

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2019-003
July 2018

CITY OF STARKE

Prior Audit Follow Up



Sherrill F. Norman, CPA
Auditor General

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

During the period October 2014 through February 2016, Jeff Johnson served as Chief of Police, Ricky Thompson served as City Clerk, Tom Earnharth served as City Manager from 2-16-15,^a and the following individuals served as City of Starke Commissioners:

Daniel Nugent, Mayor from 10-20-15

Carolyn Spooner, Vice Mayor from 10-20-15, Mayor through 10-7-14

Travis Woods, Mayor 10-8-14, through 10-19-15

Tommy Chastain, Vice Mayor 10-8-14, through 10-19-15

Wilbur Waters, Vice Mayor through 10-7-14

^a City Manager position vacant 10-1-14, through 2-15-15.

The team leader was Jillian M. Litchfield, and the audit was supervised by Randy R. Arend, CPA.

Please address inquiries regarding this report to Michael J. Gomez, CPA, Audit Manager, by e-mail at mikegomez@aud.state.fl.us or by telephone at (850) 412-2881.

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CITY OF STARKE

Prior Audit Follow Up

SUMMARY

This operational audit of the City of Starke (City) focused on the progress that the City had made, or was in the process of making, in addressing the findings and recommendations in our operational audit report No. 2015-009. Our audit disclosed that the City had corrected 8 findings (Nos. 1, 5, 12, 16, 18, 22, 28, and 29), partially corrected 14 findings (Nos. 2, 3, 4, 6, 7, 8, 9, 15, 17, 19, 20, 24, 26, and 35), and had not corrected 13 findings (Nos. 10, 11, 13, 14, 21, 23, 25, 27, 30, 31, 32, 33, 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 5,442 in 2015 and 5,520 in 2017.¹

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.

FINDINGS AND RECOMMENDATIONS

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|---|
| GENERAL MANAGEMENT CONTROLS AND OVERSIGHT |
|---|

Finding 1: Organizational Structure

Previously Reported

Contrary to the Code of Ordinances (Code), the City Commission (Commission) did not employ a City Manager, resulting in those job responsibilities being performed by other personnel, some of which were incompatible and could have contributed to other deficiencies.

We recommended that the City hire individuals to fill employee positions in accordance with City ordinances or revise its ordinances to establish an organizational structure based on the intent of the

¹ *Florida Population Estimates for Counties and Municipalities*, April 2015 and April 2017, Florida Legislative Office of Economic and Demographic Research.

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

Commission. Should the Commission establish a new structure, it should ensure a proper separation of duties and assignment of responsibilities and accountability.

Results of Follow-Up Procedures

The City corrected this finding. Our examination of City records disclosed that, effective February 16, 2015, the City employed a City Manager to perform the City Manager responsibilities specified in the Code, which eliminated the incompatible duties previously performed by the City Clerk and Operations Manager.

Finding 2: Separation of Duties

Previously Reported

The City had not provided for an adequate separation of duties, or established adequate compensating controls, in several areas of its business functions.

We recommended that the City ensure that adequate compensating controls are implemented to help mitigate circumstances in which adequate separation of duties is not practical.

Results of Follow-Up Procedures

The City partially corrected this finding. Based on our examination of City records and discussions with City personnel, we determined that the City adopted policies and procedures, effective July 2015, for utility fee collections and implemented compensating controls over bank reconciliation and electronic funds transfer (EFT) processes to mitigate the inadequate separation of duties in these areas. However, as of May 2016, 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. In response to our inquiries, City personnel indicated that the inadequately separated duties resulted from limited staff.

Recommendation: We recommend 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.

Finding 3: Written Policies and Procedures

Previously Reported

The City had not established written policies and procedures necessary to assure the efficient and consistent conduct of accounting and other business-related functions and the proper safeguarding of assets.

We recommended that the Clerk provide procedural rules for purchasing to the Commission for its approval as required by the Code. We also recommended that the City establish comprehensive, written policies and procedures that are consistent with applicable laws and other guidelines. In doing so, we

recommended that the City ensure that the written policies and procedures address the instances of noncompliance and internal control deficiencies discussed in our report No. 2015-009.

Results of Follow-Up Procedures

The City partially corrected this finding. Our examination of City records for the audit period disclosed that during the period April 2015 through June 2016 policies and procedures were adopted regarding revenues and cash receipts, cash management, credit cards and charge accounts, utility account adjustments, and capital assets. However, written policies and procedures were not developed to address other business-related functions, such as Commission minutes, budgets, and contract administration.

Additionally, the Code³ requires the City Clerk to establish, and submit for approval by the 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. According to the City Clerk, City personnel were establishing the various policies and procedures as time and resources were available and the policies and procedures will be presented to the Commission for approval when complete.

Notwithstanding the City's limited staff and resources, comprehensive, written policies and procedures are necessary to assist in training new employees and help prevent instances of noncompliance or inadequate internal controls, such as those discussed in this report.

Recommendation: We continue to recommend 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, the City should ensure that the policies and procedures address the remaining areas of noncompliance and internal control deficiencies discussed in this report.

Finding 4: City Commission Minutes

Previously Reported

Minutes of City Commission workshop meetings were not timely reviewed and approved.

We recommended that the City develop guidelines for review and approval of Commission minutes, and enhance its procedures to ensure that minutes for all Commission meetings are recorded, approved, and available for public inspection.

Results of Follow-Up Procedures

The City partially corrected this finding. Our examination of City records for the audit period and discussions with City personnel disclosed that the City did not have written policies or procedures providing guidelines for timely recording, reviewing, and approving Commission meeting minutes. Our examination of Commission meeting minutes for the audit period disclosed that the minutes were timely recorded and approved; however, the minutes were not always timely made available for public inspection. Commission meeting minutes for the 60 meetings held during the audit period were recorded

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

and approved by the Commission 7 to 64 days after the respective meetings. However, the meeting minutes for 17 meetings were not posted to the City Web site until May 26, 2016, subsequent to our inquiries, and the postings were 69 to 506 or an average of 276 days after the meeting dates. According to City personnel, the minutes were not timely posted to the Web site due to oversight and that appropriate posting procedures will be developed.

Recommendation: We continue 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.

PETTY CASH, CHANGE FUNDS, AND BANK ACCOUNTS

Finding 5: Petty Cash and Change Funds

Previously Reported

The City's petty cash and change funds were not adequately safeguarded and accounted for, and the City did not always document the public purpose served by petty cash expenditures.

We recommended that the City establish procedures to ensure that all petty cash and change fund balances are recorded in the accounting records and periodically reconciled to amounts on hand. We also recommended that the City strengthen its procedures to require documentation that expenditures serve an authorized public purpose, are reasonable and necessary, and benefit the City. Such documentation should be present in the City's records prior to payment. Finally, we recommended that the City ensure the location, amount, and purpose of each petty cash and change fund is approved by the Commission.

Results of Follow-Up Procedures

The City corrected this finding. Our examination of City policies and procedures and Commission meeting minutes disclosed that the Commission adopted policies and procedures on June 16, 2015, specifying the locations, amounts, and purposes of each petty cash and change fund. The funds included:

- Two \$400 change funds for the City Hall cashiers.
- Two \$300 petty cash funds, one for City Hall emergency purchases and one for Police Department emergency purchases.
- \$200 in rolled coins for the cashiers' use when additional change was needed.

We also determined that the City maintained the petty cash and change funds in accordance with the adopted policies and procedures by performing a surprise count of the petty cash and change funds in May 2016. We compared our counts to amounts recorded in the accounting records and found no differences.

In addition, to determine whether petty cash and change fund disbursements were appropriate, we examined City records supporting 7 selected disbursements totaling \$1,138 of the 20 recorded disbursements during the period August 2015 through February 2016. We found that the

reimbursements were timely, served an authorized public purpose, were reasonable and necessary, and benefited the City.

Finding 6: Bank Accounts and Reconciliations

Previously Reported

The City maintained an excessive number of bank accounts, and bank account reconciliations were not adequately prepared.

We recommended that the City enhance its procedures to ensure accurate independent reconciliations of bank accounts to the general ledger including supervisory review and the date the reconciliations were completed. We also recommended the City continue efforts to reduce the number of bank accounts.

Results of Follow-Up Procedures

The City partially corrected this finding. Our examination of 30 of the 153 bank account reconciliations for the months of October 2015 through February 2016 disclosed that City personnel timely prepared (within 1 month after the bank statement ending date) the reconciliations and the reconciliations contained evidence of supervisory review and approval.

In addition, our examination of City records disclosed that the number of City bank accounts was reduced in October 2017 from 44 to 29. However, the number of accounts maintained was still excessive as many of the 29 accounts had little or no activity during the audit period and, according to City personnel, the accounts were maintained mainly to provide separate accountability depending on the sources or uses of the moneys. Notwithstanding, separate accountability can be accomplished through use of source and use-specific accounting codes or subsidiary records. Maintaining an excessive number of bank accounts results in additional record keeping responsibilities and increases the risk that errors could occur and not be timely detected. In response to our inquiries in October 2017, City personnel indicated they were evaluating whether the Code required separate bank accounts for certain restricted funds and that the number of bank accounts would be reduced accordingly when the evaluation was completed.

Recommendation: We continue to recommend that the City reduce the number of bank accounts.

