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Starke audit full of recommended changes

By: Mark J. Crawford, Editor

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In a workshop on the annual audit of the city's finances last week, Starke city commissioners listened as a number of significant issues were detailed.

Auditor Lora Douglas of DDF CPA Group of Starke said her goal was not to be critical, but to provide guidance where she could. Lead auditor was DDF's Justin Stankiewicz. In total, the audit for Fiscal Year 2008 contains a number of comments about the way business has been conducted in the finance and recreation departments.

For example, the accounts receivable and accounts payable subsidiary ledgers at city hall were not in balance with the general ledger. Apparently, there was a process in place that was being followed, but the accounts were not being reconciled. This was exacerbated by the presence of a computer software issue that went unrecognized for six months. The software was forcing the



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accounts to balance, but causing errors elsewhere in the general ledger. When auditors discovered the issues, city finance staff was unaware of where to begin to correct the problem.

Auditors recommended the city reconcile accounts receivable daily and accounts payable monthly, investigating and correcting imbalances as they are found. General journal entries to the control accounts, seen to be a major source of the problem, should be rare, according to the auditors, and only be used to correct a computer malfunction.

These excessive journal entries-approximately 1,000 over the course of the year-constituted a finding of their own in the audit report. Instead of rare occurrences to correct errors, the city finance director, Herb Green, was using these entries to record daily transactions such as bank transfers, direct deposits, interest earnings, etc.

Auditors said internal controls would be greatly enhanced by using the accounting software to record these recurring entries instead of multiple entries to the general ledger.

They also discovered the finance office was not recording bad checks in the general ledger or accounts receivable. Instead, an employee was keeping track of this manually outside of the established accounting system.

According to the audit, checks for insufficient funds can amount to as much as \$12,000 a month, so employees need to be trained to charge these bad checks back to the customers' accounts so they are accounted for in the system in a way that all employees can follow.

The audit also found the city was out of compliance with Florida statutes because impact fee revenue was not being accounted for in a separate accounting fund. City Clerk Linda Johns opened five separate banking accounts to deposit impact fees for roads, fire, police, etc., but the law requires there be a special revenue fund for impact fees like the city has for streets. Like transportation funds, impact fee funds can only be spent on qualifying projects. Such a fund is to be created in accordance with the auditors' recommendation. Accounting control issues were also noted in the recreation department. While revenue from certain programs like adult softball and the after-school program were being tracked separately, revenue from other programs was being mingled. Recreation Director Alica McMillian was keeping track of these funds manually, but began using software during the current fiscal year.

According to the auditors, the software can be used to track revenue and expenditures for each program separately. This will also allow a profit and loss statement to be compiled for each program, which will help the city set fees at adequate levels for each program.

Recreation was also apparently paying umpires out of receipts from concessions and IRS 1099 forms were not being issued for umpires to report their income on their personal tax returns.

Auditors made it clear that concession receipts should be deposited intact and no expenditures should be paid from cash receipts. Umpires need to be treated

as vendors and they should be paid by check.

In a related finding, auditors found no controls over concessions, providing opportunities for theft of both cash and inventory.

DDF recommended an inventory system be put in place and that all cash receipts be deposited in the city's night depository.

Inadequate recordkeeping was also noted in regard to funds raised by the All-Star teams. Here, too, funds raised to be spent for a specific purpose-supporting these individual teams-need to be accounted for separately.

Recreation has also failed to keep a record of its fixed assets, but the most difficult question facing the commission regarding recreation has to do with the identity of the recreation board. Auditors asked if the recreation was just another department of the city with an advisory board to the city commission as most have always assumed or whether it was actually a special district with its own governing board appointed by the city commission.

The fact that the recreation board raises and spends its own money through and for recreational programming places it in the special district category. At the same time, the city commission has its own budget for recreation out of which recreation employees and certain operational costs are paid for.

According to the Florida Department of Community Affairs, the activities of the recreation board qualify it as a special district.

