

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2021-051
November 2020

CITY OF STARKE

Follow-Up on Prior Audit



Sherrill F. Norman, CPA
Auditor General

City Commissioners, Chief of Police, City Clerk, and City Manager

During the period October 2018 through September 2019, Jeff Johnson served as Chief of Police, Ricky Thompson served as City Clerk, Bob Milner served as City Manager, and the following individuals served as City of Starke Commissioners:

Daniel Nugent, Mayor
Wilbur Waters, Vice Mayor
Tommy Chastain
Janice Mortimer
Shannon Smith

The team leader was Walter K. Cunningham, CPA, and the audit was supervised by Derek H. Noonan, CPA.

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CITY OF STARKE

Follow-Up on Prior Audit

SUMMARY

We conducted an operational audit of the City of Starke (City) and issued report No. 2015-009, which contained 35 findings and recommendations. In accordance with Section 11.45(2)(j), Florida Statutes, we performed a follow-up audit to determine the City's progress in addressing the 35 findings and recommendations and issued our prior audit follow-up report No. 2019-003. That report disclosed that the City had not fully corrected 27 of the 35 findings.

This operational audit of the City focused on the additional progress that the City had made, or was in the process of making, in addressing the 14 partially corrected findings (Nos. 2, 3, 4, 6, 7, 8, 9, 15, 17, 19, 20, 24, 26, and 35), and 13 uncorrected findings (Nos. 10, 11, 13, 14, 21, 23, 25, 27, 30, 31, 32, 33, and 34) and recommendations in report No. 2019-003. Our audit disclosed that the City had:

- Corrected 8 findings (Nos. 2, 4, 6, 19, 23, 26, 32, and 33).
- Partially corrected 7 findings (Nos. 3, 9, 13, 14, 24, 31, and 35).
- Not corrected 12 findings (Nos. 7, 8, 10, 11, 15, 17, 20, 21, 25, 27, 30, and 34).

BACKGROUND

The City of Starke (City), located in Bradford County, is a Florida municipality originally incorporated as the Town of Starke in 1870 and then reincorporated as the City by the Florida Legislature through the enactment of Chapter 13426, Laws of Florida, 1927. The City operates under a Mayor-Commissioner form of government and is governed by an elected five-member City Commission. The five Commissioners annually elect one Commissioner to serve as Mayor and one to serve as Vice Mayor. The City also has an elected City Clerk and Chief of Police. The City provides law enforcement, fire control, electric, gas, water, sewer, and other general governmental services. The estimated population of the City was 5,352 in 2018.¹

We conducted an operational audit of the City for the period October 2010 through September 2013, and selected actions taken prior and subsequent thereto, and issued our report No. 2015-009 in August 2014. In accordance with State law,² we performed follow-up procedures, as deemed necessary, to determine the City's progress in addressing the findings and recommendations contained within that report and issued our prior audit follow-up report No. 2019-003 in July 2018.

At its February 21, 2019, meeting, the Joint Legislative Auditing Committee directed us to perform additional procedures to determine the City's progress in addressing findings that were not fully corrected in the prior audit (Report No. 2019-003). Therefore, we performed procedures, as deemed necessary, to determine the City's progress in addressing those findings.

¹ Florida Population Estimates for Counties and Municipalities, April 2017 and April 2018, Florida Legislative Office of Economic and Demographic Research

² Section 11.45(2)(j), Florida Statutes.

FINDINGS AND RECOMMENDATIONS

GENERAL MANAGEMENT CONTROLS AND OVERSIGHT

Finding 1: Organizational Structure

As noted in audit report No. 2019-003, the City corrected organizational structure deficiencies disclosed in audit report No. 2015-009.

Finding 2: Separation of Duties

Previously Reported

Certain duties continued to be inadequately separated for the payroll function as one employee was responsible for recording in the accounting records payroll data from source documents, posting changes in rates of pay, adding new employees to the payroll system, and preparing payroll checks. Although the City Clerk reviewed the payroll checks for mathematical accuracy, improper changes could be made to payroll data or rates of pay without being timely detected.

We recommended that the City continue efforts to implement adequate compensating controls, such as independent oversight and monitoring of payroll processing, to mitigate circumstances in which adequate separation of duties with existing employees is not practical.

Results of Follow-Up Procedures

The City corrected this finding. Our discussions with City personnel and examination of City payroll records in February 2020 disclosed that:

- A financial assistant in the Finance Department records payroll entries in the accounting records based upon completed time sheets, generates a pay rates and hours worked report (payroll report), and compares the payroll report to the time sheets to confirm that the entries were accurately recorded. Although the financial assistant has sole responsibility for updating payroll records, the documentation supporting pay rate and any time sheet changes of hours worked are initiated and approved independent of the Finance Department.
- The Finance Director, or a financial assistant other than the financial assistant preparing the payroll report, performs an independent review of the report and signs it to evidence the review. This review includes a comparison of the time sheets to the payroll report to ensure hours are recorded accurately, pay rate is correct, and the final amount paid to the employee is mathematically accurate. Any necessary corrections, such as correcting hours on the payroll report that do not agree to the time sheet, are noted on the report, and the financial assistant responsible for payroll makes the necessary changes before generating the final payroll report.
- The financial assistant who prepares the payroll report provides the check register, listing of direct deposit warrants, and the actual checks to either the Finance Director or one of the other financial assistants, who then compares them to the final payroll report and signs the warrants with a signature stamp as the City Clerk's designee once the review has been completed.

Finding 3: Written Policies and Procedures

Previously Reported

Written policies and procedures were not developed to address various business-related functions, such as City Commission minutes, budgets, and contract administration. Additionally, City ordinances³ require the City Clerk to establish, and submit for approval by the City Commission, procedural rules for purchasing goods and services. Although the City had written purchasing policies and bidding procedures, the Commission had not approved the bidding procedures as of October 2017.

We recommended that the City continue efforts to establish comprehensive, written policies and procedures to assist in training new employees and help prevent instances of noncompliance and inadequate internal controls. In doing so, we recommended that the City ensure that the policies and procedures address the remaining areas of noncompliance and internal control deficiencies discussed in our audit report No. 2019-003.

Results of Follow-Up Procedures

The City partially corrected this finding. Our review of Commission meeting minutes from October 2018 to March 2020 disclosed that the City Commission approved:

- On February 12, 2019, purchasing policies and bidding procedures.
- On March 3, 2020, procedures for transcribing, recording, and approving Commission meeting minutes in the City's official records for future access by the City and the public.

However, the City did not develop policies and procedures for budget preparation and, as discussed in Finding 30, for appropriate contract administration. In response to our inquiries, City personnel indicated that the budget preparation policies and procedures were not developed because of City Manager turnover and uncertainty as to whether the City Manager or Finance Director should be responsible for budget preparation. According to City personnel, contract administration policies and procedures were not established because of staffing constraints, staff turnover, and the lack of a position responsible for administering contracts. City personnel also indicated that most of the City's contracts are associated with grants, which are subject to grantor monitoring. Notwithstanding this response, grantor monitoring efforts would not replace City management's responsibility for establishing effective contract administration policies and procedures.

Comprehensive policies and procedures are necessary to communicate effective internal controls, promote consistent operations, and assist in training new employees. Effective policies and procedures could help prevent instances of noncompliance and inadequate controls, such as those discussed in this report.

Recommendation: We continue to recommend that the City establish comprehensive policies and procedures, approved by the Commission, to communicate internal controls, promote consistent operations, assist in training new employees, and help prevent instances of noncompliance. In doing so, the City should ensure that the policies and procedures address budget preparation and contract administration.

³ Section 2-326, City of Starke Code of Ordinances.

Finding 4: City Commission Minutes

Previously Reported

The City did not have written policies or procedures providing guidelines for timely recording, reviewing, and approving Commission meeting minutes, and Commission meeting minutes were not always timely made available for public inspection.

We continued to recommend that the City develop guidelines for review and approval of Commission minutes and enhance procedures to ensure that minutes for all Commission meetings are timely made available for public inspection.

Results of Follow-Up Procedures

The City corrected this finding. Our discussions with City personnel and examination of City records disclosed that in May 2019 the City developed written procedures, which were updated and approved at the March 3, 2020, Commission meeting. The procedures require the Deputy City Clerk to type minutes for each meeting and place the minutes on the next Commission meeting agenda for approval. Once approved, the minutes are placed in the City's official records and members of the public may request the minutes by contacting the City Clerk or the Deputy City Clerk. Minutes are available for inspection by the requestor at City Hall or may be obtained by e-mail or U.S. Postal Service.

PETTY CASH, CHANGE FUNDS, AND BANK ACCOUNTS

Finding 5: Petty Cash and Change Funds

As noted in audit report No. 2019-003, the City corrected petty cash and change funds deficiencies disclosed in audit report No. 2015-009.

Finding 6: Bank Accounts and Reconciliations

Previously Reported

The number of City bank accounts maintained was excessive, as many of the City's 29 accounts had little or no activity.

We continued to recommend that the City reduce the number of bank accounts.

