

# **Final Audit Follow-Up**

**As of June 30, 2013**



**T. Bert Fletcher, CPA, CGMA**  
City Auditor

## **General Fund Reserves and Fund Balance**

**(Report #1024 issued September 29, 2010)**

**Report #1401**

**October 22, 2013**

### **Summary**

*The City has taken actions to increase the balance of the Deficiencies Fund to more appropriate levels. As of June 30, 2013, the balance was \$21.4 million, with \$18.8 million of that amount considered "currently available." Those amounts are not significantly below the policy amount of \$23.1 million. Additionally, the City has completed and/or resolved most of the action plan steps established to address issues identified in audit report #1024.*

This is our follow-up on our Audit of the General Fund and Fund Balance (Report #1024) issued on September 29, 2010. In our initial audit we examined the fund balance of the City's General Fund with a specific focus on the portion of the fund balance known as deficiency funds (reserves). We noted City policy provides for adequate General Fund reserves in accordance with best practices as established by the Government Finance Officers Association (GFOA) and by credit rating agencies. However, we reported the City's deficiency funds had decreased from \$26.8 million to \$5.3 million during the six-year period fiscal year (FY) 2004 through FY 2009. Additionally, we noted a new governmental accounting reporting standard that the City was to implement for FY 2011 would impact how the City's deficiency funds would be reported in the City's annual financial statements.

The primary focus of this follow-up was to review and report on the status and activity of the City's deficiency funds during the three-year period subsequent to our initial audit report (FY 2010 through FY 2012), and to identify and report on activity in FY 2013 through June 30, 2013. Overall, we found that there were significant increases to the balance of the City's deficiency funds. The main activities that increased the balance were:

- Transfers of General Fund operating surpluses (receipts in excess of disbursements).
- Investment earnings.
- Proceeds from the settlements of financial activity with Wachovia Bank and the Sunshine State Governmental Financing Commission Loan Pool.
- Return of unused funds previously transferred to the Stormwater Grant Fund.

In addition to identifying the increases to the City's deficiency funds, we identified uses of those funds during the same period. The main uses of the City's deficiency funds included:

- Transfers to the General Fund to help fund City Other Post Employment Benefits (OPEB).
- Payment of ongoing administrative expenses related to tropical storm recovery efforts.
- Payment of the settlement for the transfer of the Tallahassee-Leon County Civic Center to Florida State University.
- Payment of the costs associated with the design and construction of a new stormwater pond associated with the sale of the former City utility drive through center at the corner of Madison and Macomb Streets.

In accordance with City Commission Policy (CP) 224, Financing the Government, a separate "Deficiencies Fund" within the City's accounting system was established to account for General Fund Reserves. In accordance with new government accounting standards, the majority of the City's available General Fund deficiency funds are now accounted for in that Deficiencies Fund.

CP 224 provides for the City's Deficiencies Fund to maintain a balance of not more than two months of

general government operating expenditures. Based on the approved FY 2013 operating budget expenditures estimated at \$138.3 million, the Deficiencies Fund should therefore maintain a balance of approximately \$23.1 million. As of June 30, 2013, the balance of the Deficiencies Fund was \$21.4 million, of which \$18.8 was considered available. Those balances are \$1.7 and \$4.3 million less than the noted policy level. Notwithstanding the Deficiencies Fund balance is less than the policy prescribed amount, the balance nonetheless represents major improvements compared to the balance of only \$5.3 million at the end of FY 2009.

In addition to reporting of the status and changes of the City's deficiency funds, we followed-up on the five action plan steps established by management to address certain issues identified in the initial audit report (#1024). Of the five steps, three were considered completed and the remaining two steps are being turned over to management to ensure completion and/or resolution. The completed action plan steps relate to:

- Ensuring that each request of the City Commission for authorization to use the Deficiencies Fund is clearly identified as using the Deficiencies Fund.
- Periodically updating the City Commission on the status of the replenishment of the Deficiencies Fund.
- Notifying the City Commission of changes to the funding plan for the replenishment of the Deficiencies Fund.

The two outstanding action plan steps that are turned over to management to ensure completion relate to (1) considering better defining the circumstances under which it is appropriate to use the Deficiencies Fund and (2) inclusion of a schedule of activity showing the increases (sources) and decreases (uses) of the Deficiencies Fund in the annual budgetary closeout agenda item.

Overall, we commend management for actions taken to replenish the City's deficiency funds to a more appropriate level. We also appreciate the cooperation and assistance of the Department of Management and Administration (DMA) staff during this follow-up process.

### *Scope, Objectives, and Methodology*

We conducted the initial audit and this subsequent follow-up audit in accordance with the International Standards for the Professional Practice of Internal Auditing and Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### *Original Report #1024*

The objectives of the initial audit report (#1024) were to: 1) identify the components of the fund balance of the General Fund, 2) identify the activities/factors that have impacted the City's deficiency funds over time, 3) identify the best practices relating to fund balance and reserves, 4) determine if the status of the City's General Fund's fund balance and reserves was in accordance with established policies and best practices, and 5) determine how well the City's policy relating to General Fund reserves and fund balance meets established best practices and whether there are improvements that can be made to enhance the management of the City's deficiency funds and the transparency of the activities impacting those deficiency funds.

