



April 10, 2007

To: Mayor Jim Naugle  
Vice-Mayor Cindi Hutchinson  
Commissioner Christine Teel  
Commissioner Charlotte E. Rodstrom  
Commissioner Carlton B. Moore

Re: A review of the budget process for the Fiscal Year 2006-2007 Operating Budget  
Report #06/07-1

Attached is Report #06/07-1. This report summarizes our review of established practices, procedures and internal controls over the budget process and assesses the projections of material revenues and expenditures in the FY06/07 Annual Operating Budget. The review was performed pursuant to the City Auditor's authority set forth in Section 4.14 of the City Charter.

We acknowledge the efforts made by the Director of the Office of Management and Budget, as well as Budget Division staff, in working toward improving the financial stability of the City of Fort Lauderdale. The City has embraced sound best practices in the establishment of a fully funded reserve and in eliminating the deficit in the Self-Insurance Fund. These measures have helped the City improve its standing in the eyes of the investment community, resulting in an upgrade in the debt rating and reduction in future interest costs.

As a follow-up to our recommendations, we ask that the Director of the Office of Management and Budget provide a status report to the City Auditor's Office in six months, detailing steps taken to address the report's recommendations.

In a separate memo to the City Manager, we have listed several items that we noted during the course of our review. While these items were minor in nature, we believe that they represent additional refinements that can be implemented by the Office of Management and Budget to further enhance the quality of the budget.

We further wish to acknowledge the cooperation and assistance we received from staff in many City departments in the course of our review.

Respectfully submitted,

*John Herbst*

John C. Herbst, CPA, CGFO  
City Auditor

## **EXECUTIVE SUMMARY**

This report summarizes the results of our review of established practices, procedures and internal controls over the budget process and assesses the projections of material revenues and expenditures in the Fiscal Year 2006-2007 Annual Operating Budget of the City of Fort Lauderdale.

Statement on Auditing Standards No. 112, *Communicating Internal Control Related Matters Identified in an Audit*, requires the auditor to communicate control deficiencies that are *significant deficiencies* or *material weaknesses* in internal control.

- A significant deficiency is a control or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.
- A material weakness is a significant deficiency, or a combination of control deficiencies, that results in a more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

Our review disclosed one finding, 2.1/3.1, that we consider to be a significant deficiency. We did not note any material weaknesses. Our overall conclusion is that the Office of Management and Budget, Budget and Research Division has not developed sufficient internal controls to ensure the reliability of budget estimates and needs to improve its documentation of procedures, reviews and management oversight.

Additional procedures that should be implemented by OMB to enhance the control environment for the development and adoption of the annual operating budget include the following:

- ❖ Continue development of a comprehensive set of written procedures for the preparation and adoption of the annual operating budget.
- ❖ Complete the Revenue Manual for all major revenues and independently verify the information for revenues currently included in the manual.
- ❖ Establish effective position control by verifying/reconciling the number of new authorized positions from the adopted budget to the Cyborg payroll system at the beginning of each new fiscal year.
- ❖ The Finance Department should develop a written procedure to test compliance with the debt policy and the results of the testing should be communicated to OMB.

- ❖ Establish a procedure to provide a comprehensive review and balancing of all postings to the budget preparation system (BPREP) and annually review all funds/sub funds to determine whether they should be included in the annual operating budget.
- ❖ Establish a procedure to review and approve departmental revenue projection methodology for reasonableness and the revenue estimates for accuracy.
- ❖ Determine the costs and benefits of software enhancements to increase the accuracy of the payroll projection.

