

**CITY OF HOLLYWOOD
AND
HOLLYWOOD COMMUNITY REDEVELOPMENT
AGENCY**

**Follow-Up on Operational Audit
Report No. 2013-093**



MAYOR, VICE MAYOR, COMMISSION MEMBERS, AND CITY MANAGER

The City of Hollywood's Mayor, Vice Mayor, Commission Members, and City Manager who served during the period March 2013 through February 2015 are listed below:

Mayor

Peter Bober

Vice Mayor

Kevin D. Biederman (District 5) from 12-3-2014

Patty Aseff (District 1) from 12-5-2013 to 12-2-2014

Richard Blattner (District 4) to 12-4-2013

Commissioners

Patty Asseff (District 1)

Peter D. Hernandez (District 2)

Traci L. Callari (District 3)

Richard Blattner (District 4)

Kevin D. Biederman (District 5)

Linda Sherwood (District 6)

City Manager

Dr. Wazir Ishmael from 12-3-2014

Cathy Swanson-Rivenbark to 12-1-2014

COMMUNITY REDEVELOPMENT AGENCY CHAIRPERSON, VICE CHAIRPERSON, AND BOARD MEMBERS

The Hollywood Community Redevelopment Agency (CRA) Board consists of seven members, who also serve as the Mayor, Vice Mayor, and City Commission. The Mayor and Vice Mayor also serve as the CRA Board Chairperson and Vice Chairperson, respectively. The CRA Executive Director and Deputy Director who served during the period March 2013 through February 2015 are listed below:

Executive Director

Jorge Camejo

Deputy Director

Susan Goldberg

The audit team leader was Edward A. Waller, and the audit was supervised by Derek H. Noonan, CPA. Please address inquiries regarding this report to Marilyn D. Rosetti, CPA, Audit Manager, by e-mail at marilynrosetti@aud.state.fl.us or by telephone at (850) 412-2902.

This report and other reports prepared by the Auditor General can be obtained on our Web site (www.myflorida.com/audgen); by telephone (850) 412-2722; or by mail G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

**CITY OF HOLLYWOOD AND
 HOLLYWOOD COMMUNITY REDEVELOPMENT AGENCY
 FOLLOW-UP ON OPERATIONAL AUDIT REPORT NO. 2013-093**

EXECUTIVE SUMMARY

This report provides the results of our audit to determine the extent to which the City of Hollywood (City) and Hollywood Community Redevelopment Agency (CRA) had taken, or were in the process of taking, corrective actions to address the findings included in our report No. 2013-093. Our follow-up procedures to determine the City's and CRA's progress in addressing the 13 findings and recommendations contained in our report No. 2013-093 disclosed that, as of the completion of our follow-up procedures in February 2015, the City's and CRA's actions adequately corrected 6 findings, partially corrected 5 findings, had not corrected 1 finding, and had no occasion to correct 1 finding.

BACKGROUND

The Auditor General is authorized by State law to perform audits of governmental entities in Florida. As directed by the Legislative Auditing Committee, we conducted an operational audit of the City and CRA for the period October 2010 through January 2012, and selected actions taken subsequent thereto. Pursuant to Section 11.45(2)(j), Florida Statutes, the Auditor General, no later than 18 months after the release of our report No. 2013-093, must perform such appropriate follow-up procedures as deemed necessary to determine the City's and CRA's progress in addressing the findings and recommendations contained within that report.

STATUS OF REPORT NO. 2013-093 FINDINGS

CITY OF HOLLYWOOD

Financial Urgency Declaration

Finding No. 1: Financial Urgency Determination

Previously Reported

The City did not consider all available funds in its determination to declare a financial urgency. We recommended that prior to declaring a financial urgency or taking actions to address General Fund budget shortfalls, the City consider available funds on a City-wide basis, including those available in the Water and Sewer Utility Fund.

Results of Follow-Up Procedures

The City had no occasion to correct this finding. No financial urgencies were declared from March 2013 through January 2015. See finding No. 4 for discussion regarding pension benefits.

