

**CITY OF PAHOKEE, FLORIDA**  
**Schedule of Findings and Questioned Costs**  
**September 30, 2018**

I. Summary of Independent Auditor's Results

Financial Statements

Type of report the auditor issued:

| <u>Opinion Unit</u>        | <u>Type of Opinion</u> |
|----------------------------|------------------------|
| Governmental Activities    | Unmodified             |
| Business-Type Activities   | Qualified              |
| General Fund               | Unmodified             |
| Henderson Endowment Fund   | Unmodified             |
| Marina and Campground Fund | Qualified              |
| Cemetery Fund              | Qualified              |

Internal control over financial reporting:

- Material weakness(es) identified?              X   yes                 no
- Significant Deficiency(s)                          X   yes                 none reported

Noncompliance material to financial statements noted?              X   yes                 no

State Financial Assistance

Internal control over major state projects:

- Material weakness(es) identified?                 yes              X   no
- Significant Deficiency(s) identified                 yes              X   none reported

Type of auditor's report issued on compliance for major state projects: **Unmodified.**

Any audit findings disclosed that are required to be reported in accordance with [Chapter 10.550](#)?              X   yes                 no

Identification of major state projects:

| <u>CSFA No(s).</u> | <u>Names of State Project or Cluster</u>                  |
|--------------------|---|
| 40.038             | Housing and Community Development - Marina Reconstruction |

Dollar threshold used to distinguish between Type A and Type B Programs            \$   750,000  

Auditee qualified as low-risk auditee?                 yes              X   no

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II. Financial Statement Findings

**Finding 2010 – 01 – Material weakness**

**Condition:** The City did not perform a physical count of inventories and has not maintained perpetual inventory records for the Cemetery Fund. Also, the City has not established adequate controls over the completeness of revenues and receivables for the Cemetery Fund.

**Criteria:** Adequate accounting records and internal controls are required for the preparation of financial statements.

**Effect:** Because of inadequacies in internal controls and accounting records relating to the Cemetery Fund, we were unable to form opinions regarding the amounts of inventories, accounts receivable, service revenue, and cost of goods sold for the fund.

**Recommendation:** We recommend that the City implement the following for the Cemetery Fund:

- 1) Perform an annual physical count of inventories at year end.
- 2) Develop and maintain perpetual inventory records.
- 3) Develop and implement procedures to monitor the completeness of revenues and receivables.

**Views of responsible officials and planned corrective actions:** The City is implementing the inventory software that has been purchased to help develop and maintain the perpetual inventory records at the cemetery. The software is expected to address the control gaps that the audit has identified. GIS mapping is a part of the software and the Finance and Cemetery departments will use this as an aid to the physical count of inventories that will be conducted at year end. Finance employees will also do weekly checks to ensure that the revenues and receivables are accurate by going to the cemetery to do periodic visual inspections on the burials. The City has also engaged an outside CPA to assist with rectifying this finding.

The administration has made several policy changes including relocating all accounting and cash receipt functions at the cemetery to the Finance Department at the City Hall to have better accountability of cemetery operations.

**Finding 2014 – 01 – Material Weakness**

**Condition:** We noted there was a lack of oversight of the financial reporting process.

**Criteria:** Timely and accurate accounting records are required for internal and external financial reporting.

**Effect:** Transactions were not properly recorded in the general ledger. Consequently, numerous audit adjustments were required to correct the financial records.

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**Recommendation:** We recommend that the City increase oversight of the financial reporting process to facilitate the preparation of timely and accurate financial reports.

**Views of responsible officials and planned corrective actions:** The administration has consistently relied upon very reliable career accounting personnel to conduct day-to-day activities of maintaining the City's accounting system. There are no material weaknesses in the City's accounting and internal control systems that would require any major change in accounting or management policy.

During FY 2015, the City's Finance Director resigned. The City was not able to hire another Finance Director until October 2016. There were several struggles the City had to overcome without a Finance Director. The day-to-day operations suffered during this time period. The Administration is in the process of re-organizing the structure of the current day-to-day duties and expects that a more comprehensive management reporting system will enable management to better utilize its existing personnel and provide for more efficient utilization of staff responsibilities. This will improve the reliability, integrity, and timeliness of all financial and reporting systems. During FY 2017, the City completed the conversion to new accounting software to assist in improving the overall financial and reporting systems.

**Finding 2014 – 02 – Noncompliance or other matters that are required to be reported under Government Auditing Standards**

**Condition:** We noted that the audit report and the Annual Financial Report filed with the Florida Department of Financial Services for the fiscal year ended September 30, 2017 were not filed timely.

