

CITY OF FORT LAUDERDALE

OFFICE OF THE CITY AUDITOR

Review of the Proposed Budget for Fiscal Year 2015/2016
Report #14/15-03

September 8, 2015



CITY OF
FORT LAUDERDALE

City Auditor's Office

Memorandum

Memo No: 14/15-05

Date: September 8, 2015

To: Honorable Mayor and Commissioners

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

Re: Final Proposed Budget Review for Fiscal Year 2015/2016

The City Auditor's Office (CAO) has performed a review of the FY 2015/2016 Proposed Budget, which is compiled by the City Manager of the City of Fort Lauderdale, pursuant to section 4.09 of the City Charter. The period of review covered by this memo includes the joint City Commission/Budget Advisory Board meeting of August 26th and the first public hearing of the Proposed Budget on September 3rd.

The potential challenge identified in our previous memo dealing with the Airport land issue has been satisfactorily resolved with the external auditors, such that there is no impact to the General Fund.

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 impact on the City and the City's obligations.

We would like to recognize the ongoing efforts of the Budget Office to continually 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. As this was the third year for the Committee, the members had a greater understanding of the respective revenue sources, resulting in revenue estimates that were more thoroughly vetted.

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.

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 2015/2016 as presented to the City Commission. The material reviewed included the Budget Message, including Budget Overview, funding enhancements, 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 9/30/15. 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

Please refer to the attached **Exhibit A** for some of the more significant adjustments affecting the current year budget and their impact, and for other recommendations to improve and enhance the budget going forward.

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
Jeff Modarelli, Interim City Clerk
Stanley Hawthorne, Assistant City Manager
Susanne Torriente, Assistant City Manager
Emilie Smith, Budget Manager

FY2015/2016 Budget Review Observations

1. Incorrect budgetary classification:
 - The annual payment to the Airport Fund from the General Fund for the 64.32 acres of Fort Lauderdale Executive Airport land should be budgeted as a transfer rather than land acquisition in the amount of \$1,342,735.
 - Impact to General Fund-There was no financial impact to the General Fund
 - Information Technology Fund overstated operating charges to user funds/departments in the aggregate of \$4,500,000 and understated transfers for the same amount for the cost of the ERP Software acquisition that was included in the IT Fund cost allocation calculation which was charged to the user fund/department's operating inter-fund service charge type line items.
 - OMB – Agreed to reclassify charges to transfer accounts
 - Impact to General Fund-There was no financial impact to the General Fund
2. Understated Capital Acquisition and Debt Proceeds for the Information Technology Fund Radio Shop Division Radio Tower
 - The Information Technology Fund Radio Shop Division is in the process of installing a new Radio Tower which it acquired through a lease agreement with the vendor. The capital expense for this asset will need to be budgeted based upon the percentage of completion in FY 2015 and/or FY 2016. Neither the FY 2015 estimate, nor the FY 2016 Proposed Budget includes the acquisition cost of the asset of \$2,477,000 or the debt proceeds.
 - Impact to General Fund - There was no financial impact to the General Fund since the debt proceeds should equal the cost of the acquisition
 - **Auditor Note:** The debt service for the lease payments was appropriately budgeted in FY 2016
3. \$160,636 understated Sanitation Fund inter-fund service charge revenue for Parking Lot Cleaning Fees
 - Impact to General Fund-There was no financial impact to the General Fund

4. City Insurance Fund overstated revenues
 - \$823,857 of revenues applicable to the Health Insurance Fund were included in the City Insurance Fund

5. Health Insurance Fund understated revenues
 - \$926,401 of revenues applicable to the Health Insurance Fund were included in the City Insurance Fund

6. Understated the financial impact for two new positions due to not providing justification for unproven anticipated revenue or reduced costs. The positions and funds impacted are as follows:
 - Sr. Customer Service Representative – Fund 001
 - Estimated expenditures \$62,500
 - Unproven anticipated City Occupational License revenue \$125,000
 - Amount funded (\$62,500)
 - Financial Impact - Overstated General Fund revenue \$125,000

 - Energy Analyst – Fund 450
 - Estimated expenditure \$72,000
 - Unproven reduced energy costs \$72,000
 - Amount funded (\$0)
 - Financial Impact – No financial impact to the General Fund; Water and Sewer Operations Fund has understated financial impact of \$72,000

Opportunities for Improvement for the FY2016/2017 Budget

1. Develop a method of calculating the estimated payroll attrition savings based upon three years of actual experience. Also, apply developed method to all funds with personnel related costs. Currently, credit is only being budgeted in the General Fund.

2. Develop a Special Revenue type fund for Gas Tax annual operating type projects such as road resurfacing.

3. Develop a database for new contracts that will take effect during the new budget year.