Results of Follow-Up Procedures

The City corrected this finding. Our examination of City records in November 2019 disclosed that the number of City bank accounts was reduced from 29 accounts to 17 accounts. Additionally, our examination of bank statements for the 17 accounts for the period October 2018 to September 2019 disclosed that all the accounts were either legally required (i.e., separate police, firefighter, and general employee pension accounts) or had a sufficient level of activity to justify their existence.

Finding 7: Banking Agreements and Signature Cards

Previously Reported

Contrary to the City Charter, the City Clerk and Mayor did not separately sign payroll warrants as the City Clerk manually stamped the warrants with a signature stamp for both the City Clerk and Mayor.

We continued to recommend that the City require the City Clerk and Mayor to each sign all payroll warrants or that the payroll warrant signing process be independently reviewed and approved.

Results of Follow-Up Procedures

The City did not correct this finding. Our discussions with City personnel in December 2019 disclosed that the Finance Director or his designee manually stamped the warrants with a signature stamp for both the City Clerk and Mayor. While The Finance Director independently reviews the payroll records and warrants to ensure the information agrees prior to disbursing the funds and the bank reconciliation is prepared by an employee other than the Finance Director, the City did not correct this finding by requiring both the City Clerk and Mayor to sign payroll warrants pursuant to the City Charter or, alternatively, provide independent review and approval of the payroll warrant signing process. Without at least two participants in the payroll warrant signing process, the risk is increased that errors or fraud could occur and not be timely detected.

Recommendation: We continue to recommend that the City Clerk and Mayor each sign all payroll warrants as required by the City Charter or that the payroll warrant signing process be independently reviewed and approved.

Finding 8: Controls Over Electronic Funds Transfers

Previously Reported

The City's written banking agreement did not require documented, secondary approval of electronic funds transfers (EFT) authorizations or specify the destination accounts that can receive EFTs.

We continued to recommend that the City amend the banking agreement to require documented, secondary approval of EFT authorizations and specify the destination accounts that can receive EFTs.

Results of Follow-Up Procedures

The City did not correct this finding. Our examination of the City's banking agreement on October 2019 indicated that the City did not amend the agreement to require documented, secondary approval of EFT authorizations nor specify the destination accounts that can receive EFTs. City personnel indicated that the agreement was not amended since the secondary approval of EFT authorizations would not be feasible for urgent purchases, and predetermined destination accounts could prevent the City from conducting business and paying employees in a timely manner. Notwithstanding this response, given the elevated fraud risks associated with EFTs, requiring documented, secondary approval of EFT authorizations and specified destination accounts would strengthen City controls over business and employee payments and help prevent or timely detect unauthorized or inappropriate EFTs.

Recommendation: We continue to recommend that the City amend the EFT agreement to require documented, secondary approval of EFT authorizations and specify the destination accounts that can receive EFTs.

COLLECTIONS, RECEIVABLES, AND UTILITY FUNDS

Finding 9: Cash Collections

Previously Reported

City records were not provided to evidence the use of mail logs, receipts, or other records to document the initial point of cash collection for City Hall and the Police Department mail collections. Additionally, City personnel did not restrictively endorse checks received in mail collections immediately upon receipt.

We continued to recommend that the City establish procedures that require all mail collections be recorded at the initial point of collection and checks be restrictively endorsed immediately upon receipt.

Results of Follow-Up Procedures

The City partially corrected this finding. According to City personnel, the City Clerk or a customer service representative opens the mail, restrictively endorses checks received in the mail, and records the mail collections in the accounting records. While our examination of City records as of October 2019 confirmed that checks were restrictively endorsed, City records did not evidence the use of mail logs, receipts, or other records to document the initial point of receipt by someone who did not record the collections in the accounting records.

In response to our inquiries, City personnel indicated that maintaining a log to record cash collections upon receipt and processing the collections would result in duplicative efforts. Notwithstanding, when collections are not documented at the initial point of receipt by someone other than the individual who records cash collections, the risk increases that errors, fraud, or theft may occur without timely detection and appropriate resolution.

Recommendation: We continue to recommend that the City update existing procedures to require all mail collections be recorded at the initial point of receipt by someone who does not record the collections in the accounting records.

Finding 10: Uncollected Local Business Taxes

Previously Reported

The City did not timely collect delinquent local business taxes.

We continued to recommend that the City implement procedures to ensure compliance with the City Code of Ordinances (Code)⁴ and collection of revenues due to the City for business tax receipts.

⁴ Section 26-31, City of Starke Code of Ordinances.

Results of Follow-Up Procedures

The City did not correct this finding. The Code provides, with limited exceptions, that no person shall engage in, own or manage businesses, occupations, professions or services without first having properly applied for and obtained a local business tax receipt (i.e., business license), which range in cost from \$25 to \$1,500 depending on the type of occupation. The Code also provides that:

- Local business tax receipts be issued beginning August 1 and expire on September 30 of the next year. Local business tax receipts that are not renewed by September 30 are delinquent and subject to a delinquency penalty of 10 percent for the month of October, plus an additional 5 percent for each subsequent month until paid, although the total delinquency penalty may not exceed 25 percent.⁵
- Any person who does not pay for the required local business tax receipt and obtain the receipt within 150 days after initial notice will be subject to additional actions and costs incurred as a result of collection efforts and a penalty of \$250.⁶

In August 2019, the City hired a code enforcement officer to assist in collecting unpaid business license fees and, in October 2019, hired a magistrate to preside over cases of unpaid fees and penalties.

According to City records, the City issued 597 business licenses totaling \$68,695 during the 2018-19 fiscal year. Our examination disclosed that local business taxes totaling \$725 for 20 licenses at 18 businesses were due October 1, 2018, but had not been paid as of September 30, 2019, and the City assessed penalties for these licenses totaling \$160. As part of our audit, we recalculated the penalty amounts based on rates in applicable City ordinances and found that the City under-assessed the penalties by \$5,050 as penalties totaling \$5,210 should have been assessed. According to City personnel, although the City notified businesses of delinquent business taxes, the City did not enforce the \$250 penalty for failure to pay within 150 days after initial notice of delinquency and added the delinquent fees and penalties to the businesses subsequent year's annual renewal billing statement. In response to our inquiries, City personnel indicated that they did not believe it would be cost effective to pursue collection of the unpaid penalties and fees. However, although we requested, records were not provided to demonstrate that the pursuit would not be worth the effort.

Moreover, the Code⁷ includes a provision that, if the delinquent business fails to pay the required business tax within 150 days after the initial notice of tax due, the business will be subjected to civil actions and penalties including court costs, reasonable attorney fees, and additional administrative costs incurred as a result of the collection efforts. Insofar as the delinquent business is responsible for all costs associated with enforced collection of delinquent business taxes, it is not apparent how it would not be cost effective for the City to pursue payment of unpaid business taxes and associated penalties. Prompt notifications to businesses with delinquent business tax receipts followed by the timely identification and referral for further collection efforts could reduce the amount of uncollectible business tax receipts and related penalties.

In addition, our examination of City records disclosed that the City wrote off a total of \$14,494 in delinquent business license fees, application fees, and associated penalties during the 2018-19 fiscal

⁵ Section 26-37, City of Starke Code of Ordinances.

⁶ Section 26-38, City of Starke Code of Ordinances.

⁷ Section 26-38, City of Starke Code of Ordinances.

year. Insofar as the Code does not include provisions to write-off delinquent accounts, the authorization to write-off delinquent accounts is not apparent. According to City personnel, in practice, after 3 years of nonpayment, business license fees are “reversed” from the business’ account, and the corresponding business license is inactivated. City personnel indicated that “reversing” the accounting entry that created the business license receivable would not constitute a write-off. Notwithstanding, removing a valid receivable from the accounting records through a “reversal” journal entry is essentially a write off and results in the cessation of collection efforts.

Absent legal authority to write off accounts receivable, and absent City Commission authorization, it is not apparent that the \$14,494 “reversed” or written off was in accordance with the Code and City Commission intent.

Recommendation: We continue to recommend that the City implement procedures to ensure compliance with the Code and promote timely collection of business tax receipts. We also recommend that the City fully enforce applicable penalties provided for in the Code and establish policies and procedures that require City Commission authorization for writing off delinquent business license fees and penalties.

Finding 11: Utility Deposits

Previously Reported

The City did not have procedures for periodically reconciling the customer deposits payable liability account to the customer deposits subsidiary ledger and to the residential and commercial utility deposits bank account balance.

We continued to recommend that the City implement procedures to ensure that customer deposits payable liability accounts are periodically reconciled to the customer deposits subsidiary ledger and the customer deposits bank account balance.

Results of Follow-Up Procedures

The City did not correct this finding. As of March 2020, the City had not established procedures for periodically reconciling the customer deposits payable liability account to the customer deposits subsidiary ledger and to the residential and commercial utility deposits bank account balance.

Our examination of City records indicated that the City maintained a bank account for the residential and commercial utility deposits and recorded the deposits as cash and customer deposits payable in the accounting records. We also noted that the City maintained a customer deposits subsidiary ledger. According to City personnel, reconciliations were performed monthly between the meter deposit account and new customer accounts since the only activity in the bank account are new deposits, interest earned on money in the account, and deposit refunds. However, the results of this reconciliation is not compared to the customer deposits payable liability account nor to the customer deposits subsidiary ledger.

