

CITY OF FORT LAUDERDALE

OFFICE OF THE CITY AUDITOR

Review of the FY 2011 Proposed Budget

Report #09/10-06A

September 3, 2010



City Auditor's Office

Memorandum

No: 09/10-10

Date: September 3, 2010

To: Mayor John P. "Jack" Seiler
Vice-Mayor Bruce G. Roberts
Commissioner Charlotte E. Rodstrom
Commissioner Bobby B. DuBose
Commissioner Romney Rogers

From: John Herbst, CPA, CGFO
City Auditor

Re: *Review of the FY 2011 Proposed Budget*

Executive Summary

The City Auditor's Office (CAO) has performed a review of the FY 2011 Proposed Budget. All information included in this budget is compiled by the City Manager of the City of Fort Lauderdale pursuant to section 4.09 of the City Charter. The CAO's analysis consisted of staff inquiries, analytical procedures and review of documentation provided by management. We performed limited testing of the evidence provided, which supported staff replies.

The City Manager presented a budget guided by five key priorities: (1) No increase in the operating millage; (2) no increase in fire assessment fees; (3) maintaining adequate reserve funds; (4) no reductions in vital City services; and (5) no layoffs. While the proposed budget achieves these goals, it does so by relying heavily on the use of fund balance reserves. No observable effort was undertaken by management to right-size the organization to enhance operational efficiency and effectiveness. No functions were considered for outsourcing.

Our primary conclusion is that the budget as presented is balanced, revenue and expenditure estimates are reasonable and materially correct; and that the proposed millage is in compliance with Florida Statutes. However, the extensive use of fund balance without changes to the level of staffing or services has resulted in a budget that is not structurally balanced. It violates City budget policies that state:

General Guidelines

- Current, recurring revenues should equal current, on-going expenses.
- One-time revenues can be used to build up the undesignated fund balance or be used for truly one-time expenses without impacting service levels.
- Internal service funds are used by the City to provide services within the City organization. Charges to City departments should be set to cover all costs.

Fund Balance Levels

- Non-recurring revenues should not be used to balance the annual budget for recurring expenses.

While management's use of fund balance in order to balance the annual budget is clearly a violation of established policies, it may be argued that the City's present fund balance level exceeds the targets established by the Commission and therefore should be reduced. Any reduction should be first targeted towards non-recurring items, such as capital improvement needs or paying down the large unfunded liabilities for pensions and other post-employment benefits (OPEB). However, if the Commission makes a determination that the use of fund balance in order to balance the annual operating budget is in the best interests of the City, that step should only be undertaken concurrent with an analysis of future years' revenues, expenditures, and likely shortfalls.

Management has not presented the five-year financial forecast previously requested by the Commission. Without a forward-looking forecast, it is impossible to determine whether the pace of drawdown of fund balance is reasonable. There are a number of economic indicators, such as record unemployment, continued high rates of foreclosure and short-sales, and potential for a double-dip recession, that seem to demonstrate that the overall economic outlook remains "unusually uncertain". A best-case scenario would be flat revenues and increasing costs for the next 2-3 years. Another likely scenario could be decreasing revenues and increasing costs. In either case, without structural changes in the size and scope of government, continued reliance on fund balance is inevitable.

According to the City Manager's Budget Presentation of July 7, 2010, it is projected that the City will have \$57,359,996 in unreserved fund balance at the end of the current fiscal year. The required 15% of operating expenses to be kept in fund balance is \$41,342,100. This leaves excess fund balance of \$16,017,896. The budget proposes to spend \$13,127,991 of that amount. That represents **81%** of the available fund balance being spent in one year. And none of that is targeted toward one-time expenses in accordance with established policy.

Should the Commission decide to utilize fund balance for recurring expenditures, our recommendation is that the excess fund balance be drawn down in a staggered manner so that funds can be available to balance the next two years budgets. Done in conjunction with a strategic reduction in the size of the City government, as recommended by the Budget Advisory Board, structural balance can be achieved over time without drastic impact on services, residents, or employees. For example, funds may be allocated as follows: \$6,000,000 for FY 2011; \$4,000,000 for FY 2012; and \$3,000,000 for FY 2013.

Additionally, to partially achieve the 5% cost reduction target established by the Commission at the last meeting, Office of Management and Budget (OMB) is proposing to eliminate the internal replacement charges paid to Fleet from the operating departments. However, Fleet has not cancelled purchases of new vehicles. As such, this is not a cost reduction initiative, but instead merely shifts the spending of reserves from the General Fund to the Fleet Fund. Failing to recover internal service charge expenses is a violation of City budgetary policies, and fails to follow the Commission's directive of cutting actual costs by 5%.

As such, the CAO believes that tough choices with regard to organizational structure, the type and extent of service levels, and the methods for delivering those services still remain.

