

CITY OF FORT LAUDERDALE

OFFICE OF THE CITY AUDITOR

Review of the Proposed Budget for Fiscal Year 2014/2015
Report #13/14-03

August 20, 2014



CITY OF
FORT LAUDERDALE

City Auditor's Office

Memorandum

Memorandum No: 13/14-07

Date: August 20, 2014

To: Honorable Mayor and Commissioners

From: John Herbst, CPA, CGFO, CGMA
City Auditor

Re: Review of the Proposed Budget for Fiscal Year 2014/2015

The City Auditor's Office (CAO) has performed a review of the FY 2014/2015 Proposed Budget. The budget is compiled by the City Manager of the City of Fort Lauderdale, pursuant to section 4.09 of the City Charter. Our evaluation consisted of staff inquiries, analytical procedures, review of documentation provided by management, and limited testing of the evidence provided to substantiate staff's assertions.

The CAO further examined items of interest identified by the City Commission and Budget Advisory Board (BAB), and considered other issues that may have a significant impact on the City going forward.

We would like to recognize the continuing efforts of the Budget Office to improve the quality and transparency of the budget preparation process. In particular, the Revenue Estimating Committee provided significant value through their extensive review of the various revenue sources. Additionally, the assignment of a point person and open communication with the budget team facilitated our review, such that the items noted during our fieldwork were discussed and incorporated into the budget during the review process.

As part of our audit work, we attended all of the Revenue Estimating Committee meetings, as well as the individual department budget presentations with the BAB. This participation provided further insight into potential future operating conditions and budget requests. By coordinating with staff during the preparation of the budget, rather than after its presentation to the City Commission, we were able to implement a continuous audit approach. This resulted in a deeper understanding of the departmental budget requests and service level enhancements.

Additionally, as this was the second year for the Revenue Estimating Committee, committee members had a greater understanding of the respective revenue sources. This resulted in revenue estimates that were more thoroughly vetted. However, as an evolving process, there is still room for additional improvements in the determination of those revenues and supporting documentation.

Conclusion

After all changes have been incorporated, we believe the City has a budget that is balanced, that all known and determinable revenues and expenditures are reasonable, and materially correct, and that the proposed millage is in compliance with Florida Statutes.

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

We analyzed the City Manager's Proposed Budget for FY 2014/2015 as presented to the City Commission. The material reviewed included the Budget Message, Executive Summary including supporting tables and schedules, Financial Forecast, 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 Budget Office, Finance Department, and individual department budget coordinators. Additionally, we compared the line item detail from the Proposed Budget to the projections of actual expenditures through 9/30/14. Furthermore, we analyzed trends and variances of the three prior fiscal years' budget vs. actual to gain a historical perspective to identify opportunities to improve the accuracy of revenue and expenditure estimates. Lastly, we reviewed the Revenue Estimating Committee documentation, attended all meetings of the committee, and of the individual department budget presentations to better understand and identify the methodology in the calculation of the budget estimates.

OBSERVATIONS:

In the current year, as a result of the coordinated effort between our office and the budget staff to address all areas of concern in a timely fashion, most of our observations have been incorporated in the Changes to the FY 2014/2015 Proposed Budget document, **Exhibit A**. In addition, please see **Exhibit B** for some of the more significant adjustments affecting the current year budget and their impact.

We would like to thank the Budget Office and all city personnel involved for their cooperation and assistance in completing the budget review.

cc: Lee R. Feldman, City Manager
Cynthia A. Everett, City Attorney
Jonda Joseph, City Clerk
Stanley Hawthorne, Assistant City Manager
Susanne Torriente, Assistant City Manager
Emilie Smith, Budget Manager

CHANGES TO FY 2015 PROPOSED BUDGET - GENERAL FUND
Since Proposed Budget on July 1, 2014

