

KATHLEEN PASSIDOMO
President of the Senate



PAUL RENNER
Speaker of the House



Joint Legislative Auditing Committee

Representative Michael Caruso, Alternating Chair
Senator Jason Pizzo, Alternating Chair

Meeting Packet

Monday, October 16, 2023
314 House Office Building
(Mashburn Hall)

3:30 p.m. – 5:30 p.m.

The Florida Legislature
COMMITTEE MEETING AGENDA
JOINT LEGISLATIVE AUDITING COMMITTEE

Representative Michael A. “Mike” Caruso, Alternating Chair
Senator Jason W. B. Pizzo, Alternating Chair

MEETING DATE: Monday, October 16, 2023

TIME: 3:30 P.M. – 5:30 P.M.

PLACE: 314 House Office Building (Mashburn Hall)

MEMBERS:

Senator Jason Brodeur
Senator Tracie Davis
Senator Nick DiCeglie
Senator Corey Simon

Representative Christopher Benjamin
Representative Peggy Gossett-Seidman
Representative Dianne “Ms Dee” Hart
Representative Rachel Lora Saunders Plakon
Representative Taylor Michael Yarkosky

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1. Consideration of a request for an Auditor General operational audit of the City of North Miami Beach submitted by Senator Pizzo
 2. City of Gainesville: City officials and staff to appear before the Committee to provide a status update and respond to questions
 3. Presentation of the Auditor General’s follow-up operational audit of the City of Gainesville (if available) and the response from the City



THE FLORIDA SENATE

SENATOR JASON W.B. PIZZO

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COMMITTEE MEMBERSHIP:

Joint Legislative Auditing,
Chair

Appropriations

Appropriations
Committee on Criminal &
Civil Justice

Community Affairs

Criminal Justice

Finance & Tax

Military & Veterans
Affairs, Space, and
Domestic Security

Resiliency

KATHLEEN PASSIDOMO
President of the Senate

DENNIS BAXLEY
President Pro Tempore

March 7, 2023

The Honorable Michael A. Caruso, Alternating Chair
Joint Legislative Auditing Committee
111 West Madison Street. Room 876
Tallahassee, FL 32399-1400

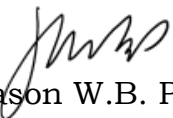
Dear Chair Caruso:

I am requesting the Joint Legislative Auditing Committee to direct the Auditor General to perform an operational audit of the City of North Miami Beach (City).

The audit scope should include the City's compliance with policies and procedures, applicable state laws, rules, regulations, contracts, and good business practices in the areas of:

- The use of City credit cards, specifically focusing on the City's review and maintenance and documentation to support the public purpose of such expenditures; and
- Any other areas the Auditor General deems appropriate.

Sincerely,


Jason W.B. Pizzo

STAFF ANALYSIS

(Updated)

Date: October 11, 2023

Subject: Request for an Operational Audit of the City of North Miami Beach

Analyst Coordinator

White ^{DW} DuBose ^{KD}

I. Summary

The Joint Legislative Auditing Committee (Committee) has received a request from Senator Jason Pizzo to have the Committee direct the Auditor General to conduct an operational audit of the City of North Miami Beach.

II. Present Situation

Current Law

Joint Rule 4.5(2) provides that the Legislative Auditing Committee may receive requests for audits and reviews from legislators and any audit request, petition for audit, or other matter for investigation directed or referred to it pursuant to general law. The Committee may make any appropriate disposition of such requests or referrals and shall, within a reasonable time, report to the requesting party the disposition of any audit request.

Joint Rule 4.5(1) provides that the Legislative Auditing Committee may direct the Auditor General or the Office of Program Policy Analysis and Government Accountability (OPPAGA) to conduct an audit, review, or examination of any entity or record described in Section 11.45(2) or (3), *Florida Statutes*.

Section 11.45(3)(a), *Florida Statutes*, provides that the Auditor General may, pursuant to his or her own authority, or at the discretion of the Legislative Auditing Committee, conduct audits or other engagements as determined appropriate by the Auditor General of the accounts and records of any governmental entity created or established by law.

Section 11.45(2)(j), *Florida Statutes*, provides, in part, that the Auditor General shall conduct a follow-up to his or her audit report on a local governmental entity no later than 18 months after the release of the audit report to determine the local governmental entity's progress in addressing the findings and recommendations contained in the previous audit report.

Request for an Operational Audit of the City of North Miami Beach

Senator Pizzo has requested the Committee to direct an operational audit of the City of North Miami Beach (City) and requested that the scope of the audit include the City's compliance with policies and procedures, applicable state laws, rules, regulations, contracts, and good business practices in the areas of:¹

- The use of City credit cards, specifically focusing on the City's review and maintenance and documentation to support the public purpose of such expenditures; and
- Any other areas the Auditor General deems appropriate.

Background

The City was originally incorporated in 1927 under the provisions of Chapter 12756, *Laws of Florida*, as the Town of Fulford. In 1931, Chapter 15824 (No. 106), *Laws of Florida*, abolished the Town of Fulford and established a municipal corporation named the City of North Miami Beach. The City is located in Miami-Dade County and has an estimated population 43,591.² The City operates under a Commission-Manager form of government,³ and is governed by an elected Mayor and six Commissioners⁴ who each serve four-year terms.⁵ Together, as the City Commission, they are responsible for enacting ordinances, resolutions and regulations governing the City, as well as appointing the members of various advisory boards, the City Manager, the City Attorney and the City Clerk.⁶ The City Manager is responsible for the "enforcement of laws and ordinances; appointing and supervising the department directors of the City; submitting the proposed annual budget; advising [the] Commission as to the financial condition of the City; and overseeing the day-to-day operations of the City."⁷

The City "provides a full range of municipal services for its citizens. These include public safety (fire protection is provided by Miami-Dade County), water, sewer, and stormwater utilities, public works, parks and recreation facilities, public library, code compliance, planning and zoning, economic development, and general and administrative services. A franchise contractor provides the City's sanitation services."⁸ In addition, the City Commission acts as the Board of Directors for the North Miami Beach Community Redevelopment Agency (CRA); the Mayor is the Chairman, and the City Manager is the CRA Executive Director.⁹

¹ Letter from Senator Jason W.B. Pizzo to The Honorable Michael A. Caruso, Alternating Chair, Joint Legislative Auditing Committee dated March 7, 2023 (on file with the Committee).

² University of Florida, College of Liberal Arts and Sciences, Bureau of Economic and Business Research, *Florida Estimates of Population by County and City 2022 (Table 1 only)*, page 16, available at https://www.bebr.ufl.edu/wp-content/uploads/2022/12/estimates_2022.pdf (last visited October 12, 2023).

³ Note 1 to the Financial Statements, *Annual Comprehensive Financial Report of the City of North Miami Beach, Florida for the Fiscal Year Ended September 30, 2022*, page 44.

⁴ City of North Miami Beach's website: <https://www.cityymb.com/385/Mayor-City-Commission> (last visited October 12, 2023).

⁵ The City's Charter (Code of Ordinances of the City of North Miami Beach) specifies that the Commissioners serve four-year terms.

⁶ *Letter of Transmittal, Annual Comprehensive Financial Report of the City of North Miami Beach, Florida for the Fiscal Year Ended September 30, 2022*, page 2.

⁷ *Id.*

⁸ *Id.*

⁹ *Id.*

Concerns

Senator Pizzo's office has become aware of allegations regarding the misuse of City credit cards (p-cards) by City officials and staff, including costs for travel without a clear public purpose.

Other Concerns and Information

Concerns have also been raised in the local media relating to the distribution of Publix gift cards by City officials and staff prior to the City's municipal election. Some of the reported issues include:¹⁰

- The City spent \$225,000 to buy \$150 Publix gift cards and distributed them over three days of events.
- The Miami Dade Commission on Ethics received a report on the event because “[i]t exposed a large crowd to political campaign material.”
- One City Commissioner “eagerly took credit” for the event, making “Facebook Live posts” and stating “It’s not taxpayer money.”
- “On Aug. 16, the allocation of \$225,000 in public funds for the giveaway passed with little discussion during a [City C]ommission meeting. It was done through a COVID-aid-related resolution that directed the [C]ity [M]anager to allocate the gift cards to [City] residents in financial hardship. The resolution also specified the distribution needed to be done within 45 days of that meeting. Instead, the giveaways that [the City Commissioner] used to campaign for votes were held just as mail-in ballots were arriving to [C]ity voters - ahead of the November elections. [The City Commissioner]’s political campaign materials were visible at the events, but not the [C]ity’s required checks of the beneficiaries’ proof of residency or hardship. City officials declined to comment.”

In May 2023, two City employees were accused of stealing some of the above-noted Publix gift cards and arrested. Specifically, it was reported by the local media that:

- A City public affairs employee was accused of stealing \$1,200 in Publix gift cards and spending \$1,137.82 at various Publix stores from March to May 2023. The employee was “arrested on charges of grand theft and organized scheme to defraud” and has since been fired by the City.¹¹
- The City’s human resources director was fired after an investigation determined that he used two Publix gift cards, totaling \$287.89, at a Publix in Fort Lauderdale. He was subsequently arrested on “charges of organized scheme to defraud and petit theft.”¹²

¹⁰ Glenna Milberg, Reporter, *Ethics of city’s Publix gift card giveaway questioned amid commissioner’s campaign*, WPLG Local 10 News, October 10, 2022. Available at: <https://www.local10.com/news/local/2022/10/10/ethics-of-citys-publix-gift-card-giveaway-questioned-amid-commissioners-campaign/> (last visited October 12, 2023).

¹¹ Chris Gothner, Digital Journalist, *North Miami Beach city worker accused of stealing Publix gift cards meant for giveaway*, WPLG Local 10 News, May 18, 2023. Available at: <https://www.local10.com/news/local/2023/05/18/north-miami-beach-city-worker-accused-of-stealing-publix-gift-cards-meant-for-giveaway/> (last visited October 12, 2023).

¹² Chris Gothner, Digital Journalist, *Police arrest 2nd North Miami Beach city employee in Publix gift card theft case*, WPLG Local 10 News, May 25, 2023. Available at: <https://www.local10.com/news/local/2023/05/25/police-arrest-2nd-north-miami-beach-employee-in-publix-gift-card-theft-case/> (last visited October 12, 2023).

Financial Audit

The City has obtained annual financial audits of its accounts and records by an independent certified public accountant (CPA). The City has submitted the audit reports to the Auditor General's Office in accordance with Section 218.39(1), *Florida Statutes*.¹³

The most recent financial audit report submitted to the Auditor General is for the 2021-22 fiscal year and it included the following finding that the auditors categorized as a significant deficiency:¹⁴

Bank Reconciliations:¹⁵

“During the performance of [f] [the] audit planning procedures for the fiscal year ended September 30, 2022, [the auditors] noted three bank reconciliations were not prepared and reviewed timely evidenced by dated signatures. Without bank reconciliations being reviewed timely for accuracy and completeness, the City would not know if the cash position at a point in time is accurate and whether or not there were errors, fraud, or misuse of funds. In addition, unreconciled transactions could cause accounts to be over/understated.” The auditors “recommend the City implement internal controls associated with the review of bank reconciliations that will ensure reconciliations are prepared and reviewed within 45 days subsequent to the month end to ensure the accuracy and completeness of cash balances reported by the City.”

