



Memorandum

Memo No: 20/21-08

Date: 8/11/2021

To: Honorable Mayor and Commissioners

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

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

The City Auditor's Office (CAO) has performed a review of the FY 2022 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, as well as, limited testing of the evidence provided to substantiate staff's assertions. We relied on the strong relationship developed over the years working with the Office of Management and Budget (OMB) to gain an understanding of COVID related adjustments, analytics, and assumptions for potential revenue shortfalls and increased expenses.

CONCLUSION

The City Manager's initial proposed budget for the primary government as presented is balanced and all known and determinable revenues and expenditures are reasonable and materially correct.

In addition, the proposed millage is in compliance with Florida Statutes, and the priorities established in the Commission Annual Action Plan (CAAP) all show funding allocations in the coming year.

It must be noted that the rapidly increasing number of COVID cases represents a significant risk to both 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.

We will continue to work closely with OMB, the Finance Department, and the City Manager's Office to evaluate changes to the proposed budget before the first public hearing in September 2021.

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 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 2022 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 provided by the staff from the SHERPA software system. 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.

The CAO would like to recognize that OMB has continued its constructive dialogue with the Budget Advisory Board. Due to COVID, the Revenue Estimating Committee discussions in person were limited, but all departments participated in virtual meetings, phone calls, and limited in-person meetings to discuss their respective budgets and potential changes for the upcoming year. In addition, OMB staff have continued to develop and maintain a robust approach to organizing and compiling budget information and supporting documentation.

As in the past several years, the CAO considers the overall review of the Budget and OMB’s work compiling the budget to be a low-risk engagement due to the following criteria:

- The CAO 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 OMB, the Budget Advisory Board, the CAO, and the City Commission continue.
- OMB has had continuity of senior staff within the department and the quality of their work has also remained consistently high.
- No significant errors or misstatements were noted on previous reviews.

Methodology

The CAO performed various analytical procedures, reviewed budget support worksheets and made inquiries of OMB, Finance Department, and individual department budget coordinators, as needed. Additionally, the CAO compared the line item detail from the Proposed Budget to the projections of actual expenditures through September 30, 2020 and the FY 2021 adopted and amended budget. Furthermore, the CAO analyzed trends and variances of the three prior fiscal years’ budget versus actual to gain an historical perspective to identify opportunities to improve the accuracy of revenue and expenditure estimates.

Finally, as part of our audit work the CAO attended all virtual meetings, due to COVID, in- person meetings when possible, and any relevant meetings as they related to the development of the new budget. 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, the CAO continues to implement a continuous audit approach. This results in a deeper understanding of the departmental budget requests and service level enhancements.

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:

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.

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.

cc: Christopher Lagerbloom, City Manager
Tarlesha W. Smith, Esq., Assistant City Manager
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