FY 2015 Proposed Revenue		FY 2015 Proposed Expenditures	
	\$ 293,806,561		\$ 293,765,001
Revenues & Other Sources Adjusted Since Proposed Budget		Expenditures & Other Uses Adjusted Since Proposed Budget	
General Fund 001.01			
Ad Valorem Taxes	592,023	Increased transfer to CRA for TIF transfer based on 95% Transfer to Community Redevelopment Agency (CRA)	83,921
Increase in Taxable Value from 6.16% to 6.85%			
Half Cent Sales Tax	365,606	Increase for Additional Project Funding for Self Contained Breathing Apparatus (SCBA)	412,267
Local Government Half-cent Sales Tax Program posted 7/1/2014		Funding for Fire-Rescue Department	
Local Option Fuel Taxes	103,268	Increase transfer due to increased Local Option Gas Taxes	94,354
Local Option Fuel Taxes posted 7/1/2014		Transfer to Gas Tax Fund	
Municipal Revenue Sharing	150,335	Increase In Litigation Services - 2 New Positions - 1 Litigation Attorney and 1 Paralegal	228,457
Municipal Revenue Sharing Program posted 7/1/2014		Funding for City Attorney's Office	
Communications Services Tax	166,122	Increase for a new part-time Legal Assistant position	30,000
Communications Services Tax as of 7/15/2014		Funding for City Attorney's Office	
City Attorney Litigation Services	228,457	Increase in Certification and Training	28,450
Risk Litigation services paid to General Fund		Funding for City Attorney's Office	
Airport Payment In Lieu of Taxes (P.I.L.O.T.)	4,785	Decrease in Personal Services	(14,000)
Increased Airport P.I.L.O.T. paid to the City		Funding for City Manager's Office	
Cemetery Payment In Lieu of Taxes (P.I.L.O.T.)	(19,448)	Increase in Citywide Classification Study	100,000
Per Auditor Recommendation Removed Cemetery		Funding for Human Resources Department	
Sanitation Franchise Fees	115,000	Increase Funding for ISO 9001 Certification	100,000
Increased Sanitation Franchise Fees due to new Public		Funding for Human Resources Department	
FPL Franchise Fees	1,250,000	Increase for Citywide Training & Organizational Development	300,000
Per Auditor Recommendation increase revenues based on current trends		Funding for Human Resources Department	
Business Tax Revenue	200,000	Increase in the Local Option Fuel Taxes transfer for TMA 17.8% of 5th Cent Total	8,914
Per Auditor Recommendation increase revenues based on current trends		Funding for Transportation and Mobility Department	
Procurement Card (P-Card) Revenue	119,000	Increase in Operational Subsidies - TMA Water Circulator	150,000
Increase due to new contract and higher rebate		Funding for Transportation and Mobility Department	
		Increase in Other Professional Services	100,000
		Funding for Transportation and Mobility Department	
		Increase in Other Equipment - Portable Message Boards	57,000
		Funding for Police Department	
		Decrease Duplicate Debt Payment	(392,570)
		Per Auditor Recommendation	
		Funding for Special Obligation Debt	
		Increase for 5 new positions - Teletype Operators	275,985
		Funding for Police Department	
		Increase transfer to Sanitation Fund due to new revenue & expenses related to Public Spaces contract	1,235,039
		Transfer to Sanitation Fund	
		Increase transfer to Community Investment Plan (CIP) to fund BCIP/NCIP programs	496,000
		Transfer to General Capital Projects Fund	
		Increase in expenses due to an allocation for a new Deputy Director position	22,891
		Funding for Public Works Department	
TOTAL REVENUE ADJUSTMENTS	\$ 3,275,148	TOTAL EXPENDITURE ADJUSTMENTS	\$ 3,316,708
TOTAL FY 2015 GENERAL FUND REVENUES	\$ 297,081,709	TOTAL FY 2015 GENERAL FUND EXPENDITURES	\$ 297,081,709

FY2014/2015 Budget Review Observations

1. \$2,275,814 overstated service charge (4370) to fund 450 "Water and Sewer Fund"
 - Cause – Impact of change in methodology for allocating cost not followed through completely. Treasury salary expense was changed to a direct charge to fund 450 versus an allocation expense as in prior budget years. The allocation was not removed.
 - OMB agreed that this service charge needs to be removed
 - Impact to General Fund – There was no financial impact to the General Fund since the General Fund revenue side of the service charges was not budgeted