Finding 7: Banking Agreements and Signature Cards

Previously Reported

Some banks used as depositories were not approved by the Commission, contrary to the City Charter; banking agreements and signature cards were not maintained for all banks and accounts; and payroll checks were only signed by the City Clerk, contrary to the City Charter.

We recommended that the City maintain current banking agreements for all banks and signature cards for all bank accounts, ensure annual approval by the Commission of public depositories, and require that the City Clerk and Mayor sign all payroll warrants.

Results of Follow-Up Procedures

The City partially corrected this finding. Our examination of City records disclosed that the Commission approved the City's use of public depositories at its March 3, 2015, Commission meeting in accordance with the City Charter. Our examination also disclosed that, in April 2016, current banking agreements and signature cards were available for all bank accounts. However, our observation of payroll warrants issued in October 2015 disclosed that 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. Payroll warrants signed by the City Clerk and Mayor or an independent review and approval of the payroll warrant signing process would reduce the risk of fraud and errors associated with the process.

Recommendation: We continue 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.

Finding 8: Controls Over Electronic Funds Transfers

Previously Reported

The City had not developed written procedures for EFTs, contrary to law, and the City's EFT agreement with the financial institution from which EFTs were made did not sufficiently limit EFTs or address all bank accounts used for EFTs.

We recommended that the City establish written policies and procedures for authorizing and processing EFTs pursuant to State law. We also recommended that the City ensure its EFT agreement addresses all accounts from which EFTs are made, requires approval of a City employee other than the employee initiating the transfer, specifies the locations where City funds can be transferred, and specifies the dollar limits for transferred funds.

Results of Follow-Up Procedures

The City partially corrected this finding. On April 7, 2015, the Commission adopted policies and procedures for the authorization and processing of EFTs, as required by State law.⁴ Additionally, in May 2016, the City updated its written agreement with the financial institution from which EFTs were made to specify and authorize the accounts from which EFTs could be made and establish single EFT dollar limits, which were generally \$75,000 or \$125,000. However, the written agreement did not require documented, secondary approval of EFT authorizations or specify the destination accounts that can receive EFTs. In response to our inquiries, City personnel indicated that the EFT agreement lacked these provisions because of oversights.

Our examination of City records supporting the 32 EFTs totaling \$1.2 million during October 2015 did not disclose any EFTs for unauthorized purposes. However, without a written agreement requiring documented, secondary approval of EFT authorizations and specifying the destination accounts that can

⁴ Section 668.006, Florida Statutes, requires agencies to adopt control processes and procedures to ensure adequate integrity, security, confidentiality, and auditability of business transaction conducted using electronic commerce.

receive EFTs, the risk increases that unauthorized EFTs could occur without timely detection and appropriate resolution.

Recommendation: We continue to recommend that the EFT agreement be amended 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

Certain cash collections were not recorded at the initial point of collection, and checks were not restrictively endorsed immediately upon receipt.

We recommended the City establish procedures that require the use of prenumbered receipts for payments made in person, 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. Our examination of City records supporting the 53 daily cash summary reports for October 2015, which included 72 receipts (other than utility deposits) totaling \$41,681, disclosed that prenumbered receipts were used for payments made in person. However, although we requested, City records were not provided to evidence the use of mail logs, receipts, or other records to document the initial point of collection for City Hall and the Police Department mail collections. Additionally, according to City personnel, they did not restrictively endorse checks received in mail collections immediately upon receipt.

In response to our inquiries in October 2017, City personnel indicated that they were evaluating the collection procedures to implement appropriate controls. When collections are not documented at the initial point of receipt and checks are not restrictively endorsed immediately upon receipt, the risk increases that errors, fraud, or theft may occur without timely detection.

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

Finding 10: Uncollected Local Business Taxes

Previously Reported

The City did not actively pursue collection of delinquent business tax receipts or enforce late payment penalties.

We recommended that the City implement procedures to ensure compliance with the Code and collection of revenues due to the City for business tax receipts.

Results of Follow-Up Procedures

The City did not correct this finding. The Code⁵ 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.⁶
- 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 \$250.⁷

As part of our audit, we examined City records and identified 696 business tax receipts totaling \$62,192 that were issued for the 2015-16 fiscal year. We noted that local business taxes totaling \$4,501 for 80 businesses were due October 1, 2015, but had not been paid as of April 19, 2016. As of July 5, 2016, local business taxes totaling \$2,812 for 51 of these businesses still had not been paid. The late fees and penalties for the 2015-16 fiscal year totaled \$1,125 and \$20,000, respectively, for 80 licenses associated with payments that were 150 or more days past due.

According to City personnel, the City notified businesses of delinquent business taxes beginning in April 2016, but did not actively pursue the collection of the 25 percent delinquency penalty and did not enforce the \$250 penalty. However, the delinquent amount was added to the next year's annual renewal billing statement for the businesses. In response to our inquiries, City personnel indicated that they did not pursue collection of the penalties because they did not want to discourage businesses from operating in the City.

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.

Recommendation: We continue to recommend that the City implement procedures to ensure compliance with the Code and collection of revenues due to the City for business tax receipts.

Finding 11: Utility Deposits

Previously Reported

The City did not periodically reconcile its utility deposits subsidiary ledger, general ledger, and bank account balance.

⁵ Section 26-31, City of Starke Code of Ordinances.

⁶ Section 26-37, City of Starke Code of Ordinances.

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

We recommended that the City implement procedures to ensure that customer deposit 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. Our examination of City records disclosed that the City maintained a bank account for the residential and commercial utility deposits and recorded deposits as both cash and customer deposits payable in its accounting records. We also noted that the City maintained a customer deposits subsidiary ledger. However, City records and discussions with City personnel indicated that 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. In response to our inquiries, City personnel indicated that the reconciliations were not performed because a limited number of staff were available to analyze the large number of transactions involved.

Our examination of District records for the period October 2015 through February 2016 disclosed that:

- According to the customer deposits subsidiary ledger, customer deposits increased by \$24,813, from \$890,455 to \$915,268.
- The customer deposits payable liability account in the general ledger increased by \$27,270, from \$890,455 to \$917,725.
- The residential and commercial utility deposits bank account balance increased by \$26,961, from \$960,476 to \$987,437.

While the amounts of these increases varied by less than \$2,500, without periodic reconciliations 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 customer deposits bank account balance.

Finding 12: Electricity Billing True-Up Calculations

Previously Reported

City procedures for preparing and reviewing quarterly electricity billing true-up calculations needed improvement.

We recommended that the City enhance its true-up calculation and review procedures to ensure that errors are timely detected and corrected, and actual costs of producing electricity are correctly charged to customers.

Results of Follow-Up Procedures

The City corrected this finding. Our recalculations of the City's true-up worksheets for the 3-month period ended October 2015 indicated that the calculations were accurate and amounts used in the calculations agreed to the supporting documentation. The City's electricity costs for the 3-month period totaled \$1,366,617 and the electricity costs recovered through customer billings totaled \$1,282,735,

resulting in a shortage of \$83,882 to be recovered through a rate adjustment in customer billings over the next 3 months.

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 recommended that the City enforce its procedures for providing limited payment extensions and disconnecting electric service as required by City ordinance and resolution. We also recommended that the City ensure that all disconnection report records are retained and that a procedure is developed for tracking the number of payment extensions provided. In addition, we recommended that the City develop formal procedures for the review and approval of utility account adjustments, and ensure that the City ordinance is followed for water and sewer extensions, including refunds of extension costs, if any.

Results of Follow-Up Procedures

The City did not correct 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.
- A customer shall be allowed to extend the time for payment of utility bills twice per calendar year for up to 7 days.
- 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 paid by financial assistance grants.

Our examination of City records disclosed that, in March 2015, the City began tracking the number of extensions granted to utility customers. However, City personnel did not always comply with the resolution requirements by disconnecting utilities for accounts that remained delinquent after the 29th of the month. For example, the March 2, 2015, list of uncollected accounts disclosed 277 accounts (211 residential accounts and 66 commercial accounts) subject to disconnection. As of that date, 15 accounts were pending payment from a financial assistance grant and the City had disconnected the utilities for 17 other accounts. However, of the remaining 245 accounts:

- 66 customers paid their late fees by March 2, 2015, without utility disconnections.
- The Finance Director formally extended the due dates of 26 accounts based on customer extension requests.

⁸ Resolution No. 2014-26, superseded by Resolution No. 2016-08.

- 153 accounts were extended without a customer extension request, including:
 - 125 accounts (87 residential and 38 commercial) that were up to 13 days late.
 - 22 accounts (12 residential and 10 commercial) that were 40 days late, effectively granting each customer a second consecutive extension by default.
 - 6 accounts (5 residential and 1 commercial) that were 70 or more days late and, therefore, exceeded the maximum two allowable extensions per year.

In response to our inquiries, City personnel indicated that the manual process for monitoring payments and utility disconnections is labor intensive and that the City has limited staff and resources. Additionally, City personnel indicated and that utilities were not disconnected for some accounts because the amount owed was less than the customer deposit.

For collection efforts to be effective, such efforts must be both timely and progressively strengthened as accounts become more delinquent. Without effective efforts, such as appropriate payment arrangements or utility disconnections, there is an increased risk that account balances will continue to increase and not be collected.