Response Provided by City

“Management accepts the Auditors' recommendation to the City to implement internal controls associated with the review of bank reconciliation that will ensure reconciliations are prepared and reviewed within 45 days after the month end to ensure the accuracy and completeness of cash balances reported by the City. During the Fiscal Year, the City implemented the Tyler EnerGov System and has since been experiencing multiple issues with cash/bank reconciliation. To ensure that the bank reconciliations were being completed accurately the City resorted to using a cumbersome, lengthy manual process to ensure... one reconciliation. In addition to that, the City experienced staff turnover which added to the time the reconciliations were complete. The City is continuing to work diligently with Tyler Technologies to correct the issues with the Tyler EnerGov System, and to correct the finding.”

The City had no other audit findings for this fiscal year and had one finding (*Solid Waste Utility Fund Net Position*) reported in the prior year's audit report, which was not repeated in the current year audit report.

¹³ Pursuant to Section 218.39(7), *Florida Statutes*, these audits are required to be conducted in accordance with rules of the Auditor General promulgated pursuant to Section 11.45, *Florida Statutes*. The Auditor General has issued *Rules of the Auditor General, Chapter 10.550 - Local Governmental Entity Audits* and has adopted the auditing standards set forth in the publication entitled *Government Auditing Standards* (2018 Revision) as standards for auditing local governmental entities pursuant to Florida law.

¹⁴ A significant deficiency is “a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance.” [Note: A material weakness is “a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.”] American Institute of Certified Public Accountants (AICPA). (2021). *U.S. Auditing Standards – AICPA (Clarified)*, AU-C Section 265.07. Available at: <https://us.aicpa.org/content/dam/aicpa/research/standards/auditatest/downloadabledocuments/au-c-00265.pdf> (last visited October 12, 2023).

¹⁵ *Schedule of Findings and Questioned Costs; Annual Comprehensive Financial Report of the City of North Miami Beach, Florida for the Fiscal Year Ended September 30, 2022*, page 147.

*Summary of Certain Financial Information Included in the City's Audit Report:*¹⁶

- Total net position¹⁷ of the City increased by \$43.9 million or 25% more than the prior fiscal year net position to \$219.6 million.¹⁸ “The increase noted was primarily as a result of current year operations in the business-type funds.”¹⁹
 - Net position of governmental activities “increased by \$28.1 million, resulting in a balance of \$62.1 million at [fiscal year-end.] The increase is primarily due to the net effect of ... [f]avorable results from operations of the General Fund, [t]iming of capital outlays for the Community Redevelopment Agency that were budgeted but not expended as of [fiscal year-end], and [g]rant revenue totaling \$21.6 million in American Rescue Plan Act (ARPA)²⁰ funding.”²¹
 - Net position of the business-type activities “increased by approximately \$16 million...above the prior fiscal year amount. The increase is primarily due to the net effect of...: [d]eferred operating costs in the Water Utility Fund & Wastewater Utility funds due to the insourcing of operations, maintenance and capital improvement programming costs...and decreased operating costs in the Solid Waste fund due to lower amounts billed by Coastal Waste and Recycling for solid waste and recycling.”²²
- At fiscal year-end:
 - “[T]he City's governmental funds reported combined ending fund balances (nonspendable, restricted, committed, assigned, and unassigned) of \$68.1 million, an increase of \$19.5 million [above] the prior year. Approximately 0.4% of the fund balance of the governmental funds was in nonspendable form. In other words, the assets are not cash and will not be converted into cash. This classification includes items such as prepaid costs and inventory. The use of 37.5% of fund balance is restricted by third parties such as grantors, creditors, or other governmental entities for specific types of expenditures and for mitigation of the effect of development on parks and public safety. The City Commission through ordinance or resolution has committed 4.7% of the fund balance to be used for the specific purposes of alley restoration and disaster

¹⁶ These figures include the City's primary government operations and the City's blended component unit (the North Miami Beach Community Redevelopment Agency).

¹⁷ Difference between an entity's assets plus deferred outflows of resources and its liabilities plus deferred inflows of resources.

¹⁸ *Statement of Net Position, Annual Comprehensive Financial Report of the City of North Miami Beach, Florida for the Fiscal Year Ended September 30, 2022*, page 33.

¹⁹ *Management's Discussion and Analysis, Annual Comprehensive Financial Report of the City of North Miami Beach, Florida for the Fiscal Year Ended September 30, 2022*, page 17.

²⁰ The American Rescue Plan Act of 2021 (ARPA) was enacted in March 2021 by the 117th Congress of the United States. ARPA established the Coronavirus State and Local Fiscal Recovery Funds (SLFRF), which “provides vital resources for state, local, and Tribal governments to respond to the pandemic and its economic effects and to replace revenue lost due to the public health emergency, preventing cuts to government services. Specifically, the ARPA provides that SLFRF funds may be used: (a) To respond to the public health emergency or its negative economic impacts, including assistance to households, small businesses, and nonprofits, or aid to impacted industries such as tourism, travel, and hospitality; (b) To respond to workers performing essential work during the COVID–19 public health emergency by providing premium pay to eligible workers; (c) For the provision of government services to the extent of the reduction in revenue due to the COVID–19 public health emergency relative to revenues collected in the most recent full fiscal year prior to the emergency; and (d) To make necessary investments in water, sewer, or broadband infrastructure. In addition, Congress specified two types of ineligible uses of funds: funds may not be used for deposit into any pension fund or, for states and territories only, to directly or indirectly offset a reduction in net tax revenue resulting from a change in law, regulation, or administrative interpretation.” [Source: Federal Register Vol. 87, No. 18, available at: <https://www.govinfo.gov/content/pkg/FR-2022-01-27/pdf/2022-00292.pdf> (last visited October 12, 2023).]

²¹ *Id.*, page 22.

²² *Id.*, page 23.

recovery. The City Manager has assigned approximately 19% of the fund balance to be used for capital projects and equipment, land acquisition, liability and workers' compensation claims and expenditures for the next fiscal year. Unassigned fund balance is the portion of fund balance that is available for spending at the City's discretion, 29.2% of fund balance (\$19.9 million) constitutes unassigned fund balance.”²³

- “The City's Water Utility Fund had a positive change in net position of \$10.8 million. The Wastewater Utility Fund had a positive change in net position of \$2.6 million. The Solid Waste Fund had a positive change in net position of \$.2 million; at the end of the fiscal [year] net position was negative [\$]3.8 million. The other enterprise funds had a positive change in net position of approximately \$2.6 million.”²⁴
- “[T]he City had total bonded debt outstanding, net of bond premiums of \$107.5 million, total notes payable of \$.7 million, and State Revolving loans outstanding of \$16.6 million. Of this amount, \$10.7 million was approved by referendum of the City's voters. The remaining \$96.8 million of the bonds, notes and loans has been secured by specified revenue sources of the water and sewer utility operating income. Tax Increment Financing revenues have been pledged for the CRA debt totaling \$.7 million.”²⁵
- “The City was allocated a total of \$21.56 million from the American Rescue Plan Act (ARPA) and in September 2021, the City Commission approved staff's ARPA allocation, which laid out the proposed major expenditure categories of the projected ARPA funding. The first tranche of the proceeds in the amount of \$10.78 million was received in October 2021 and the second tranche in the amount of \$10.78 was received in August 2022 [and] [a]s of the end of the fiscal year...has been allocated by the City Commission.”²⁶

Other Considerations

The Auditor General, if directed by the Committee, will conduct an operational audit as defined in Section 11.45(1)(i), *Florida Statutes*, and take steps to avoid duplicating the work efforts of other audits being performed of the City's operations, such as the annual financial audit. The primary focus of a financial audit is to examine the financial statements in order to provide reasonable assurance about whether they are fairly presented in all material respects. The focus of an operational audit is to evaluate management's performance in establishing and maintaining internal controls and administering assigned responsibilities in accordance with laws, rules, regulations, contracts, grant agreements, and other guidelines. Also, in accordance with Section 11.45 (2)(j), *Florida Statutes*, the Auditor General will be required to conduct an 18-month follow-up audit to determine the City's progress in addressing the findings and recommendations contained within the previous audit report.

The Auditor General has no enforcement authority. If fraud is suspected, the Auditor General may be required by professional standards to report it to those charged with the City's governance and also to appropriate law enforcement authorities. Audit reports released by the Auditor General are routinely filed with law enforcement authorities. Implementation of corrective action to address any audit findings is the responsibility of the City's governing board and management, as well as the citizens living within the boundaries of the City. Alternately, any audit findings that are not corrected after three successive audits are required to be reported to the Committee by the Auditor General, and a process is provided in Section 218.39(8), *Florida Statutes*, for the Committee's involvement. First, the City may be required to provide a written statement explaining why corrective action has not been taken and to provide details

²³ *Id.*, page 26.

²⁴ *Id.*, page 18.

²⁵ *Id.*, page 31.

²⁶ *Id.*, page 32.

of any corrective action that is anticipated. If the statement is not determined to be sufficient, the Committee may request the Chair of the City Commission to appear before the Committee. Ultimately, if it is determined that there is no justifiable reason for not taking corrective action, the Committee may direct the Department of Revenue and the Department of Financial Services to withhold any funds not pledged for bond debt service satisfaction which are payable to the City until the City complies with the law.

III. Effect of Proposed Request and Committee Staff Recommendation

If the Committee directs the Auditor General to perform an operational audit of the City of North Miami Beach, the Auditor General, pursuant to her authority, shall finalize the scope of the audit during the course of the audit, providing that the audit-related concerns of Senator Pizzo are considered.

IV. Economic Impact and Fiscal Note

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

None.

C. Government Sector Impact:

If the Committee directs the audit, the Auditor General will absorb the audit costs within her approved operating budget.

V. Related Issues

None.

This staff analysis does not reflect the intent or official position of the requestor.
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**2 City of Gainesville:
Status Update**

There is overlap between Tabs 2 and 3, the City of Gainesville's status update and the follow-up Auditor General audit report.

The City provided both the Committee and the Auditor General with its response to the Auditor General's draft audit report. The response is included in its entirety in the final audit report. Please see pages 19-24 of the audit report, which is behind Tab 3.

In addition, GRU provided the following supplemental information.

October 13, 2023

The Honorable Jason W.B. Pizzo & Michael Caruso
Chairs, Joint Legislative Auditing Committee
876 Pepper Building
111 W. Madison Street
Tallahassee, FL 32399-1400

Dear Chair Caruso & Chair Pizzo,

Thank you for the opportunity to provide additional details on the progress GRU has made over the past several months.

GRU is focused on the financial concerns and addressing them in a prudent manner with both a short-term and a long-term view. As staff works through the process of implementing the GRU Authority's direction, we continue to focus on maintaining GRU's infrastructure to ensure safe and reliable services while continuing to meet all regulatory requirements and GRU's bond covenants.