2. Unequal transfers-in and transfers-out
 - \$392,570 overcharge to fund 001 "General Fund" for transfer to fund 243 "Special Obligation Loans Fund"
 - Cause – System of checks and balances not applied: Transfer – out of fund 001 to fund 243, \$3,412,065; Transfer – in to fund 243 from fund 001, \$3,018,920
 - OMB states that the correct amount of the transfer is \$3,019,495
 - Impact to General Fund – Correction will provide additional funds of \$392,570
 - The transfer into fund 237 "Special Obligation Bonds" from the General Fund is reflected as \$26,361,882. Based upon the transfers-out, it should be \$20,948,936. The balance of \$5,412,946 is reflected as transfers-out in funds as follows: 106.01, 106.02, 104, 140, 409, 450, 451, 461, 468, 470, 543, 581, and 583
 - Cause – System of checks and balances not applied
 - OMB agreed and made corrections expeditiously
 - Impact to General Fund – There was no financial impact to the General Fund since the transfer-out side was budgeted in the appropriate funds.
 - One sided transfer budget as follows:
 - Cause - \$1,352,273 transfer-in fund 470 (Q472) "Stormwater" from fund 472 "Stormwater Special Assessments" but no transfer-out (9470). Should have been an intra-fund versus an inter-fund transfer.
 - OMB agreed to remove the transfer-in
 - Impact to General Fund – There was no financial impact to the General Fund

3. Overstated service charges to fund 106.02 “Northwest Progresso CRA Fund” are as follows:
 - Cause - Duplication of service charges \$432,474 (Fund 106.02 \$391,737 “Transfer-out” (9001) to Fund 001 and \$40,737 Overhead-intradept (4306)). This resulted from a change in the method used to allocate employee costs from a transfer to a service charge, but overlooked removing the transfer method.
 - OMB agreed to correct.
 - Impact to General Fund – There was no financial impact to the General Fund since the General Fund side of the transfer was not budgeted and the overhead was intradepartmental

4. Inappropriate methodology used to arrive at Return on Investment (ROI) rate applied to Enterprise Funds for the benefit of the General Fund.
 - Cause - Return on Investment calculations are being based upon the determination of the amount of revenue needed to be recouped from the enterprise funds to the general fund. That runs counter to the concept of ROI and creates a scenario where the fees established to fund the enterprise funds activity cease to reflect the actual cost of the service. ROI should be set at a level that reflects the rate of return that an investor would expect on a risk adjusted basis for the assets being used in those operations.
 - OMB agreed to revisit the method for the next budget year.
 - Impact to General Fund – Indeterminable

5. No budget presented for the Wave Special Assessment project.
 - Cause - The Wave Project is not a capital asset of the City. The assessment and contribution payment is currently accounted for in a capital projects fund. Based upon the type of activity, it should be accounted for and budgeted in a special revenue fund.

History: Broward County is the owner of the project. The City is responsible for paying a Cash Amount (may include cash, land, in-kind contributions, etc.) in the amount of \$10,500,000. The City is also responsible for the collection of a special assessment for the benefit of the Downtown Development Authority “DDA” for repayment of the loan used to construct the WAVE project.

- OMB agrees and facilitated the creation of a new special revenue fund for the assessment with budgeted FY 2014/2015 revenue and expenditures in the amount of \$1,919,964. The expenditures include the payment of \$1,829,963.55 to the DDA to be used for future loan debt service
 - Impact to General Fund – There was no financial impact to the General Fund
6. Overhead Allocation is overstated \$417,350, (G202) to fund 583 “Fleet Rental”
- Cause –It was noted that the Budget Division completed a detailed allocation of overhead with a new method totaling \$1,749,555 to various departments, but an amount totaling \$2,166,905 was in the Fleet Rental fund. The approximately \$2MM was calculated with an older method and was not updated for the Fleet Rental Fund, 583.
 - OMB agreed that the amount calculated with the new method needs to be updated and Fund 583 needs to be reduced to \$1,749,555.
 - Impact to General Fund – There was no financial impact to the General Fund since the other side of the transaction, relating to the General Fund, was done correctly.
7. The City does not have uniform methodology to calculate the budget for the “Earn - Pool Investment” (Revenue N103).
- The General Fund utilized the General Fund Interest Earning Assumptions provided by Burton & Associates.
 - Per conversations with OMB coordinators and the Finance Department, each department performs its own budget projections based on historical trends, current fund balance, and an estimated interest rate.
 - CAO recommend that the OMB perform the Earn – Pool Investment (Revenue N103) on a city-wide basis utilizing a uniform method, and projecting earning allocations into the individual departments.
8. The Budget Office, working in conjunction with the City Auditor’s Office, arrived at an agreed upon conservative estimate for Electric Franchise Fee revenue, which is \$1,250,000 higher than originally proposed.
- Cause – revenues have been consistently lower each year for the last few years, but have risen for FY 2013/2014 by over 8%.
 - OMB agreed to revise the \$14,750,000 proposed amount to \$16,000,000
 - Impact to General Fund – Increase to General Fund by \$1,250,000