Financial Condition

Finding No. 2: General Fund Fund Balance

Previously Reported

The City needed to develop a formal plan to replenish General Fund fund balance reserves, as required by its fund balance policy.

We recommended that the City develop a formal plan for replenishing General Fund fund balance reserves and continue its efforts to build General Fund fund balance reserves to the established target level.

Results of Follow-Up Procedures

The City's actions corrected this finding. As of September 30, 2013, the General Fund unrestricted fund balance was \$33.7 million, or 23 percent of General Fund operating expenditures of \$147.8 million, which exceeded the 17 percent threshold established by the City Commission's fund balance policy.

Finding No. 3: Water and Sewer Utility Fund Working Capital

Previously Reported

The City needed to establish minimum target levels of working capital that should be maintained in its Water and Sewer Utility Fund.

We recommended that the City Commission, by formal resolution, establish a policy indicating minimum target levels of working capital funds that should be maintained in its Water and Sewer Utility Fund.

Results of Follow-Up Procedures

The City's actions corrected this finding. In May 2013, the City Commission approved a policy providing for a minimum working capital reserve to be maintained in the Water and Sewer Utility Fund of at least 90 days of operating expenses (excluding depreciation). Also the policy established a procedure whereby the City prepares a working capital reserve worksheet as part of the budget process and, as needed, during the year to ensure compliance.

Finding No. 4: Unsustainable Wage and Pension Benefit Increases

Previously Reported

The City had not adopted a funding policy for its defined benefit pension plans to ensure that sufficient resources would be available to fund benefits promised to employees. Additionally, scheduled wage increases and rising costs of pension benefits pursuant to collective bargaining agreements, most of which were funded by the General Fund, may have been unsustainable in the long run.

We recommended that the City establish a funding policy for its defined benefit plans. In doing so, we recommended that the City consider the Government Finance Officers Association's (GFOA) best practice recommendations to ensure sustainable funding. Further, for collective bargaining purposes, we recommended that the City carefully evaluate the impact of projected salary and benefit package costs provided to employees over time to ensure sufficient resources will be available to fund future expenses.

Results of Follow-Up Procedures

The City’s actions did not correct this finding. City personnel brought resolution R-2014-131 before the Commission on June 4, 2014, which would adopt the GFOA’s best practice concerning sustainable funding practices of defined benefit pension plans. This item was removed from the agenda by the City Manager so that a workshop could be held to explain and resolve concerns brought up over the GFOA recommended practice. Some of the concerns brought forward at the meeting included the elimination of the “thirteenth check” provided by the City to retirees, whereby, through collective bargaining, the City had agreed to include in each of its three pension plans (Employees, Fire and Police) a provision for the payment of a payout when the plan’s investment returns are high. A specific threshold is established in each plan, and if the investment returns exceed that threshold for a particular fiscal year, the City may be required to pay a “thirteenth check.” As of January 31, 2015, the City had not adopted a funding policy for its defined benefit pension plans.

Our review also included an analysis of the City’s annual pension costs and its unfunded actuarial accrued liabilities for the October 1, 2013, actuarial valuation as compared to the October 1, 2009, actuarial valuation. As shown in Table 1, the City’s annual pension costs and overall unfunded pension liability significantly increased from October 1, 2009, to October 1, 2013.