### **STATEMENT OF OBJECTIVES**

1. To evaluate internal controls over the preparation of the annual operating budget.
2. To determine if all funds/sub-funds from the FY06/07 Proposed Budget are balanced such that revenues/other sources equal expenditures/other uses.
3. To determine if the FY06/07 Proposed Budget includes all the appropriate funds/subfunds.
4. To determine if all major revenues and expenditures are included and accurately projected.
5. To determine if all amounts in the FY06/07 Proposed Budget Executive Summary
  - are consistently presented throughout the document and tie to the detail in supporting documentation, and
  - are accurately reflected in the final published annual operating budget.
6. To determine if the FY06/07 Annual Operating Budget complies with the Government Finance Officers Association's (GFOA) requirements for the Distinguished Budget Presentation Award.

### **BACKGROUND**

The budget process is the primary tool for articulating and conveying the priorities of the City Commission. It involves the allocation of scarce resources among competing demands. The budget process has a number of different components: operating budget, capital budget, tax policy, debt management practices, revenue and expenditure projections, and inflation estimates. The line item budget for a local government is more than a financial plan, as it provides legal authority to incur expenditures up to the appropriated amount.

The City of Fort Lauderdale (City) adopts an annual budget following two public hearings held in September of each year. The legal authority for the budget and associated millage levy is contained in Chapters 166 and 200 of Florida Statutes, Article IX of the City Charter, and Section 2 of the Municipal Code. The adopted budget is integrated into the accounting system on October 1 of each fiscal year to establish budgetary control over expenditures and provide a mechanism to monitor the receipt of budgeted revenues.

The Office of Management and Budget (OMB) prepares the budget based on information provided by the various operating departments. The staff in OMB's Budget and Research Division provides direction to departmental budget coordinators during the development of the annual budget and monitors the budget throughout the year. Changes to the original adopted budget (amendments and transfers) are processed throughout the year to reallocate resources.

Each year the City submits the budget document to the GFOA for the Distinguished Budget Presentation Award. The City has received this award since 1984.

## **SCOPE & METHODOLOGY**

We reviewed the FY06/07 Proposed Budget, the adopted FY05/06 Operating Budget, the Budget Kickoff Manual, the Revenue Manual, BPREP and the FY06/07 payroll projection. We interviewed staff to obtain an understanding of the budget preparation process and to inquire about the GFOA comments in respect of the FY05/06 Operating Budget submission for the Distinguished Budget Presentation Award.

## **FINDINGS AND RECOMMENDATIONS**

### **Finding 1.1**

**OMB has not developed a comprehensive set of written procedures covering the development and adoption of the annual operating budget.**

An essential element of a highly effective system of internal controls is the availability of a comprehensive set of written procedures for the development and adoption of the annual operating budget.

OMB has produced a Budget Kickoff training guide and individual process flowcharts that represents a start towards the development of a comprehensive set of procedures documenting all steps involved in the budget process.

Written procedures document the various processes and methodologies used and provide an invaluable training guide for new staff. In addition, formal procedures ensure a consistent, accurate and verifiable approach to budget preparation.

## **Recommendation**

OMB should continue its development of a comprehensive set of written procedures for the development and adoption of the annual operating budget. Improving the quality and reliability of the budget process needs to remain a high priority; therefore Management should evaluate the need to devote additional resources to the enhancement of policies, procedures, and internal controls.

### **Management Response:**

OMB's written procedures to develop and adopt the annual budget includes the following:

- Master File of Budget Process/Documents/Polices/Procedures
- Budget Process from Planning to Monitoring Stages which includes a budget narrative of process that was provided to the External Auditor
- Budget Training/On-line Forms/BPREP System
- Set up of Index Code Procedures
- Budget Balancing Flowchart with detailed procedures
- Budget Preparation Guide
- Tier BPREP System Guide
- Payroll Projection Procedures/Notes that include procedures for COLA/Merit process
- Budget Review Checklist
- City TRIM Certification Procedures/Timelines
- Fire Assessment Fee Process/Checklist
- Sister Cities Process/Checklist
- DDA/PACA Process Checklist
- Lauderdale Isles Water Management District Process/Checklist
- Sunrise Key Process/Checklist
- Non-Profit Funding Process

OMB will continue to enhance the current written polices, procedures, and internal controls for the development and adoption of the annual operating budget.