### *Report #1401*

This is the first and final follow-up on audit report #1024. The primary purpose of this follow-up is to report on the changes and activities that impacted the balance of the City's deficiency funds for the fiscal years 2010 through 2012. Changes and activity occurring in fiscal year 2013 to date (i.e., through June 30, 2013) were also identified and reported.

*(NOTE: The terms "deficiency funds" and "Deficiencies Fund" are used throughout this report. The term "Deficiencies Fund" represents a specific City fund accounted for separately within the City's accounting system. On the other hand, the term "deficiency funds" is a generic term used to identify a specific category of funds considered deficiency funds for financial statement reporting purposes. The Deficiencies Fund is the primary component of what is*

considered as deficiency funds for City financial statement reporting purposes.)

As part of this audit follow-up we also determined and reported on the progress and/or status of efforts to implement the action plan steps established by management to address issues identified in the initial audit (#1024).

To obtain information and assess the status we reviewed financial data, interviewed key City staff, and reviewed relevant documentation.

**Background – Initial Audit**

We issued our initial report (report #1024) on General Fund Reserves and Fund Balance on September 29, 2010. That audit examined the fund balance of the General Fund and its constituent parts, specifically the City’s deficiency funds. In that report we noted that the balance of deficiency funds had decreased from \$26.8 million in fiscal year (FY) 2004 to \$5.3 million in FY 2009. In addition to reporting on the status and balance of the City’s deficiency funds, we reported that the City’s fiscal policy governing the Deficiencies Fund incorporates best practices put forth by the Government Finance Officers Association (GFOA)

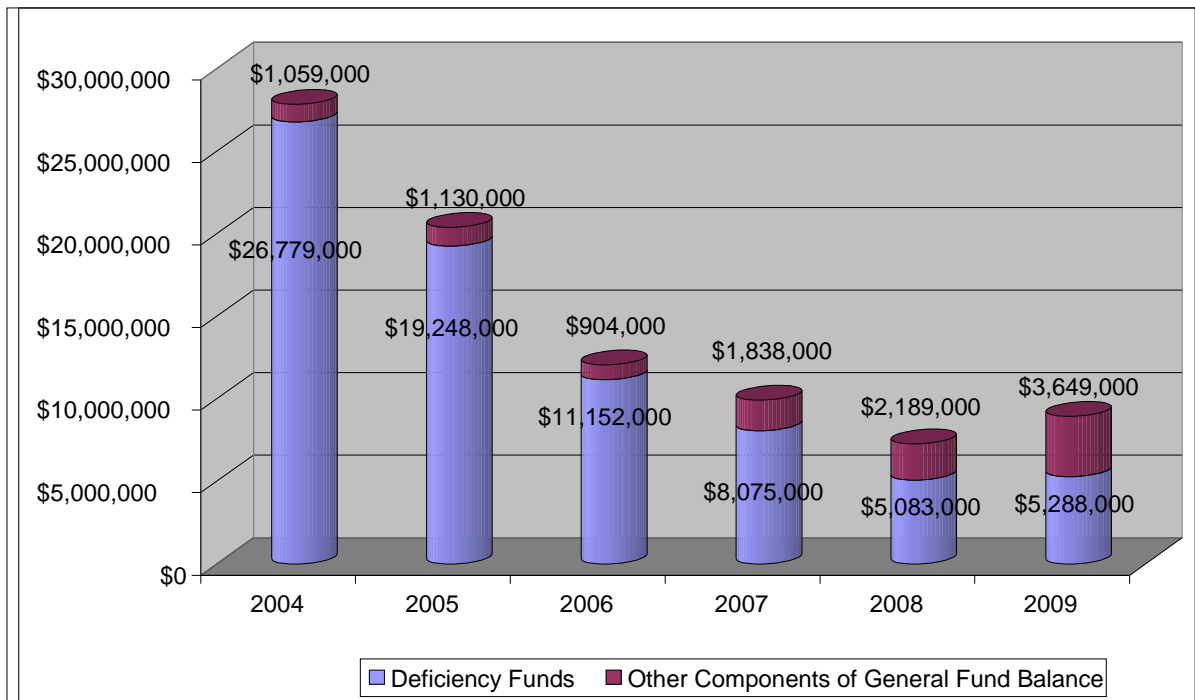
and various credit rating agencies. Additionally, we reported there was a new reporting standard that would impact how the City reports the fund balance of the General Fund, thereby impacting how the City’s deficiency funds are shown in the City’s annual financial statements.

**Fund Balance of the General Fund**

The Deficiencies Fund is one of several components of the fund balance within the City’s General Fund. The other components include for example, (1) inventory, (2) unexpended funds committed for operational projects, (3) and residual General Fund balances (not transferred to the Deficiencies Fund).

The initial audit report showed the fund balance of the General Fund had experienced a significant downward trend over the six-year period covering FY 2004 through FY 2009. Chart 1 below shows the fund balance of the General Fund for each of the six years. From that chart it can be seen that the fund balance of the General Fund decreased from almost \$28 million to under \$9 million, and the portion of the General Fund attributable to deficiency funds had decreased from \$26.8 million to \$5.3 million.