Utility Account Adjustments. In March 2015, the City adopted procedures for 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 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 the newly adopted procedures were being followed, we examined City records supporting the 17 adjustments to customer utility accounts, totaling \$1,860, made during the months of January and February 2016 and found that a \$960 adjustment lacked documentation evidencing the basis for the utility account adjustment and 5 adjustments, totaling \$248, lacked the signature of either the City Clerk, City Manager, or Finance Director to evidence approval of the adjustments, contrary to City procedures. In response to our inquiry, City personnel indicated that documentation for adjustments and necessary approval as evidenced by required signatures was not available due to oversights. Absent required documentation for adjustments and approvals, improper adjustments could be made and not timely detected and corrected.

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 such 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.

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

Our discussions with City personnel and examination of Commission minutes and other City records disclosed for the one water line extension during the period October 2014 through February 2016 that:

- In August 2015, the Commission approved one water line extension to a customer's residence at an estimated cost of \$6,915. The customer entered into a payment agreement with the City to make monthly payments until the balance was paid in full for the cost of installing the water line extension. Because the water line could support five residential water lines, Commission minutes indicated that each additional water line would cost \$1,383, and the original customer would be reimbursed a pro rata share of \$6,915 as additional customers were connected.
- In May 2016, another customer connected to the water line. However, rather than assessing the customer one-fifth of the water line costs of \$1,383, the customer was assessed \$1,693, or an additional \$310, because the City incorrectly calculated the amount. The incorrect calculation resulted in a credit to the original customer's account of \$2,743 instead of \$1,383, or an additional \$1,360, composed of the additional \$310 incorrectly assessed and the \$1,050 connection fee paid by the new customer. Although the Commission approved the water line extension agreement, and City ordinances provide for refunding portions of unexpended deposits upon completion of a project, the Code does not provide for arrangements for constructing a water line extension and subsequently reimbursing a customer or crediting their account based on future connections.

In response to our inquiries, City management indicated that the calculation errors occurred because the calculations are complex and are made infrequently. Additionally, City personnel indicated that the City has historically entered into water line extension arrangements and that they were unaware that such arrangements were contrary to City ordinances. As of October 2017, the City had not attempted to recover the \$1,360 improperly credited to the customer's account or to refund the \$310 improperly assessed to the other customer.

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. The City should also 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. In addition, the City should take appropriate actions to recover the \$1,360 improperly credited and refund the \$310 overcharged.

Finding 14: Enterprise Fund Financial Condition

Previously Reported

The City did not maintain detailed separate accountability for each of its utilities. In addition, the City 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 recommended that the City maintain separate accountability for each utility in its accounting records, consider implementing the rate-related recommendations from the electric system rate study, and obtain a rate study for its gas utility.

Results of Follow-Up Procedures

The City did not correct this finding. Our discussions with City personnel and examination of City records as of October 2017 disclosed that the revenues and expenses of each electric, gas, water, and sewer utility activity were separately accounted for and reported in the City's government-wide statement

of activities for the 2012-13 through 2015-16 fiscal years. The utility systems operating activity for the 2013-14 through 2015-16 fiscal years is summarized in Table 1.

Table 1
City of Starke Enterprise Fund Operating and Net Income
For the 2013-14, 2014-15, and 2015-16 Fiscal Years
(In Thousands)

| | 2013-14 | 2014-15 | 2015-16 |
|---|---------------|-----------------|---------------|
| Operating Revenues | \$ 11,200 | \$ 11,300 | \$ 11,400 |
| Operating Expenses | (10,500) | (10,300) | (10,600) |
| Total Operating Income | \$ 700 | \$ 1,000 | \$ 800 |
| Net Nonoperating Expenses, Transfers, and Capital Grants | (600) | 2,300 | (500) |
| Net Income | \$ 100 | \$ 3,300 | \$ 300 |

Source: City's Audited Financial Reports.

Notwithstanding, the City reported utility activities in a single enterprise fund and did not separately account for each utility's assets, liabilities, and net position in its accounting records. In addition, while the City utility systems reported net income for the 2013-14 through 2015-16 fiscal years, the City did not implement the rate-related recommendations from the July 2012 electric system rate study and did not obtain a rate study for the gas utility.

In response to our inquiries, City personnel indicated that the rate recommendations were not implemented because the City increased water and sewer rates and did not want to overburden customers by also increasing the electric rate. Additionally, the City did not obtain a gas utility study because of limited staff and resources necessary to gather the data needed for the study.

Maintaining separate accountability of the assets, liabilities, and net position for each utility in the accounting records would enhance the City's ability to determine the extent to which 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. Additionally, when 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 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.

Finding 15: Enterprise Fund Working Capital

Previously Reported

The City Commission has not established a policy indicating minimum target levels of working capital funds to be maintained for the Enterprise Fund.

We recommended that the Commission, by formal resolution, establish a policy indicating minimum target levels of working capital funds that should be maintained for its Enterprise Fund and continue efforts to increase working capital on hand.

Results of Follow-Up Procedures

The City partially corrected this finding. Our discussions with City personnel and examination of City records indicated that, for the 2015-16 fiscal year, the Enterprise Fund working capital increased to \$4,583,349, or \$3,333,222 more than the 45 days of expenses recommended by the Government Finance Officers Association (GFOA) best practices.¹⁰ The majority of the increase in working capital was from a one-time land sale for \$1,929,635 in the 2014-15 fiscal year. However, the City did not, by formal resolution, establish a policy with minimum target levels of working capital funds to be maintained for its Enterprise Fund, as recommended by GFOA. In response to our inquiries, City personnel indicated that a policy had not been established due to an oversight.

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

Previously Reported

The City's 2011-12 and 2012-13 fiscal years' budgets were not prepared at the required level of detail, and did not consider the effect of available fund balances from prior fiscal years, contrary to law.

We recommended that the City ensure that future annual budgets are adopted at the proper level of detail and include all balances brought forward from prior fiscal years.

Results of Follow-Up Procedures

The City corrected this finding. Our examination of City records indicated that the approved budgets for the 2014-15 and 2015-16 fiscal years presented budgeted revenues and expenditures for each fund by organizational unit at the required level of detail and included balances brought forward from the prior fiscal year.

¹⁰ GFOA Government Finance Officers Association Best Practice, *Working Capital Targets for Enterprise Funds*.

Finding 17: Budget Amendments

Previously Reported

The City's budget amendments were not advertised and approved in the manner required by law, and certain General Fund expenditure functions were overexpended for the 2010-11 and 2012-13 fiscal years.

We recommended that the City ensure that budget amendments are approved through resolution when needed, but no later than 60 days following the end of the fiscal year, to ensure that expenditures are limited to budgeted amounts as required by law.

Results of Follow-Up Procedures

The City partially corrected this finding. Our discussions with City personnel and examination of City records for the 2013-14 and 2014-15 fiscal years disclosed that:

- Since State law¹¹ requires budget amendments to be approved in the same manner as the original budget, the Commission was required to approve amendments by resolution. However, contrary to State law, the Commission approved budget amendments by motion. In response to our inquiries, City personnel indicated that they continued to approve budget amendments by motion due to an oversight.
- Certain General Fund, Impact Fee Trust Fund, and Transportation Trust Fund expenditure categories were overexpended as show in Table 2.

Table 2
Comparison of Final Budget to Actual Amounts

| | 2013-14 Fiscal Year | | | 2014-15 Fiscal Year | | |
|-----------------------------------|---------------------|---------------------|-------------|---------------------|---------------------|------------|
| | Final Budget | Actual Expenditures | Difference | Final Budget | Actual Expenditures | Difference |
| General Fund: | | | | | | |
| Public Safety | \$2,511,600 | \$2,638,021 | \$(126,421) | - | - | - |
| Debt Service | - | 19,612 | (19,612) | - | - | - |
| Impact Fee Trust Fund: | | | | | | |
| Public Safety | 27 | 32,097 | (32,070) | - | - | - |
| Transportation Trust Fund: | | | | | | |
| Transportation | - | - | - | \$307,822 | \$321,132 | \$(13,310) |

Source: City's Audited Financial Reports.

Although the City approved budget amendments in November 2014 and November 2015, which were within 60 days following the respective fiscal year-end, the budget amendments did not eliminate the overexpenditures. In response to our inquiries, City personnel indicated that budget amendments were not prepared for expenditures exceeding budgets because of confusion over who was responsible for preparing the budget amendments.

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

¹¹ Section 166.241(4), Florida Statutes.

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

Previously Reported

The City did not timely post required budget information and did not include a link to its annual financial reports on its Web site, contrary to State law.¹²

We recommended that the City enhance procedures to ensure that tentative and final adopted budgets, and budget amendments, are timely posted on its Web site, and include a link to the Florida Department of Financial Services (DFS) Web site to view the City’s annual financial report. We also recommended that the City consider including other financial information on its Web site, such as its audit reports, to improve financial transparency.

Results of Follow-Up Procedures

The City corrected this finding. Our examination of the City’s Web site in May 2016 indicated that the Web site included links to relevant financial information, including audit reports, tentative and final budgets, and budget amendments. The City’s Web site was also updated in October 2017 to include a link to the DFS Local Government Financial Reporting Web site.

PERSONNEL AND PAYROLL ADMINISTRATION

Finding 19: Compensation for Elected Officials and Employee Bonuses

Previously Reported

The salaries of elected City officials were not in accordance with applicable ordinances and the salary increases for elected officials were not properly authorized. In addition, City records did not evidence the specific authority for, or public purpose of, providing safety pay bonuses to City employees other than firefighters.