The problem is the recreation department has never been registered with DCA as a special district, and that places it out of compliance with Florida law.

Furthermore, there may be additional requirements of special districts that are not being observed.

The city needs to acknowledge the special status of the recreation department and have it properly registered, or clarify by ordinance that the recreation board is merely an advisory board and place all recreation funding in accounts controlled by the city commission and administered by the city clerk.

This means fiscal responsibility would be removed from the recreation board, but the alternative is that the city allocate adequate funds to the recreation department each year and allow it to fully function as a special district, governing its own budget, payroll, benefits, facilities, etc.

Auditors also listed as a finding the city's funding of recreation for non-city residents, something that has also been on the mind of city commissioners for some time. The audit notes that in 2008, the city's net contribution to recreation after program proceeds were subtracted was more than half a million dollars. In addition, more than 70 percent of program participants live outside the city limits, but county government makes no contribution to support the recreation department.

Auditors asked the commission to look at the feasibility of providing programming for non-city residents without additional funding. One suggestion is a jointly governed recreation board with cooperating local governments that could, with publicly approval, levy up to one mill of property taxes to support recreation.

Auditors found that without some additional source of revenue, such as higher fees for non-city residents, the cost of recreation would become unsupportable. Over the past 30 years, Douglas said, recreation costs have risen around 10 percent a year. In 10 years the budget would be \$1.5 million. There isn't enough money in utilities to transfer to the general fund to pay that, she said. The city ordinance calling for a seven-member recreation board is also out of compliance with state statute, which calls for five member boards. Of course, there are only five board members now, but the ordinance must still be amended.

In addition to the findings on the city's accounting practices, Douglas spent some time discussing the city's financial state.

Even though the fund balance for general government was down \$30,000 at the end of Fiscal Year 2008, the city still had a good cushion in that fund, according to Douglas. The fund balance was \$1.2 million, most of which was unrestricted. Some of that, Douglas pointed out, was misallocated impact fee revenue that will have to be pulled out of the general fund (and also the transportation fund) and placed in a separate fund, however.

With revenue down in the current economy, she said the city might find itself using a portion of that funding cushion to pay for operations.

In the enterprise budget, utility revenue was \$12.9 million and expenditures were around \$12.5 million, resulting in an operating income close to \$450,000. Douglas cautioned that if operating expenses had been even five percent higher, however, the city would not have been able to meet bond covenants that require it to earn 150 percent of its annual debt service payments through the sale of utilities.

She said the city commission might have to look at rate increases in the future in order to ensure it continues to make enough on utilities to meet the requirements of its bonds.

After the debt is subtracted, utilities only had around \$160,000 in revenue left, and that was more than wiped out by transfers to the general fund and street department totaling almost \$840,000, leaving utilities with a loss of \$680,000. That dips into utility system reserves, Douglas said. Most utility assets are in capital, and its unrestricted reserves only amount to around \$3 million. Douglas said it wouldn't take long to deplete that if the utility fund continues to lose \$680,000 a year.

A loss on the sale of investments and decreased value of investments-not unusual for the time, Douglas said-reduced funds in the employee retirement system by more than \$1.4 million. Although it could be worse, she said, the reduction will continue to impact the city's budget as the commission has to increase its contribution to the system.

Findings about internal controls aside, the city still received an unqualified opinion from the auditors, which is the highest opinion possible. When the auditors worked with the city to correct some of the accounting issues mentioned, there were no funds found missing or unaccounted for.


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Reader Opinions:

▶ **Erick Jackson**

Aug, 14 2009

I used to live in Lawtey when I was kid and now live in Naples, FL as a controller for large A/C company. My question is what exactly did the finance staff do?? Reconciliation of the bank accounts is a MUST each month in relation to the bank statements. If the balance sheet was showing discrepancies in the A/R and A/P along with not properly posting insufficient funds checks then the Cash Accounts were not accurate either. What was City Finance director doing? I hate to see what the income statements were like.

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