

CITY OF FORT LAUDERDALE

OFFICE OF THE CITY AUDITOR

Addendum for Review of the Proposed Budget for Fiscal Year (FY) 2022

Report #20/21-09

September 13, 2021



Memorandum

Memo No: 20/21-10

Date: 9/13/2021

To: Honorable Mayor and Commissioners

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

Re: Addendum for Review of the Proposed Budget for Fiscal Year (FY) 2022

The City Auditor's Office (CAO) previously performed a review of the FY 2022 Proposed Budget presented by the City Manager to the City Commission on July 6, 2021. The CAO has performed a review of the subsequent changes made to the initial FY 2022 Proposed Budget prior to the second public hearing scheduled for September 13, 2021.

The budget was 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, as well as limited testing of the evidence provided to substantiate staff's assertions. We continued to rely on the strong relationship developed over the years working with the Office of Management and Budget (OMB) to gain an understanding of the adjustments and changes made to the presented FY 2022 Proposed Budget.

CONCLUSION

The City Manager's revised FY 2022 Proposed Budget for the primary government as presented is balanced and all known and determinable revenues and expenditures are reasonable and materially correct.

It must be noted that the rapidly increasing number of COVID cases represents a significant risk to the budget's revenue and expenditure projections. We have no basis for assessing what impacts the City may experience, how staffing levels, remote work and overtime may fluctuate, and whether additional Federal funding might be available to mitigate those impacts. We are fortunate to be going into the next fiscal year with a very healthy fund balance that can serve as a buffer to that volatility. It is therefore vital that we limit the use of fund balance as a source of funding for anything other than critical needs until we have a clearer view of how the number of infections and hospitalizations is trending in future months.

The "Areas of Concern" section, noted below, are items that do not impact our overall conclusion but bear consideration both for the proposed budget and future years' impacts.

Objectives

The primary focus of our review was to ensure that the revised FY 2022 Proposed Budget is balanced, and revenue and expenditure estimates are reasonable and materially correct. We did not attempt to identify operational areas where additional cost savings might be achieved.

Scope

We analyzed the City Manager's revised FY 2022 Proposed Budget as presented to the City Commission at the first public hearing on September 8, 2021. The scope of the review was limited to the changes from the presented FY 2022 Proposed Budget on July 6, 2021 to the revised FY 2022 Proposed Budget presented on September 8, 2021, as well as, the additional changes made between the first and second public hearings.

These changes are considered high risk transactions because they are last minute changes to the FY 2022 Proposed Budget and there is less time for review of the information by both OMB staff and the CAO's office.

Methodology

The CAO performed various analytical procedures, reviewed budget support, and made inquiries of OMB, as needed.

This review was conducted in accordance with generally accepted government auditing standards. These standards require that we plan and perform the review to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our objectives.

Areas of Concern That Remain Unchanged:

1. High Annual Costs for ERP Implementation

The ERP implementation has been in process for years. It is significantly over budget on both time and cost. In addition, the scope of the project has changed to incorporate a hosted cloud solution. Consistent with the prior year budget review, the final costs for the ERP implementation have yet to be approved by the City Commission. Under the current proposal, costs will continue to increase each year for the next twelve (12) years. (Reference Exhibit 1)

2. Significant amount of Overtime Expenditures

Overtime expenditures appear to be reasonably budgeted; however, the CAO noted that there is a significant amount of City funds consistently being allocated to overtime expenditures. Specific departments that have high overtime expenditures include, but are not limited to, the Police Department, Fire Rescue Department, and Public Works Department.

The Fire Department overtime expenditures were specifically brought up in the Budget Advisory Board Meeting held on August 4, 2021 for concern about the high costs to the City. The explanation provided was higher exposure to COVID and continuous staff shortages from COVID exposures. Additionally, in FY 2021, the overtime budget was exceeded by the 2nd quarter. The FY 2022 budget for overtime is generally consistent to the FY 2021 budget indicating that the FY 2022 budget will not be able to cover the total

amount of actual overtime for the Fire Department if they experience similar operational challenges. The current projection for FY 2021 is that overtime will exceed the FY 2021 budget by approximately \$3,200,000. Management plans to use the CARES Act Passthrough Funding to provide an offset for approximately \$1,700,000, leaving an anticipated shortage of approximately \$1,500,000. The City is anticipating that any future COVID related overages will be covered by future FEMA reimbursements, similar to last year; however, there is no guarantee that the FEMA reimbursements will continue.

Overtime expenditures will need to be closely monitored to ensure that adequate funds are available to meet operational needs while every effort is made to control overall overtime spending.