As shown in Table 1, City account balances as of July 2019 differed and City records did not explain the differences or document attempts to reconcile the accounts.

Table 1
Comparison of Selected Account Balances
As of July 2019

Customer Deposits Payable Liability	Customer Deposits Subsidiary Ledger	Difference
\$993,917	\$839,709	\$154,208

Customer Deposits Payable Liability	Utility Deposits Bank Account	Difference
\$993,917	\$764,550	\$229,367

Customer Deposits Subsidiary Ledger	Utility Deposits Bank Account	Difference
\$839,709	\$764,550	\$75,159

Source: Auditor comparison of City records.

In response to our inquiries, City personnel indicated that they plan to develop and implement a procedure to reconcile these accounts; however, as of March 2020, no further action had been taken due to staffing constraints. Without periodic reconciliations of significant variations between the customer deposits payable liability account, customers deposits subsidiary ledger, and bank account balances, there is an increased risk that, should fraud or errors occur, the City may not promptly detect and resolve such occurrences.

Recommendation: We continue to recommend that the City implement procedures to ensure that customer deposits payable liability accounts are periodically reconciled to the customer deposits subsidiary ledger and the utility deposits bank account balance.

Finding 12: Electricity Billing True-up Calculations

As noted in audit report No. 2019-003, the City corrected the electricity billing true-up calculation deficiencies disclosed in audit report No. 2015-009.

Finding 13: Utility Cutoff, Adjustment, and Water and Sewer Extension Cost Procedures

Previously Reported

The City did not always follow its procedures for determining uncollected utility accounts, disconnecting services, and granting refunds to customers for unexpended deposits related to water and sewer extensions. The City also did not have documented procedures for reviewing, calculating, and approving utility account adjustments.

We continued to recommend that the City enforce procedures for providing limited payment extensions and disconnecting utility services as required by City ordinances and resolution. In addition, we recommended that the City ensure that procedures for the review and approval of utility account adjustments are followed and that the City ordinance is followed for water and sewer extensions, including proper refunds of extension costs, if any. We also recommended that the City take appropriate actions

to correct the customer account errors cited in our report No. 2019-003, including recovery of the \$1,360 improper credit and refunding the \$310 overcharge.

Results of Follow-Up Procedures

The City partially corrected this finding. Our discussions with City personnel and examination of City records supporting utility disconnection, adjustment, and water and sewer extension cost procedures disclosed that procedures continued to need improvement.

Utility Disconnections. City resolutions⁸ provide that utility bills are to be mailed to customers on the 1st of the month, and utilities are to be disconnected if bills are not paid by the 29th of the month. According to City personnel, time extensions for unpaid bills may be authorized by the Finance Director based on customer extension requests and are authorized when accounts are paid by financial assistance grants and when accounts are under a billing review.

Our examination of City records disclosed that 163 accounts (144 residential accounts and 19 commercial accounts) billed on September 1, 2019, had not paid their bills as of September 29, 2019. As of October 7, 2019, 108 of the accounts had been paid and, in accordance with City resolutions and procedures, 50 accounts had been granted extensions or had the utilities disconnected. However, utilities were not disconnected for the remaining 5 accounts although there was no documented reason, or Finance Director authorization, for an extension. Without effective collection efforts, such as utility disconnections or appropriate payment arrangements, there is an increased risk that account balances will continue to increase and not be collected.

Utility Account Adjustments. City procedures require the review and approval of customer utility account adjustments for certain occurrences, such as billing error corrections (e.g., incorrect meter readings), checks returned for insufficient funds, and increased water and sewer charges caused from water leaks. The procedures also require that all utility account adjustments have supporting documentation and be signed to evidence approval by the City Clerk, City Manager, or Finance Director before the adjustment is made.

To determine whether City procedures were being followed, we requested for examination City records supporting the 66 adjustments to customer utility accounts totaling \$14,194 made during June and July 2019. We found that, contrary to City procedures, required documentation was not always available to support the adjustment. Specifically, for 51 adjustments totaling \$12,002 documentation lacked evidence of the basis for the adjustment and for 54 adjustments totaling \$12,866 documentation lacked the signature of either the City Clerk, City Manager, or Finance Director to evidence approval. In response to our inquiries, City personnel indicated that documentation was not available because most of the adjustments were small and routine. In addition, City personnel indicated that some of the adjustments were for reconnection fees and, since the City's accounting system is unable to process reconnection fees once a customer has been disconnected, City personnel have to manually adjust subsequent customer billings to add the reconnection fees. Absent required documentation for adjustments and approvals, improper adjustments could be made and not timely detected and corrected.

⁸ City of Starke Resolution No. 2016-08.

Water and Sewer Extension Costs. City ordinances⁹ provide that a City water and sewer system extension or expansion project may be constructed by the City upon written request of the individual property owner, provided that:

- The property owner deposits with the City the total estimated cost of such project.
- The service request is in the form of the written petition presented to the Commission.
- The parties desiring construction agree, in writing, to pay on demand any expenses actually incurred by the City in excess of the estimates.

The ordinances also provide that the City refund to contributing parties, in proportion to the contribution of each party, the portions of the deposits unexpended upon completion of the project.

Our discussions with City personnel and examination of City Commission minutes and other City records disclosed that the City complied with the ordinance extension requirements for the three water line extensions with costs totaling \$8,900 during the period October 2018 through October 2019.

In addition, we found that in December 2019 the City refunded the \$310 we identified in our audit report No. 2019-003 as overcharged to customer in connection with a May 2016 water line connection. However, as of February 2020, the City had not recovered the \$1,360 we noted in that report as improperly credited to another customer's account. In response to our inquiry, City personnel indicated that the customer signed a payment plan but did not follow the plan. Although we requested, as of April 2020, the City did not provide the initial payment plan, records evidencing any follow up meetings with the customer, or records describing the results of any consultations with the City Attorney regarding possible legal remedies.

Recommendation: We continue to recommend that the City enforce procedures for providing limited payment extensions and disconnecting utility services as required by City ordinances and resolution. In addition, the City should ensure that procedures for the review and approval of utility account adjustments are followed and that actions to recover any improper credits to customer accounts are documented.

Finding 14: Enterprise Fund Financial Condition

Previously Reported

The City did not maintain detailed separate accountability for each of its utilities. In addition, the Commission did not, of record, address recommendations received from a contracted electric utility rate study and did not obtain a rate study for the gas utility system.

We continued to recommend that the City maintain separate accountability of the assets, liabilities, and net position for each utility in the accounting records, consider implementing the rate-related recommendations from the electric system rate study, and obtain a rate study for the gas utility.

Results of Follow-Up Procedures

The City partially corrected this finding. Our discussions with City personnel and examination of City records disclosed that the program revenues and expenses of each electric, gas, water, and sewer utility

⁹ Section 102-32, City of Starke Code of Ordinances.

activity were separately reported in the City’s government-wide statement of activities for the 2016-17 and 2017-18 fiscal years. The utility systems net program revenues (expenses) activity for the 2016-17 and 2017-18 fiscal years is summarized in Table 2.

Table 2
City of Starke Enterprise Funds Net Program Revenues
For the 2016-17 and 2017-18 Fiscal Years
(In Thousands)

	Electric	Water	Sewer	Gas
2016-17 Fiscal Year:				
Program Revenues	\$ 8,484	\$ 857	\$ 1,825	\$ 433
Program Expenses	(8,336)	(563)	(1,763)	(517)
Net Program Revenues	\$ 148	\$ 294	\$ 62	\$ (84)
2017-18 Fiscal Year:				
Program Revenues	\$ 8,437	\$1,001	\$ 2,001	\$ 463
Program Expenses	(7,932)	(611)	(1,956)	(621)
Net Program Revenues	\$ 505	\$ 390	\$ 45	\$ (158)

Source: City’s Audited Financial Statements.

Notwithstanding, the City reported utility account balances and activities in a single enterprise fund with increases in net position totaling \$78,697 and \$130,949 for the 2016-17 and 2017-18 fiscal years, respectively, and did not separately account for each utility’s current assets, current liabilities, general revenues, transfers, and net position in its accounting records. City personnel indicated that they chose not to maintain separate accountability for each utility due to time and personnel constraints. Maintaining separate accountability would enhance the City’s ability to determine the extent that fees and charges are sufficient to cover the cost of providing utility services, including future capital replacement costs, and would assist in rate setting each fiscal year to ensure that each activity’s inflows are sufficient to cover outflows.

According to City personnel, the City did not implement the rate increases recommended in the July 2012 electric system rate study because the study was too old to be useful in establishing electricity rates for the 2016-17 and subsequent fiscal years. Additionally, according to City records, the City obtained a gas utility rate study dated October 15, 2019, which was presented at the City Commission meeting on that date and implemented in March 2020.

In response to our inquiries, City personnel indicated that the City had not obtained an updated electric utility rate study due to the high cost associated with obtaining the study. Notwithstanding, when electric utility rates are not timely and thoroughly reviewed and revised, the City may not have sufficient revenues in future fiscal years to pay expenses and maintain required reserves.

Recommendation: We continue to recommend that the City maintain separate accountability for each utility in the accounting records and obtain an updated electric rate study.