Objectives

The primary focus of our review was to ensure that the budget is balanced; revenue and expenditure estimates are reasonable and materially correct; and that the proposed millage is in compliance with Florida Statutes. We did not attempt to identify operational areas where additional cost savings might be achieved.

Scope

The CAO analyzed the City Manager's Proposed Budget for FY 2011 as presented to the City Commission at the July 7, 2010 meeting. The material reviewed included the Budget Message, Executive Summary including supporting tables and schedules as well as revenue and expenditure detail reports from the City's budget preparation system (BPREP).

Methodology

We performed various analytical procedures, reviewed budget support worksheets and made inquiries of the OMB, the Finance Department, and individual department budget coordinators. Additionally, we compared the line item revenue and expenditure detail from the Proposed Budget to the June estimate of actual expenditures through 9/30/10. Furthermore, we analyzed the variances of the three prior fiscal years budget vs. actual to gain an historical perspective and identify opportunities to improve the accuracy of revenue and expenditure estimates.

Observation #1

The CAO reviewed the 5/20/2010 payroll projection and found that 54 vacant positions are funded in the FY 2011 proposed budget totaling approximately \$3,000,000 of which 17 positions and approximately \$1,100,000 are in the general fund. As part of our analysis we excluded the following positions: (1) those which are offset by temporary employees; and (2) positions that have been hired or eliminated subsequent to the payroll projection (**See Attachment A**).

Observation #2

The general fund revenues include \$900,000 in vehicle sale proceeds from the sale of fleet vehicles. These proceeds are being diverted from the Fleet fund to the General Fund for a second year in a row. Additionally, the CAO noted that the fleet vehicle replacement interdepartmental charges shown in the City Manager's proposed budget from the July 7th meeting have since been eliminated from the FY 2011 budget. During the review of the City's fleet expenditures, the CAO discovered that the prior year Fleet Plan (FY 2009-2010) included an incorrect fleet fund balance amount, indicating an approximate \$12,000,000 variance from actual. When drafting the proposed FY 2010-2011 Fleet Plan, accurate fund balance levels were obtained from the Finance Department and included in the revised Plan.

Observation #3

The CAO observed that there seems to be a general lack of communication among departments in drafting the proposed budget. This was evidenced in two particular areas: (1) Departments were unaware of certain reductions made to their budgets by management and the OMB after budgets were submitted to the Budget office; (2) Vehicle replacement charges were not removed from all department budgets in accordance with the proposed elimination of this Citywide expenditure.

Observation #4

The CAO observed that there is no provision for revenues from the sale of surplus properties. During budget hearings last year, the Commission directed management to move forward with the divestiture of surplus properties. That process has not been completed.

