City of Freeport

SPECIAL COUNCIL MEETING MINUTES

April 22,2021 5:30 PM
Council Chambers, Freeport City Hall

Council Members Present: Mayor Russ Barley, Councilwoman Elizabeth Brannon, Councilman Eddie Farris, Councilman Mark Martin, Councilwoman Elizabeth Haffner

Council Member Absent: Councilwoman Green

Staff Members Present: City Manager Charlie Simmons, City Clerk Malani Robinson, City Attorney Clay Adkinson, Finance Officer Sara Bowers

1. Meeting Called to Order

The meeting was called to order at 5:30 PM by Mayor Barley in the Council Chambers of Freeport City Hall.

2. Marcum Audit

Mr.Ricardo Zayas and Mr.Bryan Fleming, representatives of Marcum Advisory and Consulting presented the Council a PowerPoint presentation to discuss the findings of the audit.

Initial Analyses and Interviews identified following concerns:

Inconsistencies in utility billing / write-off of utilities in 2014 dating from 2009 through 2011.

Billing "problems" related to water and sewer funds dating back to 2008.

Misuse of impact fees and grant funds (i.e. transfers from restricted funds to general funds).

Unauthorized expenditures made from restricted funds.

Misuse of City of Freeport credit cards.

Self-dealing by a former City Council member.

A 2016 qualified opinion by the independent auditor on the City of Freeport financial statements.

Anomalies in the accounting records including:

Unreconciled cash accounts

Omitted / unrecorded cash transactions.

DOCUMENTS CONSIDERED / PROCEDURES PERFORMED

Business Records of the City of Freeport including:

- Electronic Accounting records
- Financial Statements and Audit Reports relating to services provided by Carr, Riggs & Ingram, LLC ("Carr Riggs")
- Bank and Credit Card Account Records for selected accounts
- Selected supporting documentation relating to 2016 / 2017 reconciliation procedures

Interviews:

- City Councilwoman Elizabeth Hafner
- City Councilwoman Amanda Green
- City Councilwoman Elizabeth Brannon
- City Clerk Becky Podraza
- City Finance Officer Sara Bowers
- Mayor Russell Barley
- City Councilman "Boots" McCormick.

Workplan

Some concerns lacked specificity or were dated. We focused investigative efforts on:

- City of Freeport general ledger transactions for the period of 2014 through 2018.
- Adjustments to FYE September 30, 2016 cash accounts made by the City Accountant in 2017.
- Inspection of transactions within the Water and Sewer impact fee accounts.

- Adjusting entries to the City of Freeport accounting records relating to FYE's September 30, 2014, September 30, 2015, and September 30, 2016.
- Assessment of additions and deletions to Chart of Accounts.

FINDINGS FROM INSPECTION AND INTERVIEWS

Accounting Overview

The general ledger serves as a summary record of all financial transactions occurring within an entity.

Daily activity (i.e. collections and disbursements) are recorded in journals and "posted to" the general ledger by account codes. Account codes describe the nature of the transactions recorded in the journal.

The general ledger and trial balance report constitute the foundation from which the financial statements of the reporting entity (i.e. the City of Freeport) are prepared.

General ledger entries are customarily adjusted before finalizing the entity's financial statements. Adjustments are made by journal entries which may be necessary for:

- ► Correction of errors
- ► Recording of non-recurring entries (i.e. depreciation)
- ► Transfer of general ledger account balances

Journal entries can also be used to conceal improper activity, as such, inspection of journal entries is a routine test when performing a financial statement audit or forensic analysis.

Accounting Record Observations

Inspection of accounting records included those outlined below:

- Unexplained accounting adjustments in the "Impact Fee" accounts exceeding $1,200,000 (See slide 24).
- Unrecorded disbursements from USDA loan sinking fund accounts exceeding $1,000,000.
- Large number of general journal adjustments (over 700 for 2014 totaling more than $700,000, increasing to more than 1,000 general ledger journal entries totaling more than $9,000,000 for 2016).
- Carr Riggs issued "qualified" opinion for FYE September 30, 2016 due to inability to reconcile certain accounts and attest to general ledger opening balances. Multiple cash account transactions had not been contemporaneously recorded in the City of Freeport accounting records.