Finding 15: Enterprise Fund Working Capital

Previously Reported

The City Commission did not, by formal resolution, establish a policy with minimum target levels of working capital funds to be maintained for the Enterprise Fund, as recommended by Government Finance Officers Association (GFOA) best practices.¹⁰

We continued to recommend that the City, by formal resolution, establish a policy with the minimum target levels of working capital funds that should be maintained for the Enterprise Fund.

Results of Follow-Up Procedures

The City did not correct this finding. Our examination of City Commission meeting minutes and discussions with City personnel disclosed that as of February 2020 the City had not established, by formal resolution, a policy with minimum target levels of working capital funds to be maintained for the Enterprise Fund, as recommended by GFOA best practices. In response to our inquiries, City personnel indicated that a policy had not been established due to staffing constraints and other work priorities.

Establishing minimum working capital requirements would help ensure that the City has sufficient fees to operate the fund, assist in determining appropriate utility services rates, and provide a basis for determining available funds that may be used for other lawful City purposes.

Recommendation: We continue to recommend that the City, by formal resolution, establish a policy with the minimum target levels of working capital funds that should be maintained for the Enterprise Fund.

BUDGETARY CONTROLS

Finding 16: Budget Preparation

As noted in audit report 2019-003, the City corrected the budget preparation deficiencies disclosed in audit report 2015-009.

Finding 17: Budget Amendments

Previously Reported

Contrary to State law,¹¹ the City Commission approved budget amendments by motion instead of by resolution. In addition, certain General, Impact Fee Trust, and Transportation Fund expenditure functions were overexpended for the 2013-14 or 2014-15 fiscal years.

We continued to recommend that the City ensure that budget amendments are approved through resolution and that expenditures are limited to budgeted amounts as required by law.¹²

¹⁰ GFOA Best Practice: Working Capital Targets for Enterprise Funds.

¹¹ Section 166.241(4)(c), Florida Statutes (2014).

¹² Section 166.241(4), Florida Statutes.

Results of Follow-Up Procedures

The City did not correct this finding. Our discussions with City personnel and examination of City records for the 2017-18 fiscal year disclosed that certain General Fund and Transportation Trust Fund expenditure categories were overexpended as shown in Table 3.

**Table 3
Comparison of Final Budget to Actual Amounts
2017-18 Fiscal Year**

	Final Budget	Actual Expenditures	Difference
General Fund:			
Current: Public Safety	\$2,684,350	\$2,750,855	\$(66,505)
Capital Outlay: Public Safety	510,000	528,971	(18,971)
Transportation Trust Fund:			
Transportation	179,700	197,389	(17,689)

Source: City's Audited Financial Reports

Additionally, City records disclosed that the City Commission did not approve budget amendments for the 2017-18 fiscal year to eliminate the overexpenditures. In response to our inquiries, City personnel indicated that no amendments were made for the 2017-18 fiscal year, in part, because the Finance Director focused attention on not overspending individual funds instead of limiting expenditures to budget categories.

Without properly amending the budget to meet changing financial circumstances, there is an increased risk that expenditures may exceed available resources.

Recommendation: We continue to recommend that the City ensure budget amendments are approved through resolution and that expenditures are limited to budgeted amounts as required by law.

TRANSPARENCY REQUIREMENTS

Finding 18: Annual Financial Report and Budget Transparency

As noted in audit report No. 2019-003, the City corrected the annual financial report and budget transparency deficiencies disclosed in audit report No. 2015-009.

PERSONNEL AND PAYROLL ADMINISTRATION

Finding 19: Compensation for Elected Officials and Employee Bonuses

Previously Reported

The City paid performance bonuses totaling \$3,500 to elected City officials, who were not otherwise eligible for the bonus as provided in the implementing City ordinance.¹³ Additionally, the City adopted a

¹³ City of Starke Ordinance No. 2014-0713.

safety pay policy on April 7, 2015, for not reporting a workplace injury and paid safety pay bonuses to applicable employees. However, the policy was not in accordance with State law¹⁴ because the policy did not base the bonus award on work performance and describe the performance standards and evaluation process by which the bonus will be awarded.

We continued to recommend that the City ensure that compensation for elected City officials is in accordance with applicable ordinances, and that elected City officials reimburse the City for the incorrectly paid performance bonuses totaling \$3,500. Also, we continued to recommend that the City document the authority for safety pay bonuses for City employees or revise Ordinance No. 2014-0713 to eliminate the safety pay bonus provisions for City employees.

Results of Follow-Up Procedures

The City corrected this finding. Our examination of City records and interviews with City personnel disclosed that, in June 2019, City personnel contacted the seven elected officials who were improperly paid performance bonuses totaling \$3,500 and the City was fully reimbursed by those officials. The City also eliminated the safety pay bonus provisions for City employees and, at the February 4, 2020, City Commission meeting, City Ordinance 2020-08 was passed, formally repealing Ordinance 2014-0713.

Finding 20: Hiring Practices

Previously Reported

The City Commission had not adopted position descriptions that specify minimum education and experience requirements.

We continued to recommend that the City adopt the position descriptions.

Results of Follow-Up Procedures

The City did not correct this finding. Our review of City Commission minutes and discussions with City personnel disclosed that, while the City Commission received draft position descriptions in August 2019 and discussed the descriptions, as of February 2020, the City Commission had neither adopted the position descriptions nor scheduled any further discussion about adopting the descriptions. In response to our inquiry, City personnel indicated that the position descriptions had not been adopted because the City Commission needed more time. Commission-adopted position descriptions would provide additional assurance that applicants meet employment qualifications consistent with Commission intent.

Recommendation: We continue to recommend that the City adopt position descriptions that specify minimum education and experience requirements.

¹⁴ Section 215.425(3), Florida Statutes.

Finding 21: Employee Classification and Pay Plans

Previously Reported

Contrary to the *City's Personnel Rules and Regulations Manual (Manual)*, the City Commission had not adopted a classification plan and pay plan to specify job requirements and salary rates for authorized City positions.

We continued to recommend that the City adopt a classification plan and a pay plan to ensure that personnel administration and payroll costs are properly managed.

Results of Follow-Up Procedures

The City did not correct this finding. Our examination of City records and discussions with City personnel disclosed that the City Commission amended the *Manual* in February 2019 to exclude the requirement for employee classification and pay plans. We also found that the draft position descriptions (mentioned in Finding 20) for some positions only included starting salary ranges or listed the salary as "negotiable". The January 21, 2020, City Commission meeting minutes indicated that the Commissioners discussed employee classification and pay plans and decided not to approve any plans until the plans could be revised consistently with the position descriptions. As of April 2020, the City had not taken further action to publicly discuss or approve the classification and pay plans.

Adoption of classification and pay plans would establish minimum requirements for new hires, help current employees understand how to advance to other City positions, and would provide a consistent and systematic framework for City positions and the associated pay rates.

Recommendation: We continue to recommend that the City adopt a classification and pay plan to ensure that personnel administration and payroll costs are properly managed.

Finding 22: Performance Evaluations

As noted in our report No. 2019-003, the City corrected deficiencies related to employee personnel evaluations disclosed in audit report 2015-009.

Finding 23: Overtime Payment Monitoring

Previously Reported

The City's monitoring of employee overtime could be improved. Specifically, as of October 2017, the City had not performed an overtime and staffing analyses to ensure the most cost efficient and effective use of human resources. Also, the City had not evaluated whether its practices for employees who were on-call were consistent with the City Commission's intent and United States Department of Labor on-call guidelines, and had not developed written procedures or guidelines regarding on-call requirements or limitations.

We continued to recommend that the City perform overtime and staffing analyses to ensure the most cost efficient and effective use of human resources. Additionally, we recommended that the City evaluate

whether its practices are consistent with the City Commission’s intent and United States Department of Labor on-call guidelines and amend the *Manual* as necessary.

Results of Follow-Up Procedures

The City corrected this finding. Our examination of City records and discussions with City personnel disclosed that the City amended the *Manual* in February 2019 to remove the language that permitted employees to earn overtime pay while on-call for the City, which reduced the amount of significant overtime payments.

During the 2018-19 fiscal year, the City paid significant overtime payments totaling \$25,095 to only two employees, including \$14,474 to a Lead Water and Wastewater Operator and \$10,621 to the Deputy Clerk, which was 38 percent and 28 percent of their base salaries, respectively. As such, there was no need to conduct an overtime and staffing analyses to evaluate City overtime payments. We found that payment of overtime to the two employees was necessary for the conduct of official City business as:

- A Florida Department of Environmental Protection consent order¹⁵ required a class C or higher operator to visit the wastewater site on each weekend day; consequently, it was necessary for the City to pay overtime to the Lead Water and Wastewater Operator for weekend site visits.
- The Deputy Clerk is required to attend all City Commission meetings, which occur outside normal working hours, and the Deputy Clerk’s workload increased because the City Clerk was on extended leave. According to City personnel, as of February 2020, the City Clerk had returned from leave, reducing the Deputy Clerk’s workload, and the City is considering changing the Deputy Clerk’s work assignments to further reduce her overtime.