Note – the City Commission approved an appropriation of \$1,230,000 on September 9, 2021 to cover the expenditure overage. The additional 16 positions are not anticipated to add service level or reduce the overtime budget.

3. Collective bargaining between the City and the Fort Lauderdale Professional Firefighters, Inc. International Association of Firefighters (IAFF)

The City is currently in the early stages of collective bargaining negotiations with the IAFF. The costs associated with the prospective contracts are not determinable at this time and may potentially require the use of fund balance if the final negotiated contracts call for pay increases beyond what is currently budgeted.

4. Unknown COVID Impact to overall Budget

This year's budget anticipated COVID being mostly resolved and returning to a pre-COVID level of operations. As a result, the proposed budget is more comparable to the FY 2019 and FY 2020 budgets rather than the COVID impacted budget of FY 2021. As mentioned in the Conclusion section, the resurgence of COVID and/or COVID variant(s) remains a financial risk for the City.

There are funds remaining from the existing American Rescue Plan Act allocation that are not currently committed, and we recommend that those funds be held in contingency for the purpose of addressing any future COVID related impacts.

Additional Future Considerations

1. Lack of Funding for the Las Olas Master Plan Improvements

The Florida Department of Transportation (FDOT) has begun work on Tunnel Top Park at the intersection of Las Olas Blvd and the Federal Highway access lanes. This area is also included in the Las Olas Mobility Master Plan improvements that have been proposed. There is currently no funding in the CIP plan for those improvements, which makes it unlikely that we will be able to coordinate the impact of the construction work for the two projects in such a way as to minimize the disruption caused by the work on traffic flow, residents, visitors, and the business community.

2. Potential Unfunded Ongoing Operating Costs for 20 New Positions

We noted that the City Manager was able to accommodate the City Commission's direction to fund 16 additional Fire Department personnel within the current FY 2022 Proposed Budget. Additionally, based on adjusted expenditures, the City Manager was also able to include 4 positions for the Police Department, for a total of 20 new positions. The ongoing full year expenses for the 16 Fire Department personnel will be approximately \$1,918,650 and for the 4 Police Department personnel approximately \$374,832 in FY 2023 for a total of \$2,293,482. The ongoing full year expenses for the 20 additional positions may further exacerbate future operating funding shortages and further necessitate an increase in the millage rate in future years if property values and value of new construction does not increase at a faster rate than operating cost increases. We recommend that the City Manager engage Stantec to review their ten-year financial projections to incorporate the additional ongoing operating costs included in the adopted FY 2022 Proposed Budget.

3. Financing of Lifepak Equipment

Our recommendation to City Management is that they explore using a tax-exempt bank note for the financing of the Lifepak equipment over the seven year life of the asset. As such we believe that the \$300,000 cost estimate by OMB is reasonable. We believe that a tax-exempt bank note would be less expensive than vendor financing.

cc: Christopher Lagerbloom, City Manager
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Greg Chavarria, Assistant City Manager
Laura Aker Reece, Director, Office of Management and Budget
Alain Boileau, City Attorney
Jeff Modarelli, City Clerk

Exhibit 1 – ERP Project Payment Schedule

ERP Project Payment Schedule - Cloud

Year	Dates	Annual SaaS Subscription Payment	Annual Implementation Services Payment	Total Infor Annual Payment	3rd Party Project Cost	Total Project Payment
1	8/15/21 - 10/31/21	\$150,000	\$450,000	\$600,000	\$ 600,000	\$1,200,000
2	11/1/21 - 10/31/22	\$150,000	\$450,000	\$600,000	\$ 600,000	\$1,200,000
3	11/1/22 - 10/31/23	\$300,000	\$500,000	\$800,000		\$800,000
4	11/1/23 - 10/31/24	\$300,000	\$500,000	\$800,000		\$800,000
5	11/1/24 - 10/31/25	\$300,000	\$500,000	\$800,000		\$800,000
6	11/1/25 - 10/31/26	\$348,000	\$500,000	\$848,000		\$848,000
7	11/1/26 - 10/31/27	\$790,400	\$100,000	\$890,400		\$890,400
8	11/1/27 - 10/31/28	\$975,000	\$0	\$975,000		\$975,000
9	11/1/28 - 10/31/29	\$975,000	\$0	\$975,000		\$975,000
10	11/1/29 - 10/31/30	\$995,000	\$0	\$995,000		\$995,000
11	11/1/30 - 10/31/31	\$995,000	\$0	\$995,000		\$995,000
12	11/1/31 - 10/31/32	\$995,000	\$0	\$995,000		\$995,000
		\$7,273,400	\$3,000,000	\$10,273,400	\$1,200,000	\$11,473,400



*provided by Andrew Parker