

CITY OF FORT LAUDERDALE

OFFICE OF THE CITY AUDITOR

Review of the Proposed Budget for Fiscal Year 2017/2018

Report #16/17-04

August 25, 2017



Memorandum

Memo No: 16/17-08

Date: 8/25/2017

To: Honorable Mayor and Commissioners

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

Re: Review of the Proposed Budget for Fiscal Year 2017/2018

The City Auditor's Office (CAO) has performed a review of the FY 2017/2018 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.

CONCLUSION

At this time we do not believe that the budget of the primary government is balanced.

All known and determinable revenues and expenditures are reasonable and materially correct, except as otherwise described below. In addition, the priorities established in the Commission Annual Action Plan all show funding allocations in the coming year.

Please note that Management's responses to our comments are included in the report. We have reviewed those responses and believe that they appropriately address the concerns raised by us.

Section 129.03(3)(b) Florida Statutes requires that the taxing authority advertise the proposed Budget Summary as follows:

An adjacent Budget Summary advertisement meeting the requirements of section 129.03(3)(b), F.S., must accompany all required TRIM advertisements. This summary will show for each budget and the total of all budgets the proposed tax millages; balances; and reserves and total of each major classification of receipts and expenditures, classified according to the classification of accounts prescribed by the appropriate state agency (s. 129.03(3)(b), F.S.).

NOTE: "**Proposed operating budget expenditures**" or "operating expenditures" means all monies of local government, including dependent special districts, that the local government:

- Spent or could spend during the applicable fiscal year; or
- ***Retained or could retain as a balance for future spending in the fiscal year.***
(emphasis added)

However, those monies that the local government holds or uses in trust, agency, or internal service funds and expenditures of bond proceeds for capital outlay or for advanced refunded debt principal are excluded (s. 200.065(3)(1), F.S.).

The current year's budget included estimated revenue of \$13 million from the issuance of parking revenue bonds to support the Las Olas Marina Garage construction project. Since those bonds were not issued, the project is presently underfunded and the shortfall will need to be made up from other sources before the fiscal yearend. Accordingly, the Capital Project Fund will have a reduced balance available to be carried over for future spending, as the revenue was never received.

Management Response – The September 6th consolidated budget amendment will include the appropriation of Parking Fund Balance and the temporary abandonment of projects funded in the Parking Fund to replace the proposed bond funds until such time financing can be secured.

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 2017/2018 as presented to the City Commission. The material reviewed included the Budget Message, Executive Summary including supporting tables and schedules, as well as revenue and expenditure detail reports from the City's budget preparation system (BPREP). The CAO further examined items of interest identified by the City Commission and Budget Advisory Board (BAB), and considered other issues that may impact the City and the City's obligations. In addition, the CAO thoroughly reviewed the funding for all the proposed hiring of staff in the upcoming year, which currently includes 62 new employees.

The CAO would like to recognize that the Budget office has continued its constructive dialogue with the Budget Advisory Board and Revenue Estimating Committee. Budget staff have developed a robust approach to organizing and compiling budget information and supporting documentation. Also, the assignment of a point person and open communication with the Budget team facilitated a cooperative review, such that any CAO concerns were discussed and incorporated during the review process.

In the current year, similar to last year's review, the CAO considers the review of the Budget Department to be a lower risk engagement due to the following criteria:

- The budget review is performed every year.
- Multiple enhancements to the budget process have been incorporated over the last few years and the process continues to be improved as needed.
- Ongoing and frequent communication between management, the Budget Advisory Board, the CAO, and the City Commission.

- The Budget Office has had continuity of staff within the department and the staff has remained consistent in the quality of their work.
- No significant errors or misstatements were noted on previous reviews;
- The Budget Office is responsive to CAO findings and observation during the review.

Methodology

We performed various analytical procedures, reviewed budget support worksheets and made inquiries of the Budget Office, Finance Department, and individual department budget coordinators as needed. Additionally, we compared the line item detail from the Proposed Budget to the projections of actual expenditures through 9/30/17. 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.

Finally, as part of our audit work we attended all of the Revenue Estimating Committee meetings, Infrastructure Task Force 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.

Other Observations

1. The CRA hired a third party Real Estate Appraiser, Harry Newstreet, to verify the CRA tax rolls as accurate. In an email from him:

“The steps taken included a review of the enabling resolutions and ordinances, a review of applicable maps and section sheets and a spot check of the rolls as provided by your office.”

His review did not ascertain whether all new construction completed during the year, based upon certificates of occupancy, were included on the appropriate tax roll with credit to the CRA.

Management Response – Management agrees. The Community Redevelopment Agency (CRA) will engage the services of a Certified Public Accountant for a full review of CRA properties on the tax roll each year to ensure that new properties are appropriately classified as CRA properties in lieu of the more limited scope of review performed for the 2017 tax roll.

2. Funding for Police and Fire Department salaries may be insufficient, depending on the outcome of collective bargaining for those contracts ending September 30, 2017.

Management Response – Management agrees. If the outcome of collective bargaining results in salaries higher than amounts budgeted than the City would likely still be able to maintain a structurally balanced budget as many of the FY 2018 expenditures are one-time in nature and the proposed General Fund budget is balanced without the use of fund balance. The FY 2018 proposed budget includes known salary increases and estimates for future salary increases based upon historical information.

3. Inconsistency: FY 2018 reclassified the Pension Special Obligation Bonds Debt Service as an operating expenditure vs. FY 2017 Adopted Budget that still reflects it as a transfer out. The City Manager should consider highlighting those changes to enhance comparability between years.

Management Response – Management agrees. Management will add a footnote to the budget schedule to explain this change. It is important to note that this change was made at the request of the Budget Advisory Board (BAB). The Budget Advisory Board opined that showing a pension related cost as a fund level transfer misrepresented the true cost of personal services, especially for the Police Department and Fire Department and argued that it was important for the budget document to transparently reflect the full cost of service in each department.

cc: Lee R. Feldman, City Manager
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Jeff Modarelli, City Clerk
Stanley Hawthorne, Assistant City Manager
Christopher Lagerbloom, Assistant City Manager