PROCUREMENT AND EXPENDITURES

Finding 24: Credit Cards

Previously Reported

The City credit card policy did not require cardholders to sign an agreement to evidence the cardholder’s understanding of, and agreement with, the City’s credit card policies and procedures. Additionally, the City did not always ensure the submittal and retention of receipts for all City-issued credit card charges and to provide timely payments in full to avoid incurring additional fees and charges.

We continued to recommend that the City enhance its credit card policy to require all employees utilizing City credit cards to sign an agreement evidencing their understanding of, and agreement with, the City’s credit card policies and procedures. Additionally, we recommended that the City continue efforts to ensure the submittal and retention of receipts for all City-issued credit card charges and to provide timely payments in full to avoid incurring additional fees and charges.

Results of Follow-Up Procedures

The City partially corrected this finding. During the period October 2018 through June 2019, City-issued credit cards were used for 233 transactions totaling \$41,223. We examined 30 selected credit card charges totaling \$23,423 and the related monthly credit card statements and found that all

¹⁵ Florida Department of Environmental Protection Consent Order FL0028126.

30 charges were supported by an original receipt or other appropriate documentation and the City did not incur any late fees or finance charges on the associated credit card statements. However, our examination of City records and discussions with City personnel disclosed that, as of February 2020, the credit card policy had not been enhanced to require cardholders to sign a cardholder agreement. According to City personnel, the policy has not been enhanced due to staffing constraints and prioritization of other work.

Recommendation: We continue to recommend that the City enhance its credit card policy to require all cardholders to sign an agreement evidencing their understanding of, and agreement with, the City's credit card policies and procedures.

Finding 25: Purchasing and Disbursement Processing

Previously Reported

City records did not always evidence adequate supporting documentation for purchases and disbursements, including properly approved purchase orders, invoices detailing the cost of goods and services, and evidence that goods and services were received.

We continued to recommend that City personnel ensure that requisitions and purchase orders are used to document the approval of purchases, and a competitive selection process is used, as required by the City's purchasing policies. We also recommended that the City ensure that all expenditures are supported by vendor invoices, documentation of receipt, and evidence of review and approval for accuracy and completeness prior to payment.

Results of Follow-Up Procedures

The City did not correct this finding. To determine whether purchases and disbursements complied with the City's *Purchasing Policies and Bidding Procedures* (purchasing policies), and were supported with adequate documentation, we examined City records supporting 30 selected expenditures totaling \$527,168 from the population of 6,016 expenditures totaling \$8.6 million during the period October 2018 through July 2019. We noted that:

- A \$3,909 expenditure for ammunition was not supported by a requisition, purchase order, or other documentation evidencing preapproval. In response to our inquiries, City personnel indicated that a requisition or purchase order was not issued because the ammunition was purchased based on a State contract. However, purchase orders and requisitions are necessary to document management's authorization to acquire goods or services, including the prices, quantities, and specifications, and authorize vendors to provide the goods or services to the City.
- 4 expenditures totaling \$19,303 were not supported by evidence of receipt, such as an employee signature and date evidencing that the goods or services were received, inspected, and approved. The expenditures included \$6,088 for engineering services; \$5,239 for electric work; \$5,001 for sewer pipes; and \$2,975 for firefighting supplies. In response to our inquiries, City personnel indicated that the failure to document receipt of goods or services was due to oversights. Absent documented receipt of goods and services, there is an increased risk that they may be diverted and used for unauthorized activities.
- The City's purchasing policies require that purchases from \$1,000 to \$15,000 be made only after informal bids (written or verbal quotes) are received from at least three vendors, recorded on the required form, and attached to the requisition. However, we noted 4 expenditures for items

costing from \$1,000 to \$15,000, and totaling \$13,828, that were not supported by informal bids from at least three vendors, including:

- \$5,001 for sewer pipes as also cited in previous bullet. In response to our inquiries, City personnel indicated that informal bids were not obtained because the vendor was a sole source provider; however, although we requested, City personnel did not provide documentation evidencing how they determined the vendor to be a sole source provider.
- \$3,275 for water tank maintenance and, as also cited in previous bullet, \$2,975 for firefighting supplies. According to City personnel, informal bids were not obtained because the City has been using the vendors for years.
- \$2,577 for grapple truck repair. In response to our inquiries, City personnel indicated that it would be unreasonable to solicit informal bids because the vehicle had to be taken apart to determine the nature of the required repair. In addition, although not considered an emergency purchase, because the City only has one grapple truck and used the truck to clean roadside debris an average of two or three times per week, the City wanted the grapple truck repaired as soon as possible to limit the loss of services to the public.

Notwithstanding, failure to procure goods or services using a competitive selection process increases the risk that goods or services may not be obtained at the lowest cost consistent with acceptable quality.

Recommendation: We continue to recommend that City personnel use requisitions and purchase orders to document the approval of purchases, and that a competitive selection process be used as required by the City's purchasing policies. We also continue to recommend that the City ensure that all expenditures are supported by documentation of receipt of the goods or services and evidence of review and approval for accuracy and completeness prior to payment.

CONTRACTUAL SERVICES

Finding 26: Auditing Services

Previously Reported

The City did not, of record, request or receive a refund of the \$2,567 paid in excess of the audit contract for the 2008-09 and 2009-10 fiscal years or document the necessity for overpaying the contract amount.

We recommended that the City ensure that amounts paid for auditing services agree with contracted fees and, if additional services are required, document in City records the authorization for, and satisfactory receipt of, those services. In addition, we recommended that the City consult with legal counsel as to whether the City should take further action to collect the \$2,567 paid to the former certified public accountant (CPA) in excess of the contracted amount.

Results of Follow-Up Procedures

The City corrected this finding. Our examination of City records regarding auditing services for the 2017-18 fiscal year audit disclosed that the City made five payments totaling \$68,000 during the period March 2019 through August 2019 and documented satisfactory receipt of those services in accordance with the auditing services contract.

At its February 4, 2020, meeting, the City Commission approved a motion to refrain from pursuing recovery of the \$2,567 audit fees in excess of the contract amount for the 2008-09 and 2009-10 fiscal years since the City Attorney advised that pursuing recovery would be cost prohibitive.

Finding 27: Engineering Services

Previously Reported

The City did not authorize individual projects under its engineering services agreement in accordance with agreement terms and revised the arrangement for payments to be made on a retainer basis without entering into a revised agreement. Also, contrary to State law,¹⁶ the agreement did not include a provision prohibiting contingent fees.

We continued to recommend that the City ensure that engineering services authorizations are documented and that a mutually agreed upon scope of work and fee amount be established in writing for each authorized engineering services project, and that the City include the prohibition against contingent fees clause in its agreements for engineering services, as required by law.

Results of Follow-Up Procedures

The City did not correct this finding. Our examination of City records indicated that in March 2014 the City entered into an agreement with an engineering firm to provide the City's primary engineering services. The agreement provided that compensation for the engineering services would be based on a lump sum fee, hourly rate, or other amount as agreed upon in advance, and that services would not be rendered until the City Manager provides authorization and a description of the work to be performed and the services to be provided.

In March 2018, the City entered into an agreement with another engineering firm to add a splash pad and supportive appurtenances and infrastructure with the addition of some limited Americans with Disabilities Act (ADA) upgrades of existing park features and structures, including a new restroom, new picnic area, new playground equipment, and an ADA-compliant parking space. In March 2019, the engineer assigned the remaining work on the project to another engineering firm, and the new engineer was to provide services using the same fee schedule included in the original contract.

To determine whether engineering services were obtained during the period October 2018 through September 2019 in accordance with the agreements, we requested for examination City records supporting all 34 payments totaling \$145,272 for those services. We found that 25 expenditures totaling \$128,775 for 8 engineering projects completed by the City's primary engineering contractor were not based on a lump sum fee, hourly rate, or other amount as agreed upon in advance and were not supported by written authorizations from the City Manager that described the work to be performed and the services to be provided. According to City personnel, the City Manager employed at the time verbally authorized the engineering projects rather than authorizing them in writing. However, absent a written agreement specifying the nature of the services to be performed or documentation specifying terms for specific projects and the amount of compensation to be provided, the City cannot be assured that

¹⁶ Section 287.055(6), Florida Statutes, requires contracts for engineering services to contain a prohibition against the payment of contingent fees or other consideration resulting from the award of the contract.

payments made to contractors are in compliance with the intent of the Commission and that the City received the services to which it was entitled.

Additionally, although no contingent fees were noted in the 34 payments, the City did not include the prohibition against contingent fees clause in the engineering services agreements, contrary to State law. In response to our inquiries, City personnel indicated that in April 2020 the City Attorney had been directed to include language explicitly excluding contingent fees in all future engineering contracts.

Recommendation: We continue to recommend that the City ensure that engineering services authorizations are documented and that a mutually agreed upon scope of work and fee amount be established in writing for each authorized engineering services project. The City should also include the prohibition against contingent fees clause in its agreements for engineering services, as required by law.

Finding 28: Legal Services

As noted in audit report No. 2019-003, the City corrected legal services agreement deficiencies disclosed in audit report No. 2015-009.

Finding 29: Insurance Services

As noted in audit report No. 2019-003, the City corrected insurance procurement deficiencies disclosed in audit report No. 2015-009.

