ANGELA REYES, LLC
GOVERNMENTAL ACCOUNTING SERVICES

**MEMORANDUM**

**TO:** City Manager
**FROM:** Financial Consultant – Angela Reyes LLC

**DATE:** June 22, 2026
**SUBJECT:** Recommendation to Conduct a Forensic Audit of Financial Records and Cash Activity

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## Purpose

The purpose of this memorandum is to formally recommend that the City of Pahokee engage an independent forensic accounting firm to perform a forensic audit of the City's financial records.

This recommendation is based on financial conditions identified during the review of the City's accounting records, including the Annual Trial Balance, cash account activity, fund balances, and reconciliation concerns.

The purpose of the forensic audit is not to conclude wrongdoing; rather, it is necessary to determine the accuracy of financial records, identify the source of discrepancies, validate cash balances, and establish reliable financial information.

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## Background

During the review of the City's accounting records, several financial conditions were identified that require procedures beyond the scope of a traditional annual financial statement audit.

A financial statement audit provides an opinion on whether financial statements are materially presented. However, it does not reconstruct transactions, validate every cash movement, or determine the origin of historical discrepancies.

A forensic audit provides the transaction-level review necessary to determine what occurred, when it occurred, and what corrective actions are required.

### Difference Between an Annual Financial Audit and a Forensic Audit

Each year, the City is required to undergo an independent financial statement audit in accordance with governmental auditing standards. The purpose of the annual audit is to determine whether the City's financial statements are presented fairly, in all material respects, based on generally accepted accounting principles.

The annual audit provides reasonable assurance that the financial statements are materially accurate; however, it is not designed to examine every transaction, reconstruct accounting activity, or identify the cause of every discrepancy within the accounting records.

An annual financial audit generally focuses on:

- Reviewing financial statements;
- Testing selected transactions through sampling;
- Evaluating compliance with accounting standards;
- Reviewing significant account balances;
- Providing an independent audit opinion.

A forensic audit serves a different purpose.

A forensic audit is a detailed examination of financial records designed to trace transactions, investigate discrepancies, identify the source of financial inconsistencies, and determine whether errors, control failures, unauthorized activity, or other issues occurred.

A forensic audit goes beyond traditional audit procedures by reviewing transaction-level activity, including:

- Bank activity and reconciliations;
- Cash movement between accounts;
- Journal entries and adjustments;
- Supporting documentation;
- Vendor payments;
- Payroll activity;
- Approval and authorization processes;
- Historical account activity.

Unlike the annual audit, which determines whether financial statements are fairly presented overall, a forensic audit seeks to answer:

- What happened?
- When did it happen?
- Why did it happen?
- Who approved the transaction?
- Was the transaction properly recorded and supported?

During the financial review of the City's accounting records, certain balances and activity were identified that require this deeper level of review. Specifically, the review identified cash balances, investment activity, fund balances, and reconciliation concerns that cannot be fully validated through normal financial reporting procedures.

Therefore, a forensic audit is recommended to establish verified financial balances, identify the source of discrepancies, strengthen accountability, and provide management and the City Commission with reliable financial information moving forward.

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**Financial Conditions Supporting Forensic Audit**

**1.** Negative General Fund Operating Cash Balance

The Annual Trial Balance reflects:

**Account:** 1-101000
**Description:** Cash – General Fund Operating
**Balance:** ($48,070.65)

A negative cash position within the accounting records requires further investigation.

Cash balances should be fully supported by bank reconciliations and transaction history.

A forensic review is necessary to determine whether:

- Bank balances agree to accounting records;
- Deposits were completely and accurately recorded;
- Payments were properly posted;
- Transactions were recorded to the appropriate accounts;
- Adjusting entries were properly supported and approved.

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**2. Investment Cash Exists While Operating Cash Reflects a Deficit**

The Trial Balance reflects:

Investment Fund Cash**:** approximately $619,769

while the operating cash account reflects a negative balance.

The review did not identify sufficient documentation explaining the relationship between available investment cash and operating cash requirements.

The forensic audit should determine:

- Whether investment funds were transferred to operating accounts;
- Whether transfers were recorded correctly;
- Whether cash accounts were properly reconciled;
- Whether restricted funds were utilized appropriately.

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**3. Payroll Cash Account Requires Validation**

The Trial Balance reflects a significant balance within payroll cash accounts.

Payroll cash accounts are generally clearing accounts designed to process payroll activity.

A forensic review should determine:

- Whether payroll transactions cleared timely;
- Whether outstanding payroll items exist;
- Whether payroll liabilities match payroll records;
- Whether historical balances represent valid cash.

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**4. Cash Reconciliation Concerns**

The ability to accurately report financial position depends on the reconciliation of:

- Bank statements;
- Investment statements;
- Accounting records;
- Outstanding transactions.

Without fully reconciled cash, management cannot confirm:

- Actual available cash;
- Restricted cash balances;
- Fund balances;
- Financial reports provided to elected officials.

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**5. Historical Fund Balances Require Verification**

The Trial Balance includes accumulated fund balances resulting from multiple years of financial activity.

A forensic audit should validate:

- Beginning balances;
- Prior period adjustments;
- Closing entries;
- Transfers between funds;
- Journal entries impacting cash and equity.

The objective is to determine whether reported fund balances represent actual available resources.

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**Recommended Forensic Audit Scope**

The forensic audit should include:

1. Bank account reconstruction;
2. Cash-to-general ledger reconciliation;
3. Investment account tracing;
4. Review of transfers between accounts;
5. Review of all adjusting journal entries;
6. Payroll cash reconciliation;
7. Vendor payment testing;
8. Duplicate payment analysis;
9. Review of electronic payments and checks;
10. Verification of restricted cash balances.

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**Conclusion**

Based on the financial conditions identified during review of the Annual Trial Balance, a forensic audit is recommended.

The existence of negative operating cash balances, significant cash balances requiring validation, unresolved cash movement questions, and historical balances requiring support create a need for transaction-level review.

A forensic audit will provide management, the City Commission, auditors, and oversight agencies with an independent determination of the accuracy of the City's financial records and establish a reliable financial foundation moving forward.