

Special City Commission Meeting - Audit Presentation (Thursday, June 29, 2023)

Minutes Generated by Hayden Page on Thursday, June 29, 2023

A. MEETING OPENER

Procedural: 1. Call To Order - Roll Call

Mayor Redman called the special meeting to order at 6:00pm.

**Present- Mayor Redman, Vice Mayor Stegall, Commissioner Huggins, Commissioner Hendrix, Commissioner Sirmones
Interim Manager Tillis, City Attorney Maines, Finance Director Sapp**

Procedural: 2. Opening Prayer

Opening Prayer led by Mayor Redman.

Procedural: 3. Pledge of Allegiance

Pledge of Allegiance led by Mayor Redman.

Action: 4. Approval of The Agenda Format

Recommended Action: Motion to approve the agenda format.

Motion to approve the agenda format was made by Vice Mayor Stegall. Seconded by Commissioner Hendrix. Unanimous approval. Motion carried.

B. AGENDA ITEM NUMBER

Action (Consent), Discussion, Information, Reports: 1. Presentation of Audit for period October 1, 2021 extended to December 31, 2022

Recommended Action: Recommended action would be to approve audit presented by Powell and Jones, CPA for the period October 1, 2021 extending to December 31, 2022.

Mayor Redman welcomes Caleb Perla, Karl Harmon, and Richard Powell who are in attendance this evening to present the annual financial report for the period ending September 30, 2022, and extended to December 31, 2022.

Mayor Redman requested no public questions or comments be made during the auditor's presentation.

Caleb Perla: Co-Owner of Powell and Jones, CPAs

Mr. Perla is the engagement partner and is the supervisor of the city's financial audit.

Mr. Perla will provide a brief explanation to the board on the city's financial condition and the financial statements at year end December 31, 2022, and stated that Karl Harmon would review with the board the audit findings during their extended audit procedures.

Page 7 of the report is noted which is the independent auditor's report.

The financial audit covered the period October 1, 2021, through September 30, 2022, and the extended audit covered the period up to December 31, 2022.

Page 10-14 of the report is noted which is the Management's Discussion and Analysis with provided tables for the values of governmental activities, business type activities and a total for fiscal year 2021 and fiscal year 2022.

Summary of Net Position:

Governmental activities:

Assets-\$2,147,640

Deferred Outflows \$58,135

Total Liabilities \$439,370

Deferred inflows \$177,363

Total Net Position for Governmental Activities: \$1,589,042 which consists of the following key components:

Invested in capital assets, net of related debt - \$1,391,727.

Restricted for Road Projects - \$276,631

Unrestricted - \$(79,316) which the auditor stated is of concern for the city.

Business-Type Activities:

Assets - \$4,160,519

Deferred Outflows - \$116,869

Total Liabilities - \$1,943,346

Deferred inflows - \$28,952

Total Net Position - \$2,305,090 which consists of the following key components:

Invested in capital assets, net of related debt - \$1,698,682.

Restricted for other purposes - \$172,755.

Unrestricted - \$433,653

This is on a full accrual basis for accounting, and later on, the accounting will be based on modified accrual.

Statement of Net Position (Condensed Version)

Revenues for Governmental Activities - \$989,380

Expenses for Governmental Activities - \$1,430,662

Transfers in from business funds - \$45,000

Change in Net Position - \$(396,282)

Beginning Net Position for Governmental Activities - \$1,985,324

Ending Net Position for Governmental Activities - \$1,589,042

Revenues for Business-Type Activities - \$3,250,209

Expenses for Business-Type Activities -3,033,073

Transfers out to Governmental Activities- \$(45,000)

Change in Net Position - \$172,136

Beginning Net Position for Business-Type Activities - \$2,132,954

Ending Net Position for Business-Type Activities - \$2,305,090

Unrestricted Balances:

Unrestricted net position: Governmental Activities

General Fund - \$(55,768)

Downtown Redevelopment Fund - \$(23,548)

Street Improvement Fund - none

Total Governmental Funds: \$(79,316)

Unrestricted net position: Business-Type Activities

Water Fund - \$(3,568)

Wastewater Fund - \$275,233

Solid Waste Fund - \$161,988

Total Business-Type Activities: \$433,653

Total City: \$354,337

Unrestricted cash: Governmental Activities

General Fund -\$558,794

Downtown Redevelopment Fund -\$4,899

Street Improvement Fund -\$276,631

Total Governmental Funds: \$840,324

Unrestricted cash: Business-Type Activities

Water Fund -\$78,027

Wastewater Fund -\$387,096

Solid Waste Fund -\$127,873

Total Business-Type Activities: \$592,996

Total City: \$1,433,320

Budgetary Highlights:

The General Fund budget was over expended by \$(172,741) and the Downtown Redevelopment Fund was over expended by \$(57,111) for a total of \$(229,852.)