### **Finding 1.2**

**The Revenue Manual has not been completed by OMB and at this stage it does not include all the major revenues that are part of the City's annual operating budget. Furthermore, the detail for existing revenues is inadequate and has not been verified by OMB.**

A comprehensive Revenue Manual is an essential resource for the development and verification of the accuracy of departmental revenue projections. The effectiveness of the Revenue Manual is diminished when it includes information that is incomplete or hasn't been verified.

Our analysis of the OMB's Revenue Manual reveals that \$311,282,167 of \$598,713,269 or 52% of all revenues greater than \$10,000, representing more than 217 revenue subobjects from the FY06/07 Revenue Report By Fund (FAMRS109) in the City's general accounting system (FAMIS) are not included in OMB's Revenue Manual.

Furthermore, an analysis of 6 revenue attributes for 25 major revenues (\$1,500,000 and higher), representing 57% of the FY06/07 operating budget, reveals deficiencies in the completeness of the Revenue Manual based on the fact that 65% of the revenue attributes were omitted.

Prior to 2004 a Revenue Manual did not exist. During the past two years, OMB has rightly focused its efforts on dealing with the challenges of rebuilding of the Unreserved Fund Balance and eliminating the deficit in the Self-Insurance Fund.

### **Recommendations**

- OMB should move forward to complete the Revenue Manual for all revenues greater than \$10,000; concentrating first on all major revenues greater than \$1,000,000.
- OMB should review the Revenue Manual to confirm that the following key attributes are clearly documented for each revenue:
  - Descriptive narrative
  - Collection characteristics
  - Projection methodology
  - FAMIS index code
  - Expand legal authority for the revenue to include authorized uses/legal restrictions
  - Complete contact information to include a contact phone # and/or e-mail as applicable
- OMB should verify the detail provided by the departments for revenues currently included in the Revenue Manual.

### **Management Response:**

OMB concurs with the Finding and Recommendation.

### **Finding 1.3**

**The authorized number of new positions from the All Positions, All Vacancies Report is not compared to the Cyborg payroll system at the beginning of each new fiscal year to verify that only authorized positions are included.**

A highly effective position control system requires the periodic comparison of budgeted/authorized positions from the adopted budget to the payroll system to verify that only approved positions are on the payroll.

The Human Resources Department maintains position control and OMB does not currently compare the payroll system to the authorized number of positions from the City Commission adopted budget at the beginning of each new fiscal year.

An annual comparison of the authorized positions from the adopted budget to the payroll system will ensure that only approved positions are being paid for, minimizing the risk of overspending because of unauthorized/unfunded positions.

### **Recommendation**

OMB should perform and document a comprehensive annual comparison of approved new positions from the adopted budget to the payroll system at the beginning of each new fiscal year.

### **Management Response:**

OMB's current Authorized Positions Procedures/Process includes the following:

- The list of New positions with titles/location are forwarded to HR after the 2<sup>nd</sup> Public Hearing
- HR creates the Position # and enters the new positions into the Cyborg Payroll System
- HR & OMB reviews all requisitions to verify that the position is authorized/budgeted and funding availability, if not budgeted
- All positions are reviewed biweekly by the THAW Committee which is comprised of the City Manager, HR Director, and OMB Director

Internal Control Systems are in place to verify the validity of positions, budget for positions and funding availability. This is accomplished not only by OMB, but by HR and the THAW Committee.

### **City Auditor Response:**

The requisition and THAW Committee reviews noted above were not provided to us during the course of this review and we were therefore unable to test the existence, completeness or accuracy of the information described in management's response.

### **Finding 1.4**

**The FY06/07 file copy of the Budget Projections Worksheet for the Cyborg payroll projection does not have a "prepared by" and "approved by" signature line, and the file copy does not include appropriate support documentation.**

The establishment of a clear audit trail is an essential element of effective internal control. Evidence of management review and approval of projection data was not present. Print screens from Cyborg to document the accurate data entry of the projection parameters were not attached to the form. Support documentation for the actuarial pension cost and union cost of living (COLA) adjustments was not attached to the file copy of the form.