We recommended that the City amend or adopt its ordinances to ratify the salary increases provided to the elected officials from October 2006 through February 2013, or return the salaries to their previous levels. We also recommended that the City ensure that compensation for elected City officials is in accordance with applicable ordinances and that the authority for safety pay bonuses for City employees is properly documented, or the practice should be discontinued. Additionally, we recommended that the Commission consult with legal counsel regarding salaries paid in excess of that authorized by ordinances.

¹² Sections 166.241(3) and 218.32(1), Florida Statutes.

Results of Follow-Up Procedures

The City partially corrected this finding. Our examination of City records and discussions with City personnel disclosed that the City consulted with its legal counsel regarding salaries previously paid in excess of that authorized by City ordinances and, on September 9, 2014, the Commission adopted Ordinance No. 2014-0713, retroactive to October 1, 2006, which authorized the City to increase the salary of each City official, elected or otherwise, as long as the adjustments were for inflation or other economic trends impacting compensation value, calculated and applied consistently with the percentage increase to all City employees, and made at the same time as other employee salary increases.

We also noted that in preparing the 2015-16 fiscal year budget, the Commission approved a \$500 performance bonus for City employees based on meeting a minimum score on the annual performance evaluation. According to City personnel, all City employees met the minimum score on the annual performance evaluation and were paid the performance bonus. However, the City also paid performance bonuses totaling \$3,500 to elected City officials, who do not receive annual performance evaluations and were not otherwise eligible for the bonus as provided in the new City ordinance. Insofar as the City Charter¹³ requires that the salaries and compensation of all City officers be fixed by ordinances, and Ordinance No. 2014-0713 did not provide for City officials to receive performance bonuses, the bonuses paid to the elected City officials were contrary to law. In response to our inquiries, City personnel indicated that elected City officials were inadvertently paid the performance bonuses due to an oversight.

Additionally, the City adopted a safety pay policy on April 7, 2015, which provided 8 hours of extra pay for City employees, other than firefighters, who work a complete fiscal year without receiving workers' compensation benefits. The City subsequently paid safety pay bonuses in April 2015 to applicable employees who worked the 2014 calendar year and did not receive workers' compensation benefits. However, our review of the City's safety pay policy indicated that it is not in accordance with State law,¹⁴ which requires, in part, that any ordinance designed to implement a bonus scheme must base the bonus award on work performance and describe the performance standards and evaluation process by which the bonus will be awarded. As the safety pay policy provides a bonus for not reporting a workplace injury, rather than work performance, the policy is contrary to State law.

Recommendation: We continue 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. We also continue 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.

¹³ City Charter, Article IV, Section 23.

¹⁴ Section 215.425(3), Florida Statutes.

Finding 20: Hiring Practices

Previously Reported

The City Commission had not, of record, approved position descriptions to be used as a basis for establishing minimum qualifications for candidates for employment, and the City did not document the authorization to hire two of ten new employees tested.

We recommended that the City adopt position descriptions that specify minimum education and experience requirements. Also, to provide for effective and efficient personnel administration, we recommended that the City ensure employment applications, position descriptions, and personnel action forms are utilized during the hiring process and maintained in the personnel files.

Results of Follow-Up Procedures

The City partially corrected this finding. Our examination of City records and discussions with City personnel indicated that, during the audit period, employment applications and personnel action forms were utilized for new hires and maintained in the personnel files. We also noted that City records evidenced that the City generally used position descriptions specifying minimum education and experience requirements in developing advertisements for job vacancies; however, the Commission did not adopt the position descriptions. In response to our inquiries, City personnel indicated that a classification and pay plan would be completed and adopted as time and resources were available.

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.

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 recommended that the Commission 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 discussions with City personnel and examination of City records for the audit period indicated that the City had not adopted a classification plan or pay plan, contrary to Section 8 of the *Manual*. In response to our inquiries in October 2017, City personnel indicated that a classification plan and pay plan would be completed and adopted as time and resources were available.

Establishment of a classification and pay plan would establish minimum requirements for new hires and document required experience, education, and certifications, as applicable, for current employees 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 plan and a pay plan to ensure that personnel administration and payroll costs are properly managed.

Finding 22: Performance Evaluations

Previously Reported

Contrary to the *Manual*, employee personnel evaluations were not completed of record.

We recommended that the City continue efforts to ensure that employee performance evaluations are timely completed and maintained in personnel files as required by the *Manual*.

Results of Follow-Up Procedures

The City corrected this finding. As of September 30, 2015, the City had 62 employees in the Administration and Finance, Operations, and Police Departments who were required to undergo annual employee performance evaluations. Our examination of 15 selected employee personnel files indicated that the annual performance evaluations had been conducted as of September 30, 2015.

Finding 23: Overtime Payment Monitoring

Previously Reported

The City's monitoring of employee overtime could be improved.

We recommended that the City enhance management controls by performing overtime and staffing analyses to ensure the most cost efficient and effective use of human resources. We also recommended that the City evaluate whether its practices are consistent with the 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 did not correct this finding. Our examination of City records and discussions with City personnel indicated that, as of October 2017, the City had not performed formal overtime and staffing analyses to ensure the most cost efficient and effective use of human resources. According to the City Clerk, he and the Finance Director discussed plans for addressing overtime usage and determined that it was more cost effective to pay for overtime than to hire additional employees. However, although we requested, City personnel did not provide documentation evidencing the determination. Excluding firefighters, the City paid overtime pay of \$163,467 to 42 employees, \$193,897 to 48 employees, and \$233,422 to 55 employees, during the 2014, 2015, and 2016 calendar years, respectively. As shown in Tables 3, 4, and 5, our examination of payroll records for these overtime payments disclosed:

- 9 employees with total overtime payments ranging from 26 to 62 percent of their base salaries for the 2014 calendar year. The overtime payments to these 9 employees was 50 percent of the total Citywide overtime paid (excluding payments to firefighters) for the 2014 calendar year.

- 8 employees with total overtime payments ranging from 25 to 74 percent of their base salaries for the 2015 calendar year. The overtime payments to these 8 employees was 49 percent of the total Citywide overtime paid (excluding payments to firefighters) for the 2015 calendar year.
- 10 employees with total overtime payments ranging from 27 to 86 percent of their base salaries for the 2016 calendar year. The overtime payments to these 10 employees was 55 percent of the total Citywide overtime paid (excluding payments to firefighters) for the 2016 calendar year.
- 7 of the 9 employees receiving the largest amount of overtime payments as a percentage base pay during the 2014 calendar year also earned the largest amount of overtime payments as a percentage of base pay during the 2015 calendar year.
- 6 employees earned the largest amount of overtime payments as a percentage of base pay during the 2014, 2015, and 2016 calendar years.

Table 3
Employees With the Largest Amount of Overtime Pay as a Percentage of Base Salary
For the 2014 Calendar Year

| Employee Position | Total Overtime Hours | Total Overtime Pay | Total Base Salary | Total Wages | Overtime Pay Percentage of Base Salary |
|--|----------------------|--------------------|-------------------|-------------|--|
| Wastewater Plant Supervisor ^a | 882.0 | \$ 20,465 | \$ 33,172 | \$ 53,637 | 62% |
| Wastewater Plan Operator ^b | 103.0 | 2,023 | 4,928 | 6,951 | 41% |
| Wastewater Plan Operator ^c | 574.0 | 10,471 | 26,039 | 36,510 | 40% |
| Public Works Laborer ^d | 529.5 | 7,580 | 21,135 | 28,715 | 36% |
| Gas Laborer ^e | 506.0 | 8,926 | 26,063 | 34,989 | 34% |
| Gas Crew Supervisor | 511.0 | 7,128 | 21,380 | 28,508 | 33% |
| Public Works Laborer ^f | 443.0 | 6,741 | 22,360 | 29,101 | 30% |
| Electric Lineman ^g | 421.0 | 11,157 | 38,752 | 49,909 | 29% |
| Public Works Supervisor | 399.0 | 7,479 | 28,408 | 35,887 | 26% |
| Total Overtime Payments | | \$ 81,970 | | | |
| Total Citywide Overtime Payments (Excluding Payments to Firefighters) | | \$163,467 | | | |
| Percentage of Citywide Overtime Payments | | 50% | | | |

^{a, b, c, d, e, and g} These positions were held by individuals who received overtime payments during the 2014, 2015, and 2016 calendar years.

^f This position was held by an individual who received overtime payments during the 2014 and 2015 calendar years.