Debt Outstanding for current and prior year:

Total debt outstanding for Fiscal Year 2022 was \$2,133,019 which was an increase from Fiscal Year 2021 which was \$1,516,124 which is primarily due to the increase in the SRF loan and the increase in net pension liability.

Page 18 is noted which is the Governmental Funds balance sheet for the period ending September 30, 2022 on a modified accrual basis of accounting.

Fund Balances:

Total Governmental Funds:

Non spendable -\$36,901

Restricted -\$276,631

Unassigned -\$405,771

Total Fund Balance: \$719,303

Page 21 is noted which is the statement of net position for the Proprietary Funds for period ending September 30, 2022 which is a full breakdown of assets, liabilities, and total net position for the Water, Wastewater, and Solid Waste Funds.

Page 22 is noted which is the statement of revenues, expenses, and changes in net position for the Proprietary Funds for period ending September 30, 2022, which is a breakdown of a profit/loss explanation, and is broken down by each proprietary fund.

Page 23 is noted as one of the most important pages as it is the statement of cash flows for the Proprietary Funds, which explains how much cash the city has at year end.

Water and Wastewater Funds are mentioned as concern, with the net increase/decrease of cash for Water Fund being \$(231,705) and Wastewater Fund being \$(242,408).

Cash at beginning of year for Water Fund: \$309,732

Cash at end of year for Water Fund: \$78,027

If this level of decrease continues, there will be an issue of insolvency with that particular fund.

Cash at beginning of year for Wastewater Fund: \$881,886

Cash at end of year for Wastewater Fund: \$639,478

Auditor stated because the two funds are inter-related, that what will most likely occur is that the Wastewater Fund will have to financially support the Water Fund, but is struggling in itself, so the board is needing to take emergent action.

Page 24 is noted which is the notes to the financial statements. The financial statements explain the numbers, while this explains the why behind the numbers.

Page 53 is noted which is the statement of revenues, expenses, and changes in fund balance budget and actual, which is a comparison between the amount budgeted for and the actual amount at year end.

Total expenses on final budget were \$862,750. Actual expenditures were \$1,065,565 which is \$(202,815) that was overspent which is of great concern.

The auditor recommends the board have further in-depth internal controls on budgetary management moving forward with the numbers calculated in this audit that pose a great concern to the city.

Page 62 is noted which is the schedule of expenditures of federal award and state financial assistance. This is the report with the city's various grant and loan programs and explains expenditures within the year.

Page 64 is noted which is the independent auditor's report on compliance with requirements that could have a direct and material effect on each major state project and on internal control over compliance in accordance with chapter 10.550, rules of the auditor general, office of the auditor general.

The auditor did explain that the single audit met state and federal requirements and regulations.

Page 83 is noted which is the management letter as required by rules of the auditor general, which explains prior year findings which bank statement reconciliations and balance sheet were ending balances which both findings have been corrected in the current year.

The management letter also explains the current year findings which are on pages 70-81.

By law, the auditor is required to complete a financial condition assessment, which the summary is below:

During our audit we found that the City experienced deteriorating financial conditions in their water and sewer utility funds. The average monthly operating expenses of the water and sewer funds is \$232,226. Unrestricted cash reserves dropped \$296,613 from \$761,736 to \$465,123 representing approximately two months of cash reserves. Unrestricted net position was at \$(3,568) for Water Fund and \$275,233 for Sewer Fund totaling \$271,665, which represents just over one month of available net position. These figures are substantially below averages for other similarly sized governments and our recommended minimum levels. If this situation is not corrected, it could lead to a state of financial emergency. We recommend that the City take immediate corrective action to ameliorate this condition.

Page 68 is noted which is the independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements.

Page 69 is noted which is the schedule of findings and questioned costs, which the Commission requested the auditing firm perform extended audit procedures which has been completed and the findings are included.

Caleb Perla defers to Karl Harmon for the explanation of the auditor's schedule of findings and questioned costs.

Schedule of Findings and Questioned Costs:

Presented by Karl Harmon, Audit Senior with Powell and Jones, CPAs

2022-1

Credit Card Abuse

During the period under audit, six employees utilized credit cards issued to them in the City's name. From our audit of these credit card statements, we found generally that there was no indication of management oversight or review of credit card statements prior to being paid.