**Criteria:** Florida Statutes require audit reports for local governmental entities and the Annual Financial Report to be filed within nine months of the fiscal year end. The City's reports were due June 30, 2018.

**Effect:** Failure to file audit reports timely subjects the City to the risk of losing state shared revenues.

**Recommendation:** We recommend that the City review the financial reporting process and make any changes required to facilitate the timely preparation of financial reports.

**Views of responsible officials and planned corrective actions:** As noted in the management response for Finding 2014-1, the Administration continues to re-organizing the structure of the current day-to-day duties and expects that the new comprehensive management reporting system will enable management to better utilize its existing personnel and provide for more efficient utilization of staff responsibilities. This will improve the reliability, integrity, and timeliness of all financial and reporting systems.

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**Finding 2014 – 03 – Noncompliance or other matters that are required to be reported under Government Auditing Standards**

**Condition:** As indicated in Note 2 to the Budgetary Required Supplementary Information, certain functions in the General Fund had expenditures in excess of appropriations, and total expenditures of the General Fund exceeded total appropriations.

**Criteria:** Florida Statutes prohibit expenditures in excess of appropriations.

**Effect:** Noncompliance with budgetary requirements.

**Recommendation:** We recommend that the City adopt budget amendments as necessary to eliminate expenditures in excess of appropriations.

**Views of responsible officials and planned corrective actions:** The City is continuously working toward remedying this finding. Actions have taken place to partially implement the recommendation. The City is continuously working to improve its' Budget amendment process to be in-line with the actual expenditures. The City has also solicited the assistance of an outside Governmental CPA firm to provide guidance and to ensure compliance with the Budgetary Required Supplementary information requirement, therefore, it is anticipated that this finding will not be repeated in the future.

**Finding 2014 – 04 – Noncompliance or other matters that are required to be reported under Government Auditing Standards**

**Condition:** During our testing of credit card activity we noted the following issues:

- Some payments were not made timely resulting in the payment of late fees and finance charges.
- Sales tax was paid on certain purchases.
- Accounting records did not identify the public purpose for certain transactions.

**Criteria:** Adequate internal controls and accounting records are required for the preparation of financial reports.

**Effect:** Inadequate controls for credit card activity expose the City to the risk of fraud, misuse, and financial reporting errors.

**Recommendation:** We recommend that the City review its policies and procedures for credit card purchases and implement steps to provide adequate control over credit card use.

**Current year status:** Upon our review, we noted that the Credit Card activities for the City has improved from prior year. Sales taxes was charged correctly and the City has updated their Credit Card policy and procedure to provide direction to users.

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**Views of responsible officials and planned corrective actions:** The City has made changes to the processes in FY 2017 and will continue to review the policies and procedures for credit card use and will implement appropriate procedures to provide adequate control and accounting records for these activities.

**Finding 2015 – 01 – Material Weakness**

**Condition:** The City has not established adequate controls over the completeness of revenues and unearned revenues for the Marina and Campground Fund.

**Criteria:** Adequate accounting records and internal controls are required for the preparation of financial statements.

**Effect:** Because of inadequacies in internal controls and accounting records relating to the Marina and Campground Fund, we were unable to form opinions regarding the amounts of service revenue and unearned revenue for the fund.

**Recommendation:** We recommend that the City implement the following for the Marina and Campground Fund:

- 1) Acquire and implement special purpose software to maintain detailed records of revenue and utilization of the facilities for the marina and campground.
- 2) Establish access controls for the campground such as gates, card entry systems, and security cameras.
- 3) Develop and implement procedures to monitor and control marina and campground revenues.

**Views of responsible officials and planned corrective actions:** During the current year, we will review all policies and procedures related to the Marina and Campground Fund to establish adequate controls over all operations of the Marina and Campground.

**Finding 2016 – 01 – Material Weakness**

**Condition:** The City has not adequately trained staff to implement purchasing procedures and management has not adequately monitored the purchasing process.

**Criteria:** The City's purchasing procedures require all purchases to have a purchase order number, excluding minor purchases made from petty cash and those purchases declared exempt. The procedures further require that all purchases exceeding ten thousand dollars shall be approved by the City Commission and shall be awarded after receiving competitive bids. Emergency purchases not exceeding fifteen thousand dollars may be made by the City Manager to meet a pressing need for the protection of the public health, safety, or welfare of the community. The City Commission shall ratify every emergency purchase as soon as it is reasonable possible.

**Effect:** Noncompliance with purchasing procedures. See Finding 2016-2.

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**Recommendation:** We recommend that City staff involved in the purchasing process receive training regarding the approved purchasing procedures and that management increase monitoring of the purchasing process to maintain adequate controls.