The Budget Projections Worksheet establishes significant parameters for the payroll projection and if any of the values are in error, inadvertently omitted, or keyed incorrectly, this could materially affect the accuracy of the estimated personnel costs.

### **Recommendations**

- OMB should revise the Budget Projections Worksheet form and process to include a signature line for “prepared by” and “approved by” and include print screens from Cyborg to confirm that the projection parameters were entered correctly.
  
- OMB should obtain and retain the following (support documentation for significant projection parameters) with the file copy of the Budget Projections Worksheet as follows:
  - The pension plan actuarial reports for the City’s share of costs for the Police and Fire Pension Plan, General Employees’ Retirement System, and defined contribution plans.
  - Contractual support from the union contracts for the COLA increases.
  - Support documentation from Risk Management for the City’s share of health insurance costs.

### **Management Response:**

OMB maintains the following Budget Projection/Parameters/Support Documentation:

- Master File with all budget related documents maintained by OMB
- Payroll Projection Parameters identified/evidenced
- Police/Fire Actuarial Study on file to evidence City’s share of cost
- GERS Actuarial Study on file to evidence City’s share of cost
- Health Insurance Parameters on file
- All Union contracts/agreements used to determine COLA/Merit increases on file

Parameters are identified and support documentation is on hand to support the parameters used to calculate the Payroll Projection. The aforementioned support documents was on hand during this audit and was provided to the City Auditor. These documents are maintained in a Master File maintained by the OMB.

OMB concurs with the recommendation to include a signature line for “prepared by” and “approved by” on the Budget Projections Worksheet.



**City Auditor Response:**

We maintain that the supporting documentation for the Budget Projections Worksheet should be attached to the record copy of the worksheet and not kept in a separate location. The rationale behind this position is that the user of the Budget Projections Worksheet should be able to identify the source of the information and verify its accuracy. This is borne out by the fact that the City's pension contribution rate noted in the GERS and Police/Fire Actuarial Studies kept in the Director of OMB's office were significantly different than the figures on the Budget Projections Worksheet.

**Finding 1.5**

**Neither OMB nor the Finance Department have a procedure in place to verify compliance with the requirements of the Debt Policy outlined in the Budget Policies section of the published Operating Budget.**

In the section on Debt Policy and Administration in the FY06/07 Operating Budget, the following policy statements are outlined for the level of debt for all non-self-supported debt:

- Direct, non-self-supported debt shall not exceed 3% of assessed valuation.
- Direct, non-self-supported debt shall not exceed \$750 per capita.
- Direct, non-self-supported and overlapping debt shall not exceed 5% of assessed valuation.
- Annual debt service requirements shall not exceed 10% of the annual budget.
- Average annual bond maturities shall not exceed 15 years.
- When required, debt service equal to the highest scheduled principal and interest payment shall be maintained (except assessment debt) or debt service insurance will be obtained.

OMB relies on the Finance/Treasury Department staff to monitor compliance with the established debt policy. The Finance Department indicated that it is in the process of developing a debt policy and was unaware of the existing debt policy described above. Accordingly, they were not monitoring compliance with it.

The reliability of the annual operating budget is diminished to the extent that compliance with key budgetary policy statements is not tested and documented. Adherence to published policy statements is critical to maintaining stakeholder confidence.

**Recommendation**

The Finance Department should develop a written procedure to test compliance with the debt policy and the results of the testing should be communicated to OMB.

**Management Response:**

The debt policy contained in the budget book is essentially holdover language that the Finance Department has been in the process of updating and improving. However,

Finance agrees that policies should be followed or changed as necessary. To that end, for FY05-06 Finance tested and determined that the City was in compliance with the stated policy in all categories.