We performed an extensive review of transactions on these credit card statements and attached documentation. We found numerous instances where credit card charges were not made in the interest of the City and represented apparent employee abuse and contained apparent personal expenditures which could constitute fraud on the part of the employees. A summary of these findings are as follows:

1. Instances where sales tax was paid on purchases (number of instances: 26, total sales tax paid: \$589.71)
2. Apparent personal expenditures (number of instances: 33, total amount paid: \$5,029.36)
3. Unallowable travel related expenditures (number of instances:5, total amount paid: \$233.37)
4. Purchase of alcohol charged to the City (total amount paid: \$539.50)

Total questioned costs that might constitute unallowable (illegal) expenditures (\$5,802.23)

1. Purchase of alcohol charged to the City (total amount paid:\$791.36)
2. Instances where sales tax was paid on purchases (number of instances: 3, total sales tax paid: \$66.50)

Total questioned costs that might constitute unallowable (illegal) expenditures (\$791.36)

1. Apparent personal expenditures (number of instances: 41, total amount paid: \$13,522.13).
2. Purchase of alcohol charged to the City (total amount paid: \$61.98)
3. Instances where sales tax was paid on purchases (number of instances: 37, total sales tax paid: \$918.79)

Total questioned costs that might constitute unallowable (illegal) expenditures (\$13,584.11).

1. Instances where sales tax was paid on purchases (number of instances: 4, total sales tax paid: \$50.03)
2. Apparent personal expenditures (number of instances: 3, total amount paid: \$82.51)
3. Unallowable travel related expenditures (number of instances: 4, total amount paid: \$228.90)

Total questioned costs that might constitute unallowable (illegal) expenditures (\$311.41)

1. Instances where sales tax was paid on purchases (number of instances: 16, total sales tax paid: \$310.67)
2. Apparent personal expenditures (number of instances: 24, total amount paid: \$1,962.00)
3. Unallowable travel related expenditures (number of instances: 1, total amount paid: \$146.21)

Total questioned costs that might constitute unallowable (illegal) expenditures (\$2,108.21)

We recommend the following corrective actions:

2. Updated purchasing policy that includes the appropriate use of credit cards, management approval of credit card purchases.
3. All credit cards be rescinded from non-managerial employees.
4. Active credit cards should be kept in a secure location and only used for legitimate City purposes when payment by City check is impractical.
5. The noted questioned costs should be presented to and verified with the effective employees and if illegal, the City should seek repayment of same.

2022-2

Fuel Purchasing System

The City purchases fuel for vehicles from a vendor which utilizes an automated fuel accountability system that tracks individual vehicle purchases and provides the City with monthly, detailed reports of fuel purchasing activity. From our review of selected reports, we found that the City's employees did not utilize these reports for accountability of fuel purchases.

For the fiscal year reviewed, both the City Manager and Public Works Director had assigned City vehicles which were used by them for both City-related and personal use. During the fiscal year, the City Manager used 948 gallons of gas which totaled \$3,560, at an average of 20 miles per gallon, this would compute to approximately 19,000 miles or 1,600 miles per month. Likewise the Public Works Director utilized 848 gallons of fuel for a total of \$3,160 which would equate to approximately 17,000 miles or 1,400 miles per month.

Due to the fact that these individuals did not maintain records that differentiated between their City related and personal miles, the personal portion of their fuel expense was not reimbursed to the City or included in their taxable employee compensation. These transactions were in noncompliance with 26 CFR 1.61-21 regarding taxation of fringe benefits and were not in the public's best interest.

We recommend the following regarding the City fuel purchasing system:

1. A fuel purchasing policy should be implemented that requires a prohibition of personal fuel use, proper logging of all fuel purchases, and full reconciliation and review of the monthly fuel invoice reports prior to payment. All inconsistencies should be fully investigated and corrected if necessary.
2. Either the full amount of fuel purchases or a computed reasonable amount should be either recovered from the former City Manager and Public Works Director or added to their taxable compensation for the year. Due to the fact that this was likely the same in prior years, the City should consider the feasibility of similar actions for at least the two prior years.