GRU's constant monitoring of its financial situation has allowed staff to consistently implement prudent business practices over the past several years and we will continue to do so going forward. For example:

- Resolutions that allowed GRU to take advantage of favorable market conditions based on certain parameters in 2020. This resulted in future savings of \$134 million in debt service payments.
- Issuance of Pension Obligation Bonds that allowed for savings of \$64 million in future debt service payments.
- GRU's Cash Reserve policy
- A resolution increasing base rates for the Electric system and Wastewater system annually by 3% and 5% respectively through FY27 to further stabilize the financial condition of GRU
- An update to the Debt Management Policy which addresses debt defeasance and financial credit metrics
- A resolution codifying the new General Services Contribution calculation and the use of these reductions in the net reduction plan which is projected to reduce long-term debt by \$315 million over the next 10 years
- While GRU is in the process of developing its integrated resource plan to represent the strategic vision of the utility and identify future critical decisions, staff will aggressively review any costs of this plan that may impact the current debt reduction plan, as it is critical for GRU to maintain its current financial plan at a minimum.

Attachments:

Attachment A: GRU's Management Response to Auditor General's Preliminary and Tentative Audit Findings #s 1, 15, and 17.

Attachment A: GRU's Management Response to Auditor General's Preliminary and Tentative Audit Findings #s 1, 15, and 17.

Submitted to the Auditor General of the State of Florida under separate memo from Mayor Harvey Ward, City of Gainesville on October 10, 2023.

Finding #1: GRU Debt Levels (GRU)

GRU is committed to reducing the Utility's debt while continuing to provide safe reliable utility services in a cost-effective manner.

The current debt reduction plan, approved by the governing body, includes \$954 million of the capital improvement plan dollars from the \$1.3 billion in "requests" submitted by the operating departments. The \$954 million is the amount of CIP spending that can be considered under the plan while still reaching the debt reduction goals.

While the debt reduction plan did not specifically address all areas of the 2019 IRP as issued, consideration was given to certain portions that support operational and financial goals. For example, a new solar agreement to augment generation was completed in fiscal year 2023 and renovations/upgrades to current facilities which help extend their lives were completed in fiscal years 2022 and 2023.

The Integrated Resource Plan (IRP) is completed approximately every three years and currently an updated IRP is in progress. This will include recommendations for potential plant upgrades and decommissioning costs. Upon review and acceptance of recommendations in the new IRP by the Gainesville Regional Utilities Authority (GRUA), the debt reduction plan will be re-evaluated and updated with new projected spending. This will depend on the direction of GRUA, GRU's new governing board.

Note that the current debt reduction plan was approved by GRU's prior governing body, the City Commission. GRU is proactively working with the new governing body, newly seated on October 4th, regarding this finding and the debt reduction plan approved in fiscal year 2023.

Finding #15: Selection of Debt Professionals (GRU)

A competitive process was conducted commencing in 2014, and fully effectuated in 2017, to seek Bond and Disclosure Counsel services for the city's utility systems, GRU. The City Attorney's Office in

conjunction with GRU's Budget, Finance and Accounting Department determined that it was a prudent business practice to competitively solicit for bond counsel who would serve first as disclosure counsel for the 2014 issuance and then as bond counsel for subsequent bond issuances. Prior to 2014, the City's utility's (GRU) Bond and Disclosure Counsel was Orrick, Herrington & Sutcliffe, a global law firm based out of New York. The business plan was to maintain Orrick, Herrington & Sutcliffe as Bond Counsel for the 2014 bond issuance. Holland & Knight was selected to serve first as Disclosure Counsel for the 2014 issuance allowing Holland & Knight to learn GRU's debt profile before issuing any bonds, and then to serve as Bond Counsel thereafter. In 2017, Holland & Knight first provided legal service to GRU as its Bond Counsel. Bryant Miller Olive was selected to serve as Disclosure Counsel for GRU issuances commencing 2017. Both Holland & Knight and Bryant Miller Olive provided counsel regarding the City of Gainesville's non-utility debt issuances prior to being selected as counsel for the utility side of the organization.

As the Auditor General previously acknowledged, the City has a large and complex debt portfolio related to its utilities services. It includes various debt structures, including fixed rate debt, variable rate debt, synthetically fixed debt, public issues, private placements, various lines of credit, standby bond purchase agreements, letters of credit, multiple commercial paper programs, swaps, and senior and subordinate debt. GRU's financial officials and the City Attorney's Office were aware that changing Bond and Disclosure Counsel in 2014, would take an extensive amount of time to review the existing debt structure and to make recommendations for future debt structures. By having new Bond Counsel serve first as Disclosure Counsel for the 2014 debt restructuring, GRU and the City Attorney's office made a prudent business decision. Retaining the same counsel for both the general government and utility functions of the City has also resulted in perceived synergies and benefits.

The City recognizes the Auditor General's reliance on the Government Finance Officers Association (GFOA) Best Practice recommendation that bond counsel be selected on the basis of a competitive process. However, the City also recognizes that its recent selection process was competitive, and its ongoing usage of selected counsel is consistent with both applicable law, and City policy. Further, the GFOA does not specify a recommended "best practice" interval between selection processes. However, the GFOA rightfully recommends that, "[f]or issuers that have ongoing needs of a similar nature, continuity should be considered an important factor in the evaluation process." The decision to retain Bond and Disclosure Counsel for multiple years is a prudent business practice for a large municipal utility, especially when a debt portfolio is as complex as GRU's. The City posits that continuity of counsel, given the complexity of GRU's portfolio is more than a best practice, it is a vital practice.

In short, it is more cost effective to retain a firm longer than one year, when a debt portfolio is as large and complex as GRU's. Retaining the same counsel over a longer period of time also avoids costly mistakes. Retaining this stable combination of Bond Counsel and Disclosure Counsel has been instrumental in appropriately managing the significant complexity and level of debt that GRU incurred. Holland & Knight and Bryant Miller Olive, selected by a competitive process, have provided legal services at a substantially lower cost than prior counsel.

The City Attorney's Office and the finance professionals of GRU are satisfied that Holland & Knight and Bryant Miller Olive continue to provide excellent debt issuance counsel to the City. These service levels are evaluated on an ongoing basis as the management of GRU's debt requires constant reviews and a significant level of activities. While the extent to which the City is satisfied with service of bond counsel is evident through the continued use of their services, the City Attorney's Office and the GRU Budget, Finance and Accounting Department respect the recommendation of the Auditor General and will consider a formal evaluation practice premised on criteria set forth in the prior competitive process at the culmination of future issuances and debt-related activities.

Finding #17: Purchasing Cards – Separations

Previously, the Purchasing Card (P-Card) Administrator for GRU would wait until a cardholder's supervisor notified them of an employee's separation, which could result in a delay in suspending the card. GRU has recently implemented a process in which the Purchasing Card (P-Card) Administrator will be notified by the Human Resources system (Workday) directly when employees separate from employment. Upon notification, the P-Card Administrator will access the P-Card system (Bank of America Works) and suspend the card, so that no additional charges can be made, within the next 1-2 business days and close the account at the end of the billing cycle for which the last transaction was completed.

The P-Card system tracks when a card is suspended and will be used as the source of record for documenting the date of suspension.



Anthony "Tony" Cunningham
General Manager, GRU

CITY OF GAINESVILLE

OPERATIONAL AUDIT

REPORT No. 2024-033

FOLLOW-UP AUDIT TO REPORT No. 2022-087

LEGISLATIVE AUDITING COMMITTEE

OCTOBER 16, 2023



BACKGROUND

- ❖ At the direction of the Legislative Auditing Committee, and pursuant to Section 11.45(3)(a), Florida Statutes, we conducted an operational audit of the City of Gainesville and issued our report No. 2022-087 in January 2022.
- ❖ Pursuant to Section 11.45(2)(j), Florida Statutes, we performed appropriate follow-up procedures to determine the City's progress in addressing the findings and recommendations contained within report No. 2022-087, and issued our follow-up report No. 2024-033 on October 12, 2023.

SUMMARY OF AUDIT RESULTS

Our follow-up procedures disclosed that the City of Gainesville had:

- ❖ Corrected 8 findings (Findings 2, 3, 8, 11, 12, 14, 16, and 18)
- ❖ Partially corrected 6 findings (Findings 1, 9, 10, 13, 15, and 17)
- ❖ No occasion to correct 4 findings (Findings 4, 5, 6, and 7)

CORRECTED AUDIT FINDINGS

Finding 2: Gainesville Regional Utilities (GRU) Transfers to the General Fund

- In May 2023, the City established a methodology for calculating the Government Service Contribution (GSC), formerly known as the General Fund Transfer. The GSC is budgeted to fluctuate between \$15.3 and \$17.1 million for the 2023-24 fiscal year from the 2032-33 fiscal year.

Finding 3: Indirect Cost Recovery

- The City Auditor reviewed 2022-23 fiscal year indirect cost allocation and the City restored the \$1.3 million of indirect cost overcharges disclosed in our report No. 2022-087 to the GRU.

Finding 8: Use of Other Nonprofit Organizations for the Reichert House Youth Academy

- City personnel confirmed that no City funds were being held by a nonprofit organization and the City Attorney concluded that “due to the likely futility of pursuing past records of non-City entities” and costs required in pursuing such records, no further actions were required.

CORRECTED AUDIT FINDINGS

Finding 11: Transparency of Golf Course Operations

- City personnel periodically presented golf course operations budget-to-actual financial reports to the City Commission.

Finding 12: Gainesville Community Reinvestment Area (GCRA)

- In June 2023, the City Commission adopted an ordinance to amend previous ordinances relating to the GCRA requiring that:
 - Funds held by the GRCA be audited annually by external auditors.
 - Funds may be expended only pursuant to the reinvestment plan adopted by the City Commission.
 - An annual work plan be annually prepared by the City and submitted to the Alachua County Board of County Commissioners.

CORRECTED AUDIT FINDINGS

Finding 14: Employee Evaluations

- The City employees in our tests received a timely annual performance evaluation for the 2021-22 fiscal year.

Finding 16: Purchasing Cards – Periodic Reviews

- The City implemented periodic purchasing card review procedures.

Finding 18: Travel

- The GRU enhanced its travel procedures, and our testing disclosed that the GRU complied with the enhanced procedures.

PARTIALLY CORRECTED AUDIT FINDINGS

Finding 1: Gainesville Regional Utilities (GRU) Debt Levels

- The GRU's long-term debt to net position ratio was 4.30 as of September 30, 2022, which is unchanged from our report No. 2022-087. In April 2023, the City Commission approved a debt reduction plan to reduce the GRU's total debt by \$315 million over a 10-year period.

Finding 9: Financial Statement Presentation

- The financial statement auditor reported two material weaknesses in the City's internal controls over financial reporting for the 2021-22 fiscal year relating to:
 - Untimely bank reconciliations.
 - Many account balances that required significant adjustments, with approximately 100 journal entries posted after the trial balance was provided to the auditor.
- The number of financial statement findings dropped from six to two and additional audit costs decreased.

PARTIALLY CORRECTED AUDIT FINDINGS

Finding 10: Budget Management

- The City established the legal level of control at departmental level; however, the 2021-22 fiscal year audited financial statements presented the budget at the function level and did not include a reconciliation to the departmental level.
- As of August 2023, budget-to-actual expenditure comparisons were not being periodically presented to the City Commission.

Finding 13: Employee Background Screenings

- The City performed background checks on applicants and, for applicants with criminal histories, the City Attorney documented that there were no objections to hiring.
- The City adopted a process of rescreening existing employees every 5 years but did not rescreen some employees until June 2023, subsequent to our inquiries.

PARTIALLY CORRECTED AUDIT FINDINGS

Finding 15: Selection of Debt Professionals

- The City competitively selected a municipal advisor; however, the City did not competitively select bond counsel, or alternately, did not, of record, reevaluate its ongoing relationship with its bond counsel to document the rationale for not competitively selecting.