Table 1

Pension Plan	October 1, 2009 Actuarial Valuation	October 1, 2013 Actuarial Valuation	Increase/ (Decrease)	Percent Increase/ (Decrease)
Unfunded Pension Liability				
General Employees	\$ 149,370,467	\$ 200,602,966	\$ 51,232,499	34.30
Fire Fighters	126,209,903	144,488,529	18,278,626	14.48
Police Officers	140,766,537	146,996,010	6,229,473	4.43
Total	<u>\$ 416,346,907</u>	<u>\$ 492,087,505</u>	<u>\$ 75,740,598</u>	18.19
Funded Ratio (1)	53 Percent	53 Percent		
	2009-10 Fiscal Year	2013-14 Fiscal Year	Increase/ (Decrease)	Percent Increase/ (Decrease)
Annual Pension Cost				
General Employees	\$ 16,411,715	\$ 20,348,970	\$ 3,937,255	23.99
Fire Fighters	8,914,396	12,282,353	3,367,957	37.78
Police Officers	11,380,073	12,479,298	1,099,225	9.66
	<u>\$ 36,706,184</u>	<u>\$ 45,110,621</u>	<u>\$ 8,404,437</u>	22.90

Note (1): The actuarial value of assets expressed as a percentage of the actuarial accrued liability.

Finding No. 5: Financial Management and Monitoring

Previously Reported

The City’s financial management and monitoring needed improvement to avoid budget shortfalls due to ineffective revenue projections and overexpenditures.

We recommended that the City continue its efforts to improve revenue projections and ensure that future expenditures do not exceed budgetary authority. In addition, we recommended that budget-to-actual comparisons for

all budgeted funds be prepared and submitted to the City Commission on a more frequent basis, such as monthly, and included in City Commission agendas and minutes.

Results of Follow-Up Procedures

The City’s actions partially corrected this finding. We compared revenues included in the original budget to final actual revenues for the 2013-14 fiscal year for all funds and noted no significant differences, indicating that the City has improved its revenue projections. However, year-to-date 2013-14 fiscal year budget-to-actual comparisons were only provided to the City Commission for the General Fund, and were only provided for the periods ended February 28, April 30, and July 31, and these were provided two months after the end of the periods (i.e., May, July, and September 2014, respectively). As a result, the City Commission did not receive complete or timely financial information necessary to properly monitor the City’s financial position.

Finding No. 6: Budget Preparation and Adoption

Previously Reported

The City’s adopted budgets did not include prior year balances brought forward, and budgets were not adopted for the City’s special revenue or capital projects funds, contrary to law.

We recommended that the City ensure that future annual budgets include all balances brought forward from prior fiscal years and that budgets be adopted for all funds as required by law.

Results of Follow-Up Procedures

The City’s actions corrected this finding. We reviewed the City’s adopted budgets for the 2013-14 and 2014-15 fiscal years. For the funds for which a budget was adopted, the City included balances brought forward from prior fiscal years. While the City did not adopt budgets for the special revenue or capital projects funds in the 2013-14 fiscal year, budgets were adopted for these funds for the 2014-15 fiscal year.

Other Administrative Matters

Finding No. 7: Bank Account Reconciliations

Previously Reported

The City did not provide for timely bank account reconciliations.

We recommended that the City ensure that its established policies and procedures are followed regarding the timely preparation of bank account reconciliations.

Results of Follow-Up Procedures

The City’s actions corrected this finding. Our review of four bank account reconciliations prepared during the period March 2013 through October 2014 disclosed that the bank account reconciliations were completed within six weeks after the bank statement date in accordance with the City’s established policies and procedures.

Finding No. 8: Vehicle Maintenance and Fuel Usage

Previously Reported

The City’s fuel and fleet management systems used for numerous City-owned vehicles were ineffective for monitoring and investigating significant fluctuations in miles per gallon by vehicle.

We recommended that the City continue its efforts to obtain a new automated fuel and fleet management software system and ensure that the new system accurately collects vehicle odometer readings. Once implemented, we recommended that the City develop procedures for monitoring vehicle maintenance, repair, and fuel usage records to ensure the economic and efficient use of City resources.

Results of Follow-Up Procedures

The City’s actions partially corrected this finding. In September 2014, the City entered into an agreement for a fleet maintenance and fuel management program Web-based software system that, according to City personnel, should assist the City in effectively monitoring and investigating significant fluctuations in miles per gallon per vehicle. According to the agreement, the City has a 60-day performance period to determine if the software and hardware are performing adequately for the City’s needs. In response to our inquiries, City personnel indicated that the system is being implemented but will not be ready for use until July 2015.