**Views of responsible officials and planned corrective actions:** The City has made improvement in this area. The purchasing manual has been updated and is now enforced. The City Manager and the Finance Director have worked together to ensure that the policy is adhere to. Training programs are now incorporated for users throughout the city that are authorized to spend the City's funds.

**Finding 2016 – 02 – Noncompliance or other matters that are required to be reported under Government Auditing Standards**

**Condition:** The City has not complied with purchasing procedures.

**Criteria:** The City's purchasing procedures require all purchases to have a purchase order number, excluding minor purchases made from petty cash and those purchases declared exempt. The procedures further require that all purchases exceeding ten thousand dollars shall be approved by the City Commission and shall be awarded after receiving competitive bids. Emergency purchases not exceeding fifteen thousand dollars may be made by the City Manager to meet a pressing need for the protection of the public health, safety, or welfare of the community. The City Commission shall ratify every emergency purchase as soon as it is reasonable possible.

**Effect:** We noted the following instance of noncompliance with purchasing procedures:

- 1) Purchases in excess of ten thousand dollars were not approved by the City commission.
- 2) Competitive bids were not obtained for purchases in excess of ten thousand dollars.
- 3) Emergency purchases were not ratified by the City commission.
- 4) Purchase orders were not issued for all purchases that require them.
- 5) Purchases were made without the approval of management.
- 6) Source documents were not properly maintained.
- 7) The public purpose for purchases was not always documented.

**Recommendation:** We recommend that the City review the purchasing process and make changes required to maintain compliance with approved purchasing procedures.

**Views of responsible officials and planned corrective actions:** The City has made the following updates to the purchasing policy:

1. Purchases in excess of ten thousand dollars were not approved by the City Commission. **This has been established a Resolution in fiscal year 19 to ensure compliance with this threshold.**
2. Emergency purchases were not ratified by the City Commission. **The City established a Resolution in fiscal year 19 to ensure compliance with their emergency purchases.**

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3. Purchase orders were not issued for all purchases that require them. **The City updated their Purchasing Manual and has established training programs to assist users in this area.**
4. Purchases were made without the approval of management. **The City updated their Purchasing Manual and has established training programs to assist users in this area.**
5. Source documents were not properly maintained. **Source documents are now attached to the purchase orders.**
6. The public purpose for purchases was not always documented. **The City has updated its purchasing manual and has established training programs to assist users in this area.**

**Finding 2017 – 01 – Noncompliance or other matters that are required to be reported under Government Auditing Standards**

**Condition:** The Marina and Campground Enterprise Fund has experienced operating losses for many years and the Cemetery Enterprise Fund has frequently experienced operating losses. As of September 30, 2017, both funds reported a deficit in unrestricted net position. As of September 30, 2017, advances from the General Fund totaled \$193,486 for the Marina and Campground Enterprise Fund and \$338,865 for the Cemetery Enterprise Fund.

**Criteria:** Section 10.554 (1)(f), Rules of the Auditor General defines deteriorating financial condition as a circumstance determined as of the fiscal year end that significantly impairs a county, municipality, or special district's ability to generate enough revenues to meet its expenditures without causing a condition described in Section 2018.503(1), Florida Statutes to occur.

**Effect:** The City's enterprise funds might not be able to generate enough revenues to meet their obligations.

**Recommendation:** We recommend that the City review the operations of the enterprise funds to develop options for increasing revenues for these funds.

**Views of responsible officials and planned corrective actions:**

Marina and Campground Fund

The marina and campground were destroyed by Hurricane Wilma in October 2005. These facilities were rebuilt with grant funds at a cost of over \$15,000,000. The marina and campground reopened late in the fiscal year ended September 30, 2011.

Due to the large investment in capital assets, this fund reports a large depreciation expense. For the fiscal years ended September 30, 2018 and 2017, depreciation expense was approximately \$873,000 and \$874,000, respectively. Depreciation expense will continue to cause operating losses, and it is unlikely that this fund will operate at a profit in the foreseeable future. The City would consider this fund to be operating successfully if revenues are sufficient to cover all

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expenses except depreciation. The change in net position, excluding depreciation expense, was (\$55,971) and \$1,882, for the years ended September 30, 2018 and 2017, respectively.

The City will continue to review other revenue sources to help defray some of the fund's expenses in the future.