Finance is currently developing and drafting a new debt policy. It is anticipated that the final draft will be completed by June 30, 2007.

Once the newly drafted policy is adopted, a written procedure for testing compliance will be issued and the responsibility for monitoring compliance will be the City Treasurer's. It is anticipated that this will be completed by September 30, 2007 and compliance testing will be ongoing thereafter.

**Findings 2.1/3.1**

**Our analysis of the BPREP revenue and expenditure reports as of 9/6/06 revealed that revenues and expenditures for several funds were not in balance. In addition, these same funds are not currently included as part of the annual operating budget, either because they are appropriated by separate legislation or because their inclusion reflects incorrect accounting treatment and should not have been entered in BPREP.**

Performing and documenting a completeness check to verify that only appropriate funds are included in the annual operating budget and that these funds are balanced represents an essential internal control measure.

Our review indicated the following funds were improperly included in BPREP and were not in balance:

<b>Fund</b>	<b>Description</b>	<b>Separately Appropriated</b>	<b>Accounting Treatment</b>
<b>104</b>	<b>Law Enforcement Confiscated Property</b>	<b>X</b>	
<b>107</b>	<b>DEA Confiscated Property</b>	<b>X</b>	
<b>108</b>	<b>HUD Grants</b>	<b>X</b>	
<b>129</b>	<b>Misc Federal Grants</b>	<b>X</b>	
<b>319</b>	<b>Special Assessments</b>	<b>X</b>	
<b>331</b>	<b>General Capital Projects</b>	<b>X</b>	
<b>332</b>	<b>Gas Tax</b>	<b>X</b>	
<b>339</b>	<b>Grants Other</b>	<b>X</b>	
<b>454</b>	<b>Water &amp; Sewer Capital Project Fund</b>	<b>X</b>	
<b>458</b>	<b>Central Regional Wastewater Systems</b>	<b>X</b>	
<b>643</b>	<b>Arts &amp; Science District Garage-Trust Fund</b>		<b>X</b>

There was no impact to the final FY06/07 Operating Budget. Subsequent to being notified by the City Auditor's Office of the condition, OMB made the necessary corrections to remove the identified funds from BPREP before the information was uploaded into FAMIS.

## Recommendations

- OMB should develop a procedure to verify and document on a fund-by-fund basis that BPREP includes only those funds that should be included in the annual operating budget.
- OMB should develop a procedure to verify and document that revenues and expenditures entered into BPREP are balanced for all funds.

### Management Response:

OMB currently has a Budget Balancing Process that is/was followed to ensure only appropriated funds in BPREP are balanced on a fund-by-fund basis. The following funds as indicated by the Auditor, were not in balance in the BPREP system since they are not funds that are budgeted.

Law Enforcement Confiscated Property	104
DEA Confiscated Property	107
HUD Grants	108
Misc Federal Grants	129
Special Assessments	319
General Capital Projects	331
Gas Tax	332
Grants Other	339
Water & Sewer Capital Project Fund	454
Central Regional Wastewater System Projects	458
Arts & Science District Garage – Trust Fund	643

While it is accurate to state that on September 6, 2006, prior to the close of the budget year, certain non-budgeted funds were inadvertently included in the BPREP system, none of these funds required balancing and all of them were removed from the BPREP system prior to the rollover to FAMIS. Currently, OMB has in place procedures to verify and document on a fund-by-fund basis that BPREP includes only those funds included in the annual operating budget, and as the Auditor indicated, there was no impact to the final FY06/07 Operating Budget.

### **Finding 4.1**

**OMB does not oversee or review departmental projections of major revenues,<sup>1</sup> and they do not retain file copies of the worksheets supporting these projections.**

The quality of a budget revenue estimate depends on an objective analysis of the various economic factors that drive that revenue. Each major revenue estimate should have a clearly defined projection methodology and be substantiated to the extent possible with

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<sup>1</sup> Major Revenues are greater than or equal to one million dollars.

objective support. (e.g. trend analysis, population estimates, CPI changes, consumption characteristics/statistics and or clearly stated subjective assumptions).