**Chart 1  
General Fund  
Fund Balance History FY 2004 – FY 2009**



Note: This chart is also included in the initial audit report (#1024).

We reported that the main drivers of the decrease in the City's deficiency funds were:

- Transfers from the Deficiencies Fund to the Fire Services Fund to cover shortfalls in that fund.
- The accounting treatment of debt associated with the City's acquisition of the Renaissance Center.
- Transfers from the Deficiencies Fund to StarMetro in excess of the amount budgeted.
- Loans from the Deficiencies Fund to the Building Code Enforcement Fund to cover operating deficits attributable to the downturn in the economy.
- Use of the Deficiencies Fund to cover a combination of other revenue shortfalls and expenditures in excess of budgeted amounts over the six-year period.

As reported, the above items accounted for over 97% of the \$21.5 million decrease in the City's deficiency funds over the six-year period.

### **City Policy and Best Practices Relating to General Fund Reserves**

In addition to showing the changes in and current status of the fund balance of the General and deficiency funds, we determined and reported in our initial audit that City policy provides for adequate General Fund reserves in accordance with best practices as established by the Government Finance Officers Association (GFOA) and by credit rating agencies. Specifically, Commission Policy (CP) 224, Financing the Government, provides for a Deficiencies Fund to provide for unforeseen expenditures. The policy provides for the Deficiencies Fund to be used sparingly and only with the permission (by appropriation) of the City Commission. The policy states the maximum level of the Deficiencies Fund should be two months of regular general government operating expenditures.

### **Change in the Reporting of Fund Balance**

As part of the initial audit we also noted that the Governmental Accounting Standards Board (GASB) issued a new standard (Statement No. 54: Fund Balance Reporting and Governmental Fund Balance Type Definitions) that requires a change in how the City reports its fund balance for governmental funds (includes the General Fund). Under the new standard, which became effective in FY 2011, the deficiency

funds are no longer shown as a separate item in the City's financial statements.

Prior to the implementation of GASB 54, the fund balance section of the City's comprehensive annual financial report (CAFR) contained sections that specifically identified the City's deficiency funds as a separate line item in the fund balance portion of the General Fund. With the implementation of GASB 54, deficiency funds are no longer shown as a separate line item. Instead, for FYs 2011 and beyond, deficiency funds are shown as part of "Spendable, Committed Fund Balance" in the fund balance section of the City's financial statements. *(Note: For purposes of this audit, the significance of the accounting change is that a review of the CAFR's underlying records is now necessary to ascertain the amount of the deficiency funds, whereas previously that amount was shown separately in the City's CAFR.)*

### **Background – Sources and Uses of Deficiency Funds**

As provided by City Commission Policy 224, the Deficiencies Fund accumulates funds through investment earnings on invested reserve funds and any other specific appropriation (source) approved by the City Commission. As previously stated within this report, reserve funds are to be used sparingly and only with permission of the City Commission (by appropriation). Some of the more common sources and uses of the Deficiencies Fund are addressed in the following paragraphs.

#### **Sources**

Increases to the Deficiencies Fund in recent years resulted primarily from:

- Investment earnings (unused funds are invested through the City Treasurer-Clerk's Office along with other available City funds).
- Operating surpluses within the General Fund (i.e., General Fund receipts in excess of General Fund expenditures; attributable to receipts in excess of those anticipated/budgeted and/or expenditures less than anticipated/budgeted).
- Proceeds from the sale of City properties.
- Reimbursements from other City funds and operations that received loans from the Deficiencies Fund.

- Reimbursements from disaster assistance grants awarded by Federal (Federal Emergency Management Agency or FEMA) and State agencies (Division of Emergency Management) when the Deficiencies Fund was the initial funding source for the City’s response to significant weather related events such as hurricanes and tropical storms.

- Provide immediate funding to timely address any significant weather related events such as hurricanes and tropical storms.
- Miscellaneous projects as appropriated by the City Commission (e.g., provide a source to pay debt on the City’s acquisition of the Renaissance Building).