Finding 30: Other Professional Services

Previously Reported

City procedures for obtaining professional services, and the review of related invoices, could be enhanced to ensure contracts are properly approved and specify a contract period, and that vendor invoices are complete, in accordance with contract terms and conditions, and properly reviewed and approved prior to payment.

We continued to recommend that the City strengthen procurement procedures for other professional services to require that contracts be properly approved and specify the duties to be performed and ensure that consultants submit invoices in sufficient detail to evidence the dates, number of hours worked, and specific services performed.

Results of Follow-Up Procedures

The City did not correct this finding. Our discussions with City personnel and examination of City records disclosed that, as of March 2020, the City had not enhanced procurement policies and procedures to require contracts to be properly approved, specify the duties to be performed, and ensure that contractors submit invoices in sufficient detail to evidence the specific services performed, dates the services were performed, and number of hours worked. According to the Finance Director, sometime during the period February through November 2019, he advised the then City Manager to require contracts to include more detailed invoices; however, the City's contract policies and procedures were not updated.

During the period October 2018 through September 2019, the City incurred 30 expenditures totaling \$23,673 for four individuals to perform professional services, excluding engineering and auditing services. The services included those performed by a grapple truck operator, zoning administrator consultant, Federal Emergency Management Agency (FEMA) coordinator, and building inspector. Our examination of City records supporting these expenditures disclosed:

- The grapple truck operator contract dated October 2018 provided an hourly rate of \$20 with an agreed upon minimum of 20 hours per week, unless the City Manager and operator agreed in advance to a different schedule, with payment subject to services being rendered as requested by City personnel. Our examination disclosed that the City paid 13 invoices totaling \$7,360 based on the \$20 per hour contract rate; however, although we requested, invoices or other City records were not provided to identify the dates work was performed, the number of hours worked, or the specific services performed. Additionally, contrary to the contract, City records did not indicate that the services were rendered pursuant to requests by City personnel made in advance of the services.
- The FEMA coordinator contract dated October 2017 provided an hourly rate of \$25 with an agreed upon minimum of 20 hours per week unless the City Manager and coordinator agreed in advance to a different schedule, with payment subject to services being rendered as requested by City personnel. Our examination disclosed that the City paid 4 invoices totaling \$1,313 based on the \$25 per hour contract rate; however, although we requested, invoices or other City records were not provided to identify the dates work was performed, the number of hours worked, or the specific services performed. Additionally, contrary to the contract, City records did not indicate that the services were rendered pursuant to requests by City personnel made in advance of the services.
- The building inspector contract dated October 2018 provided for monthly payments of \$1,667 with payments subject to services being rendered as requested by City personnel and upon submittal of daily billing records documenting dates and hours worked. Our examination disclosed that the City paid 6 invoices totaling \$10,000 based the contract monthly payment amount. However, the contract and City job descriptions did not specify the duties to be performed or a minimum number of days or hours to be worked. In addition, although we requested, daily billing records or invoices, or other City records were not provided to identify the dates services were performed, number of hours worked, or the specific services performed, as required by the contract. Additionally, contrary to the contract, City records did not indicate that the services were rendered pursuant to requests by City personnel made in advance of the services.
- The zoning consultant contract dated January 2015 provided for \$500 monthly payments subject to services being rendered as requested by City personnel. Our examination disclosed that the City paid 7 invoices totaling \$5,000 based on the contract payment terms; however, although we requested, neither invoices nor other records were provided that identified the number of hours worked or specific services performed. Additionally, contrary to the contract, City records did not indicate that the services were rendered pursuant to requests by City personnel made in advance of the services.

In response to our inquiries, City personnel indicated that rates paid to independent contractors were reviewed by the Accounts Payable Clerk prior to payment; however, the City was unable to provide documentation evidencing this review. In addition, since the contracts were under the supervision of the then City Manager, current City personnel were unable to explain why there was no preauthorization of tasks to be performed and no written evidence of verification that the tasks actually performed were in accordance with management's requests.

The City made final payments in July 2019 and December 2019 to the FEMA coordinator and zoning consultant, respectively, because their services were no longer needed. In addition, as discussed in

Finding 31, the contracts for the building inspector and grapple truck operator lapsed, and the City subsequently hired the individuals as part-time employees on April 1, 2019, and March 14, 2019, respectively.

Absent a written agreement specifying the nature of the services to be performed or documentation specifying terms for specific projects and the amount of compensation to be provided, the City cannot be assured that payments made to contractors are consistent with the City Commission's intent or that the City received the services to which it was entitled. Additionally, without effective procedures for monitoring other professional services contracts and invoices, the risk of improper payments being made without timely detection increases.

Recommendation: We continue to recommend that the City strengthen procurement procedures for other professional services to require that contracts be properly approved and specify the duties to be performed and ensure that consultants submit invoices in sufficient detail to evidence the dates, number of hours worked, and specific services performed.

Finding 31: Employee/Independent Contractor Status

Previously Reported

The City had not established procedures to document the basis for classifying individuals as independent contractors rather than City employees, and our review disclosed four individuals the City classified as independent contractors that perhaps should have been more appropriately classified as employees based on Internal Revenue Service (IRS) guidelines.

We continued to recommend that the City establish procedures to document the relevant facts and circumstances upon which workers are classified as independent contractors rather than employees. We also continued to recommend that the City contact the IRS for assistance in determining whether certain individuals should be classified as employees rather than independent contractors and, if appropriate, amend payroll reporting and remit any required payroll taxes and retirement contributions for the employees to the appropriate Federal and State agencies.

Results of Follow-Up Procedures

The City partially corrected this finding. As discussed in Finding 30, during the period October 2018 through September 2019, the City paid a grapple truck operator, zoning administrator consultant, FEMA coordinator, and a building inspector for professional services. Our discussions with City personnel and examination of City records indicated that the City classified these individuals as independent contractors rather than employees; however, the City had not established policies and procedures for documenting the relevant facts and circumstances for classifying workers as independent contractors rather than employees. Additionally, the City did not contact the IRS for assistance in making such determinations.

The City reclassified the building inspector and the grapple truck operator as part-time City employees on April 1, 2019, and March 14, 2019, respectively, upon the expiration of their contracts. In response to our inquiries, City personnel indicated that they applied unwritten procedures and reclassified the contractors as employees because they had access to City vehicles and City property.

Further, City personnel indicated that all wages earned by City personnel and payments to independent contractors had been reported to the IRS, and the IRS has not contacted the City regarding any noncompliance of wage or contractor payments. Notwithstanding, without adequate and sufficient information of record to evidence the relevant facts and circumstances for classifying individuals as employees or independent contractors, there is an increased risk that the City may be subject to additional payroll taxes and penalties for individuals classified as independent contractors who should have been classified as employees.

Recommendation: We continue to recommend that the City establish procedures to document the relevant facts and circumstances upon which workers are classified as independent contractors rather than employees. Such procedures should include assistance from the IRS in determining whether certain individuals should be classified as employees rather than independent contractors.

VEHICLE USAGE

Finding 32: Vehicle Taxable Fringe Benefit

Previously Reported

The City needed to enhance its written policies and procedures to ensure compliance with the Internal Revenue Code (IRC)¹⁷ regarding the reporting of personal use of unmarked police vehicles in employees' gross compensation reported to the IRS.

We continued to recommend that the City enhance procedures to ensure compliance with applicable provisions of the *Police Department Procedures Manual (Police Manual)* and the IRC.

Results of Follow-Up Procedures

The City corrected this finding. The City revised procedure 1.102 of the *Police Manual* on November 27, 2017, to restrict personal use of take-home vehicles incidental to law enforcement purposes within the jurisdictional boundaries of Bradford County. Pursuant to an IRS publication,¹⁸ marked and unmarked police vehicles qualify as a qualified nonpersonal use vehicle if the employee is not likely to use the vehicle more than minimally for personal uses because of its design. This designation is excluded from fringe benefit classification and is instead considered a working condition benefit, which is not taxable. Accordingly, the City did not include any fringe benefits for take-home vehicles as employee gross compensation in accordance with the IRC and the IRS publication.

¹⁷ United States Treasury Regulation (Regulation) 1.61-21(a)(2) provides that an employee's gross income includes the fair market value of any fringe benefit not specifically excluded from gross income by another provision of the IRC. Section 132(a)(3) of the IRC provides that gross income will not include the value of any fringe benefit that qualifies as a working condition fringe benefit. Regulation 1.132-5(h) further provides that the use of a qualified nonpersonal use vehicle is a working condition fringe benefit provided the use of the vehicle conforms to the requirements of Regulation 1.274-5(k).

¹⁸ Publication 15-B, *Employer's Tax Guide to Fringe Benefits*, 2018.

Finding 33: Diesel Generator Usage Records**Previously Reported**

The City had not developed standardized procedures for documenting the preventative maintenance and periodic testing of diesel generators for the City's water and sewer system, contrary to Florida Department of Environmental Protection (FDEP) rules.¹⁹

We continued to recommend that the City enhance procedures to ensure that diesel generator tests are conducted as required and to require test and maintenance reports be timely and accurately prepared and maintained to evidence the performance of proper preventative maintenance and required periodic testing of diesel generators.