OMB relies on operating department staff for the methodology, accuracy and documentation of revenue projections. OMB concentrates its emphasis on the analysis of departmental projected expenditures.

The accuracy of the estimates for major revenues can impact the establishment of the millage rate to fund General Fund operating expenditures.

### **Recommendation**

OMB staff should review and approve departmental revenue projection methodology and calculations. The Assistant Director of OMB should perform supervisory review. All reviews should be evidenced by the signature of the reviewer and file copies should be maintained in OMB. Improving the quality and reliability of the budget process needs to remain a high priority, therefore Management should evaluate the need to devote or redirect additional resources to this procedure.

### **Management Response:**

OMB concurs with the recommendation. However, OMB currently reviews the following for projection of major revenues:

- Revenue Estimate forms completed by Department Budget Coordinators for user fees and non-user fees are reviewed and on-hand for departmental revenues over \$10,000
  - Identifies type of revenue by sub object
  - Record of Actual Receipts
  - Identifies basis for revenue, rate charged, date of last fee change and prior fee amount
  - Identifies full year estimate
- Monitors revenues monthly via departmental trend analysis
- Performs five-year revenue analysis to determine trend/history
- Analyzes program revenue
- City Treasurer monitors city-wide revenue collection/trend

Management diligently, vigilantly and systematically provides overall oversight of revenues on a continual and routine basis.

### **City Auditor Response:**

The Revenue Estimate forms noted above were not provided to us during the course of this review and we were therefore unable to test the existence, completeness or accuracy of the information described in management's response.

## **Finding 4.2**

**The Cyborg payroll projection software does not subtract the amount of Section 125 Cafeteria Plan deductions from gross payroll when developing the budget estimate for the City's share of FICA taxes, resulting in an overbudgeting of personnel costs.**

Employee Section 125 Cafeteria Plan amounts are pre-tax deductions that are subtracted from gross pay before the City's share of 7.65% FICA taxes (6.2% Social Security and 1.45% Medicare) are calculated.

Our testing of the payroll projection report revealed that employer FICA tax budget estimates are calculated on gross estimated pay, unadjusted for Section 125 Cafeteria Plan pre-tax deductions.

The IT Department indicated this refinement to the calculation of the employer share of FICA taxes was not identified when the City developed the programming specifications for the Cyborg payroll projection software.

## **Recommendations**

- OMB should prepare a historical analysis of Section 125 Cafeteria Plan amounts for the last 3 fiscal years to develop a reasonable estimate of employer FICA taxes, which could be budgeted as a reduction of personnel costs in the non-departmental expense budget.
- OMB should consider the cost and benefits associated with enhancing the Cyborg payroll projection software at the time of the next system upgrade to refine the calculation of employer FICA taxes on Section 125 Cafeteria Plan amounts. Moreover, OMB should also create a file of desired enhancements as other situations are discovered and communicate this information to the IT department for future consideration as and when software upgrades are considered.

## **Management Response:**

The Payroll Projection process is estimated based on a snapshot at an identified point of time. The system provides an overall estimate of our projected payroll costs based on key specific parameters. OMB cannot account for every scenario. OMB will research the cost and benefits, where appropriate, to further enhance the payroll projection system software.

## **Finding 4.3**

**The Cyborg payroll projection program underestimates personnel costs by approximately 5% for employees who would normally be eligible for a step/merit increase before the last payroll in May.**

The estimated annual salary for 4 out of 19 or 21% of the employees in our FY06/07 payroll projection test group were understated by approximately 5% because the base salary from the last payroll in May did not reflect step/merit increases earned but not updated in the payroll system as of 5/26/06.

The reliability/accuracy of the payroll estimate is critical because personnel costs represent 68% of the General Fund budget.