2022-3

Questioned Costs

From our audit of City expenses, we noted that the City directly paid certain potentially personal expenses for its employees. These may be in noncompliance with 26 CFR 1.61-21 regarding taxation of fringe benefits and not in

the best interest of the public. These expenses are as follows:

1. Personal social media account, vehicle GPS service, and membership fees for Turkey Creek Lions Club and Rotary dues for City Manager and Finance Director.
2. Payments for physician appointments.
3. Cell phones, cell phone accessories, tablets and watches, and clothes items which appeared to be personal in nature.
4. Payments for non-employee's dinners (non-employee names listed on receipts and order forms).
5. Shoe allowance consisting of \$100 per employee. Employees were not required to show proof of purchase. In addition, this was not a City-approved policy, and this benefit was not included in employee compensation.
6. Without evidence of a budget amendment or bid process, a company was awarded a contract in the amount of \$12,800 to clean public areas located by the local lake. This action was not approved by the City Commission.
7. Likewise, without City Commission approval or a budget amendment, or documentation of public necessity, a privacy fence was erected at the City-owned cemetery at a cost of approximately \$7,000, even though the cemetery already had a chain link fence around it.
8. The policy on City provided cell phones requires \$15.00 per pay period to be deducted from employee paychecks. We found that the cell phone deduction was not being made for the City Manager.
9. Travel policies were not followed. We found multiple instances where per diem rates exceeded the maximum rates allowed by Florida Statutes 112.061 or General Services Administration.
10. The tablet and cellphone of the former Finance Director were unaccounted for at year end and the service for those plans had not been disconnected even though the Finance Director was no longer an employee of the City.
11. A wireless internet hotspot device was purchased for the City Manager allowing him to have wireless internet at home and while traveling. This was not approved by the Commission and there was no documentation of how this expense was in the public's best interest.

2022-4 Property Exchange

From our audit of fixed assets, we noted that the City participated in an exchange of property or Land Swap wherein the City traded its Public Works building for a commercial property on Main Street. At the time of the transaction, the City's property was valued at approximately \$135,544 by the County Property Appraiser and the commercial property acquired was valued at \$57,190, a difference of \$78,354. Upon inquiry, we found that no documentation was available to verify the relative values of the properties being exchanged and the resulting benefit to the City at the time of the transaction. The public purpose of this transaction was not adequately documented, and it was not in compliance with City purchasing policies.

2022-5 Internal Revenue Service Noncompliance

During the period of our audit, the City paid the monthly rent of the City Manager which totaled \$800 monthly for a total of \$9,600. The City also furnished a Chevrolet Suburban vehicle to the City Manager for his unlimited usage. Even though approved by the City Commission, these benefits including lease value of the vehicle, fuel and insurance costs constitute taxable fringe benefits to the City Manager under applicable IRS regulations. We found that the City Manager's taxable compensation reported to the Internal Revenue Service did not include these taxable benefits on either his Form W-2 or a separate Form 1099.

We also found that the Public Works Director was also furnished a Chevrolet Silverado for his combined City and personal use. The personal use component of this vehicle, including lease value, fuel, insurance and operating costs, was also not included on either his Form W-2 or a separate Form 1099.

We recommend that the City take appropriate corrective measures to fully report these taxable compensation items to the Internal Revenue Service. This would consist of issuing a corrected Form W-2 C to each of these employees for the covered years. We also recommend that a vehicle usage policy be implemented that requires employees with assigned vehicles to leave them parked on City property when not in use and that all personal usage of fuel be reimbursed by the employee to the City.

2022-6 Employee Leave Records

From our test of payroll transactions, we were unable to locate where records of employee leave earned and used were correctly maintained for City employees. These records are necessary to document that employee leave is correctly managed and accounted for. We recommend that such leave records be maintained for all City employees. During our audit we found that the public works director took approximately one month of vacation time during the year that was not deducted from his leave records. We also found during our audit that the City Manager on July 8, 2022 received payment for 600 hours of accumulated sick leave at full value amounting to \$27,761.85. This action

was based upon a proposed policy that was apparently approved by the then Mayor but was never approved by the City Commission as required. This payment was not specifically provided for in City Manager's contract and did not comply with the executed personnel policy, substantially exceeding any allowed payout amounts.

2022-7 Bidding Process

We noted from our test of selected expenditures that there was generally a lack of internal controls and documentation to support the City's bidding procedures for purchases. This lack of internal controls and documentation likely allowed bids to be awarded to related parties without disclosure to the City Commission. This also created an environment where large purchases could have been made that were not in the public's best interest and where illegal activity such as kickbacks and self-serving related party deals could have occurred without detection.

2022-8 Audit Solicitation

During the year the City solicited audit proposals from selected accounting firms that did not include Powell and Jones CPA, the City's long-time auditor. This resulted in the City retaining a firm at a fee in excess of twice the present fee. The City Commission was advised that the retained firm was the only respondent to the solicitation. From our review of this process, we found that the City did not utilize an auditor selection committee as required by Section 218.39, Florida Statutes. Further, no employee of the City should serve on the auditor selection committee. The auditor selection committee is also required by this provision of law to make a public announcement of the RFP for audit services, which did not appear to have been done by the City. The lack of compliance with these provisions of law created a situation where Powell and Jones CPA were excluded from the auditor selection process and the City committed to paying at least \$23,000 more annually for its audit.