Table 4
Employees With the Largest Amount of Overtime Pay as a Percentage of Base Salary
For the 2015 Calendar Year

| Employee Position | Total Overtime Hours | Total Overtime Pay | Total Base Salary | Total Wages | Overtime Pay Percentage of Base Salary |
|--|----------------------|--------------------|-------------------|-------------|--|
| Wastewater Plan Operator ^b | 1,080.0 | \$ 22,565 | \$ 30,415 | \$ 52,980 | 74% |
| Wastewater Plant Supervisor ^a | 854.0 | 20,832 | 35,516 | 56,348 | 59% |
| Public Works Laborer ^d | 616.5 | 9,303 | 22,618 | 31,921 | 41% |
| Public Works Laborer ^f | 564.5 | 9,356 | 24,879 | 34,235 | 38% |
| Wastewater Plant Supervisor | 201.0 | 3,618 | 9,978 | 13,596 | 36% |
| Gas Laborer ^e | 479.0 | 9,853 | 32,594 | 42,447 | 30% |
| Wastewater Plan Operator ^c | 433.0 | 8,602 | 29,579 | 38,181 | 29% |
| Electric Lineman ^g | 367.0 | 11,500 | 46,152 | 57,652 | 25% |
| Total Overtime Payments | | \$ 95,629 | | | |
| Total Citywide Overtime Payments (Excluding Payments to Firefighters) | | \$193,897 | | | |
| Percentage of Citywide Overtime Payments | | 49% | | | |

a, b, c, d, e, and g These positions were held by individuals who received overtime payments during the 2014, 2015, and 2016 calendar years.

f This position was held by an individual who received overtime payments during the 2014 and 2015 calendar years.

Table 5
Employees With the Largest Amount of Overtime Pay as a Percentage of Base Salary
For the 2016 Calendar Year

| Employee Position | Total Overtime Hours | Total Overtime Pay | Total Base Salary | Total Wages | Overtime Pay Percentage of Base Salary |
|--|----------------------|--------------------|-------------------|-------------|--|
| Wastewater Plan Operator ^b | 1,187.0 | \$ 26,161 | \$ 30,591 | \$ 56,752 | 86% |
| Wastewater Plant Supervisor ^a | 766.0 | 19,109 | 35,226 | 54,335 | 54% |
| Electric Lineman ^g | 552.5 | 18,903 | 48,549 | 67,452 | 39% |
| Waste Water Plan Operator ^c | 510.0 | 10,672 | 29,381 | 40,052 | 36% |
| Electric Lineman | 297.5 | 5,033 | 14,960 | 19,993 | 34% |
| Gas Laborer ^e | 438.0 | 9,332 | 27,922 | 37,254 | 33% |
| Electric Lineman | 472.5 | 9,594 | 28,884 | 38,479 | 33% |
| Electric Lineman | 429.0 | 13,707 | 45,438 | 59,146 | 30% |
| Electric Lineman | 412.0 | 10,111 | 34,189 | 44,300 | 30% |
| Public Works Laborer ^d | 388.0 | 6,583 | 24,335 | 30,918 | 27% |
| Total Overtime Payments | | \$129,205 | | | |
| Total Citywide Overtime Payments (Excluding Payments to Firefighters) | | \$233,422 | | | |
| Percentage of Citywide Overtime Payments | | 55% | | | |

a, b, c, d, e, and g These positions were held by individuals who received overtime payments during the 2014, 2015, and 2016 calendar years.

When overtime is not effectively monitored, the risk increases that errors, waste, or fraud may occur and not be timely detected. Properly developed policies or procedures establish guidance requiring department heads and supervisory staff to review and consider the reasonableness of reported overtime and the related charges.

Additionally, as of June 2016, the City had not evaluated whether its practices for employees who are on-call were consistent with the 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. Our examination of City records for the 2014, 2015, and 2016 calendar years indicated that the City continued to allow certain employees to report overtime hours when they were on-call, generally for 9 hours per week (1 hour per day during the workweek and 2 hours per day on weekends), as well as actual time worked if called in. In response to our inquiries in October 2017, City personnel indicated that the new City Manager revised the practice of paying on-call hours at overtime rates to paying on-call hours at base hourly rates effective May 1, 2017, and was in the process of evaluating the City's overtime practices and on-call guidelines.

Recommendation: We continue to recommend that the City perform overtime and staffing analyses to ensure the most cost efficient and effective use of human resources. Also, the City should evaluate whether its practices are consistent with the Commission's intent and United States Department of Labor on-call guidelines, and amend the *Manual* as necessary.

PROCUREMENT AND EXPENDITURES

Finding 24: Credit Cards

Previously Reported

The City Commission did not, of record, approve the issuance of credit cards for use by City employees and did not adopt guidance as to the assignment and proper use of City credit cards, and the City needed to enhance controls over the use of credit cards.

We recommended that the City determine whether credit cards should be used and, if so, determine by whom and establish written policies and procedures governing credit card control and use. We also recommended that such policies and procedures require all employees utilizing credit card privileges to sign a written agreement evidencing their understanding of, and agreement with, the City's credit card policies and procedures. Additionally, we recommended that the City enhance controls to provide for the retention of detailed billing statements and receipts for all charges on City-issued credit cards and to provide for timely payments in full to avoid incurring additional fees and charges.

Results of Follow-Up Procedures

The City partially corrected this finding. Our examination of City records and discussions with City personnel disclosed that on November 17, 2015, the Commission adopted a credit card policy that established guidelines for the use of City credit cards; however, the policy did not require a written agreement signed by the cardholder to evidence the cardholder's understanding of, and agreement with, the City's credit card policy. Without a written agreement between the City and cardholder, there is an increased risk that the credit cards may be used for unauthorized purchases.

During the period October 2015 through February 2016, City-issued credit cards were used for 96 transactions totaling \$12,153. To determine if credit cards were appropriately used, we examined 30 credit card charges totaling \$7,070 and related monthly credit card statements and found that:

- One transaction totaling \$383 was not supported by an original receipt or other documentation. Subsequent to our inquiries, City personnel contacted the vendor, obtained a copy of the receipt, and documented that the purchase was reasonable and served a valid public purpose. Absent supporting receipts for charges incurred and paid with City credit cards, City records do not demonstrate that such charges were reasonable and served a public purpose at the time the City paid the credit card statement. City personnel indicated that documentation supporting the purchase was not obtained prior to payment of the applicable credit card statement due to an oversight.
- The November 2015 credit card statement included \$35 in late fees and \$40 in finance charges (total of \$75) because City staff did not timely pay balances in full. Failure to timely pay bills in full results in additional fees and charges, which is an inefficient use of the City's resources. According to City personnel, the payment was not timely made because supporting documentation for all purchases was not available at the payment due date.

Recommendation: We continue 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, the City should 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.

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 recommended 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 20 expenditures totaling \$214,391 from the population of 17,762 expenditures totaling \$21 million during the audit period. We noted that:

- 2 expenditures totaling \$6,126 (\$3,776 for tree trimming services and \$2,350 for traffic signal repair services) were not supported by a requisition, purchase order, or other documentation evidencing preapproval. Additionally, although we requested, City records were not provided to evidence that these purchases were of an emergency nature and thereby not subject to preapproval. Purchase orders and requisitions serve 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.

- 10 expenditures totaling \$181,316 were not supported by evidence of receipt, such as an employee signature and date evidencing that the goods and services were received, inspected, and approved. The expenditures included \$95,000 for a sewer truck; \$57,260 for a loader backhoe; \$18,980 for police equipment; \$6,814 for electrical services; and \$3,262 for pocket appointment calendars. Absent evidence that goods and services are received, there is an increased risk for improper expenditures. In response to our inquiries, City personnel indicated that the failure to document receipt of goods or services was due to oversights.
- 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 10 expenditures for items costing from \$1,000 to \$15,000, and totaling \$40,605, that were not supported by informal bids from at least three vendors. The expenditures included \$13,820 for police vehicle equipment, \$5,760 for water tower lighting materials, \$3,875 for utility pole tags, \$3,776 for tree trimming services, \$3,316 for police rifle conversion kits, \$3,262 for pocket appointment calendars, \$2,601 for an ice machine, \$2,350 for traffic light repair services, and \$1,845 for vehicle emergency lights. 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 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 should also 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.

CONTRACTUAL SERVICES

Finding 26: Auditing Services

Previously Reported

The City did not require that invoices for auditing services be provided in sufficient detail to demonstrate compliance with the terms of the contract, and \$64,822 of noncontract auditing services were requested and provided without apparent authority. In addition, the City overpaid \$2,567 for auditing services.

We recommended that the City ensure compliance with the auditor selection and contract requirements prescribed in State law.¹⁵ We also recommended that the City either document the necessity for the \$2,567 paid in excess of the contract for the 2008-09 and 2009-10 fiscal years or request a refund from the audit firm. Additionally, we recommended that the City establish contract monitoring procedures to ensure that payments do not exceed contract amounts.

Results of Follow-Up Procedures

The City partially corrected this finding. In November 2015, the City contracted with a firm to obtain an annual financial audit prepared by an independent certified public accountant (CPA) for the City's 2014-15 fiscal year financial statements. The contract provided for a fixed fee of \$65,000, and supporting

¹⁵ Section 218.391, Florida Statutes.

documentation for the two payments made to the CPA firm evidenced that the City Clerk reviewed and approved the invoices prior to payment and that the total amount paid agreed with the contracted fee.

Notwithstanding, the City did not, of record, request or receive a refund of the \$2,567 paid in excess of the contract for the 2008-09 and 2009-10 fiscal years or document the necessity for the \$2,567 paid in excess of the contract. In June 2016, the City Clerk indicated that the City contacted the former CPA firm to recover the \$2,567 overpayment, and the CPA firm responded that the City Clerk employed at that time verbally requested the additional work performed, which was billed and paid accordingly. Although we requested, we were not provided documentation of the Clerk's request and the CPA firm's response.

Recommendation: We recommend 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, the City should consult with legal counsel as to whether the City should take further action to collect the \$2,567 paid to the former CPA in excess of the contracted amount.