Finding 17: Purchasing Cards – Separations

- Although timeliness of purchasing card cancellations had improved, some untimely cancellations were noted.

AUDIT FINDINGS WITH NO OCCASION TO CORRECT

Finding 4: RHYA Program Oversight and Control

Finding 5: Use of Reichert House, Inc. to Support RHYA Program Operations

Finding 6: Oversight of Reichert House, Inc.

Finding 7: Transparency of Reichert House, Inc. and RHYA Program Operations

- Effective May 31, 2023, the City no longer funded or administered the RHYA Program.



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FLAUDITOR.GOV

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2024-033
October 2023

CITY OF GAINESVILLE

Prior Audit Follow-Up



Sherrill F. Norman, CPA
Auditor General

Mayor, City Commissioners, and Charter Officers

During the audit period, Lauren Poe served as City of Gainesville Mayor through December 31, 2022, Harvey Ward served as Mayor from January 1, 2023, and the following individuals served as City Commissioners and Charter Officers:

City Commissioners

District I: Desmon Duncan Walker

District II: Harvey Ward through 12-31-22
Ed Book from 1-1-2023

District III: David Arreola through 12-31-22
Casey Willits from 1-1-23

District IV: Adrian Hayes-Santos through 12-31-23
Bryan Eastman from 1-1-23

At Large: Reina Saco
Cynthia Chestnut

Charter Officers

Cynthia Curry, City Manager

Anthony Cunningham, General Manager for Utilities

Daniel Nee, City Attorney

Omichele Nattiel-Williams, Clerk of the Commission

Virginia "Ginger" Bigbie, City Auditor through 1-13-23

Brecka Anderson, City Auditor from 1-14-23

Zeriah Folston, Equity and Inclusion Director

The team leader was Daniel P. O'Donnell, CPA, and the audit was supervised by Gina Bailey, CPA.

Please address inquiries regarding this report to Derek H. Noonan, CPA, Audit Manager, by e-mail at dereknoonan@aud.state.fl.us or by telephone at (850) 412-2895.

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CITY OF GAINESVILLE

PRIOR AUDIT FOLLOW-UP

SUMMARY

In our operational audit report No. 2022-087 of the City of Gainesville (City), we noted 18 findings related to various City functions and activities, including those related to the Gainesville Regional Utilities and Reichert House Youth Academy. This operational audit focused on the progress that the City had made, or was in the process of making, in addressing the findings and recommendations in report No. 2022-087.

Our audit disclosed that the City had:

- Corrected 8 findings (Findings 2, 3, 8, 11, 12, 14, 16, and 18)
- Partially corrected 6 findings (Findings 1, 9, 10, 13, 15, and 17)
- No occasion to correct 4 findings (Findings 4, 5, 6, and 7)

BACKGROUND

The City of Gainesville (City) was established in 1854, incorporated in 1869, and has operated under a Commission-Manager form government since 1927. The City is located in Alachua County and has a population of 145,879, making it the most populous city in Alachua County.¹ The City is governed by a City Commission composed of seven elected Commissioners and an elected Mayor. The City Commission is responsible for enacting ordinances, resolutions, and policies governing the City, and is to appoint six Charter Officers,² who report to the Commission. The Charter Officers are charged with the enforcement of all ordinances and resolutions passed by the Commission. The City provides citizens with a full range of services, including police and fire, public works, planning and zoning, permitting, parks and recreation, and general administrative services.

FINDINGS AND RECOMMENDATIONS

GAINESVILLE REGIONAL UTILITIES (GRU)

The City owns and operates Gainesville Regional Utilities (GRU), a multi-service utility system which serves approximately 93,000 residential, commercial, and wholesale customers in Gainesville and surrounding areas, providing electricity, water, wastewater, natural gas, and telecommunications. As a Charter Officer, the General Manager for Utilities, is responsible for the efficient administration of the GRU and has exclusive management jurisdiction and control over the operating and financial affairs of the GRU.

¹ *Florida Estimates of Population 2022*, Bureau of Economic and Business Research, College of Liberal Arts and Sciences, University of Florida.

² The Charter Officers are established in the City of Gainesville City Charter. The six Charter Officers include the Clerk of the Commission, City Manager, General Manager for Utilities, City Attorney, City Auditor, and Equity and Inclusion Director.

In June 2023, the Governor signed the Committee Substitute for House Bill 1645 into law effective July 1, 2023. Among other things, the enacted law, Chapter 2023-348, Laws of Florida, (Law) creates the Gainesville Regional Utilities Authority (Authority), which has a five-member Board appointed by the Governor. Although the Law states that the Authority will operate “as a unit of city government,” the Law also states that “the Authority is free from direction and control of the Gainesville City Commission.” As of the date of this report, the impact of the Law on GRU operations is unknown.

Finding 1: GRU Debt Levels

Previously Reported

GRU debt levels were significantly higher than comparable municipal utilities.

We recommended that GRU management and the City Commission jointly establish a long-term debt management plan with quantitative performance measures and timelines to help ensure that GRU’s financial health is sufficient to provide reliable utility services to its customers in the most effective and cost-efficient manner possible.

Results of Follow-Up Procedures

The City partially corrected this finding. In April 2023, the City Commission approved a debt reduction plan to reduce the GRU’s total debt by \$315 million over a 10-year period. To achieve the debt reduction, the GRU would reduce the Government Service Contribution (GSC)³ to the City of Gainesville by \$120 million over the next 10 years; increase reserves by \$76 million through electric and wastewater base rate increases,⁴ increase reserves by another \$28 million through cost reductions, and reduce projected borrowings by \$91 million.⁵

However, our August 2023 review of GRU records disclosed that the debt reduction plan did not include in the projected borrowings Integrated Resource Plan (IRP)⁶ related costs to maintain its existing power generation assets or to decommission existing plants. Additionally, the debt reduction plan did not include Capital Improvement Plan (CIP) project funding amounts totaling \$1.3 billion over a 10-year period.

In response to our inquiries, GRU personnel stated that, although not specifically mentioned in the debt reduction plan, they considered the CIP when developing the plan; however, the IRP was not considered because the City Commission would not accept the IRP. In addition, GRU personnel stated that some projects in the 10-year CIP might not be approved or might be postponed beyond the 10-year period and that some projects could be funded from other sources, such as grants. Notwithstanding, absent

³ Government Service Contribution (GSC) was formerly known as General Fund Transfer (GFT).

⁴ In July 2021, the City Commission approved Resolution No. 210125 increasing electric system base rates by 7 percent for the 2021-22 fiscal year and 3 percent annually for the 2022-23 through 2026-27 fiscal years and increasing wastewater system rates by 5 percent annually for the 2021-22 through 2026-27 fiscal years.

⁵ The \$559 million in scheduled payments of existing debt less \$468 million of projected debt issuance or borrowings per the *GRU Debt Management Policy*, dated August 2022, results in approximately \$91 million of debt reduction.

⁶ As noted in our report No. 2022-087, The Energy Authority (TEA) issued an IRP for the 20-year period 2019 through 2039. The IRP projected the GRU’s additional debt needs for various “cases.” The least-expensive case required the GRU to maintain its existing power generating assets while the most expensive case required the GRU to transition to all renewable energy. The IRP then estimated that the range in new GRU debt required to provide power to its customers through 2039 ranged from a low of \$254 million for maintaining its existing power generating assets to \$895 million for acquiring the renewable energy.

documented debt reduction plan consideration of all projected debt borrowings associated with the CIP and the IRP, the debt reduction plan may not achieve its targeted debt reduction goals.

According to the GRU's audited 2021-22 fiscal year financial statements, the most recent available audited financial statements as of September 2023, the GRU's long-term debt was \$1.8 billion and net position was \$420 million. Consequently, the GRU's long-term debt to net position ratio remained at 4.30, the same ratio disclosed in our report No. 2022-087 for the 2019-20 fiscal year. As the ratio remains elevated, the potential for the high debt levels to impact the GRU's ability to provide reliable utility services in a cost-effective manner persists.

Recommendation: To help ensure that the GRU's financial health is sufficient to enable it to provide reliable utility services to its customers in the most effective and cost-efficient manner possible, we recommend that GRU management, City Commission, and the Authority, of record, jointly consider all projected debt borrowings in the debt reduction plan so that future debt obligations more accurately reflected.

Finding 2: GRU Transfers to the General Fund

Previously Reported

The City had not established a reasonable and consistent methodology for determining the amount of the annual transfer from the GRU to the City's General Fund that considers the GRU's long-term ability to pay.

We recommended that the City Commission adopt and consistently utilize a reasonable and sustainable methodology to calculate the General Fund Transfer (GFT) amount and that the methodology consider the long-term ability of the GRU to pay.

Results of Follow-Up Procedures

The City corrected this finding. On May 4, 2023, the City Commission adopted a resolution⁷ that established a methodology for calculating the GSC,⁸ formerly known as the GFT.

The new methodology was a joint effort of City and GRU staff. The new methodology has two components, a franchise fee component and a property tax component. The property tax component uses the total insured values in the most recent property insurance policy of GRU, discounted to 70 percent, and the adopted total operating millage rate, and the franchise fee represents 5 percent⁹ of the prior year audited electric system revenue less fuel and Rate Stabilization Fund (RSF) transfers.

According to the City and GRU, the GSC will result in sustainable transfers from GRU to the City and provided to us a 10-year projection of the GSC, which is estimated to result in a decrease of \$18.2 million

⁷ Resolution No. 2023-417.

⁸ Chapter 2023-348, Laws of Florida, Article VII, Section 7.02(7), created the term "government services contribution (GSC)" and defines it as "the portion of revenues generated from rates fees, assessments, and charges for the provision of utility services by the utility system which is annually transferred by the Authority to the City for use in funding or financing its governmental municipal functions."

⁹ According to the United States Department of Energy, the franchise fees charged in the State of Florida through 2033 vary between 3 and 8 percent.

in the budgeted GSC for the 2023-24 fiscal year from the 2022-23 fiscal year GSC of \$33.5 million, and indicates that the GSC fluctuates between \$15.3 and \$17.1 million through 2033, as shown in Table 1.

**Table 1
Yearly Projected GSC Calculation (in Millions)**

Source	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Franchise Fee Component:										
Electric System Revenues	\$383.7	\$329.3	\$310.4	\$315.2	\$316.0	\$325.1	\$330.5	\$338.5	\$346.5	\$355.5
Excludes RSF ^a	(9.3)	3.8	11.5	17.0	26.3	27.7	27.3	24.4	21.7	18.1
Excludes Fuel	154.0	111.8	92.0	94.7	97.6	100.5	103.5	106.6	109.8	113.1
Net of Fuel & RSF	220.3	221.3	229.9	237.5	244.7	252.2	254.2	256.2	258.4	260.5
5% of Net of Fuel & RSF	11.0	11.1	11.5	11.9	12.2	12.6	12.7	12.8	12.9	13.0
90% of 5% of Net of Fuel & RSF	9.9	10.0	10.3	10.7	11.0	11.4	11.4	11.5	11.6	11.7
Property Tax Component	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4
Total GSC	\$ 15.3	\$ 15.3	\$ 15.7	\$ 16.1	\$ 16.4	\$ 16.7	\$ 16.8	\$ 16.9	\$ 17.0	\$ 17.1

^a The GRU designs the Rate Stabilization Fund (RSF) rates to recover the costs of providing services. To stabilize future rate increases or decreases, GRU determines a rate stabilization amount to be charged or credited to revenues on an annual basis. These amounts are reflected as increases or decreases in deferred inflows of resources – rate stabilization in the Statement of Net Position.