**Uses**

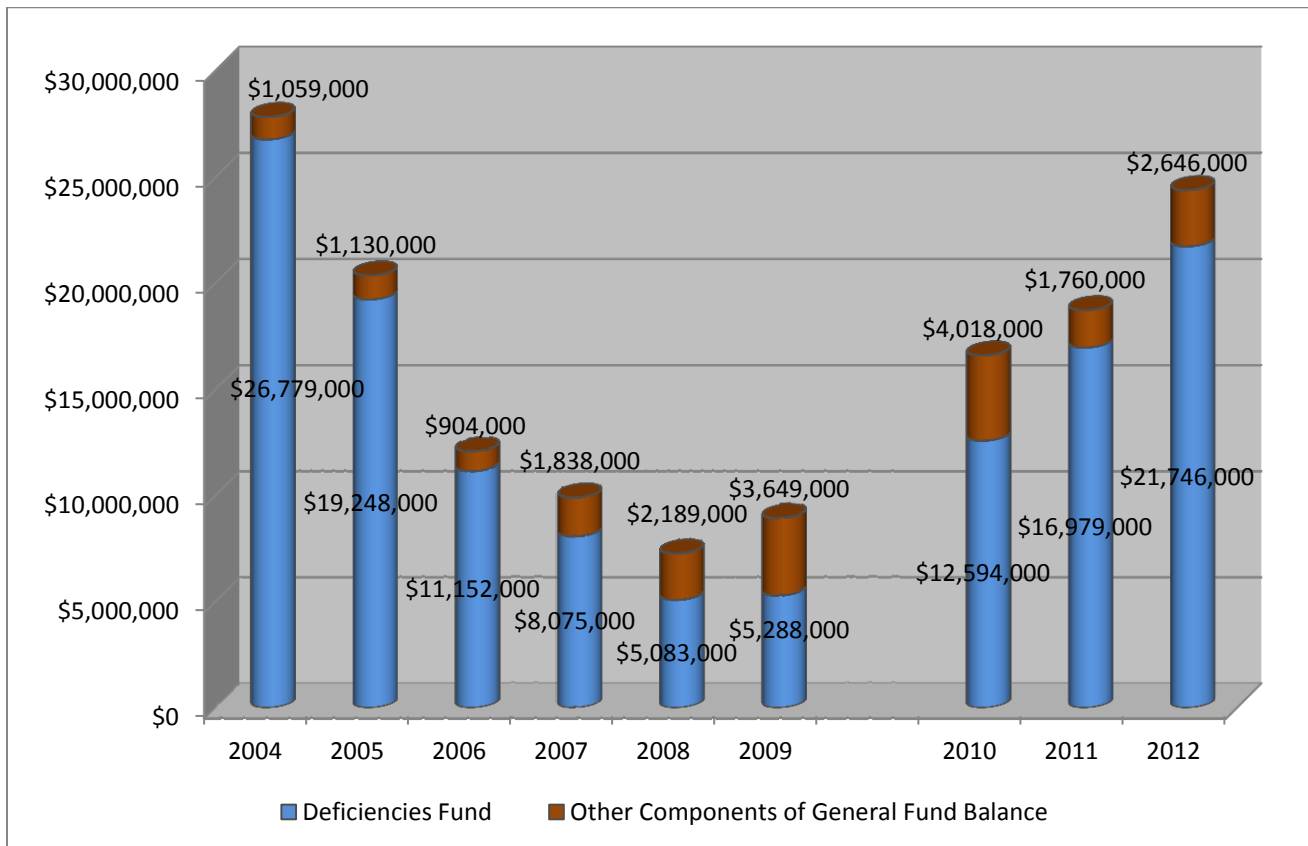
Some of the more common uses of the Deficiencies Fund in recent years included the following:

- Cover operating or other deficits in other City funds and departments (e.g., Fires Services and StarMetro).
- Loans to other City funds to cover deficits or shortages (e.g., loans to the Building Services Fund due to the revenue shortfalls attributable to the economic downturn).

**Current Status of Deficiencies Fund**

As previously stated, one purpose of this follow-up engagement was to address the current status of the Deficiencies Fund and to identify and report the changes and activities that impacted the Deficiencies Fund (and other funds reported as deficiency funds) during the period since the initial audit. Chart 2 presented below shows that during the period from the initial audit through FY 2012, the fund balance within the General Fund has increased significantly, with the majority of that increase attributable to increases in deficiency funds.

**Chart 2  
General Fund History  
FY 2004-2012**



**Sources of Increases and Uses of the Deficiency Funds**

balance (and other deficiency funds) for each complete fiscal year since the initial audit (FY 2010 through FY 2012).

Table 1 that follows shows the changes and activities (sources and uses) that impacted the Deficiencies Fund

**Table 1  
Sources (Increases) and Uses (Decreases) of the City’s Deficiency Funds  
(in thousands)**

	FY 2010	FY 2011	FY 2012	Total
<b>Sources (see Note 1)</b>				
Investment Earnings	\$ 236	\$ 180	\$ 195	\$ 611
General Fund Receipts in Excess of Expenditures	\$ 3,118	\$ 1,295	\$ 3,582	\$ 7,995
Return of Unused StarMetro Funds	\$ 48	\$ 17	\$ -	\$ 65
Financial Settlements	\$ -	\$ -	\$ 765	\$ 765
Return From Stormwater Grant Fund	\$ -	\$ -	\$ 910	\$ 910
<b>Subtotal of Sources</b>	<b>\$ 3,402</b>	<b>\$ 1,492</b>	<b>\$ 5,452</b>	<b>\$ 10,346</b>
<b>Uses (see Note 2)</b>				
Tropical Storm Recovery Expenses	\$ 70	\$ 74	\$ 19	\$ 163
Budgeted Transfer to General Fund	\$ 400	\$ 150	\$ -	\$ 550
Budgeted Transfer to Building Code Fund	\$ -	\$ 30	\$ -	\$ 30
Civic Center Settlement	\$ -	\$ -	\$ 250	\$ 250
Land Acquisition for Stormwater Pond	\$ -	\$ -	\$ 400	\$ 400
<b>Subtotal of Uses</b>	<b>\$ 470</b>	<b>\$ 254</b>	<b>\$ 669</b>	<b>\$ 1,393</b>
<b>Misc. Accounting Adjustments (see Note 3)</b>	<b>\$ (44)</b>	<b>\$ 15</b>	<b>\$ 38</b>	<b>\$ 9</b>
<b>Change in Deficiencies Fund</b>	<b>\$ 2,888</b>	<b>\$ 1,253</b>	<b>\$ 4,821</b>	<b>\$ 8,962</b>
<b>Change in Other Fund Balance Reported as Deficiency Funds (see Note 4)</b>	<b>\$ 4,418</b>	<b>\$ 3,132</b>	<b>\$ (54)</b>	<b>\$ 7,496</b>
<b>Total Change in the Amount Reported as Deficiency Funds in the CAFR</b>	<b>\$ 7,306</b>	<b>\$ 4,385</b>	<b>\$ 4,767</b>	<b>\$ 16,458</b>
<i>Note 1: See "Sources" Explanation section immediately following this table for further explanation of specific line items.</i>				
<i>Note 2: See "Uses" Explanation section of this report following this table for further explanation of specific line items.</i>				
<i>Note 3: These represent various accounting adjustments. Examples include (1) adjustments to investment values for changes in fair market value and (2) adjustments for differences between estimated and actual receipts and expenditures attributable to storm-related events.</i>				
<i>Note 4: See "Change in Other Fund Balance Reported as Deficiency Funds" for further explanation.</i>				