Public Records

Finding No. 9: City Commission Minutes

Previously Reported

Minutes of City Commission meetings and workshops were not timely prepared and approved.

We recommended that the City develop guidelines for the timely recording, review, and approval of City Commission minutes, and enhance its procedures to ensure that minutes are timely recorded, approved, and available for public inspection.

Results of Follow-Up Procedures

The City’s actions partially corrected this finding. Effective September 1, 2014, the City implemented guidelines for recording, reviewing, and approving City Commission minutes that established a 155-day deadline after the meeting for minutes to be approved. The City timely uploaded video recordings of the meetings to its Web site. However, insofar as the 155-day deadline provides approximately five months between the date of the meeting and the approval of the meeting minutes, a more timely approval would increase transparency, enhance citizen involvement, and provide Commission members a more reasonable time frame within which to review, and correct as necessary, the minutes.

Our review indicated that for the 13 regular City Commission meetings held in calendar year 2014 for which minutes had been approved as of February 12, 2015, the meeting minutes were approved between 147 and 210 days after the date of the meeting, with an average of 177 days. As of February 12, 2015, meeting minutes had not been approved for meetings held after July 16, 2014.

HOLLYWOOD COMMUNITY REDEVELOPMENT AGENCY

Budget Preparation

Finding No. 10: Budget Preparation

Previously Reported

The CRA’s adopted budget did not include prior year balances brought forward, contrary to law.

We recommended that the CRA ensure that balances brought forward from prior fiscal years are included in the adopted budgets for the CRA trust funds.

Results of Follow-Up Procedures

The CRA’s actions corrected this finding. Our review disclosed that the 2013-14 and 2014-15 fiscal year budgets for the CRA’s Downtown District and Beach District included prior fiscal year balances brought forward.

Use of CRA Funds

Finding No. 11: CRA Plans and CRA Expenditures

Previously Reported

Several CRA expenditures were not in accordance with law or the approved CRA plans, and the Downtown District and Beach District CRA plans had not been updated since 1995 and 1997, respectively.

We recommended that the CRA adopt procedures to ensure that CRA trust fund expenditures are authorized pursuant to Chapter 163, Part III, Florida Statutes, and only made pursuant to its CRA plans. In addition, we recommended that the CRA revise its CRA plans to include current projects in sufficient detail to demonstrate that expenditures of CRA funds are in accordance with Section 163.387(6), Florida Statutes. We also recommended that the CRA plans include information in sufficient detail so that taxing authorities required to contribute to the CRA, and the general public, will be properly informed as to the CRA’s intentions and how the CRA will accomplish its redevelopment objectives. Further, we recommended that the CRA request reimbursement from the City for the \$1,500,000 in CRA funds expended on community policing activities and the \$187,885 in CRA funds expended on the enhanced maintenance program. Finally, we recommended that the CRA determine the portion of the capital improvement plan operating support paid by the Beach District Trust Fund that was applicable to the Downtown District and transfer the appropriate amount from the Downtown District Trust Fund to the Beach District Trust Fund.

Results of Follow-Up Procedures

The CRA’s actions partially corrected this finding. The CRA did not update its redevelopment plans but contracted with a consulting firm in March 2014 to assist in updating the plans. The CRA indicated that the plans will include all ongoing projects and planned projects. As of January 2015, the revised plans were not complete. In addition, the CRA declined to request reimbursements from the City for the community policing and enhanced maintenance charges noted in our report No. 2013-093.

We tested expenditures totaling \$4,020,902 during the period March 2013 through October 2014 to determine whether the expenditures were provided for in the CRA plans. Our test disclosed expenditures totaling \$569,118 for purposes that were not included in the CRA plans. These expenditures included reimbursements to the City for community policing, expenses of the Hollywood Office of Tourism, and enhanced maintenance of the downtown area.