- Multiple general ledger account balances remained unchanged from one period to the next (i.e. failure to record fixed assets and related depreciation expenses). Potential violation of the State of Florida Department of Financial Services Bureau of Local Government.
- Conversely, more than 100 new general ledger accounts were established in the Chart of Accounts.
- Questionable use of the City of Freeport MasterCard including:
    - Purchases at retail outlets and elsewhere inconsistent with historic purchase patterns.
    - Use of a City of Freeport credit card assigned to a former employee more than twelve months after that employee resigned from the City of Freeport.

Sara Bowers

Sara Bowers, the current City of Freeport Finance Officer:

- Hired in fall of 2016 as Finance Officer for the City of Freeport
- Identified inaccuracies / inconsistencies in the accounting records including:
- Accounting records for FYE September 30, 2016 did not agree with corresponding bank account records.
- Not all receipts and disbursements transacted through the City bank accounts were recorded in the accounting records.

Sara Bowers- Corrective Measures

- Initiated corrective measures continuing into Spring 2017
- Entered corrections into the accounting records via journal entries
- Identified and corrected other inaccuracies / inconsistencies in the City accounting records pre-dating FYE September 30, 2016
- Updated the City of Freeport Chart of Accounts to comply with municipal accounting guidance issued by the State of Florida; and
- updated general ledger in 2018 to account depreciation and fixed assets

Carr Riggs Audits- Overview

Carr Riggs performed audits of the City of Freeport financial statements for FYE's 9/30/14, 9/30/15, 9/30/16 and 9/30/17.

Audit reports issued for FYE's 9/30/14, 9/30/15 and 9/30/17 presented unqualified / unmodified opinions, as follows:

- *In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Freeport, as of September 30, 2014, and the respective changes in financial position, and where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.*

The audit report on the 9/30/16 financial statements presented the following opinions, raising concerns of members of the City Council:

Summary of Opinions

Opinion Unity	*Type of Opinion*
Governmental Activities	*Unmodified*
Business-type Activities	*Unmodified*
General Fund	*Qualified*
Water Fund	*Unmodified*
Sewer Fund	*Unmodified*

Carr Riggs Qualified Opinion (Report Excerpts)

Basis for Qualified Opinion on the General Fund

- *In the process of reconciling bank accounts for the general fund during the year ended September 30, 2016, corrections were made for prior year and current year posting errors. Some of those adjustments could not be specifically identified as to the appropriate revenue and expenditure accounts or identified as to the proper fiscal year to which they applied. The effect of these adjustments on the financial statements could not be determined.*

Qualified Opinion

- *In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on the General Fund" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the general fund of the City of Freeport, Florida, as of September 30, 2016, and respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.*

Basis of Qualification (Report Excerpts)

- The "Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance". The "report" issued for the FYE September 30, 2016 identified both, "material" and "significant" deficiencies in the internal controls over financial reporting for the City of Freeport. The following table identifies areas where internal controls were deemed deficient.

Issue	Deficiency
"2016-01 Capital Assets" "City does not have a capital assets software package."	Significant
"2016-02 Audit Adjusting Journal Entries" "Adjustments had to be proposed to record unearned revenue and accounts payable"	Material
"2016-03 Budget to Actual Financial Reports" "No budget to actual reports are prepared for council meetings."	Significant
"2016-04 IT Controls" "Passwords on Banyon general ledger and UMS software system are not changed once issued."	Significant
"2016-05 Bank Reconciliations" "Bank reconciliations are not prepared on timely basis. Bank reconciliations of the year ended September 30, 2016 were not prepared until March 2017."	Material
"2016-06 Billing Reports" "Information from the Banyon UMS software system for utility billings and collections"…"did not match" …"Banyon…"	Material