**“Sources” Explanation**

Table 1 above identifies sources of funds which increased the Deficiencies Fund. Those sources are described in the following paragraphs.

Investment Earnings. The Deficiencies Fund consists primarily of cash holdings that are invested through the City Treasurer-Clerk’s non-pension investment function. The earnings from those investments are

returned to the Deficiencies Fund. Investment earnings over the three-year period exceeded \$610,000.

General Fund Receipts in Excess of Expenditures. City Commission Policy 224, Financing the Government, provides that year-end surpluses within the General Fund will be used to fund the Deficiencies

Fund until that fund's target level is achieved. Year-end surpluses occur in those years when General Fund receipts exceed related disbursements. As previously stated, the policy established target level for the Deficiencies Fund is two months of regular general government operating expenditures.

The amounts reported for this line item in Table 1 (\$7,995,000 for all three years) represent receipts collected in excess of disbursements within the General Fund for the respective years. Those excess receipts were attributable, in part, to one-time proceeds resulting from the sale of certain City properties, for which the sale proceeds were specifically designated as part of the City's plan to replenish the Deficiencies Fund. Applicable City properties included the former City utility drive through center located on the corner of Madison and Macomb Streets sold to a developer (\$1,178,453) and the City Mabry Street parcel that was sold to Goodwill Industries (\$600,412). Those excesses were also attributable, in part, to \$824,000 in earnings on invested bond proceeds (Capital 2004 Bond Series) which were similarly designated as part of the plan to replenish the Deficiencies Fund.

Return of Unused StarMetro Funds. The General Fund has traditionally subsidized (provided funding to) StarMetro operations. For FY 2010 and 2011, the entire amounts transferred to StarMetro as part of that subsidy were not used. Those unused amounts, \$47,949 and \$16,963 respectively, were transferred to the Deficiencies Fund.

Financial Settlements. In FY 2012, funds totaling \$765,380 received by the City in connection with three financial settlements were deposited into the Deficiencies Fund in accordance with the City's plan to replenish the fund.

In the first instance, the City received \$426,347 as the City's portion of a settlement resulting from a judgment by a U.S. District Court against Wachovia Bank. The judgment resulted from a Securities and Exchange Commission complaint. The City was not a direct party to the action; however, the City received proceeds from the judgment based on the schedules of payees specified by the Court.

In the second instance, the City received \$319,997 from the Sunshine State Governmental Financing Commission Loan Pool (Sunshine State) as a result of the dissolution of the loan pool program. When the loan pool was dissolved the remaining equity in the pool was distributed to the participants in the pool.

The amount received was the City's share of that equity.

In the third instance, the City received \$19,036 in connection with a bond settlement.

Return of Funds from the Stormwater Grant Fund. In FY 2012, as part of the City Auditor's Audit of Selected Stormwater Activity (report #1302), it was determined that \$909,449 held and accounted for in the City's Stormwater Grant Fund represented funds that should be returned to the Deficiencies Fund. Specifically, it was determined that funds in that amount had been transferred from the Deficiencies Fund to the Stormwater Grant Fund when City staff originally thought expenditures, incurred to address stormwater drainage issues resulting from storm events, would exceed the amount reimbursable from the Federal Emergency Management Agency (FEMA). As reported in that audit, it turned out that Federal FEMA funds were sufficient to cover those expenditures. Accordingly, the \$909,949 (plus an additional \$868 for a total of \$910,317) was returned to the Deficiencies Fund.

### **"Uses" Explanation**

Table 1 on page 6 shows uses of the Deficiencies Fund during the three-year period FY 2010 through FY 2012 totaled \$1,393,000. Our review showed those uses were approved through the City's budget process and/or otherwise authorized by the City Commission.

