigating employee malfeasance, breach of contract claims, grant compliance, digital forensic investigations, business valuations and divorce litigation assistance.

Donna specializes in forensic accounting, fraud detection, and fraud prevention. She has extensive experience performing forensic investigation and consulting services for a wide variety of clients including for-profit, nonprofit, and local governments. She has also provided internal control consulting to clients.

Education, Licenses & Certifications

- BS, Accounting, University of West Florida
- BS, Mathematics Education, Pensacola Christian College
- BS, Business Education, Pensacola Christian College
- Certified Public Accountant (CPA) - Florida
- Certified Fraud Examiner (CFE)

Professional Affiliations

- American Institute of Certified Public Accountants (AICPA)
- Florida Institute of Certified Public Accountants (FICPA)
- Association of Certified Fraud Examiners (ACFE)

Holley-Navarre Water System, Inc.
Forensic Examination Supplementary Information
Appendix B – Source Documentation

We reviewed and relied upon the following documentation during our investigation:

- Consolidated Audited Financial Statements for HNWS prepared by Warren Averett, LLC for 2021 and 2022;
- Trial balance reports for HNWS, The Club and MESI prepared by management for 2021 through 2022;
- General ledger details for HNWS, The Club and MESI prepared by management for 2021 through 2022;
- Board-approved budgets prepared by management for 2021 and 2022;
- Employee Handbook and Policy Manual dated November 15, 2016;
- Articles of Incorporation;
- By-laws;
- Board Resolution 20-11-17, Purchasing and Procurement Policy and Procedures;
- Board Resolution, Confidentiality and Conduct Code for Board/Committee Members;
- Board Resolution, Remote Participation by Directors in Meetings;
- Board Policy Action Log;
- Board Member Training and Related Documents;
- Board Agendas, Memos, Minutes and Transcriptions for January 2021 through March 2023;
- Accounting Policy for Capitalization of Assets;
- Bank statements and reconciliations for January through June 2022;
- Credit card statements for Dr. Peavey for January through June 2022;
- Accounts Receivable adjustments and Bad Debt expense reports for January through June 2022;
- Master vendor list;
- Payroll summary by employee for 2021 and 2022;
- E-mails for Dr. Peavey for January through June 2022;
- Available bid legal notices and corresponding supporting documentation for January through June 2022; and,
- Selected purchase orders and supporting documentation for January through June 2022.

2023 Forensic Audit Findings Recommendation Implementation Schedule

	Topic	CRI Recommendation	Staff Response	Processes and Procedures	New or Revised Policies
1	Documentation of Accounting Policies and Procedures	HNWS should require that all accounting policies and procedures be documented and approved by the Finance Director and CEO. A central depository for these policies and procedures should be established as well. HNWS should also implement a regular review of its policies and procedures for adequacy and relevance.	The Finance Department is creating procedures as we work through Edmunds. This process is ongoing and changes often as we work through the new system. Once the written process and procedures are created, policies can be created. Policies and Procedures will be stored in the Shared finance folder.	March 31, 2024	May 21, 2024
2	Mandatory Purchase Order Approvals	HNWS should implement a written policy and require that purchase orders be approved and signed by the appropriate manager and/or CEO prior to purchasing the requested goods or services.	A written process has been drafted. Finance/Procurement will add this verbiage to the revisions to the Purchasing and Procurement Policy.	October 31, 2023	May 21, 2024
3	Lack of Awareness and Understanding regarding Procurement Policies and Procedures	HNWS should provide training regarding its procurement policies and procedures to relevant personnel on a regular basis.	Finance and Procurement will create new and update existing policies. They will be stored in a centralized "shared" folder for all to access. Training sessions will also be implemented. 9/20/2023 - A "POLICIES" folder has been created and the current "Procurement" and "Capitalization" Policy has been added. An email has been sent to ALL STAFF, advising them of this process. In addition, they have been reminded that ALL HNWS company related policies are located on the HNWS Employee Home Page (Intranet).	February 1, 2024 - Training Deadline	N/A
4	Board Approval of Solicited Contracts	HNWS should consider clarifying its current procurement policies and procedures for formal solicitations. HNWS should also consider implementing formal bid review policies and procedures for transparency and effective bid rating.	Finance and Procurement will create and add this to the revised Purchasing and Procurement Policy. This includes developing guidelines for bid selection, sole source procurement, and use of bid selection committees.	December 31, 2023	May 21, 2024
5	Internal Vendor Management	HNWS should consider developing policies and procedures regarding management of vendor files including the master vendor list and insurance documentation. HNWS should establish a central depository for these files as well.	Master Vendor List exists. Finance and Procurement will create procedures to manage vendor files, master vendor list and insurance documents. These files will be stored in the "shared" folder.	December 31, 2023	May 21, 2024