The Clearing Accounts

- Deposits to the clearing accounts were to be allocated to either the Freeport Water account or North Bay, as appropriate. Clearing accounts are typically "$0" balance / pass-through accounts. Inspection identified disbursement transactions to City of Freeport Bank accounts to fund payroll obligations and checks to individual payees. This activity is unusual for a clearing account.
- General ledger detail identified 54 "return item" fees totaling $648 between October 2014 and September 2016. These "return item" fees indicate recurring overdrafts and are consistent with a failure to accurately record transactions in the City of Freeport accounting records.

Vendor Overpayments

- During 2015 and 2016 the City of Freeport made excess payments to HD Supply Waterworks ("HD Supply") totaling approximately $168,495. HD Supply reported these overpayments to the City of Freeport and returned funds.
- Payments to HD Supply were issued from the General Fund (PNB Acct. xxx94) and from the Sewer Impact Fees account with Trustmark (Acct xxx-xxx-0890).
- Payments to HD Supply arose from sewer repairs being performed during 2016. The Bowers' reconciliation working papers identify payments to other vendors from both the General Fund and the Sewer Impact Fees account.

Janice McLean

- McLean served on the City of Freeport City Council during 2015 and 2016. In July 2015 McLean assumed an active role in the City of Freeport accounting operations. This role continued through FYE September 30, 2016.
- As a City Council member, McLean was charged with legislative oversight responsibility for City affairs including fiscal activities. Simultaneous assumption of an active role in the City accounting operations may violate State of Florida statutes and accepted accounting controls. McLean's dual role was known to other City Council members.

Identified Payments to Janice McLean- McLean Drilling

Date	Check #	Payee	Amount	Account
01/08/15	6960	Janice McLean	(559.88)	People National Bank #31294
04/09/15	25221	Janice McLean	(184.15)	Peoples National Bank #31336
04/28/15	25287*	Janice McLean	(86.02)	Peoples National Bank #31336
05/19/15	7022	Janice McLean	(100.00)	People National Bank #31294
08/05/15	25391	Janice McLean	(125.49)	Peoples National Bank #31336
12/07/15	25844	Janice McLean	(174.39)	Peoples National Bank #31336
		Janice McLean Total	(1,229.93)	

09/09/15	25618	McLean's Well Drilling Service	(9,220.00)	Peoples National Bank #31336
09/16/15	25644	McLean's Well Drilling Service	(8,037.00)	Peoples National Bank #31336

		McLean's Well Drilling Service Total	(17,257.00)	

City of Freeport Mastercard

- The City of Freeport maintained several MasterCard credit card accounts during calendar years 2014, 2015, 2016 and 2017, as follows:

Account (last 4 digits)	Title	Period Maintained
9415	City of Freeport – Robin Haynes	Jan 2014 – Sept 2014
2633	City of Freeport – Robin Haynes	Oct 2014 – May 2015
2633	City of Freeport – Gary Mattison	June 2015 – Oct 2015
2872	City of Freeport – Gary Mattison	Nov 2015 – Dec 2015
2872	City of Freeport – Sidney R. Barley	Dec 2015 – Jan 2017
3482	City of Freeport – Sidney R. Barley	Feb 2017 – August 2017

Credit Card Observations

MasterCard statements identified $87,964 of charges from January 2014 to August 2017. The following additional observations were made:

- The City of Freeport maintained a single card which would be provided to employees upon request. A sign-out log identifying personnel using the credit card was not maintained.
- The City of Freeport credit card assigned to Robin Haynes reflected charge activity into May 2015, approximately one year after Robin Haynes resigned from her position in April 2014.
- Credit card charges were not uniformly supported by receipts or documentation evidencing items purchased and business purpose.
- Monthly credit card charges were not accurately and completely posted to the City of Freeport general ledger accounting system.