Tropical Storm Recovery Expenses. A traditional use of the Deficiencies Fund has been funding recovery efforts from tropical weather events. When those events occur and the City incurs recovery-related expenses, the City applies for reimbursement from the Federal Emergency Management Agency (FEMA) and the State Department of Emergency Management (formerly the Department of Community Affairs). Generally, at the conclusion of the recovery efforts the City's Budget Office, in conjunction with other applicable City departments, determines the amount of expenditures incurred during the recovery and applies for reimbursement. Often the recovery process is lengthy and takes several years to be completed. During the recovery process administrative expenses continue to be incurred through the monitoring and tracking of the projects that were established to account for the recovery efforts/expenditures. Until all expense recovery efforts are exhausted, administrative expenses continue to be incurred and are recorded in (charged to) the Deficiencies Fund as part of the recovery efforts. For each of the three years of the

follow-up period, FY 2010 through FY 2012, amounts of \$69,853; \$73,600; and \$19,500 respectively were expended on administrative activities related to monitoring and tracking the reimbursement process.

Budgeted Transfers to the General Fund. As provided by the FY 2010 and FY 2011 approved operating budgets, transfers of \$400,000 (FY 2010) and \$150,000 (FY 2011) were made from the Deficiencies Fund to the General Fund. As explained by the Department of Management and Administration (DMA), those transfers were made for the purpose of funding a portion of the General Fund's share of contributions for Other Post Employment Benefits (OPEB).

Budgeted Transfer to the Building Code Fund. In FY 2011, an amount of \$29,550 was transferred to the City's Building Code Fund pursuant to that year's approved operating budget. In our discussions regarding this transfer, DMA Budget Office staff indicated the transfer was budgeted in error. The impact was, however, offset through the repayments of the amount previously loaned by the Deficiencies Fund to the Building Code Fund.

Civic Center Settlement. On May 23, 2012, the City Commission authorized the use of \$250,000 from the Deficiencies Fund in connection with the finalization of the transfer of the Tallahassee-Leon County Civic Center to Florida State University. The funds were to be used by the Civic Center Authority towards settlement of a lawsuit (i.e., the "Hotel case"). Those funds were paid in June 2012. As part of the overall agreement, certain rights and obligations of the City with regard to the Civic Center were terminated.

Land Acquisition for Stormwater Pond. In March 2012 the City Commission authorized use of \$400,000 from the proceeds of the sale of land, on which the former City utility drive through center was located (corner of Madison and Macomb Streets), for the design and construction of a new stormwater pond to replace the pond that was previously located on the land being sold. As the sale was not finalized at that time, the Deficiencies Fund was used as the initial funding source for that new stormwater pond. As explained previously within this report, upon finalization of the sale of the former City utility drive through center, the resulting sales proceeds (\$1,178,453) were eventually transferred into the Deficiencies Fund via the year-end closeout process.

## **Change in Other Fund Balance Reported as Deficiency Funds**

For each of the three years covered by this follow-up, the amounts reported in the City's comprehensive annual financial reports (CAFR) as deficiency funds were based on different conditions. In the following paragraphs we explain the variations in reporting and the adjustments to account for the total change in deficiency funds from year to year.

In FY 2010 the amount reported as "Unreserved, Designated for deficiency funds" in the CAFR was comprised of the amount in the Deficiencies Fund as well as other unrestricted/unassigned/unreserved fund balance of the General Fund. As can be seen by the amount shown as "Change in Other Fund Balance Reported as Deficiencies Fund" at the bottom of Table 1, a large portion of the reported change in the deficiency funds is attributable to items that can be considered other parts of the fund balance of the General Fund.

In FY 2011, GASB Statement 54, addressed on page 10 of this report, went into effect. This statement impacted what is considered deficiency funds and how those are reported in the City's comprehensive annual financial report (CAFR). As required by the statement, the amounts reported as deficiency funds within the City's CAFR are now included in the amount reported as "Spendable: Committed." Additionally, the GASB statement required some items previously not included as deficiency funds to now be reported as deficiency funds (e.g., advances by the Deficiencies Fund to other funds). Conversely, the statement also provided that some items previously considered deficiency funds to be reported separately (e.g., residual balances within the portion of the City's General Fund assigned for operational projects). The net effect of those and similar reclassifications from the implementation of GASB Statement 54 accounted for the \$3,132,000 increase in the amounts reported in the CAFR as deficiency funds for FY 2011.

**For FY 2012, primarily because of the implementation of GASB Statement 54, the amounts reported as deficiency funds within the City's annual financial statements, for the most part, mirrored the amounts of the Deficiencies Fund.**



**FY 2013 Activity through June 30, 2013**

During FY 2013 (through June 30, 2013) there was minimal activity in the Deficiencies Fund. In our review of the fund's activity we noted three items impacting the balance of the fund. Those items are as follows:

- Investment earnings of \$157,862.
- Receipt of monies from the settlement of easement activity with the Florida Gas Transmission Company (approved by the City Commission on August 22, 2012) in the amount of \$237,450.
- Administrative expenses related to tropical storm cost recovery activities in the amount of \$15,931.

The net effect of the above identified activity is an increase in the Deficiencies Fund by \$411,243. However, additional activity is anticipated as part of the annual financial closeout process and this activity could significantly impact the final year-end balance of the Deficiencies Fund.

**Conformance with City Policy and Current Status**

As noted previously, the provision for General Fund reserves as established in City Commission Policy 224 is in accordance with best practices as provided by the GFOA and credit rating agencies. City Commission Policy 224 provides for a maximum level of reserves through the Deficiencies Fund in an amount equal to two months of general government operating expenditures. Based on the FY 2013 approved operating budget, general government operating expenditures were estimated at \$138.3 million. Two months of those projected expenditures equates to \$23.1 million.

