

CITY OF FORT LAUDERDALE

OFFICE OF THE CITY AUDITOR

*Supplemental Review of the FY2011 Budget to include the
Fleet Plan*

Report #09/10-06B

September 18, 2010



City Auditor's Office

Memorandum

No: 09/10-12

Date: September 18, 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: *Supplemental Review of the FY 2011 Budget to include the Fleet Plan.*

The City Auditor's Office (CAO) was requested to review the proposed Fleet Plan and its impact on the proposed City budget for FY 2011.

Summary

The CAO has performed a supplemental review of the supporting documentation provided by the Parking and Fleet Services Department. We applied various analytical procedures, reviewed budget support worksheets and made inquiries to the Director of Parking and Fleet, Finance Department, Office of Management and Budget, and supporting staff. Additionally, we compared the line item revenue and expenditure detail from the Proposed Fleet Plan Budget to the June estimate of actual expenditures through 9/30/10, as well as revenue and expenditure detail reports from the general ledger.

Our fundamental conclusion is that the Fleet reserve funds are sufficiently high to absorb another year without charging the using departments for the full replacement costs of their vehicles. However, the manner in which it is being done will have a negative impact on subsequent years. Due to overbilling and lifecycle extensions, the Fleet reserve fund had reached an unnecessarily high level. Last year, the reimbursement rate was cut in half to help balance the General Fund budget. This year, the replacement charges have been eliminated entirely.

We are concerned that the fund balance is being drawn down too quickly, and that it is being used to offset recurring costs. Similar to the General Fund, the bulk of the excess fund balance is being used to balance the FY 2011 operating budget. This ignores the fact that FY 2012 will have a similar funding gap as the current year. By depleting the excess fund balance in one year, nothing will be left to help balance next year. This is a short-term mentality exacerbated by the failure of management to perform long-range financial analysis.

To illustrate the impact of this, we have included a chart on page 3 that shows that the Fleet fund will run a deficit by FY 2015 unless there are significant increases in the charge-back rate over the next several years.

Furthermore, the more appropriate use of the excess fund balance in the Fleet reserves would be to pay off the various outstanding leases and debts incurred in prior years to acquire vehicles. Doing so would save approximately \$2 million in interest expense over the life of those loans. That would represent a true cost reduction, rather than a shifting of costs.

As outlined below, we noted a few other items in the proposed Fleet Plan that we believe should be addressed to present a more accurate picture of the revenues, expenditures, and available resources of the Fleet reserve fund.

Observation #1

The CAO reviewed the proposed emergency fund balance of \$11,000,000, which is included in each year of the Fleet Plan charts and projections. This figure was set by the department at 15% of total replacement value for the entire fleet, to attempt to comply with the Commission’s policy of using the GFOA’s standard for reserves of 15%. However, the department misinterpreted the 15% threshold. It is not of *assets*, but of *annual expenditures*. This is a dramatically different figure, as shown below.

Fleet proposed:

Year	Total fleet replacement	Percent	Emergency Amount
FY2011	\$70,000,000	15%	\$10,500,000
FY2010	\$70,000,000	15%	\$10,500,000
FY2009	\$71,000,000	15%	\$10,650,000
FY2008	\$62,000,000	15%	\$9,300,000

GFOA compliant:

Year	Total replacement expenditure	Percent	Emergency Amount
FY2011	\$4,000,000	15%	\$600,000
FY2010	\$3,500,000	15%	\$525,000
FY2009	\$9,200,000	15%	\$1,380,000
FY2008	\$8,400,000	15%	\$1,260,000

* Data was used from the respective annual Fleet Plan and rounded up.