### **Recommendations**

- OMB should perform and document post-testing of a representative sample of employees (actual vs. projected salary) as of 9/30 each year to identify variances which could have been anticipated. Procedural changes should be made to enhance the reliability and accuracy of the model based on the identification of controllable variances.
- OMB should determine the cost and benefits of a Cyborg payroll projection system upgrade to revise current level salary for step/merit increases earned through the last payroll in May.

### **Management Response:**

The Payroll Projection process is estimated based on a snapshot at an identified point of time. OMB prepares an updated payroll projection at the end of May. The system provides an overall estimate of our projected payroll costs based on key specific parameters. OMB cannot account for every scenario.

### **Finding 5.1**

**Several amounts from the Executive Summary of the FY06/07 Proposed Budget did not tie to the supporting schedules in the documentation provided to the City Commission. In addition, several amounts from Schedule A of the Executive Summary in the FY06/07 Proposed Budget adopted by the City Commission did not tie to the final published FY06/07 Operating Budget.**

As detailed below, figures presented in various sections of the FY06/07 Proposed Budget did not tie to the supporting documentation provided to the City Commission or to the final published FY06/07 Operating Budget, or were missing explanatory notes that would allow the reader to understand the inconsistencies. Several departmental budgets presented in the final published budget omitted various expenditures as noted in the following two tables:

Description	Executive Summary- Table 1	Supporting Detail	Difference	Location
Ad Valorem Taxes- Operating	\$133,430,712	\$133,570,712	\$140,000	BPREP Revenue Report, p. 9
Ad Valorem Taxes- Debt	\$7,429,555	\$7,449,555	\$20,000	BPREP Revenue Report, p. 9
Ad Valorem Taxes- Debt	\$7,429,555	\$7,425,255	\$4,300	Transfer out to General Obligation Bonds, p B10

Description	Executive Summary- Schedule A	Departmental Budget from the Final Published Budget	Difference	Comment
Fire-Rescue Division	\$61,638,222	\$61,350,707	\$287,515	Debt Service Costs
Police Department	88,516,690	88,230,221	286,469	Debt Service Costs
Water and Sewer Fund	76,797,327	48,833,089	27,964,238	Various
Stormwater Fund	2,775,942	2,264,072	511,870	Insurance
General Fund Public Works	18,360,134	10,219,530	8,140,604	Missing the Engineering Division
Sanitation Fund	22,146,461	21,588,047	558,414	Derbt Service Costs
<b>Totals</b>	<b>\$270,234,776</b>	<b>\$232,485,666</b>	<b>\$37,749,110</b>	

The operating budget should present budget detail consistently to maintain the cohesiveness of the document read as a whole. Inconsistent amounts diminish the reliability and credibility of the document and have the potential to confuse readers. Internal controls failed to prevent or detect these inconsistencies.

### **Recommendation**

OMB should develop a procedure to perform and document a reconciliation of amounts presented amongst the various tables, schedules and supporting documentation in the Executive Summary provided to the City Commission at the time of the budget's adoption. In addition, these should also be reconciled to the final published operating budget. Explanatory notes or reconciliations should be provided where amounts do not tie exactly.

**Management Response:**

OMB concurs with the recommendation and will include explanatory notes to fully account for and explain variances and a formal reconciliation process will be accomplished.

**Finding 6.1**

**OMB did not incorporate six GFOA recommendations in the FY06/07 Operating Budget or satisfactorily explain why in their written response to the GFOA.**

Failure to obtain the GFOA Distinguished Budget Presentation Award creates a negative perception about the City’s budget process that could have an adverse impact on the City’s bond ratings. In the 3/19/06 letter from the GFOA notifying the City that it had received the Distinguished Budget Presentation Award for the prior year’s budget, the GFOA noted that the budget document failed to satisfy certain mandatory requirements.