Source: GRU records.

Chapter No. 2023-348, Laws of Florida, provides that “the GSC may not exceed aggregate utility system net revenues less flow of funds,”¹⁰ and the Authority’s broad governance powers could allow it to impose further GSC limitations or potentially disallow the GSC altogether. GRU personnel provided to us an analysis for the estimated GSC amount 2023-24 fiscal year using the methodology specified in the Law, and the methodology used by the City, as shown in Table 1, resulted in a lower amount than the methodology specified in the Law. Consequently, although the City did not provide for our review records evidencing that the City’s methodology is common industry practice, it appears that the City developed a reasonable and sustainable methodology to calculate the GSC that considers the long-term ability of the GRU to pay.

Finding 3: Indirect Cost Recovery

Previously Reported

City indirect cost allocation procedures did not provide for an independent review of the indirect cost worksheet or a reconciliation of recovered indirect costs to actual indirect costs after the completion of each fiscal year. As a result, the City overcharged indirect costs to the GRU.

We recommended that the City enhance its indirect cost allocation procedures to provide for an independent review of the indirect cost allocation worksheet, require a reconciliation of estimated indirect

¹⁰ Chapter 2023-348, Laws of Florida, Article VII, Section 7.11(1). Section 7.02(10) defines “net revenues” as “the gross revenues less fuel revenues,” and Section 7.02(6) defines “flow of funds” as “the sum of requires debt service, necessary operations and management expenses, a reasonable contribution to a utility plan improvement fund, identified SLA-related losses, and any other lawful purpose as provided in bond covenants.” Section 7.02(11) indicates that SLA stands for “service-level-assessment” and defines SLA as “a contract entered into by the Authority that establishes a set of deliverables that one party has agreed to provide another.”

costs to actual indirect costs after each fiscal year is completed, and require periodic adjustments for differences between estimated and actual amounts. In addition, we recommended that the City either restore the 2017-18 and 2018-19 fiscal year indirect cost overcharges to the GRU or offset the overcharges against future fiscal year indirect cost assessments.

Results of Follow-Up Procedures

The City corrected this finding. Our examination of City records and discussions with City personnel disclosed that the City updated its indirect cost allocation procedures to provide for an independent review of the indirect cost allocation worksheet, require a reconciliation of estimated indirect costs to actual indirect costs after the fiscal year is completed, and require periodic adjustments for differences between estimated and actual amounts.

Our examination of City 2022-23 fiscal year indirect cost records disclosed that the City Auditor reviewed the indirect cost allocation worksheet. In addition, during the 2019-20 fiscal year, the City partially restored the 2017-18 and 2018-19 indirect cost overcharges, which totaled \$1.3 million, by reducing the GRU's budgeted 2019-20 fiscal year indirect costs by \$807,915. In August 2023, the City restored the remaining overcharges of \$466,589 to the GRU by journal entry.

In addition, according to City personnel, starting in the 2023-24 fiscal year, the City plans to transition from charging budgeted to charging actual indirect costs, based on a 2-year delay, so that periodic adjustments for differences between estimated and actual amounts are no longer necessary.

REICHERT HOUSE YOUTH ACADEMY (RHYA)

Finding 4: RHYA Program Oversight and Control

Previously Reported

The City did not effectively oversee or control RHYA Program operations.

We recommended that the City establish policies and procedures for adequate RHYA Program oversight, control, and transparency and that such policies and procedures require:

- Revenues received on behalf of, or allocated to, the RHYA Program be separately accounted for in City accounting records.
- Accurate and timely updates to RHYA Program budget and actual expenditure information.
- Periodic financial reports to the City Commission accurately showing RHYA Program financial activity.

Results of Follow-Up Procedures

The City had no occasion to correct this finding. Our review of City records disclosed that, after evaluation, the City concluded that RHYA Program oversight, transparency, and accountability continued to require substantial improvement to address the recommendations in our report No. 2022-087. In April 2023, the City Manager informed the Mayor and the City Commission that the current organizational framework of the RHYA program activities under the City would end on May 31, 2023, the end of the school term. Effective May 31, 2023, the City no longer funded or administered the RHYA Program.

Finding 5: Use of Reichert House, Inc. to Support RHYA Program Operations

Previously Reported

The City did not, of record, assess that it was economically or otherwise advantageous for the City to use the nonprofit entity, Reichert House, Inc., to support RHYA Program operations, and the use of this entity resulted in less accountability and transparency of RHYA Program operations.

We recommended that the City assess and document the economic or other advantages gained by using a nonprofit entity to assist with RHYA Program operations and whether such advantages are sufficient to offset the decreased accountability and diminished transparency of RHYA Program activities. If the City determines that utilizing a nonprofit entity is advantageous, the City should periodically reevaluate the continued cost effectiveness and value of such use to the City.

Results of Follow-Up Procedures

The City had no occasion to correct this finding. As indicated in Finding 4, effective May 31, 2023, the City no longer funded or administered the RHYA Program.

Finding 6: Oversight of Reichert House, Inc.

Previously Reported

The City did not effectively oversee Reichert House, Inc., operations.

Should the City Commission decide to use another nonprofit entity to support RHYA Program operations, we recommended that the City:

- Execute a contract with the nonprofit entity that includes sufficient provisions to ensure that operations are conducted in an effective, efficient, and appropriate manner consistent with City Commission intent.
- Ensure that the nonprofit entity establishes appropriate policies and procedures governing RYHA Program operations.
- Ensure that financial transaction and activity reports, financial statements, and budgets are made available to City Commissioners, City management, and the general public.
- Ensure that required Federal financial disclosures are timely completed and make the disclosures available to City Commissioners, City management, and the general public.
- Ensure that applicable residual assets revert to the City upon dissolution of the nonprofit entity.

In addition, we recommended that the City take appropriate actions to verify the amount and status of the Reichert House, Inc. residual assets at the time of its dissolution on August 29, 2021, and if held by Community Foundation of North Central Florida, Inc. (CFNCF), seek to recover the assets for RHYA Program use. Any final financial reports prepared for Reichert House, Inc. should be made available to City Commissioners, City management, and the general public.

Results of Follow-Up Procedures

The City had no occasion to correct this finding. As indicated in Finding 4, effective May 31, 2023, the City no longer funded or administered the RHYA Program. According to City personnel, there were

no residual assets, including cash, held by Reichert House, Inc. at the time of dissolution that should be transferred back to the City.

Finding 7: Transparency of Reichert House, Inc. and RHYA Program Operations

Previously Reported

Reichert House, Inc., and RHYA Program operations lacked appropriate transparency.

We recommended that the City establish a RHYA Program Web site and that, if in the future, the City elects to use Reichert House, Inc. or another nonprofit entity to support RHYA Program operations, the City ensure that RHYA Program-related board meeting minutes and other records are subject to the same level of transparency as City Commission meeting minutes and other City records.

Results of Follow-Up Procedures

The City had no occasion to correct this finding. As indicated in Finding 4, effective May 31, 2023, the City no longer funded or administered the RHYA Program.

Finding 8: Use of Other Nonprofit Organizations for the RHYA Program

Previously Reported

City records did not demonstrate authorization for, or the necessity of, using the services of certain nonprofit organizations in lieu of the services of City personnel for soliciting, receiving, and disbursing grantor and donor funds for the RHYA Program, resulting in diminished transparency and accountability for those resources.

To enhance accountability and transparency of activities carried out in support of the RHYA Program, we recommended that the City:

- Discontinue using the CFNCF and Palm Breeze Youth Services, Inc. (PBYS) bank accounts as repositories for grantor and donor funds solicited or received for the RHYA Program and instead deposit such moneys into a City bank account and establish records to separately account for the funds.
- Obtain explanations and supporting records for all unexplained RHYA Program transactions.¹¹

Results of Follow-Up Procedures

The City corrected this finding. The PBYS bank account was closed in May 2019. Subsequent to our audit inquiries in April 2023, City staff contacted the CFNCF to obtain the balance of funds held for the City. According to the CFNCF, as of March 31, 2023, \$62,514 was in the Friends of the Reichert House Fund;¹² however, per the CFNCF and City personnel, none of that amount belonged to the City.

¹¹ In our report No. 2022-087 we noted that the CFNCF and PBYS could not explain how certain payments totaling \$14,031 and \$16,790, respectively, were specifically related to the RHYA Program. In addition, we disclosed that the City did not explain why the PBYS was selected to administer a \$20,000 National Police Activities League grant and that a City Auditor 2019 report noted concerns regarding the receipt and use of that grant.

¹² The CFNCF, a not-for-profit corporation, held RHYA Program money in the Friends of Reichert House Fund.

In October 2023, the City Attorney wrote a memorandum concluding that “due to the likely futility of pursuing past records of non-City entities” and the costs required in pursuing such records, he recommended against any further efforts to obtain explanations and supporting records for the unexplained RHYA Program transactions we noted in our report No. 2022-087.

ADMINISTRATION AND MANAGEMENT

Finding 9: Financial Statement Preparation

Previously Reported

The lack of City personnel’s knowledge and capability for compiling financial statements that comply with generally accepted accounting principles for the 2017-18 and 2018-19 fiscal year resulted in additional costs for assistance in preparing the City’s financial statements and audit findings considered by the auditor to be significant deficiencies and material weaknesses in the City’s internal controls over financial reporting.

We recommended that the City enhance its efforts to hire, train, develop, and retain staff with the knowledge and capability to produce GAAP financial statements.

Results of Follow-Up Procedures

The City partially corrected this finding. Our examination of the City’s 2021-22 fiscal year audited financial statements and the accompanying auditor’s reports disclosed that City continued to experience difficulties preparing generally accepted accounting principles (GAAP) financial statements for the 2021-22 fiscal year. As a result, in addition to the \$35,000 audit fee in the engagement letter, the City paid its financial statement auditor \$39,096 for additional work effort needed to audit the City’s 2021-22 fiscal year financial statements. While the \$39,096 in additional compensation paid to the financial statement auditor for the 2021-22 fiscal year audit was less than the amounts ranging from \$51,050 to \$81,500 similarly paid for the 2017-18 through 2019-20 fiscal year audits disclosed in our report No. 2022-087, the City continued to incur significant additional financial audit costs.

Additionally, the financial statement auditor reported two material weaknesses¹³ in the City’s internal controls over financial reporting for the 2021-22 fiscal year.¹⁴ The material weaknesses related to:

- Untimely bank reconciliations.
- Many account balances that required significant adjustments, with approximately 100 journal entries posted after the trial balance was provided to the auditor.

According to the 2021-22 fiscal year audit report, the material weaknesses occurred due to ongoing turnover during the past several years and the implementation of a new enterprise resource planning (ERP) system during the 2020-21 fiscal year. The turnover, which resulted in significant loss of

¹³ AICPA Professional Standards define a material weakness as a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis.