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 law, the agreement did not include a provision prohibiting contingent fees.

We recommended that the City ensure that engineering agreements are written and that each project authorized utilizing engineering services has, in writing, a mutually agreed upon scope of work, completion date, fee amount, and method of payment. We also recommended 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 and discussions with City personnel indicated that the City entered into a written agreement with an engineering firm on March 29, 2014. 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.

To determine whether engineering services were obtained in accordance with the agreement, from the population of 46 payments to the engineering firm totaling \$163,135 during the audit period, we examined City records supporting 20 payments totaling \$127,455 for 16 engineering projects. We noted that expenditures totaling \$104,575 for 14 engineering projects were not supported by written authorizations describing the work to be performed and the services to be provided, or a lump sum fee, hourly rate, or other amount agreed upon in advance. According to City personnel, the City Manager employed at the time verbally authorized the engineering projects rather than authorizing them in writing. 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 in compliance with the intent of the Commission and that the City received the services to which it was entitled.

Additionally, although we did not note any contingent fees in the 20 payments examined, the City did not include the prohibition against contingent fees clause in the engineering services agreement, contrary to State law.¹⁶ In response to our inquiries, City personnel indicated that the prohibition against contingent fees clause was not included in the agreement due to an oversight.

Recommendation: We continue to recommend the City ensure that engineering authorizations are documented and that a mutually agreed upon scope of work and fee amount be established in writing for each project authorized utilizing engineering services. 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

Previously Reported

The City did not, of record, enter into a signed and dated (executed) written agreement for legal services, and the City Commission did not timely approve a renewal agreement for such services.

We recommended that the City ensure that signed copies of agreements are obtained and maintained in the City's records, and ensure timely Commission approval of agreement renewals and new agreements upon expiration.

Results of Follow-Up Procedures

The City corrected this finding. The City entered into a 1-year contract with a firm for legal services on December 2, 2014, as authorized by the Commission. The contract stipulated that the City pay a sum of \$3,500 per month for the first 25 hours of legal services and \$150 per hour thereafter. On January 19, 2015, the Commission approved the renewal of the contract for a 2-year period. The City maintained signed copies of both contracts.

Finding 29: Insurance Services

Previously Reported

The City did not competitively select its health insurance provider, contrary to law, and did not competitively procure commercial property, liability, and automobile coverage, contrary to the City's *Purchasing Policies and Bidding Procedures* for purchases greater than \$15,000 and good business practices.

We recommended that the City enter into fixed-price agreements for future insurance broker services and periodically competitively procure insurance products to ensure that necessary coverage is obtained at the lowest cost consistent with acceptable quality.

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.

Results of Follow-Up Procedures

The City corrected this finding. Our examination of City records and discussions with City personnel indicated that the City competitively procured health, commercial property, liability, and automobile insurance coverages. The City advertised a request for proposals for health insurance coverage on July 30, 2015, and August 6, 2015, and subsequently selected a new provider on August 25, 2015. The services were effective October 6, 2015, for participation for at least 2 years. Additionally, the City requested formal quotes from three insurance providers for commercial property, liability, and automobile insurance coverages on May 18, 2015, and subsequently selected a new provider on June 16, 2015, for coverage effective for the 2015-16 fiscal year.

Finding 30: Other Professional Services

Previously Reported

City procedures for obtaining certain other professional services, and the review of related invoices, could be enhanced.

We recommended that the City strengthen procurement procedures for other professional services 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.

Results of Follow-Up Procedures

The City did not correct this finding. According to City personnel, the City contracted with four individuals for other professional services during the audit period. Our examination of the contracts for two of the individuals, a building official consultant with a contract dated March 2014 and a zoning administrator consultant with contracts dated November 2013 and January 2015, disclosed that the consultants were to function as the City's building official and zoning administrator, respectively. The building official contract provided for monthly payments of \$1,667 and the zoning administrator's two contracts provided for an hourly rate of \$25 and monthly payments of \$500, respectively. Payments were subject to services being rendered as requested by City personnel and upon submittal of daily billing records documenting dates and hours worked. During the audit period, the City paid \$28,333 and \$6,800 for building official and zoning administrator consulting services, respectively.

We also noted that the City did not have building official or zoning administrator job descriptions and the contracts did not specify the duties to be performed or a minimum number of days or hours to be worked. Additionally, although the minutes for the January 5, 2015, Commission meeting indicated that the zoning administrator contract was discussed, Commission minutes did not evidence that the zoning administrator contract or the building official contract had been approved.

Our examination of City records supporting payments to each consultant, including two payments totaling \$3,334 to the building official consultant for the months of December 2015 and January 2016, and two payments totaling \$1,500 to the zoning administrator consultant for the months of July, August, and September 2015, disclosed that the contractors' invoices referenced the contracts with the City and the month billed. However, daily billing records were not provided with the invoices and the invoices did not

provide the dates, number of hours worked, or the specific services performed. In response to our inquiries, City management indicated that the reference to daily billing records was inadvertently retained in the contract document language when the contracts were revised to pay the consultants on monthly basis rather than an hourly basis and that City personnel had inadequate training and knowledge for administering professional services contracts and monitoring contract payments.

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 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 recommended 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 recommended the City contact the IRS to determine whether these four individuals should be classified as employees rather than independent contractors and, if appropriate, amend its 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 did not correct this finding. As of October 2017, City personnel had not established procedures to document the relevant facts and circumstances upon which workers are classified as independent contractors rather than employees. Additionally, City personnel did not contact the IRS to determine whether those individuals previously classified as independent contractors should have been classified as employees and, as a result, did not determine whether it was necessary to amend its payroll reporting or remit any required payroll taxes and retirement contributions for the employees to the appropriate Federal and State agencies.

According to City personnel, the City engaged four independent contractors during the audit period, and paid:

- \$52,500 to the City Attorney.

- \$33,860 to a mechanic.
- \$28,333 to a building official.
- \$6,800 to a zoning administrator.

City personnel also indicated that the mechanic, building official, and zoning administrator personally performed the services. The City provided work space and office equipment to the building official and zoning administrator and provided work space and equipment, including City vehicles, tools, and supplies, for the mechanic. However, although we requested, City records were not provided to document the relevant facts and circumstances upon which City personnel classified the three individuals as independent contractors rather than employees.

Additionally, the City did not contact the IRS to determine whether the individuals should be classified as employees rather than independent contractors or amend its payroll reporting and remit any required payroll taxes and retirement contributions for the employees to the appropriate Federal and State agencies. In response to our inquiries, City management indicated that procedures had not been developed to assist in the classification of individuals as employees or independent contractors because City personnel lacked knowledge and training in making such determinations and that the IRS had not been contacted for a determination due to an oversight.

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. The City should also 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.

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 Code¹⁷ regarding the reporting of personal use of unmarked police vehicles in employees' gross compensation reported to the IRS.

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 Internal Revenue Code (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).

We recommended that the City enhance its written policies and procedures to ensure compliance with applicable provisions of the Internal Revenue Code (IRC).

Results of Follow-Up Procedures

The City did not correct this finding. The City revised Procedure 1.102 of the *Police Department Procedures Manual (Police Manual)* on June 13, 2016, to restrict personal use of police vehicles to the geographical boundaries of the City of Starke and to limit the personal use of assigned police vehicles to that incidental to law enforcement purposes. The City's land area is only 6.8 square miles (approximately 2.6 miles by 2.6 miles). However, City records disclosed that over the 12-month period from October 2015 through September 2016 police vehicles were apparently used for personal use in addition to City purposes as approximately 7,701 gallons of fuel were used, ranging from 695 to 1,439 gallons for each of the City's seven unmarked vehicles, or about 58 to 120 gallons per month. While the City's revised procedure provided for officers living outside the 20-mile radius from City limits jurisdictional lines to pay \$3 per day to maintain their vehicle take-home privileges, the three officers living outside the 20-mile radius were not assessed the \$3 per day charge and the equivalent benefit for personal use of the vehicles was not reported in the employees' gross compensation reported to the IRS.

In response to our inquiries in October 2017, City personnel indicated that the \$3 per day charge was not assessed and the equivalent benefit for personal use of the vehicles was not included in the employees' gross compensation reported to the IRS because of a lack of communication between departments. Without appropriately assessing employees or reporting employee gross compensation to the IRS, the City did not comply with *Police Manual* procedures or the IRC.

Recommendation: We continue to recommend that the City enhance procedures to ensure compliance with applicable provisions of the *Police Manual* and IRC.

PUBLIC WATER SYSTEM

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.¹⁸

We recommended that the City enhance procedures to ensure that diesel generator tests are conducted as required and that test and maintenance reports are timely and accurately prepared and maintained to

¹⁸ FDEP Rule 62-555.320(14), Florida Administrative Code (FAC), 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), FAC, 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.

evidence that proper preventative maintenance is performed and diesel generators are periodically tested at required intervals.

Results of Follow-Up Procedures

The City did not correct this finding. As of October 2017, the City had not developed standardized procedures for documenting the preventive maintenance and periodic testing of diesel generators for the City’s water and sewer systems, which served approximately 2,600 service connections during the audit period. Our examination of diesel generator test and maintenance reports for the audit period indicated that the reports did not evidence periodic testing or that preventative maintenance was performed at the required intervals (i.e., at least monthly). For the City’s three diesel generators, the generator test and maintenance report for the Southwest Water Treatment Plant generator contained no entries from May 29, 2015, until May 12, 2016 (349 days), and the generator test and maintenance report for the Wastewater Treatment Plant generator contained no entries from May 29, 2015, until June 7, 2016 (375 days). In addition, City personnel did not maintain a generator test and maintenance report for the Water Tower for the audit period. In response to our inquiries, City personnel indicated that the test and maintenance reports were not properly maintained because of a lack of supervisory oversight.