Finding No. 12: CRA Salary and Other Expenditure Allocations

Previously Reported

Some salaries and benefits costs and other expenditures were not allocated using time records documenting actual effort or another systematic and rational approach.

We recommended that procedures be implemented to ensure that expenditures for CRA activities are supported by documentation evidencing proper cost allocations for City or CRA employees providing direct time to CRA projects or activities, such as time records or activity logs, or a systematic and reasonable approach be used to allocate time spent on CRA projects or activities.

Results of Follow-Up Procedures

The CRA's actions partially corrected this finding. The CRA contracted with a CPA firm to perform agreed upon procedures involving the 2012-13 and 2013-14 fiscal years to determine whether the salary and benefits costs and other expenditure allocations for services provided by the City, and between the Beach and Downtown Districts, were appropriate. The scope of the agreed upon procedures includes research and recommendations to promulgate an interlocal agreement with the City to establish the basis for future expenditure allocations. As of January 31, 2015, the CPA firm had not completed the agreed upon procedures and the CRA had not made any changes to expenditure allocations.

Finding No. 13: Ending Balances in CRA Trust Funds

Previously Reported

CRA records did not demonstrate compliance with Section 163.387(7), Florida Statutes, regarding the disposition of unexpended CRA trust fund moneys.

We recommended that the CRA ensure that capital improvement plans and amounts appropriated are based on realistic goals and time frames. We also recommended that the CRA take steps to ensure that its records document compliance with Section 163.387(7), Florida Statutes, including returning funds to the taxing authorities if such funds are not otherwise used in accordance with law.

Results of Follow-Up Procedures

The CRA's actions corrected this finding. The 2014-15 fiscal year adopted budget for the Beach District included \$21.9 million of resources carried forward from the 2013-14 fiscal year and \$22.9 million of 2014-15 fiscal year resources, for total available resources of \$44.8 million. The CRA budgeted the entire amount with no fund balance expected at the end of the 2014-15 fiscal year. At September 30, 2014, \$25.5 million was under contract for two projects of \$23 million and \$2.5 million, respectively, which exceeds the estimated \$21.9 million balance available at September 30, 2014. Contracts for both projects indicated completion dates within three years after September 30, 2014, in accordance with Section 163.387(7), Florida Statutes.

OBJECTIVES, SCOPE, AND METHODOLOGY

Pursuant to Section 11.45(2)(j), Florida Statutes, no later than 18 months after the release of a report on the audit of a local government, we must perform appropriate follow-up procedures as we deem necessary to determine the audited entity's progress in addressing the findings and recommendations contained within our previous report. Pursuant to Section 11.45(3)(a), Florida Statutes, we conducted an audit of the City and the CRA and issued report No. 2013-093. The objectives of this audit were to determine the extent to which the City and CRA had taken, or were in the process of taking, actions to address the findings included in our report No. 2013-093. Our audit included transactions, as well as events and conditions, occurring during the period March 2013 through February 2015.

This follow-up audit was conducted in accordance with applicable generally accepted government auditing standards. Those standards require that we plan and perform the follow-up 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.

For those 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 activities and functions; exercising professional judgment in considering significance and audit risk in the design and execution of 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.

The scope and methodology used to develop the findings in this report are described in Exhibit A. Our audit included the examination of pertinent City and CRA records and transactions, inquiry of City and CRA personnel, observation of procedures in practice, and additional procedures as appropriate. Unless otherwise indicated in this report, records and transactions were not selected with the intent of projecting the results, although we have presented for perspective, where practicable, information concerning the relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature does not include a review of all records and actions of management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, waste, abuse, or inefficiency.

AUTHORITY

Pursuant to the provisions of Section 11.45(2)(j), Florida Statutes, I have directed that this report be prepared to present the results of our follow-up procedures regarding findings and recommendations included in report No. 2013-093, operational audit of the City of Hollywood and the Hollywood Community Redevelopment Agency.



David W. Martin, CPA
Auditor General

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit B.