9. Understatement of FY 2013/2014 fund balance carry-forward projection for dental expense in the Health Insurance Fund (545) by \$1,175,000 as a result of the expenses also being projected in the Self Insurance Fund (543) at the same time.
 - Cause – Commencing in FY 2014/2015, dental expenses will be reflected in the Health Insurance Fund (545), but these expenses were to remain in the Self Insurance Fund (543) for the current FY 2013/2014 budget year.
 - OMB agreed to the adjustment
 - Impact to General Fund – Fund 545, based upon the FY 2014/2015 proposed revenue, expenses and revised estimated FYE 2014 Fund Balance should have adequate funds to eliminate the proposed need to borrow \$328,449 from the General Fund to balance the budget. Note: This borrowing was strictly a balance sheet advance.

10. When budgeting funds that are based upon uncertain revenue sources (Police Confiscation Funds), every effort should be made to lean to the side of conservatism. At the same time, if the City has contracts/agreements (School Resource Officer Program) that help solidify the likelihood of receipt, then those revenues should be budgeted.
 - Cause – There are inconsistencies in the method used to budget revenues as shown in Fund 104 “Police Confiscation Fund” and Fund 107 “Drug Enforcement Agency Confiscation Fund”. Fund 104 reflects budgets for revenues that are only speculative in nature. Fund 107 shows no revenue budgets even though there are certain revenue sources, such as School Resource Officer Program that are likely to be received.
 - OMB in conjunction with the Police Department has revised the budget to include revenues with a high level of certainty of collections for Fund 107 “Drug Enforcement Agency Confiscation Fund”. Furthermore, OMB has removed several revenue items with uncertain possibility of collections for Fund 104 “Police Confiscation Fund”.
 - Impact to General Fund – There is no immediate impact to the General Fund.

11. The inter-fund revenues are not reconciled with inter-fund expenditures. CAO noted an increased allocation of revenue and expenditure in the City’s budgetary inter-fund activities between the departments and within the departments. While most of the inter-fund revenues are reconciled with inter-fund expenditures, CAO noted several budgetary variances between inter-fund revenue and inter-fund expenditure totaling \$499,389 in absolute value.

- Cause - Under current City budgetary process, inter-fund revenue & expenditure are budgeted on each department level. For example, the Printing Shop budgets its printing revenue charged to other departments based on its own estimate, prior year budget, trend, or current year projections. Each user department formulates its printing expenditure budget on their own. While OMB was aware of those variances, the Office was not able to reconcile and eliminate the variances through communication or negotiations among the departments.
 - Impact to General Fund – There is only minor impact to the General Fund.
 - CAO recommend that the OMB perform or reconcile the inter-fund revenue & inter-fund expenditure on city-wide basis that are equitable to all departments.
12. Inadequate basis or rationale for the Vehicle Rental Fund Vehicle Replacement Reserve balance.
- Cause – The amount being allocated for vehicle replacement reserves is based upon two things; the recouping of the vehicle capital cost over its estimated useful life and 3% annually of the original capitalized cost after the vehicle capital cost is recouped. This method does not associate the amount of reserve life-to-date set aside for each vehicle to the total fund reserve. Hence, the reserve is not being reconciled.
 - This was communicated to OMB and this process improvement will be effective for FY2015/2016.
 - Impact to General Fund – If the Vehicle Rental Fund does not have adequate vehicle replacement reserves as a result of an inadequate reserve method, the vehicle purchases applicable to the General Fund may need to be funded partially by the General Fund to offset any shortfall within the Vehicle Rental Fund.