



CITY OF
FORT LAUDERDALE

City Auditor's Office

Memorandum

No: 06/07-020

Date: August 28, 2007

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

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

Re: REVIEW REPORT #06/07-2 - Proposed Budget for Fiscal Year 2008

The City Auditor's Office has reviewed the Proposed Budget for Fiscal Year 2008. 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.

A review consists principally of inquiries of City personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted governmental auditing standards, the objective of which is the expression of an opinion regarding whether the information is presented in accordance with generally accepted accounting principles and includes a report on internal controls over financial reporting and compliance with laws, regulations and provisions of contracts or grant agreements. Accordingly, we do not express such an opinion.

The primary focus of our review was to ensure that the budget is balanced, revenue and expenditure amounts are reasonable and materially correct, and that the proposed millage rate complies with the statutory tax reduction passed by the State Legislature. Based on our review, we are not aware of any material modifications that are required to be made to the proposed budget. As discussed in the accompanying report, we did note several areas that we believe represent opportunities to enhance control over expenditures, improve the ability to accurately project budgetary requirements, and better utilize City resources.

cc: George Gretsas, City Manager
Harry Stewart, City Attorney
Jonda Joseph, City Clerk
Allyson Love, Director of the Office of Management and Budget

Executive Summary

Overall, we believe that the Proposed Budget for Fiscal Year 2008 as presented by the City Manager is reasonable, balanced, free from material errors and is in compliance with the State mandated tax reform initiatives.

Objectives

To determine if the Proposed Budget for Fiscal Year 2008:

- Is reasonable, balanced and free from material errors
- Is in compliance with the maximum millage requirement as mandated during the June 2007 special session of the Florida legislature
- Represents the best available use of the City's resources

Scope

We analyzed the City Manager's Proposed Budget for Fiscal Year 2008 as presented to the City Commission at the July 17, 2007 Meeting. The material reviewed includes the Budget Message, Executive Summary including supporting tables and schedules, and 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 Office of Management and Budget (OMB), Treasury Division and individual department budget coordinators. We compared the line item revenue and expenditure detail from the Proposed Budget for Fiscal Year 2008 to the current year-to-date actual expenditures. In addition, we analyzed the variances of the two prior fiscal years' budget vs. actual to gain a historical perspective and identify opportunities to improve the accuracy of revenue and expenditure estimates.

Observation

Except as noted below, our review indicated that the City Manager's Proposed Budget for Fiscal Year 2007/2008 is reasonable, balanced, free from material errors and is in compliance with the State mandated tax reform initiatives.

Observation

The estimated sales tax and state shared revenues may be optimistic and not be fully realized based on deteriorating economic conditions in Florida. Although the revenue estimates used are those compiled by the Department of Revenue (DOR), they were produced earlier in the year. Currently, State economists and legislators believe the housing slump is adversely affecting tax collections and are attempting to cut the State budget by \$1.1 billion to address those shortfalls. It is reasonable to assume that those same shortfalls will impact the City as well.

Recommendation

OMB should consult with DOR to determine whether it would be advisable to lower the current sales tax and state shared revenue estimates to reflect reduced household consumption resulting from the ongoing real estate slump.

Observation

We observed that a number of expenditure items were consistently over-budgeted. The current budget preparation process places greater emphasis on the justification for above-base requests and less critical analysis of the base budget amounts, even if current spending does not substantiate the budget amount.

Recommendation

The budget process should be refined and greater emphasis placed on aligning the base budget amounts with actual spending.

Observation

Amounts charged to Procurement Card (P-card) sub-object 3930 are not being allocated to the appropriate sub-objects, resulting in a reduction of budgetary expenditure control. The actual charges to the P-card sub-object are often double the budget appropriation and the amounts charged to the specific operating sub-objects are substantially less than the budget. This diminishes the effectiveness of FAMIS as a budgetary control tool and makes it more difficult to project budgetary needs and analyze spending patterns. Greater use of the full range of available sub-objects within FAMIS would enhance the ability of OMB to understand the behavior and utilization patterns of various categories of departmental expenditures.

Recommendation

The City should continue the use of P-cards but eliminate the use of sub-object 3930 in the budget. Expenditures for the specific types of purchases permissible with the P-card should be budgeted in those respective sub-objects. Just as critical is that all actual expenditures incurred during the year through P-card use be booked to the correct sub-object to facilitate the matching of budgets and actuals.

Observation

The City has historically fully budgeted for salaries and benefits because of the methodology utilized for projecting those expenditures. The system calculates the payroll amount based on all positions being funded as if filled for the entire year. This ignores the fact that we have consistently run a vacancy rate of approximately 10% each year. A portion of that excess salary budget is generally consumed by increased overtime expenses for existing personnel covering the vacancies.

This has contributed to the City being able to realize a net surplus each year, which has gone toward rebuilding the fund balances in the General Fund and Self-Insurance Fund. Currently, we have built the General Fund unreserved fund balance to a point that surpasses the top of the range identified by the Government Finance Officers Association as reasonable and appropriate.

At this time it would be prudent to consider implementing a “lapse factor” as part of the budget. The lapse factor would be a negative amount included in each department’s personnel budget to explicitly acknowledge the vacancy rate typically experienced by the City.

Recommendation

The Office of Management and Budget should include an offsetting lapse factor in the annual operating budget to minimize the over-budgeting attributable to unfilled vacancies.

Observation

Overtime in the Police and Fire Departments has been under-budgeted for the past several fiscal years. This is a result of the difficulty experienced by all public safety agencies in the state in recruiting personnel. Because the recruiting environment is unlikely to change dramatically in the short-term, it would be advisable for the departments to budget an appropriate amount for overtime costs that reflects their historical usage of that resource. Budgetary control is enhanced when the adopted budget reflects the reality of the operating environment.

Recommendation

The Police and Fire Departments should develop a budget estimate for overtime based on historical spending patterns.

Observation and Recommendations

The 2008 estimated General Fund unreserved fund balance is projected at \$50 million or 18.5% of the total appropriations for operating expenditures and transfers out. This amount exceeds the 5% - 15% GFOA recommended and City adopted minimum standard for unreserved fund balance in the General Fund. It would be appropriate to consider shifting the excess portion of the unreserved fund balance into other more effective uses. Those uses represent policy choices by the Commission, but could include the following:

1. One-time reduction to the millage rate
 - *This is not recommended at this time. Ordinarily this would be a valid use of excess funds, but given the uncertainty of the impact of the proposed “super exemption” amendment before the voters in January 2008, it would be prudent to await the outcome of that vote before undertaking any further millage rate reductions.*
2. One-time payment to reduce the actuarial accrued unfunded liability in each of the City’s pension funds
 - *This is not recommended at this time. The present funding of the pension systems includes the amortization of the unfunded liability. There are other mechanisms available to ensure that the liability is reduced as quickly as possible.*
3. Establishment of a “Budget Stabilization Reserve”
 - *This is recommended. The Budget Stabilization Reserve will be available to cover revenue shortfalls or unanticipated expenditures during the year that cannot be met with savings in other operating areas. This becomes more critical as budgetary excesses are eliminated from the departmental budgets and encourages those department directors to avoid building unnecessary cushion in their budgets.*
4. Establishment of an “Internal Banking Fund”
 - *This is recommended. The Internal Banking Fund will be available to self-finance purchases that are currently being contemplated using lease financing or other short-term borrowings. It is not advisable to borrow substantial sums at market rates that exceed the return we achieve on our invested cash surplus. On each of those purchases the City will be losing the amount of money represented by the spread between the rate earned and the rate paid.*