2023 Forensic Audit Findings Recommendation Implementation Schedule

	Topic	CRI Recommendation	Staff Response	Processes and Procedures	New or Revised Policies
6	Management Override and Lack of Compliance with Procurement Policies and Procedures	HNWS should consider strengthening its procurement policies and procedures.	With current management and leadership, this should no longer be an issue. Policies and procedures will be created, current policies will be updated. Process is in place. Training has been implemented within the Procurement and Finance staff.	December 31, 2023	May 21, 2024
7	Procurement Cost Analyses	HNWS should consider developing a formalized process for the evaluation and comparison of vendor bids/costs.	Finance and Procurement will add this to the current Purchasing and Procurement Policy and implement a process. This includes developing guidelines for bid selection, sole source procurement, etc. Bid selection committees will be implemented for qualifications based selections. Committee would include Engineer, a Director and CEO at a minimum, with Procurement oversight.	December 31, 2023	May 21, 2024
8	Background Checks for Key Financial Services Employees and Other Key Employees	HNWS should implement regular financial background checks for potential Board members, key employees that supervise the financial process or exercise significant control over HNWS operations. If concerns are raised in these background checks, appropriate actions or safeguards should be implemented and documented.	Currently all employees and Board of Director Candidates have same background check required as part of pre-employment and Election Policy. Staff recommends creating a formal policy and implementing an advanced background check for key employees and for the Board of Directors to discuss implementing the same level of background check for the Board of Directors.	December 1, 2023 written policy for background check screening. TBD - Revising BOD policy	TBD
9	Bank Reconciliations	HNWS should require that all bank reconciliations be completed within a designated time period after the end of the month and any exceptions should be immediately reported to the CEO for appropriate action. HNWS should evaluate processes related to the manual bank reconciliations to increase oversight related to potential errors or manipulations.	Finance will add this process to the Month End (ME) Process and Procedures going forward. September 5, 2023 - The timing of the bank rec process has been implemented. September 18, 2023 – The bank reconciliations within the new accounting system (Edmunds) has been implemented with the exception of the main operating account.	December 31, 2023	N/A



2023 Forensic Audit Findings Recommendation Implementation Schedule

	Topic	CRI Recommendation	Staff Response	Processes and Procedures	New or Revised Policies
10	Conflict of Interest Disclosure Statement	HNWS should require that key personnel and Board members complete an annual conflict of interest disclosure statement. Individuals serving on a bid evaluation committee should sign a conflict of interest disclosure statement as well.	A written policy has been drafted. Finance/Procurement will add this to the future Purchasing and Procurement Manual. The process will be shared with HR (for Employees) and Executive (for Board). Bid Evaluation Committee would also sign COI form.	December 31, 2023 for addition to Procurement Manual	October 17, 2023
11	Fraud Hotline	HNWS should consider strengthening its whistleblower program as well as implement the use of a fraud hotline. Hotline tips should be directed to an independent body other than management; such as, the Board of Directors.	Staff would create a "Whistleblower" program and implement a fraud hotline. Recommendation is to use the Florida state Fraud hotline: 850-414-3990.	December 31, 2023	February 20, 2024
12	Fraud Awareness Training	HNWS should provide fraud awareness training to all employees on a regular basis.	Training would be provided once program finalized.	April 1, 2024	February 20, 2024
13	Credit Card Policies and Procedures	HNWS should develop credit card policies and procedures and ensure that all policies and procedures are developed in a timely manner	Process is in place, but need written policy.	December 31, 2023	May 21, 2024
14	Review of Fuel Cards	HNWS should provide each department with the department's fuel usage by employee and approve of the fuel use on a monthly basis. HNWS could also implement random audits of HNWS vehicle GPS locations that correspond with HNWS fuel purchases.	Completed - Procurement currently monitors GPS tracking and randomly checks for locations that correspond with fuel purchases. AP sends the monthly statements to the department managers for review and approval.	December 31, 2023	May 21, 2024
15	Review of Payroll Entries	HNWS should implement additional controls over payroll, including routine reviews of detailed payroll reports.	Finance to audit HR records on a recurring basis (quarterly). This will be implemented immediately.	December 31, 2023	5/21/2024