“Normally, failure to satisfy one of the mandatory criteria as adjudged by two or all three reviewers would preclude an organization from obtaining the award. Our review indicated that your budget document failed to satisfy the criteria:

- Financial Plan Criterion #8
- Operations Guide Criterion #1
- Policy Document Criterion #4

Because of your organization’s past participation in the Budget Awards Program, this deficiency will not disqualify your budget document from receiving the award this year. However, failure to correct the deficiency in your next submittal will almost certainly preclude your organization from receiving the award”.

The program does not require continuing participants to adopt the prior year reviewers’ suggestions, but encourages their serious consideration. Applicants are required to indicate in writing if they incorporated the major revisions suggested and if not, why. In our analysis, we noted the following instances where the suggestions were not implemented and the rationale not communicated to the GFOA:

Ref	Comment/Suggestion
PD2	The vision requires more focus and must establish the goals and objectives that give it substance. The narrative should speak to the long-term planning efforts to provide guidance to what the City wants to accomplish in its future and how it plans to implement those ideas in a cohesive manner. You identified the changes between years and what you are trying to achieve, but did not clearly identify the underlying issue/challenge you are trying to improve with your achievements. You need to do a better job of identifying the issues and challenges you are facing.
PD4	Please consider adding more specific information on the future, long-term fiscal impacts of policy issues. Quantify how future revenues and expenditures will be affected. Please consider modifying the presentation to include a comprehensive economic environmental analysis.
FP4	While the budget narrative provides an explanation of the parameters used in projecting revenue forecasts, the specific techniques used to determine each estimate is unclear.
FP7	The budget documents efforts to describe and quantify the change in operating expenditures as a



	result of capital expenditures must be improved. Without an effective analysis, impacts on future operating budgets can be hidden and result in substantial resource imbalances.
FP9	Budgetary Basis – You provided some bullets identifying exceptions however you did not identify if these exceptions are included or not included in the budgetary or accounting basis. The reader is left questioning the impact of these differences between the two bases.
OG2	While performance measures that gauge outputs are easier to implement and track, the City should consider implementing performance measures that gauge outcomes. The City should also compare prior year actual results with the target to determine how performance met goals set for the period.

In addition, OMB did not meet the initial application deadline for submission. The GFOA requires participants to submit the operating budget, application form and application fee within 90 days following adoption by the entity’s governing body. The City Commission adopted the FY06/07 Operating Budget at the second public hearing on 09/19/06. Therefore, the operating budget and the application for the Distinguished Budget Presentation Award should have been submitted to the GFOA by 12/18/06. It was mailed to the GFOA on 2/27/07.

OMB indicated that the application was not submitted timely because the Engineering Department was late in providing the 5-year Capital Improvement Plan (CIP). It should be noted that OMB was able to obtain two extensions of the submission deadline from the GFOA, therefore there is no adverse impact to the City at this time.

**Recommendations**

- OMB should integrate the preparation of the 5-year CIP plan into the budget calendar and establish periodic milestones to assure that the operating budget and the CIP are adopted concurrently by the City Commission. If the CIP is not available, the Director of OMB should submit the operating budget to the GFOA with an explanatory note that the CIP will follow when completed.
- OMB should prepare a spreadsheet of the GFOA reviewer comments, and cross-reference the suggestions that have been implemented to the published operating budget. The rationale for comments that have not been implemented should be thoroughly explained in the response provided to the GFOA.

**Management Response:**

OMB concurs with the recommendation to integrate the preparation of the 5-year CIP plan into the budget calendar and establish periodic milestones to assure that the operating budget and the CIP are adopted concurrently by the City Commission. This has been implemented and incorporated into the FY 07/08 Budget Process.

OMB also concurs with the recommendation to prepare a spreadsheet of the GFOA reviewer comments, and cross-reference the suggestions that have been implemented to the published operating budget. This is exactly what OMB prepared after receiving the GFOA reviewer comments. As a result, most of the suggestions were implemented in the FY 2007 Adopted Budget Document. OMB will continue to enhance the quality of the Budget Document.