**FY 2011 Funded Vacancies
Attachment A**

#	Department	Position #	Position Title	Employee Vacancy Total	Fund	OMB Comments
1	EDV	CR02	Admin Asst I	\$ 66,354	001 Gen	Vacant
2	FIN	M035	Treasurer	\$ 95,456	001 Gen	Vacant
3	FIN	M055	Sr Cust Srv Rep	\$ 50,529	001 Gen	To be Filled ▲
4	FIR	F167	Battalion Chief	\$ 96,619	001 Gen	Vacant
5	FIR	F266	Paramedic/Firefighter	\$ 59,400	001 Gen	To be Filled ▲
6	FIR	F332	Paramedic/Firefighter	\$ 59,400	001 Gen	To be Filled ▲
7	FIR	F447	Paramedic/Firefighter	\$ 59,400	001 Gen	To be Filled ▲
8	MGR	P883	Secretary I	\$ 43,675	001 Gen	Vacant
9	OMB	M077	Deputy Director OMB	\$ 105,851	001 Gen	Vacant
10	OMB	C036	Financial Mgt Analyst	\$ 71,187	001 Gen	To be Filled ▲
11	OMB	C084	Financial Mgt Analyst	\$ 71,187	001 Gen	Vacant
12	POL	P1044	NNYC (Police Aide III)	\$ 52,856	001 Gen	Offsetting PXX08 (Vacant)◇
13	POL	P601	Police Sgt.	\$ 88,650	001 Gen	To be Filled ▲
14	POL	P995	Public Safety Aide	\$ 43,675	001 Gen	To be Filled ▲
15	POL	P360	Police Officer	\$ 67,775	001 Gen	To be Filled ▲
16	POL	P633	Latent Fingerprint Examiner	\$ 60,037	001 Gen	To be Filled ▲
17	PUB	C076	Sr Public Information Spec	\$ 79,047	001 Gen	Vacant
			Sub-Total	\$ 1,171,098		
18	EDV	CR12	Comm Redv Agcy P&D Mgr	\$ 78,987	106 CRA	Vacant
			Sub-Total	\$ 78,987		
19	PBS	U710	Municipal Maint Wkr III	\$ 45,494	409 Sanitation	Vacant
			Sub-Total	\$ 45,494		
20	PBS	U415	Geo Info System Tech	\$ 53,901	450 Water & Sewer	Vacant
21	PBS	U041	Service Clerk	\$ 43,675	450 Water & Sewer	Vacant
22	PBS	U081	Utility Serv Wkr	\$ 38,863	450 Water & Sewer	Vacant
23	PBS	U092	Customer Serv Field Rep	\$ 48,550	450 Water & Sewer	Vacant
24	PBS	U198	Customer Serv Field Rep	\$ 48,550	450 Water & Sewer	To be Filled ▲
25	PBS	U005	Secretary I	\$ 43,675	450 Water & Sewer	To be Filled ▲
26	PBS	U578	Engineering Tech II	\$ 58,666	450 Water & Sewer	Vacant
27	PBS	U429	Utility Serv Wkr	\$ 38,863	450 Water & Sewer	Vacant
28	PBS	U712	Utility Serv Wkr III	\$ 46,573	450 Water & Sewer	Vacant
29	PBS	U058	Utility Serv Wkr	\$ 38,863	450 Water & Sewer	Vacant
30	PBS	U200	Utility Serv Wkr	\$ 38,863	450 Water & Sewer	Vacant
31	PBS	U201	Utility Serv Wkr	\$ 38,863	450 Water & Sewer	Vacant
32	PBS	U199	Utility Serv Wkr	\$ 38,863	450 Water & Sewer	Vacant
33	PBS	U090	Utility Serv Wkr III	\$ 46,573	450 Water & Sewer	Vacant
34	PBS	U214	Utility Serv Wkr III	\$ 46,573	450 Water & Sewer	Vacant
35	PBS	U235	Utility Serv Wkr IV	\$ 49,428	450 Water & Sewer	Vacant
36	PBS	U306	Dist & Collection Supv	\$ 74,199	450 Water & Sewer	Vacant
37	PBS	U907	Utilities Mechanic I	\$ 50,529	450 Water & Sewer	To be Filled ▲
38	PBS	U908	Utilities Mechanic I	\$ 50,529	450 Water & Sewer	To be Filled ▲
39	PBS	U330	Electronics/Instrument Tech	\$ 51,607	450 Water & Sewer	Vacant
40	PBS	U332	Process Control Engineer	\$ 84,179	450 Water & Sewer	To be Filled ▲
41	PBS	U172	Municipal Mnt Wkr II	\$ 41,133	450 Water & Sewer	To be Filled ▲
42	PBS	U182	Wtr Treatment Plant Oper II	\$ 52,777	450 Water & Sewer	To be Filled ▲
			Sub-Total	\$ 1,124,295		
43	PBS	U266	Utility Mechanic II	\$ 55,025	451 Regional W/W	To be Filled ▲
44	PBS	U275	W/W Tmntt Plant Oper Trainee	\$ 46,573	451 Regional W/W	To be Filled ▲
			Sub-Total	\$ 101,598		
45	PAR	A189	Office Supervisor	\$ 61,140	461 Parking Systems	To be Filled ▲
46	PAR	A181	Asst Parking Svs Mgr	\$ 82,397	461 Parking Systems	Vacant
47	PAR	A297	Municipal Mnt Wkr II	\$ 41,133	461 Parking Systems	To be Filled ▲
48	PAR	A048	Security Guard II	\$ 40,437	461 Parking Systems	To be Filled ▲
49	PAR	P1019	Pkng Enforcement Spec	\$ 41,988	461 Parking Systems	To be Filled ▲

**FY 2011 Funded Vacancies
Attachment A**

50	PAR	P1021	Pkng Enforcement Spec	\$ 41,988	461 Parking Systems	Vacant
51	PAR	P1029	Pkng Enforcement Spec	\$ 41,988	461 Parking Systems	To be Filled ▲
			Sub-Total	\$ 351,071		Vacant
52	BUS	E040	Asst Airport Mgr	\$ 77,368	468 Airport	Vacant
53	BUS	E131	Airport Operations Aide	\$ 50,529	468 Airport	Vacant
			Sub-Total	\$ 127,897		
54	PBS	U236	Utility Srvc Wkr III	\$ 46,573	470 Stormwater	Vacant
			Sub-Total	\$ 46,573		
			Grand Total	\$ 3,047,013		

Key:

◇ - Offsets: Refer to Human Resources for employee start dates; see Current Year Payroll Projection for actual salary

● - Contact Human Resources for employee salary information

▲ - Identified as a critical position by the Dept, City Commission has been notified via memo & the position is in the process of being filled

* The above information was provided to the CAO by the Office of Management and Budget.