Observation #2

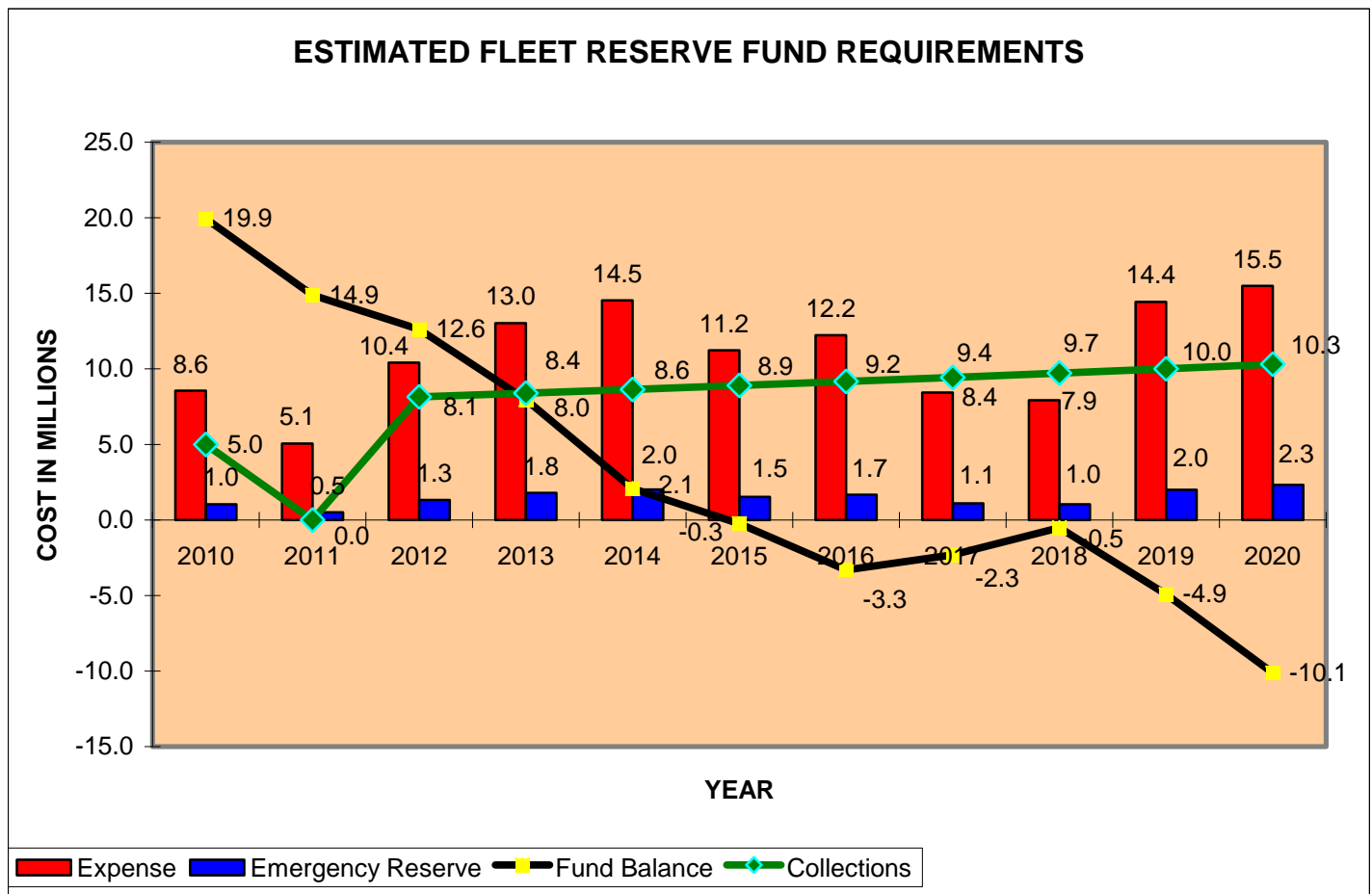
The CAO observed that there is an inconsistency between the City’s financial records and the Fleet Plan with respect to actual expenditures. The general ledger indicates that current year expenditures are approximately \$6,000,000, whereas the Fleet Plan states that \$1,400,000 has been spent.

Observation #3

The CAO observed that the FY 2011 Fleet Plan does not mention a pooled vehicle program. This program was to be have been prepared and implemented in FY 2011, per management comments made in our audit report #09/10-03, dated May 7, 2010.

Conclusion:

- A clear evaluation of the appropriate level of reserves for emergencies should be determined, as there is a significant difference in the fund based on the methodology used.
- There needs to be more communication between the Parking and Fleet Department, Finance, and OMB, so that variances between the general ledger and Fleet Plan are reconciled. Moreover, a clear understanding of the accounting practices should be explained to prevent misunderstandings in the fund balance as described in Observation #2.
- A determination on the utilization of a pooled vehicle program should be resolved. The overall impact and utilization of the pooled program may be immaterial to the overall budget, but should be resolved to account for its potential impact to the fleet and City budgets.
- Without corrections and/or adjustments to the Fleet budget, forecasting indicates fleet expenditures will exceed fleet fund balance by 2015. In addition, without charging departments their respective rental rates for vehicles in FY2011, rental rates will be significant for the following year.
- Similar to City budget surpluses, the Commission should consider using the excess fund balance first toward one-time expenses, such as the retirement of outstanding debt.
- If the excess fund balance is going to be used to balance out recurring expenses in the General Fund, it should be done on a staggered basis, in recognition that the current economic environment will remain challenging and that budgetary stress will be an issue next year well.



cc: Allyson Love, Acting City Manager
 Harry Stewart, City Attorney
 Jonda Joseph, City Clerk