Failure to properly maintain and test the diesel generators could result in the generators not functioning properly during electrical power outages and the inability of the City to deliver water to customers and treat sewage waste during those outages.

Recommendation: We continue 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.

CAPITAL ASSETS

Finding 34: Tangible Personal Property Inventory

Previously Reported

The City did not timely reconcile the results of its 2011-12 fiscal year tangible personal property (TPP) inventory to the property records.

We recommended that the City ensure that the results of physical inventories of TPP are promptly reconciled to the City’s property records.

Results of Follow-Up Procedures

The City did not correct this finding. As of October 2017, City records were not available evidencing that physical inventories of TPP were performed or that the results reconciled to City property records for the fiscal years ended September 30, 2013, through September 30, 2016. Table 6 shows the City-reported TPP amounts for those four fiscal years.

Table 6
Tangible Personal Property
(In Thousands)

| Fiscal Year Ended | Amount |
|--------------------|---------|
| September 30, 2013 | \$6,700 |
| September 30, 2014 | 6,900 |
| September 30, 2015 | 7,300 |
| September 30, 2016 | 7,900 |

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 lack of available staff and resources. 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 ensure physical inventories of TPP are conducted annually and that the inventory results are promptly reconciled to the City's property records.

Finding 35: Motor Vehicles

Previously Reported

The City had not developed written policies and procedures governing the acquisition, assignment, control, use, and disposition of motor vehicles, and providing for the timely renewal of vehicle registrations.

We recommended that the City develop comprehensive written policies and procedures over the use of and accounting for City-owned motor vehicles to ensure adequate accountability for those assets. We also recommended that the City develop procedures for the timely renewals of vehicle registrations.

Results of Follow-Up Procedures

The City partially corrected this finding. Our examination of City records indicated that vehicle registrations for undercover police vehicles were renewed timely and, in March 2016, the Commission approved written policies and procedures governing the assignment, control, and use of motor vehicles. However, the procedures did not require accounting for City-owned vehicles in the City's property records. For example, City personnel provided us with a listing as of February 2016 of City-owned vehicles and trailers that was maintained for insurance purposes showing 71 vehicles and 11 trailers; however, only 42 vehicles and 2 trailers were listed in the City's property records.

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. Absent properly maintained property records, accountability for motor vehicles is diminished.

Recommendation: We 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.

ADDITIONAL MATTER

On June 8, 2018, the Florida Commission on Ethics found probable cause to believe the City Clerk misused his position by interfering with the supervision of another official's subordinate employee and by obtaining inappropriate benefits for the employee. A public hearing will be held and the resulting findings or stipulated agreement will be forwarded to the Commission on Ethics for final action.

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, no later than 18 months after the release of a report on the audit of a local government, we must perform appropriate follow-up procedures as we deem necessary to determine the audited entity's progress in addressing the findings and recommendations contained within our previous report. The objectives of this follow-up audit were to determine the progress the City had made, or was in the process of making, in addressing the findings and recommendations in our report No. 2015-009.

We conducted this follow-up audit from April 2016 to August 2016, and from July 2017 to November 2017, in accordance with applicable generally accepted government auditing standards. Those standards require that we plan and perform the follow-up 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 follow-up 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 2014 through February 2016, 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 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:

- For the City Manager hired in February 2015, determined whether the job responsibilities and position description were consistent with the Code of Ordinances (Code) and examined City records supporting the City Manager's education and experience to determine whether he met the qualifications for the position as described in the position description and the Code.
- Examined City records and interviewed City personnel to determine whether the payroll and personnel processing, utility fee collections, accounting records and bank account reconciliations, and electronic funds transfer duties had been adequately separated. We also assessed whether compensating controls had been implemented to mitigate any incompatible duties noted.
- Evaluated City policies and procedures for business-related functions during the audit period to determine whether the written policies and procedures provided adequate and sufficient controls over Commission meeting minutes, budgets, revenues and cash receipts, cash management, credit card and charge accounts, utility account adjustments, capital assets, and contract administration.
- Examined City records to determine whether proper notice was given for Commission meetings, minutes were prepared for all meetings, and meeting minutes were timely approved by the Commission and made available for public inspection.
- Evaluated City policies, procedures, and records maintained to support petty cash transactions and related balances. Specifically, we:
 - Examined City policies and procedures and Commission meeting minutes to determine whether the Commission approved the location, amount, and purpose of each petty cash and change fund.
 - Performed a surprise count of each petty cash and change fund and reconciled our counts to City records.
 - Reviewed documentation for 7 selected disbursements totaling \$1,138 of the 20 recorded petty cash and change fund disbursements during the period August 2015 through February 2016 to determine whether the disbursements were adequately supported, served an authorized public purpose, and were reasonable and necessary.
- Examined City records and held discussions with appropriate personnel to gain an understanding of City controls over bank accounts. Specifically, we:
 - Determined whether the City evaluated the necessity of each bank account and eliminated redundant or unnecessary accounts.
 - Examined City records supporting 30 selected bank account reconciliations for the period October 2015 through February 2016 to determine whether the bank account balances were timely reconciled to the general ledger and the reconciliations contained evidence of supervisory approval.
 - Compared banking agreements with a list of City bank accounts, as of April 2016, to determine whether the accounts were supported by current banking agreements. We also inquired with City staff and examined City records, to determine whether the banking agreements were routinely reviewed and signature cards were timely updated.

- Examined Commission meeting minutes to determine whether public depositories were designated and approved by the Commission.
- Examined City records to determine whether policies and procedures over the authorization and processing of electronic funds transfers (EFTs) had been established and implemented by City personnel. Specifically, we examined the banking agreement to determine whether it specified and authorized the accounts from which EFTs could be made and established single EFT dollar limits. In addition, we examined the agreement to determine whether it required secondary approval of EFTs and specified the destination accounts that can receive EFTs. We also examined City records supporting the 32 October 2015 EFTs totaling \$1,224,870 to determine whether the EFTs were adequately supported and properly authorized.
- Examined City records and inquired of City personnel to determine whether the City established appropriate policies and procedures over cash collections. Specifically, we examined City records supporting the 53 daily cash summary reports for the month of October 2015, composed of 72 receipts (other than utility deposits) totaling \$41,681, to determine whether the City properly used prenumbered receipts for payments made in person, recorded mail collections at the initial point of collection, and restrictively endorsed checks immediately upon receipt.
- Examined the Code governing the administration of local business tax receipts and late payment penalties and evaluated the City's business tax receipts collection procedures, including the City's procedures for assessing penalties on past due accounts, to determine whether the procedures complied with the Code. From the population of 696 business tax receipts issued for the 2015-16 fiscal year, with associated collections totaling \$62,192, we reviewed City records and evaluated whether appropriate actions were taken to collect the local business tax receipts, related fees, and related penalties totaling \$4,501, \$1,125, and \$20,000, respectively, for the 80 delinquent accounts as of April 19, 2016. Also, we determined whether the City Clerk filed the required annual report with the City Commission showing all business tax receipts issued for the 2014-15 fiscal year.
- Examined City records to determine whether City personnel periodically reconciled the utility deposits subsidiary ledger, general ledger, and utility deposit bank account balances for the period October 2015 through February 2016.
- Evaluated City procedures over electricity billing true-up calculations and recalculated the amounts on the October 2015 true-up worksheets to determine whether the amounts were accurate.
- Evaluated the City's procedures for timeliness, review, and approval of utility account adjustments, payment extensions, utility disconnections, and extension cost refunds to determine whether the procedures were in accordance with City ordinances and resolutions. Specifically, we:
 - Evaluated City records supporting the 277 uncollected accounts as of March 2, 2015, to determine whether City staff followed procedures in granting payment extensions or discontinuing utility services.
 - Evaluated whether the 17 utility account adjustments for the months of January and February 2016 totaling \$1,860 were properly documented and approved.
 - For the one water line extension during the audit period, we evaluated whether the project was undertaken pursuant to a Commission-approved written request from the individual property owner, whether the amount of costs to be paid by the customer and City were specified, and whether the Commission approved any refunds.
- Evaluated the City's Enterprise Fund financial condition. We also inquired of City personnel and examined City accounting records, including budget documentation and audited financial statements, to determine whether the City used separate enterprise funds to account for electric,

gas, water, and sewer utility activities. We also determined whether the City obtained a rate study or otherwise assessed whether the gas rates were adequate to cover the costs of providing gas service, assessed electric rates and the power cost adjustment in accordance with the recommendations of the previously obtained electric system rate study, and installed demand meters for customers who had the largest utility use to collect commercial demand rate data for future analysis.