Results of Follow-Up Procedures

The City corrected this finding. Our examination of City records and discussions with City personnel disclosed that City personnel were following FDEP rules requiring preventive maintenance and testing on auxiliary power sources at least monthly. Specifically, we found that diesel generator test and maintenance reports for the period October 2018 through September 2019 documented that City personnel performed preventative maintenance and tested the generators at least monthly.

Finding 34: Tangible Personal Property Inventory**Previously Reported**

For the fiscal years ended September 30, 2013, through September 30, 2016, City records were not available evidencing that physical inventories of tangible personal property (TPP) were performed or that the results reconciled to City property records.

We continued to recommend that the City ensure physical inventories of TPP are conducted annually and that the inventory results are promptly reconciled to the City's property records.

Results of Follow-Up Procedures

The City did not correct this finding. Although we requested for the fiscal years ended September 30, 2017, and September 30, 2018, City records were not available as of February 2020

¹⁹ FDEP Rule 62-555.320(14), Florida Administrative Code, provides that each community water system serving, or designed to serve, 350 or more persons or 150 or more service connections must provide standby power using one or more auxiliary power sources (i.e., generators or engines) for operation of that portion of the system's water source, treatment and pumping facilities necessary to deliver drinking water meeting all applicable standards at a rate at least equal to the average daily water demand for the system. FDEP Rule 62-555.350(2), Florida Administrative Code, provides that suppliers of water must keep all necessary public water system components in operation and must maintain such components in good operating condition, so the components function as intended. This rule also requires that preventative maintenance on electrical and mechanical equipment, including exercising of auxiliary power sources, be performed in accordance with the equipment manufacturer's recommendations or in accordance with a written preventative maintenance program established by the supplier or water; however, in no case shall auxiliary power sources be run under load less frequently than monthly.

evidencing that physical inventories of TPP were performed or that the results reconciled to City property reports. Table 4 shows the City-reported TPP amounts for those 2 fiscal years.

Table 4
Tangible Personal Property
(In Thousands)

Fiscal Year Ended	Amount
September 30, 2017	\$8,000
September 30, 2018	8,200

Source: City's Audited Financial Reports.

In response to our inquiries, City personnel indicated that they did not perform physical inventories of TPP due to incomplete property records and an inadequate number of available staff. Effective controls over TPP include periodic comparisons of detailed property records with inventory counts of existing assets, and appropriate actions to resolve any differences.

Recommendation: We continue to recommend that the City conduct physical inventories of TPP annually and promptly reconcile the inventory results to the City's property records.

Finding 35: Motor Vehicles

Previously Reported

The City had not developed written policies and procedures to require accounting for City-owned vehicles in the City's property records.

We recommended that the City enhance written policies and procedures to ensure that property records include all City-owned motor vehicles and provide adequate accountability for these assets.

Results of Follow-Up Procedures

The City partially corrected this finding. In January 2020, City personnel provided us with a listing of City-owned vehicles and trailers maintained for insurance purposes. The listing showed 79 motor vehicles and trailers; however, 86 motor vehicles and trailers were listed in the City's property records. Subsequent to our inquiries in February 2020, the Finance Director and his assistant reconciled and updated the property records and insurance schedules as appropriate. Absent properly maintained property records, accountability for motor vehicles is diminished.

As of March 2020, the City had not enhanced written policies and procedures to ensure that property records include all City-owned motor vehicles and provide adequate accountability for those assets. Additionally, as discussed in Finding 34, City personnel did not periodically compare and reconcile detailed property records with existing assets or take actions to resolve the differences to properly maintain property records.

Recommendation: We continue to recommend that the City enhance written policies and procedures to ensure that property records include all City-owned motor vehicles and provide adequate accountability for these assets.

OBJECTIVES, SCOPE, AND METHODOLOGY

Pursuant to Section 11.45(3)(a), Florida Statutes, we conducted an operational audit of the City of Starke (City) and issued our report No. 2015-009 in August 2014. Pursuant to Section 11.45(2)(j), Florida Statutes, the objective of our report No. 2019-003 in July 2018 was to perform, no later than 18 months after the release of report No. 2015-009, appropriate follow-up procedures to determine the progress in addressing the findings and recommendations contained in that report. At its February 21, 2019, meeting, the Joint Legislative Auditing Committee directed us to perform additional procedures to determine the City's progress in addressing findings that were not fully corrected in the prior audit (report No. 2019-003).

We conducted this follow-up audit from April 2019 to March 2020 in accordance with applicable generally accepted government auditing standards.²⁰ Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

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

Our audit included transactions, as well as events and conditions, occurring during the audit period of October 2018 through September 2019, and selected City actions taken prior and subsequent thereto. Our audit included the examination of pertinent City records and transactions, inquiry of City personnel, observation of procedures in practice, and additional follow-up procedures as appropriate. Unless otherwise indicated in this report, records and transactions were not selected with the intent of projecting

²⁰ *Government Auditing Standards*, December 2011.

the results, although we have presented for perspective, where practicable, information concerning the relevant population value or size and quantifications relative to the items selected for examination.

Specifically, we:

- Examined City records and interviewed City personnel to determine whether the City had adequately separated payroll processing duties or had implemented adequate compensating controls.
- Examined City records and interviewed City personnel to determine whether the City had established comprehensive written policies and procedures to assist in training new employees and prevent instances on noncompliance and inadequate internal controls.
- Examined City records, including City Commission meeting minutes, to determine whether guidelines had been developed for review and approval of the minutes and procedures were enhanced to ensure that City Commission meeting minutes are timely made available for public inspection.
- Reviewed Commission meeting minutes for meetings conducted during the period October 2, 2018, through September 23, 2019, to determine whether the minutes were timely transcribed, approved, and made available for public inspection.
- Examined City records to determine whether the City had closed bank accounts that had little or no activity.
- Examined City records to determine whether the City Clerk and Mayor signed all payroll warrants or, alternately, if the City had established compensating controls, such as independent review and approval of the payroll warrant signing process.
- Examined City records to determine whether the City amended its banking agreements to require documented, secondary approval of Electronic Funds Transfer (EFT) authorizations and to specify the destination accounts that can receive EFTs.
- From the population of 561 EFTs totaling to \$12.3 million during the period October 2018 through August 2019, examined City records supporting the 51 EFTs totaling \$1.3 million during June 2019 to determine whether the EFTs were adequately supported and properly authorized.
- Examined City records and interviewed City personnel to determine whether the City had established procedures to require all mail collections be recorded at the initial point of collection and checks restrictively endorsed immediately upon receipt.
- Evaluated the City's business tax receipts collection procedures during the period October 2018 through August 2019, including the City's procedures for assessing penalties on past due accounts, to determine whether the procedures complied with City ordinances. Specifically, we:
 - Examined City records to determine whether the City took appropriate actions to collect the 20 delinquent accounts totaling \$725 due at October 31, 2018, which remained uncollected at August 31, 2019, along with the related penalties and fees totaling \$273.
 - Recalculated the accuracy of the City's penalty assessment totaling \$160.
 - Examined City records to determine the amount of write-offs for delinquent local business tax receipts and associated late payment penalties.
 - Examined City records supporting the write-offs totaling \$14,494 in local business taxes and penalties associated with 143 individual businesses to determine whether the write-offs complied with City ordinances, policies, and procedures and were authorized by the City Commission.

- Examined City records to determine whether City personnel periodically reconciled the utility deposits subsidiary ledger, general ledger, and utility deposit bank account balances between October 2018 and July 2019.
- Evaluated City procedures for timeliness, review, and approval of utility account adjustments, payment extensions, utility disconnections, and extension cost refunds to determine whether the procedures complied with City ordinances and resolutions. Specifically, we:
 - Determined whether the 66 utility account adjustments for the months of June and July 2019 totaling \$14,194 were properly documented and approved.
 - For the 163 delinquent accounts that were on the City's listing of accounts subject to disconnection as of September 2019, evaluated whether City disconnected utility services as required by City ordinances and resolutions. For the 22 extensions granted to customers in October 2019 based upon September 2019 utility billing statements, we determined whether the extensions were authorized by the Finance Director and adequately documented.
 - For the three water line extensions during period October 2018 through October 2019, determined whether the project was undertaken pursuant to a Commission-approved written request from the individual property owner, whether the costs to be paid by the customer and City were specified, and whether the Commission approved any refunds.
 - Examined City records and interviewed City personnel to evaluate City actions to recover the \$1,360 of water line extension costs improperly credited to one customer and refund the \$310 overcharged to another customer disclosed in our report No. 2019-003.
- Evaluated the City's Enterprise Fund financial condition.
- Examined City accounting records, including budget documentation and audited financial statements, to determine whether the City used separate enterprise funds for the 2016-17 and 2017-18 fiscal years to account for electric, gas, water, and sewer utility account balances and activities.
- Interviewed City personnel and requested records to determine whether, as of March 2020, the City obtained a rate study or otherwise assessed whether the gas and electric system rates were adequate to cover the service costs. We also determined whether the City implemented, as applicable, rate studies or assessments.
- Inquired of City personnel in February 2020 to determine whether the City established, by formal resolution, a policy with the minimum target levels of working capital funds that should be maintained in the Enterprise Fund. We also inquired of City personnel and examined City records to determine whether the City's Enterprise Fund working capital level was maintained at a minimum of 45 days of fund expenses.
- Examined City records to determine whether any budget amendments for the 2017-18 fiscal year were approved through resolution and whether actual expenditures were limited to budgeted amounts.
- Examined City records to determine whether City documented the authority for safety pay bonuses or revised Ordinance No. 2014-073 to eliminate the safety pay bonus provisions disclosed in our report No. 2019-003, and evaluated the adequacy of City actions taken to collect improper bonuses totaling \$3,500 paid to City officials disclosed in that report.
- Examined City records to determine whether the Commission formally adopted a classification plan and a pay plan to ensure that personnel administration and payroll costs are properly managed.
- Interviewed City personnel and examined City records to determine whether significant overtime paid, totaling \$25,095 to two employees, during the audit period was justified. We also examined City records to determine whether the City performed a staffing analysis, evaluated overtime

practices, and amended the *City's Personnel Rules and Regulations Manual* for consistency with the City Commission's intent and United States Department of Labor on-call guidelines as appropriate.