¹⁴ The City’s Utility Fund (GRU) financial statements for the 2021-22 fiscal year were audited by other auditors and no significant deficiencies or material weaknesses were noted.

institutional knowledge in the City's Department of Financial Services and limited staff to perform the necessary reconciliations, in combination with delays in financial statement preparation associated with the implementation the new ERP system, delayed the completion of the 2020-21 fiscal year audit until December 2022 and resulted in City personnel having less time to prepare for the 2021-22 fiscal year audit.

In response to our inquiries, City personnel stated that staff training and development remain a priority and pointed out that the number of financial statement audit findings reduced from six findings in the 2019-20 fiscal year to two findings in the 2021-22 fiscal year and that the 2021-22 fiscal year audited financial statements were filed with the Auditor General in June 2023 within the deadline prescribed by State law.¹⁵ In addition, City personnel stated that approximately 90 percent of the additional \$39,096 spent on additional work effort for the 2021-22 fiscal year audit was due to a scope expansion needed to address items not anticipated during the initial audit proposal, mostly related to the ERP implementation.

Our review of financial statement auditor invoices and related correspondence disclosed that many of the additional audit costs were related to extended audit procedures performed as a result of higher overall audit risk due to high City employee turnover, lack of financial reporting controls, and errors in the City's consolidated plan trial balance. In response to our further inquiries, City personnel stated that the City's Financial Services staff now have the knowledge and capability to produce GAAP financial statements.

Effective internal controls over financial reporting, including controls to ensure financial records are properly prepared and maintained are essential to management's assurance regarding accurate financial reporting in accordance with GAAP.

Recommendation: We recommend that the City continue its efforts to prepare accurate financial statements in accordance with GAAP.

Finding 10: Budget Management

Previously Reported

City records, including City-approved resolutions adopting budgets for the 2018-19 and 2019-20 fiscal years, did not include language specifying the legal level of budgetary control; budgeted amounts were not presented at a level that enabled financial statement users to readily determine whether resources were expended within budgeted amounts consistent with City Commission intent; and budget-to-actual expenditure comparisons were not timely presented to the City Commission.

We recommended that the City Commission enhance controls over the budgetary process to ensure that:

- The desired legal level of budgetary control is established for City budgets.
- Budgeted expenditures reported on the financial statements accurately reflect the established legal level of budgetary control to enable financial statement users to readily determine whether resources were expended within budgeted amounts consistent with City Commission intent.

¹⁵ Pursuant to Section 218.39, Florida Statutes, the City's audited financial statements must be filed with the Auditor General no later than June 30, 9 months after completion of the City's September 30 fiscal year end.

- Budget-to-actual comparison reports are timely presented to the entire City Commission.

Results of Follow-Up Procedures

The City partially corrected this finding. In September 2021, the City updated its budget policy¹⁶ to set the legal level of budgetary control at the department level. Our examination of the 2021-22 fiscal year budget disclosed that the City prepared the budget at the department level.

However, our review of the 2021-22 fiscal year audited financial statements disclosed that the schedule of revenues and expenditures budget and actual for the General Fund was presented at the function level rather than the department level, and neither the financial statement note disclosures nor notes to required supplementary information included any schedules to reconcile the functional expenditures to the department level. As such, financial statement users could not readily determine whether City resources were expended within the budgeted amounts consistent with City Commission intent.

To determine whether budget-to-actual comparison reports were timely presented to the entire City Commission, we reviewed the minutes for City Commission meetings held during the audit period and did not note any record that such reports were presented to the City Commission. In response to our inquiries City personnel stated that they plan to quarterly present such reports beginning in the third quarter of fiscal year 2022-23 (i.e., the quarter ended June 30, 2023); however, as of August 2023, the reports still had not been presented to the City Commission. Absent timely presented budget-to-actual comparison reports, the City Commission and the public lack the information necessary to gain an appropriate understanding of the City's financial status, and the City Commission may lack the information necessary to promptly adjust the budget for significant variances and ensure continuity of services.

Recommendation: We continue to recommend that budgeted expenditures reported in the financial statements accurately reflect the established legal level of budgetary control to enable financial statement users to readily determine whether resources were expended within budgeted amounts consistent with City Commission intent. We also continue to recommend that budget-to-actual comparison reports be timely presented to the entire City Commission.

Finding 11: Transparency of Golf Course Operations

Previously Reported

Monitoring and transparency of the City's golf course (Ironwood) operations could be improved.

To increase accountability and transparency regarding Ironwood, we recommended that the City provide periodic financial reports of Ironwood's operations to the City Commission for discussion in a public meeting.

Results of Follow-Up Procedures

The City corrected this finding. Our review of City records disclosed that in April 2023, the City presented to the City Commission budget-to-actual analyses for the Ironwood Golf Course for the 2019-20 and 2020-21 fiscal years along with estimated data for the 2021-22 fiscal year. In addition, in

¹⁶ City policy BU-1.1 *Budget Administration Policy*.

May 2023, the City presented a budget-to-actual analysis for Ironwood for the quarter ended March 31, 2023. According to City personnel, their goal is to quarterly submit these reports to the Finance Committee.

Finding 12: Gainesville Community Reinvestment Area

Previously Reported

The City could improve accountability and transparency over redevelopment activities carried out pursuant to an interlocal agreement with Alachua County (County).

We recommended that City ordinances be amended to establish additional Gainesville Community Reinvestment Area (GCRA) accountability and transparency provisions. The additional provisions could include, for example, an audit requirement, a requirement that the GCRA only expend trust fund moneys pursuant to the City Commission-adopted reinvestment plan, and a performance reporting requirement.

Results of Follow-Up Procedures

The City corrected this finding. Our review of City records disclosed that in June 2023, the City Commission adopted an ordinance¹⁷ to amend previous ordinances¹⁸ relating to the GCRA. The ordinance established GCRA accountability and transparency provisions requiring that:

- Funds held by the GRCA be audited annually by external auditors.
- GCRA funds may be expended only pursuant to the reinvestment plan adopted by the City Commission.
- An annual work plan be annually prepared by the City and submitted to the Board of County Commissioners, on or before April 1 of each year, listing the community redevelopment activities for the prior calendar year and the extent to which the City achieved the goals set out in the work plan.

PAYROLL AND PERSONNEL ADMINISTRATION

Finding: 13 Employee Background Screenings

Previously Reported

City policies and procedures for obtaining and documenting background checks of applicants seeking employment needed enhancement.

We recommended that the City enhance policies and procedures to:

- Define what constitutes an unfavorable background screening result, specifically identifying the type of offenses that would be considered disqualifiers or potential disqualifiers for employment.
- Require the Human Resources (HR) Practice-required consideration of unfavorable background screening results to be documented in writing and maintained in City records.

¹⁷ Ordinance No. 2023-477, City of Gainesville Code of Ordinances.

¹⁸ Sections 2-407 and 2-409, City of Gainesville Code of Ordinances.

- Require periodic screenings of employees in executive-level positions, in positions of trust, and who work with vulnerable populations.

Results of Follow-Up Procedures

The City partially corrected this finding. Our review of City records disclosed that, although the City did not update policies to define what constitutes an unfavorable background screening result, City management did update its background screening procedures in May 2023. The updated procedures require the City Attorney to review all unfavorable background screening results to determine, on a case-by-case basis, whether there were any objections to hiring the applicants.

We examined background screening documentation for 30 of the 398 City employees hired during the period October 2022 through May 2023, and noted that the City followed its updated procedures when hiring the 30 employees. The 30 background screenings disclosed that three applicants had criminal and offense histories and HR personnel provided us copies of e-mails from the City Attorney indicating that there were no objections to hiring the three applicants.

In May 2023, the City adopted a practice¹⁹ requiring employees in executive-level positions, in positions of trust, and who work with vulnerable populations undergo a background screening every 5 years. In June 2023, we requested a list of these employees and the dates of their most recent background screenings, and City personnel provided a list of 46 employees. Our examination of the provided list and supporting records disclosed that the City had obtained background screenings for 31 of the 46 employees. Subsequent to our inquiries, the City obtained background screenings for the remaining 15 employees.

Recommendation: We recommend that the City continue efforts to ensure that employees in executive-level positions, in positions of trust, and who work with vulnerable populations receive a background screening every 5 years.

Finding: 14 Employee Evaluations

Previously Reported

Contrary to City policy,²⁰ the City did not always conduct annual employee performance evaluations, and when evaluations were conducted, did not always promptly communicate the results of the evaluations to the employees.

We recommended that the City ensure that performance evaluations are timely performed at least annually for all City employees and documented in the personnel files.

Results of Follow-Up Procedures

The City corrected this finding. In July 2023, we selected 25 of the City's 2,384 employees and examined City records to determine whether performance evaluations for the period October 2021 through September 2022 were conducted. The 25 selected employees were full-time employees subject to performance evaluations and our examination disclosed that each of the 25 employees received a

¹⁹ HR Practice E-1, *Background Screening Process*.

²⁰ Human Resources Practices – *Performance Review Process*.

timely annual performance evaluation for the 2021-22 fiscal year, and that the results of the evaluation had been promptly communicated to the employee.

EXPENDITURES- USE OF PUBLIC RESOURCES, PURCHASING CARDS, AND TRAVEL

Finding: 15 Selection of Debt Professionals

Previously Reported

The GRU did not periodically use a competitive process to select certain professionals who assisted in the bond issuance process.

When selecting professionals to assist in the debt issuance process, we recommended that the City employ a competitive selection process, periodically reevaluate ongoing relationships, and document the results of the evaluation.

Results of Follow-Up Procedures

The City partially corrected this finding. Our examination of City and GRU records disclosed that, in April 2023, the GRU competitively selected a municipal advisor. The GRU advertised a Request for Proposal (RFP) for financial advisory services (municipal advisory services) on a Web-based notification and delivery system used for public solicitations, and on May 9, 2023, City personnel opened the single response received. The City contracted with the respondent, who was the City's existing municipal advisor. However, we also noted that, contrary to Government Finance Officers Association (GFOA) best practices,²¹ the GRU did not use a competitive selection process for, or document an evaluation of the ongoing relationship with, its existing bond counsel. In response to our inquiry, the City attorney stated that the decision to retain bond counsel for multiple years is more cost effective when a debt portfolio is as large and complex as the GRU's and that the service levels are evaluated on an ongoing basis.

Notwithstanding the City Attorney's satisfaction with the GRU's current bond counsel, without periodically employing a competitive selection process to select professionals to assist in debt issuance process, the GRU cannot demonstrate that it contracted with the most qualified professionals, received the best services and interest rates at the lowest cost possible, or that the selection process was fair and equitable and free from personal and political influences. In the absence of a competitive selection process, a documented periodic evaluation of the City's relationships with debt professionals would provide some assurance that the relationships continue to provide the best services and value.

Recommendation: We continue to recommend that the City employ a competitive selection process when selecting professionals to assist in the debt issuance process. In addition, we continue to recommend that the City periodically reevaluate ongoing relationships and document the results of the evaluations.

²¹ GFOA Best Practice: *Selecting Bond Counsel*.

Finding: 16 Purchasing Cards – Periodic Reviews

Previously Reported

Controls over City-assigned purchasing cards (P-cards) needed improvement to ensure that P-card assignments and credit limits are periodically evaluated and appropriately adjusted.

We recommended that the City and GRU enhance their procedures to require periodic reviews and evaluations of P-card use and cardholder purchasing limits. Based on the evaluation results, appropriate actions, such as adjustments to purchasing limits should be promptly taken.