Our inspection identified purchases at retail outlets and elsewhere suggestive of personal use or inconsistent with historic purchase patterns.

General Ledger Account Changes

- As noted, Ms. Bowers determined the City of Freeport Chart of accounts did not comply with municipal accounting guidance issued by the State of Florida. Bowers updated the City of Freeport Chart of Accounts to comply with state guidance.
- Our research confirmed that the Florida Department of Financial Services issued a report titled "CHART OF ACCOUNTS – Final Report" in January 2014. The report recommended the "*...a uniform list of accounts for the reporting of assets, liabilities, equities, revenues, expenditures, and other sources and uses to the public.*" It applied to "reporting entities" within the State of Florida.
- Final regulations implementing provisions of this report were issued in July 2015.

Sewer Impact Fees

- The FYE September 30, 2016 journal entries included approximately $1,200,000 of adjustments to the Sewer Impact Fee account. Our analysis identified a $1.2 million variance from historic averages, as follows:

420-15400	Impact Fee Account	Increases	Decreases	Balance
2014		64,300.17	(49,405.05)	1,266,930.93
2015		693,634.71	(173,401.14)	1,787,164.50
2016		23,818.85	(1,228,170.96)	582,812.39
2017		1,384,565.87	(310,774.59)	1,656,603.67
2018		425,159.47	(98,642.36)	1,983,120.78
Total		2,591,479.07	(1,860,394.10)	7,276,632.27

Average 15, 17, 18				1,808,962.98
2016 Difference to Average				1,226,150.59

MARCUM ASSESSMENT

Audit Opinion- Marcum LLP Assessment

While serious, the qualified opinion was limited to the general fund and not deemed applicable to the other City funds. Carr Riggs also performed the audit of the City of Freeport financial statements for the FYE September 30, 2017 and issued the following "unmodified" opinion:

- *"In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-*

type activities, and each major fund of the City of Freeport, Florida, as of September 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America."

When the audit opinions for FYE's September 2015, 2016 and 2017 are read in chronological sequence several observations can be made including:

- The qualified opinion on the September 30, 2016 General Fund financial statements arose from an inability to ascertain the proper accounting for transactions (i.e. revenue and expenditures) occurring during FYE September 30, 2016.
- Carr Riggs did not qualify its opinion on the balance sheets (i.e. assets and liabilities) for any of the FYE September 30, 2016 audits suggesting that opening and ending account balances were fairly presented.
- Carr Riggs issued an "unmodified" opinion on its audit of the City of Freeport financial statements for the fiscal year ending September 30, 2017 including the General Fund. The "unmodified" opinion for FYE September 30, 2017 indicates factors leading to its "qualified" opinion on the General Fund for FYE September 30, 2016 were isolated to FYE September 30, 2016 and were addressed by FYE September 30, 2017.

Bowers Reconciliation- Marcum Assessment

Ms. Bowers' reconciliation process entailed the following steps:

- The reconciliation was performed for each bank account maintained by the City of Freeport during the FYE September 30, 2016. The reconciliation process continued into 2017.
- For each account, Ms. Bowers:
- Compared account balances recorded in the City of Freeport general ledger to respective bank account balances.
- Resolved variances between the general ledger and the bank statements by performing a "transaction by transaction" reconciliation which included inspection of cancelled checks where applicable.
- Adjustments (i.e. debits and credits) were aggregated by account and posted as a single journal entry for each bank account to the general ledger.

Ms. Bowers did not fully update disbursement records to reflect names of all payees / recipients of City funds. Prior year payments made by the City may be difficult to track to a specific payee.