- Examined City records to determine whether the City enhanced its credit card policy to require all employees utilizing City credit cards to sign an agreement evidencing their understanding of, and agreement with, the City's credit card policies and procedures.
- From the population of 233 credit card transactions totaling \$41,223 during the period October 2018 through June 2019, examined documentation supporting 30 credit card charges totaling \$23,423 to determine whether the charges were authorized, accomplished a public purpose, and were supported by receipts. In addition, for the same time period, we examined credit card billing statements to determine whether the City timely paid the bills to avoid late fees and finance charges.
- From the population of 6,016 expenditures totaling \$8.6 million during the period October 2018 through July 2019, examined City records supporting 30 selected expenditures totaling approximately \$527,168 to determine whether requisitions, purchase orders, or other records were used to document the purchase approval; a competitive selection process was used, when applicable; and the expenditures were supported by vendor invoices, documentation of receipt, and evidence of review and approval for accuracy and completeness prior to payment.
- Obtained the City's contract for auditing services and compared to City records supporting \$68,000 paid from March 2019 to August 2019 for the 2017-18 fiscal year audit services to determine whether the payments complied with the contract terms. Also, for the \$2,567 for audit services paid in excess of the contract amounts for the 2008-09 and 2009-10 fiscal years and disclosed in our report Nos. 2019-003 and 2015-009, we evaluated the adequacy of City actions to recover the overpayment.
- From the population of 34 payments totaling \$145,272 for engineering services during the audit period, examined records supporting all 34 payments to determine whether payments were made in accordance with contract terms and conditions and supported by written authorizations describing the work to be performed and fees to be paid. In addition, examined the contracts to determine whether they included a prohibition against contingent fees, as required by State law.
- Examined City records supporting all 30 expenditures totaling \$23,673 for professional services excluding auditing and engineering services during the audit period to determine whether payments complied with the contract terms, were properly approved, and invoices sufficiently detailed.
- Inquired of City personnel and examined City records to determine whether the City had established procedures to document the basis for classifying workers as independent contractors rather than employees. We also determined whether the City contacted the Internal Revenue Service to request assistance in determining whether the individuals classified as independent contractors and discussed in our report Nos. 2015-009 and 2019-003 should be classified as employees rather than independent contractors.
- Inquired of City personnel and examined City records to determine whether the City had enhanced procedures to ensure compliance with the *Police Department Procedures Manual (Police Manual)* and Internal Revenue Code regarding reporting personal use of unmarked police vehicles in employees' gross compensation.
- Inquired of City personnel and examined City records to determine whether the City developed standardized procedures for documenting the preventive maintenance and periodic testing of diesel generators for the City's water and sewer system. We also examined City records supporting the City generator and maintenance reports for the three diesel generators to determine whether preventive maintenance and periodic testing was performed as required by Florida Department of Environmental Protection rules.

- Examined City records and inquired of City personnel to determine whether, for the fiscal years ended September 30, 2017, and September 30, 2018, physical inventories of tangible personal property were performed and that the results reconciled to City property reports.
- Examined City records and inquired of City personnel to determine whether the City had enhanced procedures to ensure that City property records included all 86 City-owned motor vehicles as of January 2020 and all of those vehicles were insured.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

AUTHORITY

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

A handwritten signature in blue ink that reads "Sherrill F. Norman". The signature is written in a cursive style with a large, stylized initial 'S'.

Sherrill F. Norman, CPA
Auditor General

City of Starke



Shannon Smith
MAYOR

COMMISSIONERS:

Tommy Chastain
Janice Mortimer
Danny Nugent
Shannon Smith
Wilbur Waters

CITY CLERK
Ricky Thompson

POLICE CHIEF
Jeff Johnson

CITY MANAGER
John Holman

October 30, 2020

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

Dear Ms. Norman:

Enclosed is a list of our responses to the preliminary and tentative audit findings and recommendations that may be included in your report on the operational audit of the City of Starke, Prior Audit Follow Up.

If you have any questions, please contact Ricky Thompson at (904) 964-5027 or rthompson@cityofstarke.org.

Sincerely,

Ricky Thompson

Ricky Thompson
City Clerk

City of Starke
State Audit Follow-up Responses

Finding 1: Agreed.

Finding 2: Agreed.

Finding 3: The City will continue its efforts to establish comprehensive, written policies and procedures to assist in training new employees and help prevent instances of noncompliance and inadequate internal controls. The City will ensure that the policies and procedures address budget preparation and contract administration.

Finding 4: Agreed

Finding 5: Agreed.

Finding 6: Agreed.

Finding 7: The City will develop procedures where the payroll warrant signing process is independently reviewed and approved.

Finding 8: The City will review its EFT agreement and consider the recommendations to require documented, secondary approval of EFT authorizations and specify the destination accounts that can receive EFTs.

Finding 9: The City will continue its efforts to establish procedures that require all mail collections be recorded at the initial point of collection by someone who does not record the collections in the accounting records.

Finding 10: The City will implement written procedures to ensure compliance with the City Code and collection of revenues due to the City for business tax receipts. The City will fully enforce applicable penalties provided for in the Code and establish policies and procedures that require City Commission authorization for writing off delinquent business license fees and penalties.

Finding 11: The City will establish written procedures to ensure that customer deposit liability accounts are periodically reconciled to the customer deposits subsidiary ledger and the utility deposits bank account balance.

Finding 12: Agreed.

Finding 13: The City has been working to enforce procedures for providing limited payment extensions and disconnecting utility services as required by City ordinance and resolution. The City will ensure that procedures for the review and approval of utility account adjustments are followed and that actions to recover any improper credits to customer accounts are documented.

Finding 14: The City does account for fixed assets and long-term liabilities separately for each utility. The City will continue to evaluate how to best maintain separate accountability for each utility. The City will obtain a rate study for the electric utility.

Finding 15: The City will work towards establishing a policy indicating minimum target levels of working capital for its Enterprise Fund and will revisit the policy periodically for increases to the minimum working capital.

Finding 16: Agreed.

City of Starke
State Audit Follow-up Responses

Finding 17: The City will ensure that budget amendments are approved by resolution when necessary and that expenditures are limited to budgeted amounts as required by law.

Finding 18: Agreed.

Finding 19: Agreed.

Finding 20: The City will adopt position descriptions that specify minimum education and experience requirements.

Finding 21: The City will adopt a classification plan and a pay plan to ensure that personnel administration and payroll costs are properly managed.

Finding 22: Agreed.

Finding 23: Agreed.

Finding 24: The City will enhance its credit card policy to require all cardholders to sign an agreement evidencing their understanding of, and agreement with, the City's credit card policies and procedures.

Finding 25: City personnel will work to ensure that requisitions and purchase orders are used to document the approval of purchases, and that a competitive selection process be used, as required by the City's purchasing policies. The City will also ensure that all expenditures are supported by documentation of receipt of the good or services and evidence of review and approval for accuracy and completeness prior to payment.

Finding 26: Agreed.

Finding 27: The City will ensure that engineering services authorizations are documented and that a mutually agreed upon scope of work and fee amount be established in writing for each authorized engineering services project. The City will also include the prohibition against contingent fees clause in its agreements for engineering services.

Finding 28: Agreed.

Finding 29: Agreed.

Finding 30: The City will strengthen its procurement procedures for other professional services to require that contracts be properly approved and specify the duties to be performed and ensure that consultants submit invoices in sufficient detail to evidence the dates, number of hours worked, and specific services performed.

Finding 31: The City will establish procedures to document the relevant facts and circumstances upon which workers are classified as independent contractors rather than employees. Assistance from the IRS will be requested in determining whether certain individuals should be classified as employees rather than independent contractors.

Finding 32: Agreed.

Finding 33: Agreed.

City of Starke
State Audit Follow-up Responses

Finding 34: The City will conduct physical inventories of TPP annually and promptly reconcile the inventory results to the City's property records.

Finding 35: The City will enhance written policies and procedures to ensure that property records include all City-owned motor vehicles and provide adequate accountability for these assets.