Results of Follow-Up Procedures

The City corrected this finding. In May 2023, the City revised its P-Card procedures to limit single transaction limits to \$2,000; establish monthly credit limits at a maximum of \$20,000 per card; and require the Procurement Program Administrator to monitor P-Card use, including conducting and documenting periodic reviews of P-card purchases for compliance and recommending improvements as needed based on noted trends. Our examination of City records disclosed that, in April 2023, the City Manager had communicated to all general government employees that each department would only have one P-card, unless a department head received authorization from the Procurement Department for additional P-cards. This action reduced the number of active P-Cards from 183 to 44.

In October 2022, the GRU initiated a review of P-Cards, and in March 2023, the GRU Controller communicated to each department a proposal with new credit limits for each cardholder and a recommendation to cancel P-Cards assigned to employees who did not use them. The department heads reviewed and responded to the proposal. Although GRU did not compile a summary of the responses to the proposal, GRU personnel provided documentation of the annual review of transactions, by department, performed by the controller for each cardholder, with new proposed credit limits for each cardholder. The results of the annual review were sent to each department head along with an explanation on how to determine whether:

- Cardholders who did not often use their P-card required a P-card.
- Cardholder credit limits were appropriate, and whether cardholders that did not often reach the credit limits could be accommodated with a temporary credit limit increase.
- Purchase orders may be more appropriate for cardholders who consistently use their P-cards to purchase from the same vendor.

Finding: 17 Purchasing Cards – Separations

Previously Reported

The City needed to enhance efforts to ensure that P-cards are promptly canceled upon a cardholder's separation from City employment.

We recommended that the City strengthen procedures to ensure that P-card privileges are timely suspended upon a cardholder's separation from City employment.

Results of Follow-Up Procedures

The City partially corrected this finding. We reviewed City records supporting 11 City general government and 23 GRU P-cards for employees who separated from City employment during the period October 2022 through May 2023. We noted that 2 of the 11 City general government P-cards were canceled 17 and 24 days, an average of 21 days, after the employees' separation dates, and that 3 GRU P-Cards were canceled 12 to 19 days, an average of 15 days, after the employees' separation dates.

Although the number of days between employee separation from City employment and the P-card cancellation date improved from the 65-day and 27-day averages, respectively, disclosed in our report No. 2022-087 for City general government and GRU employees, any delay in canceling P-cards increases the risk that unauthorized charges will occur.

In response to our inquiries, in October 2023, City and GRU personnel indicated that they suspended the P-cards prior to cancellation and that, although not canceled, the P-cards were not usable upon being suspended. However, records showing the suspension date were not available because City P-card procedures do not require that P-card suspension dates be documented. Documentation evidencing when a P-card is suspended and can no longer be used is essential for the effective oversight of City P-cards.

Recommendation: We recommend that the City continue its efforts to ensure that P-Cards are timely canceled upon a cardholders' separation from City employment. When P-cards are suspended before cancellation, the City should enhance its procedures to require and ensure that the P-card suspension dates are documented in City records.

Finding: 18 Travel

Previously Reported

The GRU needed to enhance travel policies and procedures to require employees to sign their travel vouchers, reduce meal allowances paid to the traveler for meals included in conference registration fees, document the necessity of multiple individuals attending the same conference, and require that travel arrangements be made sufficiently far in advance to minimize travel costs.

We recommended that the GRU enhance travel policies and procedures to require:

- Travelers sign travel vouchers attesting that they incurred the expenses reflected on the travel voucher and that the expenses were necessary in the performance of official GRU duties.
- Verification that travelers are not reimbursed for meals included in conference registration fees. If the City decides to reimburse a traveler for meals included in conference registration fees, appropriate approval documentation should be retained.
- Records be retained for each individual documenting the purpose of their conference attendance.
- Travel arrangements be made in a timely manner to allow for cost-efficient options to be utilized.

Results of Follow-Up Procedures

The City corrected this finding. In February 2022, the GRU issued a memorandum that enhanced existing travel procedures,²² and adequately addressed our recommendations. Our review of 30 travel expenditures totaling \$96,319 out of the 180 travel expenditures totaling \$217,446 during the period October 2022 through May 2023 disclosed that the GRU was in compliance with the enhanced procedures.

OBJECTIVES, SCOPE, AND METHODOLOGY

Pursuant to Section 11.45(3)(a), Florida Statutes, we conducted an operational audit of the City of Gainesville and issued our report No. 2022-087 in January 2022. Pursuant to Section 11.45(2)(j), Florida Statutes, the objective of this audit was to perform, no later than 18 months after the release of that report, appropriate follow-up procedures to determine the City's progress in addressing the findings and recommendations contained within report No. 2022-087.

We conducted this follow-up audit from June 2023 through September 2023 in accordance with 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.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the follow-up audit, weaknesses in management's internal controls significant to our audit objectives; instances of noncompliance with applicable governing laws, rules, contracts, or other guidelines; and instances of inefficient or ineffective operational policies, procedures, or practices. The overall objective of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgement has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities, and functions included within the scope of our follow-up audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; identifying and evaluating internal controls significant to our audit objectives; exercising professional judgement in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included transactions, as well as events and conditions, occurring during the period October 2022 through May 2023, and selected City actions taken prior and subsequent thereto. Unless otherwise indicated in this report, these records and transactions were not selected with the intent of

²² Chapter 25, *Finance Department Procedures Manual, Travel*.

projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size quantifications relative to the items selected for examination.

In conducting our audit, we:

- Reviewed applicable laws, rules, City policies and procedures, and other guidelines, and interviewed City personnel to obtain an understanding of applicable requirements and determine whether the City had established effective policies and procedures for selected City functions.
- Examined City records and inquired of City personnel to determine whether the City general government and the Gainesville Regional Utilities (GRU) developed and adopted a long-term debt management plan that established a reasonable process whereby debt levels are reduced over time.
- Inquired with City personnel to determine whether the City Commission had adopted a reasonable and sustainable methodology for calculating the annual government services contribution amount that properly considers the GRU's long-term ability to pay.
- Inquired with City personnel to determine if the City's indirect cost allocation procedures were revised to provide for an independent review of records used to develop annual budgeted indirect cost allocations and to provide for periodic adjustments between the estimated and actual amounts. In addition, we determined whether the City had either restored the 2017-18 and 2018-19 fiscal year indirect cost overcharges to the GRU or offset the overcharges against future fiscal year indirect cost assessments.
- Determined through examination of City records and discussions with City personnel that the City ceased administering and funding the Reichert House Youth Academy (RHYA) Program in May 2023. In addition, we:
 - Evaluated the sufficiency of City actions to ensure that any nonprofit entity RHYA Program residual assets reverted to the City.
 - Determined whether the City obtained explanations and supporting records for all unexplained RHYA Program transactions disclosed in our report No. 2022-087.
- Evaluated the sufficiency of City efforts to hire, train, develop, and retain staff with the knowledge and capability to prepare financial statements in accordance with generally accepted accounting principles, and determined the amounts of any additional financial audit costs incurred by the City and the reasons for incurring such costs.
- Determined whether the City had enhanced controls over the budgetary process to require the City to:
 - Establish a legal level of budgetary control.
 - Report budgeted expenditures on the financial statements that accurately reflect the established legal level of budgetary control.
 - Timely present budget-to-actual comparison reports to the City Commission.
- Evaluated the adequacy and transparency of City actions to increase accountability and transparency of the City's golf course operations.
- Evaluated the sufficiency of City efforts to establish additional Gainesville Community Reinvestment Areas accountability and transparency provisions.
- From the population of 398 employees hired during the period October 2022 through May 2023, examined records for 30 employees to determine whether the City obtained the required background screenings and documented consideration of unfavorable background screening results in writing. In addition, examined City records to determine whether the City obtained

periodic background screenings for employees in executive-level positions, in positions of trust, and who work with vulnerable populations.

- From the population of 2,384 employees employed during the period October 2022 through May 2023, examined records for 25 employees to determine whether performance evaluations for the 2021-22 fiscal year were timely completed and the results were communicated to the employees.
- Evaluated the extent to which the GRU employed a competitive selection process for debt issuance professionals, periodically reevaluated ongoing relationships, and documented the results of the evaluation, in accordance with the Government Finance Officers Association best practices.
- Evaluated the reasonableness of City and GRU procedures for assignment and use of City and GRU-issued purchasing cards (P-cards). Specifically, we examined City records to determine whether City and GRU personnel:
 - Periodically reviewed and evaluated P-card use and cardholder purchasing limits.
 - Timely canceled the P-cards of employees who separated from employment during the audit period.
- From the population of 158 GRU travel expenditures totaling \$217,446 incurred during the period October 2022 through May 2023, examined documentation for 30 expenditures totaling \$96,319 to determine whether the expenditures complied with State law and City policies and procedures.
- Inquired of City personnel to determine whether the City entered into any contracts under the authority granted by a state of emergency, declared or renewed during the audit period.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

AUTHORITY

Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.



Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE



City of Gainesville

Harvey L. Ward, Jr., Mayor

October 10, 2023

Ms. Sherrill F. Norman, CPA
Auditor General of the State of Florida
Claude Denson Pepper Building, Suite G74
111 West Madison Street
Tallahassee, FL 32399-1450

Re: City of Gainesville's Response to Auditor General's Preliminary and Tentative Audit Findings

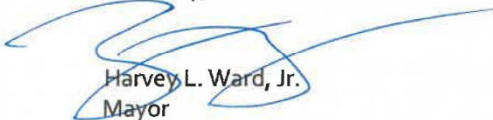
Dear Ms. Norman:

The City is providing responses attached herein to the Auditor General's October 5, 2023 Preliminary and Tentative Audit Findings and Recommendations for the Operational Audit of the City of Gainesville.

Effective October 1, 2023, the Governor established the Authority to administer operations of the Gainesville Regional Utilities, separate from the City Commission. As such, the responses for the Partially Corrected Findings #1, 15 and 17 contain information from GRU covering activity taken to correct the issues through September 30, 2023. Going forward, a status update will be provided by the GRU Authority.

The City Commission and Management continue to prioritize fully correcting Partially Corrected findings. We are confident that the Fiscal Year 2023 external audit results, anticipated for completion by March 2024, will meet the expectations of the State Auditor General.

Sincerely,



Harvey L. Ward, Jr.
Mayor

cc: Members of the City Commission
Cynthia W. Curry, City Manager, City of Gainesville, FL
Anthony Cunningham, General Manager, Gainesville Regional Utilities
Brecka Anderson, Interim City Auditor, City of Gainesville, FL
Sue Wang, Finance Director, City of Gainesville, FL
Claudia Rasnick, Chief Financial Officer, Gainesville Regional Utilities

Attachment:

1. Management Response to Preliminary and Tentative Audit Findings and Recommendations for the Operational Audit of the City of Gainesville dated October 5, 2023

200 East University Avenue • Station 19 • P.O. Box 490 • Gainesville, Florida 32627
(352) 334-5016 • Facsimile: (352) 334-2036 • E-Mail: mayor@gainesvillefl.gov

**October 5, 2023 Auditor General Preliminary and Tentative Audit Findings and
Recommendations
Management Responses from the City of Gainesville**

The following presents management responses to findings 1, 9, 10, 13, 15 and 17, which are marked as partially corrected.