2022-9 Budget Administration

The General Fund budget was over expended by \$(172,509) and the Downtown Redevelopment Fund was over expended by \$(57,111) for a total of (\$229,620). We recommend that the City's annual budget be closely monitored during the year and any required amendments be enacted in a timely manner as required by law. During our audit we found that there were multiple instances where salary increases, mostly in relation to newly created and potentially unnecessary management positions, were given to employees without appropriate budgetary amendments to cover these costs. We recommend City Commission carefully review salaries in comparison to their budget and adjust accordingly.

2022-10 ARPA grant

The City received a federal grant for \$903,540 under the American Rescue Plan Act (ARPA). We found that the Commission gave no approval to spend these dollars and that the Commission had informally allocated the funds to be spent on lift station replacements. A consultant was used to manage this grant and all funds were reported to the federal government as spent on allowable operating expenses. These funds were not properly segregated from operating funds and appear to have funded operating deficits as well as the purchase/renovation of a new building. These funds were not spent in compliance with City Commission assignment and state budgetary requirements.

2022-11 1099's to employee's

The City paid several W-2 employees as 1099 subcontractors for Mosquito Control and after-hours janitorial services. Workers generally should not receive both tax forms and should be treated either as subcontractors or employees, and not both, except under very unique circumstances. We recommend the City examine the nature of its relationships with its workers and document this determination carefully with its contracts. Work completed by employees should have appropriate taxes, retirement, and other deductions withheld from their pay which does not occur with subcontractor payments.

The Commission thanks Caleb Perla, Karl Harmon, and Richard Powell for the presentation.

Commissioner Hendrix commented that the issue with credit cards and overspending roots back to 2018.

City Attorney Maines states that auditors have recommended the process of revising w-2's and 1099's for the calendar year 2020, 2021, and 2022.

Motion to designate Powell and Jones, CPAs to complete a W-2 and 1099 amendment process stemming back 3 calendar years, for the city manager's rent, use of city vehicles by the former city manager and public works director, and excluding the shoe allowance was made by Commissioner Hendrix. Seconded by Vice Mayor Stegall. Unanimous approval. Motion carried.

No further comments from Commission.

Public comments were requested to the Mayor.

Mayor Redman approved public questions at this time.

Bo & Monica Bayer
255 NW 2nd Street
Lake Butler, FL 32054

Mr. and Mrs. Bayer questions why the Downtown Redevelopment Fund was over-expended and stated that the projects that took place in FY 2021 and FY 2022 were for \$5,000 each.

City Attorney Maines stated that this is being reviewed and that a copy of the ledger that shows a breakdown of the expense showing how the Downtown Redevelopment Fund was over expended could be provided to the Bayers for their review.

Vernon Dukes
315 NW 3rd Street
Lake Butler, FL 32054

Mr. Dukes asked how the illegal/unallowable expenditures will be recovered.

City Attorney Maines states to Mr. Dukes that this audit will be provided to the proper agencies for further investigation and review.

Bart Andrews questions why the City is able to drink alcohol down at the Community Center for special events, but renters are strictly prohibited from drinking alcohol while using the Community Center.

The Commission explained that the rule of no alcohol can be reviewed and revised by the board if agreed upon.

Motion to approve audit for period October 1, 2021 and extending through December 31, 2022 was made by Commissioner Hendrix. Seconded by Commissioner Huggins. Unanimous approval. Motion carried.

C. CITY MANAGER REPORT

Action, Discussion, Information: 1. City Manager update on status of sale of 2021 Chevrolet Suburban

Motion to table discussion on the sale of the 2021 Chevrolet Suburban until further review can be conducted and the discussion can be revisited at the board's discretion was made by Vice Mayor Stegall. Seconded by Commissioner Hendrix. Unanimous approval. Motion carried.

D. REPORT OF CITY ATTORNEY

Nothing to report.

E. COMMENTS OR REMARKS BY COMMISSION

Mayor Redman-no comment

Vice Mayor Stegall-no comment

Commissioner Huggins-no comment

Commissioner Hendrix- Stated disappointment in the audit findings, and looks forward to straightening things out for the people.

Commissioner Sirmones - no comment

F. ADJOURNMENT

Action: 1. Adjourn

Recommended Action: Motion to adjourn.

Motion to adjourn meeting was made by Commissioner Hendrix. Seconded by Vice Mayor Stegall. Unanimous approval. Motion carried.

Meeting adjourned at 7:14pm.