The reconciliation files prepared and maintained by Ms. Bowers:

- Evidenced a thorough and detailed process to address and correct deficiencies / inaccuracies in the City of Freeport accounting records attributable to a failure to contemporaneously record cash transactions.
- Neither Ms. Bowers nor Marcum identified transactions which were deemed to be for personal use.
- Provided explanations for the nature and volume of the adjusting entries as accounting transactions were not recorded contemporaneously, but were summarized and entered as a single entry to account for financial activity over an extended time period (i.e. entire fiscal year).

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

Persons charged with responsibility for maintenance and oversight of the fiscal operations of the City of Freeport failed to perform their duties in an appropriate manner. Rudimentary internal control procedures were disregarded or not properly in place.

These failures included:

- Failure to contemporaneously record disbursements and other transactions occurring within City cash accounts leading to corollary failures to properly account for transactions and failure to reconcile cash account balances, contributing to the "qualified" opinion on the general fund for FYE 9/30/16.
- Identified overpayments to vendors totaling more than $168,000.
- Failure to properly record accumulated depreciation as required by Florida law.
- The reversal of CPA/auditor suggested adjustments to the general ledgers.
- The closing, subsequent reopening, and subsequent closing of various general ledger accounts, creating confusion in the general ledgers.
- Failure to adhere to controls regarding the authorization of disbursements. Janice McLean's dual role as an "accounting" department employee and City Council member with check signing authority, placed McLean in a position to account for and authorize disbursements, creating opportunities for misuse of City resources. Further, the fact that McLean signed a check, albeit in conjunction with Mayor Barley, that directly benefited a family member, is an internal control violation.
- Failure to exercise controls over City of Freeport credit card accounts. City personnel were permitted to use a credit card account issued in the name of

Robin Haynes for approximately 12 months after Haynes terminated her employment with the City.

Our inspection did not identify specific instances of misuse of municipal funds. However, the internal control failures listed above, exposed the City of Freeport to potential misuse and misappropriation of assets. These control failures were not exclusively within the purview of Janice McLean. Other City Council members, and the Mayor, knew or should have known of McLean's dual role, ostensibly in furtherance of City activities.

RECOMMENDATIONS

While our inspection did not identify specific instances of misuse, potential irregularities are not readily discoverable due to the extensive confusion in City accounting records. The City of Freeport should:

- Review internal control procedures to ascertain compliance with of the State of Florida requirements and other guidance. The Mayor and/or City Council must regularly review reconciliations of cash and related receivables and payables accounts.
- Ensure City employees are adequately trained in internal control procedures and appropriate segregation of duties / separation of processes is in place.
- Particular attention should be paid to transactions that are broken down into two amounts, such that they are may not be subjected to specific City Council scrutiny.
- Extensive or unusual adjustments to the ledgers should be discussed in advance with the City's auditors.

City of Freeport payment practices caused payments to be made to vendors from multiple bank accounts resulting in excess vendor payments as evidenced by the $168,000 of excess payments to HD Supply. Other vendors received payments from multiple accounts totaling more than $100,000. Knowledgeable City personnel should:

- Inspect a selection of these vendor accounts to assess the likelihood of further excess vendor payments.
- Inspect records of payments to recipients of City payments during FYE's September 30, 2015 and September 30, 2016 to assess whether the payments were made in furtherance of a City purpose.

- Inspect credit card purchases to assess whether the identified credit card purchases were made in furtherance of a City purpose.
- Inspect impact fee accounts in 2016, in line with our previous commentary.
- Implement accounting systems and procedures for capital assets. This was identified as a "significant" internal control deficiency in multiple audit reports issued by the Carr Riggs firm.
- Other matters requiring inquiry include:
    - Multiple account balances that did not change (i.e. no recorded activity) from 2014 through 2018. This list was provided to City of Freeport.

Councilmembers expressed their thanks for the presentation and for Marcum Advisory and Consulting's extensive work. The floor was opened for public comment.

4. Adjournment

Mayor Barley motioned to adjourn. The meeting adjourned at 6:40 PM.

Mayor

ATTEST:

City Clerk