Cemetery Fund

Prior to fiscal year 2009, losses were mitigated by earnings on the Henderson Endowment. All earnings on the principal balance of \$875,000 are restricted for upkeep, maintenance, and beautification of the Port Mayaca Cemetery. The City has established a permanent fund to account for the endowment principal, investment earning, and transfers to the Cemetery Fund. In recent years, the low interest rate environment has greatly reduced the investment earnings. When interest rates return to more normal levels, the investment earnings will again mitigate the operating losses of the Cemetery Fund.

Presently, to help control operating costs of the cemetery, the City has implemented a purchasing process that monitors and manages daily expenses. The City has transferred all accounting functions from the cemetery to City Hall to incorporate into the control structure of the finance department to rectify the finding. The finance department will handle all contract writing, billing, and receipt functions of the cemetery operations to be able to better monitor the activities of the cemetery in the future. Also, the City is aggressively seeking ways to increase the revenues of the cemetery, but the efforts are hampered by the fact that there is currently only one funeral home within the City of Pahokee.

The City is expecting a negative change in net position of approximately \$5,000 for the Cemetery Fund for the year ended September 30, 2018. The City reported a negative change in net position of approximately \$7,000 for the Cemetery Fund for the year ended September 30, 2017.

**Finding 2017 – 02 – Noncompliance or other matters that are required to be reported under Government Auditing Standards**

**Condition:** We noted management did not provide adequate and timely financial information to the City Commission.

**Criteria:** Those charged with governance require appropriate and timely financial information in order to monitor the activities of the City and to facilitate the decision-making process.

**Effect:** Inadequate internal financial reporting could expose the City to the risk of fraud, misuse, or abuse and impair the decision-making process.

**Recommendation:** We recommend that the City review its policies and procedures for internal financial reporting and implement steps to provide appropriate and timely financial information to those charged with governance.



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**Views of responsible officials and planned corrective actions:** Beginning in 2018, the Finance Director has been producing monthly financial statements for the City Commission and the administration.

**Finding 2017 – 03 – Material Weakness**

**Condition:** We noted there is inadequate communication between personnel performing the accounting function and personnel managing grants.

**Criteria:** Policies and procedures should provide reasonable assurance that the City identifies, captures, and exchanges information enabling employees to carry out their responsibilities accurately and timely.

**Effect:** Grant transactions were not always properly recorded in the accounting system requiring audit adjustments to correct the financial records.

**Recommendation:** We recommend that the City review its grant management policies and procedures and implement steps to provide appropriate exchanges of information between departments.

**Views of responsible officials and planned corrective actions:** The Finance Director and grant manager will determine the appropriate steps needed to ensure adequate communication between the two departments.

**Finding 2017 – 04 – Noncompliance or other matters that are required to be reported under Government Auditing Standards**

**Condition:** We noted that the City recorded infrastructure surtax revenues and expenditures in the General Fund.

**Criteria:** In November 2016, Palm Beach County voters approved raising the sales tax from 6 percent to 7 percent. This one-cent sales tax increase went into effect on January 1, 2017 and will end on December 31, 2016 unless \$2.7 billion is collected before then. Of the total funds collected from the surtax, 50% will be provided to the Palm Beach County School District and 30% will be provided to Palm Beach County. The 39 municipalities in Palm Beach County will split the remaining 20%. The surtax funds may only be used for infrastructure projects such as roads, bridges, schools, and government buildings. The entities receiving surtax funds are required to establish Citizen Oversight Committees to oversee the infrastructure projects. Because of the restrictions on the use of the surtax, it is desirable to account for the revenues and expenditures in a separate.

**Effect:** Infrastructure surtax expenditures can't be determined from the City's financial statements.

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**Recommendation:** We recommend that the City create a separate fund to account for the infrastructure surtax revenues and expenditures.

**Views of responsible officials and planned corrective actions:** We will review the infrastructure surtax revenues and expenditures activity to determine the appropriate course for creating a separate fund.

**Finding 2018 – 01 – Material Weakness**

**Condition:** We noted that the City had not incorporated auditor adjustments identified in the fiscal year 2017 audit to the City’s general ledger.

**Criteria:** The City provided a trial balance for fiscal 2017 and 2018 and as we were reconciling balances to the audited financial statements, several differences were noted.

**Effect:** Entries had to be made to fund balance to reconcile the general ledger to the audited financial statements.

**Recommendation:** We recommend that the City establish policies and procedures that would have staff, before the conclusion of the audit period, review the general ledger and ensure all necessary adjustments are entered into the general ledger.

**Views of responsible officials and planned corrective actions:** The City had relied on the assistance of an outside consultant to help enter audit adjustments into the general ledger and since, that person no longer is contracted with the City. The City now has assistance of a new outside Governmental CPA firm to provide guidance and ensure any audit adjustments are entered into the general ledger.