The Deficiencies Fund balance as of June 30, 2013 was \$21.4 million. Of that amount, \$18.8 million was considered currently available. The remaining \$2.6 million represents a loan receivable due from the Building Code Fund (\$1.85 million) and \$750,000 committed to guarantee loans under the Economic and Community Development department's affordable housing assistance program. Accordingly, while significant increases in the Deficiencies Fund balance have been realized in the last few years, the balance as of June 30, 2013, still remained below the levels suggested by City policy. Specifically, as a whole, the Deficiencies Fund was \$1.4 million less than the target level; if evaluated from the perspective of "currently available funds," the Deficiencies Fund was \$4.3 million less than the target level.

As shown on page six of this report, uses of the Deficiencies Fund in recent years have been curtailed relative to prior years. At the time of this follow-up audit, the only "current" authorized (appropriated) uses of the available funds were \$2,015,865 to address any General Fund operating deficit for FY 2013. Other future uses may be authorized by the City Commission as deemed appropriate for special circumstances.

While not appropriate to project future increases to the Deficiencies Fund due to uncertainty of future events, it is probable that some increases will result from continued investment earnings on available funds and reimbursements from the Building Code Fund for the loan made in a prior year. Other increases could occur from specific actions of the City Commission (such as designations of proceeds from future sales of certain City properties) or from future year-end surpluses realized in the General Fund. There is also a potential for other increases through recovery of certain expenses from Federal and State grantor agencies as described in the following paragraph. However, as stated, the amount of any future increases is not readily determinable because of the inherent uncertainty of future events and circumstances.

As noted in previous sections of this report, the Deficiencies Fund has traditionally been used to provide the initial funding for the City's response to significant weather events, primarily hurricanes and tropical storms that necessitate the use of City resources for repair and cleanup of streets, utility infrastructure, etc. Efforts are made to recover those expenses through emergency grant funds made available by FEMA and/or the State Division of Emergency Management. Often, the reimbursement (recovery of expenses) process is lengthy and may occur over several years. As of the end of our audit fieldwork in August 2013, City staff was still seeking reimbursement from FEMA and the State Division of Emergency Management for some remaining expenses incurred in connection with Tropical Storm Fay (occurred in 2008). The amount of reimbursement sought is \$287,420. Because of the uncertainty as to whether the grantor agencies will reimburse any of that remaining amount, the City has not recorded a receivable in the City's accounting system for those funds. Accordingly, that amount is not included as part of the Deficiencies Fund balance as reported above. Nonetheless, any success by the City in collecting that amount will further increase the balance of the Deficiencies Fund.

**Impact of the Change in Reporting Standard**

As previously stated, there was a change in the governmental accounting reporting standard (GASB 54) that governs how the fund balance of the City’s General Fund should be presented in the City’s annual CAFR. The new standard became effective for the City in FY 2011. Our review of the CAFRs for FYs 2011 and 2012 showed that the City successfully implemented GASB 54. For illustrative purposes, Chart 3 that follows shows the FY 2012 balance sheet portion of the City’s CAFR for the General Fund.

In this format the Deficiencies Fund is no longer shown as a separate, specifically identified line item. However, the amount representing the Deficiencies Fund is included in the Spendable/Committed portion (\$21,746) of the fund balance. With this format the City has complied with the requirements of GASB 54.

**Status of Action Plan Steps**

As part of the initial audit, management developed an action plan to address the recommendations made in the initial audit report. Following is a table of those action plan steps and their current status.

**Chart 3  
General Fund  
Fund Balance Presentation  
(in thousands)**

Non-spendable	\$709
Spendable:	
Restricted	--
Committed	\$21,746
Assigned	\$1,777
Unassigned	\$160
Total Fund Balance	\$24,392

<b>Action Plan Steps from Report #1024</b>	
<b>Action Plan Steps (All Due as of June 30, 2013)</b>	<b>Current Status</b>
<b>Improve the reporting of the status of the Deficiencies Fund</b>	
<ul style="list-style-type: none"> <li>Discuss with the City Commission the term “used sparingly” as used in CP 224 to determine whether it continues to be adequate or whether the term should be replaced to convey a higher level of criteria and/or circumstances when it is appropriate to reduce the balance in the Deficiencies Fund.</li> </ul>	<ul style="list-style-type: none"> <li>➤ <b>Turned over to Management</b> - City management has considered the usage of the term “used sparingly” as it relates to the Deficiencies Fund in CP 224. However, at this point management has not come to a decision as to whether a recommendation to change the term should be brought before the City Commission. Responsibility for ensuring completion of this action plan is turned over to management.</li> </ul>
<ul style="list-style-type: none"> <li>Each request of the City Commission for authorization to draw funds from the Deficiencies Fund will specifically identify that the request involves drawing down the Deficiencies Fund.</li> </ul>	<ul style="list-style-type: none"> <li>✓ <b>Complete</b> - During the follow-up period there were instances where the Deficiencies Fund was used for various items, such as the settlement of the transfer of the Tallahassee-Leon County Civic Center to Florida State University and the construction of a stormwater pond related to a sale of City property. In instances where the Deficiencies Fund was used, it was clearly</li> </ul>