Finding #1: GRU Debt Levels (GRU)

GRU is committed to reducing the Utility’s debt while continuing to provide safe reliable utility services in a cost-effective manner.

The current debt reduction plan, approved by the governing body, includes \$954 million of the capital improvement plan dollars from the \$1.3 billion in “requests” submitted by the operating departments. The \$954 million is the amount of CIP spending that can be considered under the plan while still reaching the debt reduction goals.

While the debt reduction plan did not specifically address all areas of the 2019 IRP as issued, consideration was given to certain portions that support operational and financial goals. For example, a new solar agreement to augment generation was completed in fiscal year 2023 and renovations/upgrades to current facilities which help extend their lives were completed in fiscal years 2022 and 2023.

The Integrated Resource Plan (IRP) is completed approximately every three years and currently an updated IRP is in progress. This will include recommendations for potential plant upgrades and decommissioning costs. Upon review and acceptance of recommendations in the new IRP by the Gainesville Regional Utilities Authority (GRUA), the debt reduction plan will be re-evaluated and updated with new projected spending. This will depend on the direction of GRUA, GRU’s new governing board.

Note that the current debt reduction plan was approved by GRU’s prior governing body, the City Commission. GRU is proactively working with the new governing body, newly seated on October 4th, regarding this finding and the debt reduction plan approved in fiscal year 2023.

Finding #9: Financial Statement Preparation (General Government)

General Government has fully complied with the audit recommendation to “enhance its efforts to hire, train, develop, and retain staff with the knowledge and capability required to produce GAAP financial statements”. Since January 2022, when the Operational Audit report was originally presented, the following staff has been hired:

- Finance Director (Certified Public Accountant, Certified Public Finance Officer);
- Controller (Certified Public Accountant);
- Two Senior Accountants;
- Internal Control Manager (Certified Internal Auditor, Certified Fraud Examiner);
- Internal Control Specialist (Certified Public Accountant, Certified Fraud Examiner);
- Grant Fiscal Coordinator;

- Financial Systems Architect (Certified in the City’s Enterprise Resource Planning System -Workday Financial Reporting, Payroll, and Human Capital Management).

The Department of Financial Services has also strengthened operating procedures and increased opportunities for staff training and development. During the year 2023:

- Accounting staff participated in webinar training offered by GFOA and FGFOA;
- All Accounting staff attended the FGFOA annual conference in June 2023;
- The Internal Control Manager attended the Annual ACFE Global Fraud Conference in June 2023;
- Department of Financial Services staff took training credits offered by Workday;
- The Financial Systems Architect attended the Workday annual conference in September 2023;
- Accounting staff has been meeting with the Revenue/Receivable and Accounts Payable/Payroll Division to enhance collaboration and breakdown silos. These meetings offer opportunities for hands-on learning, cross-training, and process improvements;
- The Department of Financial Services has also launched an internal “lunch and learn” series. The first session focused on Excel and how to use formula and pivot tables to do financial analysis.

Because of these improvements and the experienced new staff whose skills complemented those of the existing staff, the Department of Financial Services has been able to:

- Successfully completed fiscal year 2020-21 and 2021-22 audits with no new audit findings, and the current remaining findings dropped off from six to two;
- General Government is now caught up with its external financial audit reporting and was also awarded the prestigious Certificate of Achievement for Excellence in Financial Reporting award from GFOA for its fiscal year 2020-21 Annual Comprehensive Financial Report.

As of the date of this report, due to the dedicated efforts of the Accounting Division of the Department of Financial Services, fiscal year 2022-23 bank reconciliations have been completed and reconciled monthly, period close has been performed monthly in Workday, and financial reports are now issued monthly. These two remaining material weaknesses are resolved and considered corrected by Management, and we fully expect the external auditor to confirm this when the fiscal year 2023 external audit is completed by March 2024 without audit findings.

As noted during discussions with staff from the Auditor General’s Office, complying with this recommendation is instead being measured and evaluated against professional services expenditures incurred, specifically \$39,096 paid to the City’s external auditor for additional work needed to prepare General Government’s Fiscal Year 2021-22 financial statements. The Fiscal Year 2021-22 audit required scope expansion from the original audit contract to address items not anticipated during the initial audit proposal, mostly driven by the transition to Workday and the auditors needing to restructure their work papers, account structure mapping to be in line with the new chart of accounts, and the quick turnaround time needed to complete the audit by the statutory requirement of June 30, 2023.

Management considers this expense reasonable, and the outsourcing option to prepare the Annual Comprehensive Financial Report (ACFR) is an available option for any municipality looking to increase efficiency and optimize resources. Management exercised this option to comply with the State deadline of completing the FY 2022 ACFR by June 30, 2023 while considering the vacant positions in the Department of Financial Services at that time due to challenges with filling vacant positions because of the competitive job market. This challenge continues to affect hiring not only at the City of Gainesville but also for municipalities across the country. In this case, for General Government, the benefits of increasing scope and outsourcing some of the work to produce the ACFR outweighed the costs, and more notable, the costs incurred for these services were more than offset by the vacancy savings in the Department of Financial Services at the time.

Finding #10: Budget Management (General Government)

As of September 2023, General Government Management considers the presentation of budget-actual comparison reports to the City Commission corrected. On August 31, 2023 ([Agenda #2023-831](#)) and September 7, 2023 ([Agenda #2023-831](#)), the Office of Management and Budget (OMB) restarted presentation of quarterly monitoring reports with projections to the Finance Committee and City Commission, respectively. OMB will continue presenting the quarterly monitoring reports to the City Commission quarterly as recommended.

The City plans to publish the Schedule of Expenditures - Budget and Actual for the General Fund at the established legal level of budgetary control starting with the FY 2023 ACFR.

Finding #13: Employee Background Screenings (General Government)

As of July 2023, the City considers this finding corrected. As of July 2023 all required background screenings have been provided to the State Auditor General.

Finding #15: Selection of Debt Professionals (GRU)

A competitive process was conducted commencing in 2014, and fully effectuated in 2017, to seek Bond and Disclosure Counsel services for the city's utility systems, GRU. The City Attorney's Office in conjunction with GRU's Budget, Finance and Accounting Department determined that it was a prudent business practice to competitively solicit for bond counsel who would serve first as disclosure counsel for the 2014 issuance and then as bond counsel for subsequent bond issuances. Prior to 2014, the City's utility's (GRU) Bond and Disclosure Counsel was Orrick, Herrington & Sutcliffe, a global law firm based out of New York. The business plan was to maintain Orrick, Herrington & Sutcliffe as Bond Counsel for the 2014 bond issuance. Holland & Knight was selected to serve first as Disclosure Counsel for the 2014 issuance allowing Holland & Knight to learn GRU's debt profile before issuing any bonds, and then to serve as Bond Counsel thereafter. In 2017, Holland & Knight first provided legal service to GRU as its Bond Counsel. Bryant Miller Olive was selected to serve as Disclosure Counsel for GRU issuances commencing 2017. Both Holland & Knight and Bryant Miller Olive provided counsel regarding the City of Gainesville's non-utility debt issuances prior to being selected as counsel for the utility side of the organization.

As the Auditor General previously acknowledged, the City has a large and complex debt portfolio related to its utilities services. It includes various debt structures, including fixed rate debt, variable rate debt, synthetically fixed debt, public issues, private placements, various lines of credit,

standby bond purchase agreements, letters of credit, multiple commercial paper programs, swaps, and senior and subordinate debt. GRU's financial officials and the City Attorney's Office were aware that changing Bond and Disclosure Counsel in 2014, would take an extensive amount of time to review the existing debt structure and to make recommendations for future debt structures. By having new Bond Counsel serve first as Disclosure Counsel for the 2014 debt restructuring, GRU and the City Attorney's office made a prudent business decision. Retaining the same counsel for both the general government and utility functions of the City has also resulted in perceived synergies and benefits.

The City recognizes the Auditor General's reliance on the Government Finance Officers Association (GFOA) Best Practice recommendation that bond counsel be selected on the basis of a competitive process. However, the City also recognizes that its recent selection process was competitive, and its ongoing usage of selected counsel is consistent with both applicable law, and City policy. Further, the GFOA does not specify a recommended "best practice" interval between selection processes. However, the GFOA rightfully recommends that, "[f]or issuers that have ongoing needs of a similar nature, continuity should be considered an important factor in the evaluation process." The decision to retain Bond and Disclosure Counsel for multiple years is a prudent business practice for a large municipal utility, especially when a debt portfolio is as complex as GRU's. The City posits that continuity of counsel, given the complexity of GRU's portfolio is more than a best practice, it is a vital practice.

In short, it is more cost effective to retain a firm longer than one year, when a debt portfolio is as large and complex as GRU's. Retaining the same counsel over a longer period of time also avoids costly mistakes. Retaining this stable combination of Bond Counsel and Disclosure Counsel has been instrumental in appropriately managing the significant complexity and level of debt that GRU incurred. Holland & Knight and Bryant Miller Olive, selected by a competitive process, have provided legal services at a substantially lower cost than prior counsel.

The City Attorney's Office and the finance professionals of GRU are satisfied that Holland & Knight and Bryant Miller Olive continue to provide excellent debt issuance counsel to the City. These service levels are evaluated on an ongoing basis as the management of GRU's debt requires constant reviews and a significant level of activities. While the extent to which the City is satisfied with service of bond counsel is evident through the continued use of their services, the City Attorney's Office and the GRU Budget, Finance and Accounting Department respect the recommendation of the Auditor General and will consider a formal evaluation practice premised on criteria set forth in the prior competitive process at the culmination of future issuances and debt-related activities.

Finding #17: Purchasing Cards – Separations

General Government: Management agrees with the audit recommendation. It has been the City's practice to suspend a P-card immediately once the Program Administrator is notified of the card holder's separation from the City. Suspending a card means the card is not usable anymore and will not accept any new charges. A suspended P-card has to be left open in order to reconcile final transactions before it is canceled. Once all transactions on a suspended P-card are verified and credits, if any, are collected (the P-card has to be left open/"suspended" for these activities to occur), the card will be cancelled. It is reasonable to cancel a suspended P-card within 30 days of

the P-card holder's separation from the City. This is based on other controls put in place to monitor P-card usage, including single transaction limits, monthly credit limits, monthly comparison review of active employees against P-card-holders, and periodic review of P-card transactions from the Department of Financial Services' Internal Control Division and the continuous audit conducted by the City Auditor's Office.

Once a P-card is cancelled in the system, the suspension date is wiped out and documentation of the suspension date is therefore removed. To strengthen documentation of the suspension of a card, the City will amend the P-Card procedure to ensure that a card's suspension date is timely and adequately documented in City records.

GRU: Previously, the Purchasing Card (P-Card) Administrator for GRU would wait until a cardholder's supervisor notified them of an employee's separation, which could result in a delay in suspending the card. GRU has recently implemented a process in which the Purchasing Card (P-Card) Administrator will be notified by the Human Resources system (Workday) directly when employees separate from employment. Upon notification, the P-Card Administrator will access the P-Card system (Bank of America Works) and suspend the card, so that no additional charges can be made, within the next 1-2 business days and close the account at the end of the billing cycle for which the last transaction was completed.

The P-Card system tracks when a card is suspended and will be used as the source of record for documenting the date of suspension.