- Evaluated City policies and procedures as of July 2016 to determine whether the City had established a minimum target level of working capital funds to be maintained in the Enterprise Fund and examined City records to determine whether the City maintained working capital in the Enterprise Fund for the 2013-14, 2014-15, and 2015-16 fiscal years at more than the minimum target level recommended by the Government Finance Officers Association.
- Examined the City's 2014-15 and 2015-16 fiscal year budgets to determine whether the budgets were prepared at the required level of detail and prior year fund balances were brought forward and included in the approved budgets.
- Compared the City's 2013-14 and 2014-15 year-end budget amounts with actual expenditures to determine whether expenditures were limited to budgeted amounts. We also examined City minutes of Commission meetings to determine whether budget amendments were approved in the same manner as the original budget.
- Examined City records to determine whether the City's 2014-15 and 2015-16 tentative and final adopted budgets and budget amendments were timely posted on the City's Web site and whether other financial information, such as audit reports, was also made available. Additionally, we examined the City's Web site to determine whether the Web site contained a link to the Department of Financial Services' Web site to view the City's annual financial report.
- Examined City records to determine whether the City amended or adopted ordinances to ratify the salary increases provided to elected officials during the period October 2006 through February 2013 or returned the salaries to their previous levels. We also examined City records to determine whether compensation for elected City officials was in accordance with applicable ordinances and whether the authority for safety pay bonuses for employees other than firefighters was properly documented and the bonuses were paid in accordance with Commission authority.
- Inquired of City personnel and examined City records to determine whether employee position descriptions were adopted. We also examined personnel records for the 11 new hires during the audit period to determine whether the position descriptions specified the minimum education and experience requirements and whether employment applications and personnel action forms were used during the hiring process and maintained in the personnel files.
- Inquired of the City Clerk and examined City records to determine whether the Commission adopted an employee classification plan and a pay plan as required by the City's *Personnel Rules and Regulations Manual*.
- Examined City records to determine whether annual performance evaluations for employees in the Administrative and Finance, Operations, and Police Departments were timely performed for the 2014-15 fiscal year.
- Inquired of the City Clerk and examined City payroll records supporting overtime pay totaling \$163,467 for 42 employees for the 2014 calendar year, \$193,897 for 48 employees for the 2015 calendar year, and \$233,422 for 55 employees for the 2016 calendar year, to determine whether overtime and staffing analyses were performed and whether overtime payments were in accordance with United States Department of Labor on-call guidelines and the City's *Personnel Rules and Regulations Manual*.
- Examined City records to determine whether the Commission adopted policies and procedures governing the control and use of credit cards and charge accounts. Specifically, from the

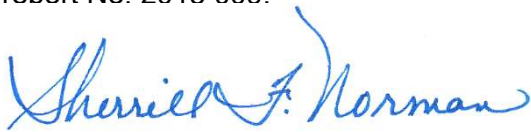
population of 96 credit card transactions totaling \$12,153 during the period October 2015 through February 2016, we examined documentation supporting 30 credit card charges totaling \$7,070 to determine whether documentation adequately demonstrated that the charges were authorized, were reasonable, accomplished a public purpose, and timely paid to avoid additional fees and surcharges.

- Examined City records supporting 20 selected expenditures totaling \$214,391, from the population of 17,762 expenditures totaling \$21 million during the audit period, to determine whether the expenditures served a public purpose, were authorized or preapproved, evidenced receipt of the goods or services by an appropriate party, and were supported by informal bids, where applicable.
- Evaluated the City's contract for auditing services and payment documentation for the 2013-14 and 2014-15 fiscal years to determine whether payments complied with contract terms. Also, for amounts paid in excess of the contract for the 2008-09 and 2009-10 fiscal years, we inquired of the City Clerk and examined applicable City records to determine whether a refund was obtained or the necessity of the additional payments was documented.
- From the population of 46 payments totaling \$163,135 for engineering services during the audit period, examined 20 selected payments composed of payments for 16 engineering projects totaling \$127,455 to determine whether payments were in accordance with contract terms and conditions and supported by written authorizations describing the work to be performed and fees to be paid.
- Examined Commission meeting minutes and contract documents to determine whether the City entered into a written agreement for legal services.
- Examined City records to determine whether insurance products were competitively procured and insurance broker services were obtained through fixed-price agreements, if applicable.
- Inquired of City personnel and examined City records to determine whether the City had established procedures to document the basis for classifying individuals as independent contractors rather than employees and evaluated whether the three individuals employed as independent contractors (not including the City Attorney) were correctly classified. 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 No. 2015-009 should be classified as employees rather than independent contractors.
- Examined contract documents for two independent contractors who were paid \$28,333 and \$6,800, respectively, during the audit period, and the related invoices and supporting documentation for four payments totaling \$4,834 made pursuant to these contracts to determine whether:
 - The contracts were properly approved and specified a contract period.
 - Contractor invoices were complete and in accordance with the contract terms and conditions and properly reviewed and approved prior to payment.
- Evaluated City procedures over personal use of police vehicles, inquired of the Police Chief, and examined City records to determine whether City policies and procedures addressed reporting personal use of unmarked police vehicles in employees' gross compensation in compliance with the Internal Revenue Code.
- Inquired of City personnel to determine whether the City developed standardized procedures for documenting the preventative maintenance and periodic testing of diesel generators for the City's water and sewer system. We also examined City records supporting the City generator test and maintenance reports for the three diesel generators for the audit period to determine whether preventative maintenance and periodic testing was performed as required by Florida Department of Environmental Protection rules.

- Inquired of the City Clerk and examined City records supporting tangible personal property (TPP) to determine whether the City performed a physical inventory of TPP for the fiscal years ended September 30, 2013, through September 30, 2016, and reconciled the results of the physical inventory to the TPP records.
- Inquired of City personnel and examined City records to determine whether the City had adopted policies and procedures governing the acquisition, assignment, control, use, and disposition of motor vehicles, and timely renewal of vehicle registrations. We also examined TPP records and other City records to determine whether City procedures provided for complete and accurate accountability over City-owned motor vehicles.
- 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(2)(j), Florida Statutes, I have directed that this report be prepared to present the results of our follow-up procedures designed to determine the City's progress in addressing the findings and recommendations included in our operational audit of the City of Starke, report No. 2015 009.



Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE



Janice Mortimer
MAYOR

COMMISSIONERS:
Tommy Chastain
Janice Mortimer
Danny Nugent
Wilbur Waters
Travis Woods

CITY CLERK
Ricky Thompson

POLICE CHIEF
Jeff Johnson

CITY MANAGER
Bob Milner

City of Starke

June 29, 2018

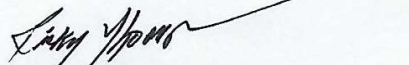
Ms. Sherrill F. Norman, CPA
Auditor General
Claude Denson Pepper Building, Suite G74
111 West Madison Street
Tallahassee, Florida 32399-1450

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
City Clerk

P.O. Drawer C, 209 N. Thompson Street, Starke, FL 32091
(904) 964-5027 | (904) 964-3998
www.cityofstarke.org

City of Starke
State Audit Follow-up Responses

Finding 1: Agreed.

Finding 2: The City will continue its efforts to implement adequate compensating controls throughout the payroll process.

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.

Finding 4: The City has developed a process where Commission minutes are approved at the next Commission meeting and posted on the City's website after approval.

Finding 5: Agreed.

Finding 6: The City is working towards reducing the number of bank accounts.

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 be added to the agreement.

Finding 9: The City will continue its efforts to establish procedures that require all mail collections be recorded at the initial point of collection and checks restrictively endorsed upon receipt.

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.

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 customer 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 also develop written procedures for review and approval of utility adjustments and ensure that the City ordinance is followed for water and sewer extensions, including refunds of extension cost, if any. The City will take appropriate actions to recover amounts improperly credited and refund amounts overcharged.

Finding 14: The City does account for fixed assets and long-term liabilities separately for each utility. The City will consider the rate-related recommendations from the electric system rate study and obtain a rate study for the gas 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: The City will ensure that compensation for elected City officials is in accordance with applicable ordinances and will consult with legal counsel regarding the propriety of performance bonuses paid to elected City officials. The City will 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 after consulting with legal counsel.

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: The City will perform overtime and staffing analyses to ensure the most cost efficient and effective use of human resources. The City will evaluate whether its practices are consistent with the Commission's intent and United States Department of Labor on-call guidelines and amend the Manual as necessary.

Finding 24: The City will 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. The City will 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.

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 vendor invoices, documentation of receipt, and evidence of review and approval for accuracy and completeness prior to payment.

Finding 26: The City will 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. The City will consult with legal counsel as to whether the City should take further action to collect the amount paid in excess of the contracted amount.

Finding 27: The City will ensure that all authorized projects utilizing engineering services are in writing, with a mutually agreed upon scope of work, completion date, and fee amount. The City will also include the prohibition against contingent fees clause in its agreements for engineering services.

Finding 28: Agreed.

Finding 29: Agreed.

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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. The City will consult with 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.

Finding 32: The City will enhance its written policies and procedures to ensure compliance with applicable provisions of the Police Manual and Internal Revenue Code.

Finding 33: The City will enhance its procedures to ensure that diesel generator tests are conducted as required and that test and maintenance reports are timely and accurately prepared and maintained to evidence that proper preventative maintenance is performed and diesel generators are periodically tested at required intervals.

Finding 34: The City will ensure that physical inventories of TPP are conducted annually and that the inventory results are promptly reconciled to the property records.

Finding 35: The City will enhance written policies and procedures concerning the use of and accounting for City-owned motor vehicles to ensure adequate accountability for those assets.