<ul style="list-style-type: none"> <li>• A separate schedule will be included in the City Commission agenda item for that annual budgetary closeout that reconciles the beginning and ending balance of the Deficiencies Fund and provides a detailed listing of the causes of the changes in the fund’s balance (increases or decreases).</li> </ul>	<p>identified that the source of funds for the action was the Deficiencies Fund.</p> <p>➤ <b>Turned over to Management</b> - For fiscal years 2010 through 2012 the agenda items for the annual budgetary closeout has not included a schedule which provides a detailed listing of the items that resulted in changes to the Deficiencies Fund. After bringing this to their attention, management indicated the schedule would be included in the FY 2013 budgetary closeout agenda item.</p> <p>We have included as Table 1 within this report a schedule that identifies the sources of funds that increased the balance of the Deficiencies Fund and activities that used/decreased that balance. We recommend management follow through with their stated intention to provide similar information in the future agenda items for budgetary closeouts. Responsibility for ensuring completion of this action plan is turned over to management.</p>
<p><b>Replenish the Deficiencies Fund in accordance with the instructions provided by the City Commission</b></p>	
<ul style="list-style-type: none"> <li>• Periodically update the City Commission on the status of the replenishment of the Deficiencies Fund.</li> </ul>	<p>✓ <b>Complete</b> - We identified several instances throughout the follow-up period where the City Commission was updated as to the status of the Deficiencies Fund during the three years of this follow-up period. As such, we will consider this action plan step complete.</p>
<ul style="list-style-type: none"> <li>• Notify the City Commission of changes to the “Future Funding Plan” when the sources of funds added or removed are significant to the plan to replenish the Deficiencies Fund.</li> </ul>	<p>✓ <b>Complete</b> - To date there have not been any significant changes to the “Future Funding Plan.”</p> <p><b>Audit Comment:</b> One aspect of the plan was to transfer earnings on the invested proceeds of the City’s 2004 Capital Bond Series to the Deficiencies Fund. As noted previously within this report, \$824,000 of the FY 2010 earnings was transferred to the Deficiencies Fund. However, none of the subsequent earnings on those invested proceeds were transferred. In response to our inquiry on this matter, management acknowledged the circumstances but indicated the funds from the 2004 Capital Bond Series (including subsequent investment earnings thereon) were fully expended in FY 2013 and, as such, there were no additional investment earnings available to be transferred to the Deficiencies Fund. <u>We recommend</u> in future similar circumstances the funding plan established to replenish the Deficiencies Fund be reviewed by management and be consistently followed or changed as applicable.</p>
<ul style="list-style-type: none"> <li>• Action Plan from Initial Audit Report #1024.</li> </ul>	<p>✓ Action Plan Step Completed.</p> <p>➤ Responsibility for Ensuring Completion of Action Plan Step Turned Over to Management.</p>

## *Conclusion*

Management has taken positive steps to increase the balance of the City's deficiency funds and to address the issues identified in our initial audit report.

Specifically, the City has significantly increased the balance of the City's deficiency funds in the period since our initial audit; from a balance of \$5.3 million as of the end of FY 2009 to a balance of approximately \$21.9 million as of June 30, 2013. The major reasons for the increase were:

- Transfers of General Fund operating surpluses (receipts in excess of disbursements). Those surpluses were attributable, in part, to proceeds from the sale of certain City properties and investment earnings on certain bond proceeds designated to replenish the City's Deficiencies Fund.
- Investment earnings on invested deficiency funds.
- Proceeds from the settlements of financial activity with Wachovia Bank and the Sunshine State Governmental Financing Commission Loan Pool.
- Return of unused funds previously transferred to the Stormwater Grant Fund.

Three of the five action plan steps developed to address issues identified in our initial audit report were completed. The remaining two action plan steps were turned over to management to ensure completion and/or resolution.

We also found the City has successfully implemented a new governmental accounting reporting standard that changed how the City presents deficiency fund balance information in the City's comprehensive annual financial report (CAFR).

Overall, management has taken appropriate and effective actions to replenish the City's deficiency funds to a more appropriate level. We appreciate the cooperation and assistance provided to us by DMA Accounting Services and Budget Office staffs during this audit follow-up process.

## *Appointed Official's Response*

### **City Manager:**

I am pleased that as a result of staff recommendations and prudent fiscal management the City's deficiency fund balance has increased from a low of \$5.3 million in FY 2009 to the approximately \$21.9 million as of June 30, 2013. This has been done during some of the most challenging fiscal times facing municipal governments across the state and nation. I am also pleased to see that recommendations made by the original audit have been addressed by staff. I would like to thank the City Auditor and the Department of Management & Administration for their work and follow-up on this audit.

Copies of this final audit follow-up #1401 or audit report #1024 may be obtained from the City Auditor's website (<http://talgov.com/auditing/index.cfm>) or via request by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (Office of the City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail ([auditors@talgov.com](mailto:auditors@talgov.com)).

Audit follow-up conducted by:  
Dennis Sutton, CPA, CIA, Sr. IT Auditor  
T. Bert Fletcher, CPA, CGMA, City Auditor