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EXHIBIT A
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Finding No. 1, Financial Urgency Determination	Determined whether the City declared another financial urgency subsequent to the 2011-12 fiscal year and evaluated the City’s financial condition.
Finding No. 2, General Fund Fund Balance	Determined whether the City developed a formal plan to replenish the General Fund unrestricted fund balance reserves and evaluated the progress the City made in reaching target levels of unrestricted fund balance pursuant to its policy.
Finding No. 3, Water and Sewer Utility Fund Working Capital	Determined whether the City Commission adopted a policy establishing minimum target levels of working capital in the Water and Sewer Utility Fund and the extent to which the City complied with the policy.
Finding No. 4, Unsustainable Wage and Pension Benefit Increases	Determined whether the City adopted a funding policy for its defined benefit plans. For collective bargaining agreements negotiated after February 2013, determined whether City records evidenced the consideration of projected salary and benefit costs over time.
Finding No. 5, Financial Management and Monitoring	Determined the accuracy of the City’s revenue projections for the 2013-14 fiscal year by comparing original revenues estimated in the adopted budget to actual revenues. Reviewed budget-to-actual expenditure comparisons to identify any significant budget overexpenditures. Determined whether budget-to-actual reports were periodically provided to the City Commission and how frequently the reports were provided, and determined through a review of Commission minutes whether budget-to-actual reports were considered.
Finding No. 6, Budget Preparation and Adoption	Determined whether the City adopted budgets for all funds for the 2013-14 and 2014-15 fiscal year. For the funds for which the City adopted budgets, determined whether the budgets included the appropriate prior fiscal year balances brought forward.
Finding No. 7, Bank Account Reconciliations	Reviewed two bank account reconciliations from each of the two master bank accounts (four different months) to determine whether the reconciliations were timely and accurately performed in accordance with the City’s established policies and procedures.
Finding No. 8, Vehicle Maintenance and Fuel Usage	Determined the City’s status in acquiring and implementing a new fleet management and fueling system. Also determined whether the new fleet management and fueling system provides for monitoring vehicle maintenance, repair, and fuel usage.
Finding No. 9, City Commission Minutes	Determined whether the City established guidelines to provide for the timely recording, review, and approval of City Commission meeting minutes. Selected meeting minutes available on the City’s Web site and reviewed timeliness of meeting minutes approvals.

EXHIBIT A
AUDIT SCOPE AND METHODOLOGY (CONTINUED)

Scope (Topic)	Methodology
Finding No. 10, Budget Preparation	For the 2013-14 and 2014-15 fiscal year budgets, determined whether the CRA included prior fiscal year balances brought forward.
Finding No. 11, CRA Plans and CRA Expenditures	Determined whether the CRA established procedures to ensure that CRA expenditures are linked to the CRA plans; amended CRA plans to include current projects in sufficient detail; requested reimbursement from the City for amounts noted in report No. 2013-093; and determined amounts that should be transferred from the Downtown District to the Beach District. Tested CRA expenditures to determine whether they were in accordance with Section 163.387(6), Florida Statutes, and provided for in the CRA plans.
Finding No. 12, CRA Salary and Other Expenditure Allocations	Determined whether costs were allocated between the Beach and Downtown Districts and for services provided by the City using either actual time records or another rational and systematic approach.
Finding No. 13, Ending Balances in CRA Trust Funds	Determined whether the ending balance in the CRA trust fund was properly disposed in accordance with Section 163.387(7), Florida Statutes.

EXHIBIT B
MANAGEMENT'S RESPONSE



CITY of HOLLYWOOD, FLORIDA

Office of the City Manager

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April 17, 2015

Mr. David W. Martin, CPA
Auditor General, State of Florida
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32399-1450

RE: City of Hollywood Response to Preliminary and Tentative Findings Concerning
Follow-up Procedures on Report No. 2013-093

Dear Mr. Martin,

In response to your letter dated March 18, 2015 and the preliminary and tentative findings concerning Report No. 2013-093, please find attached the response from the City of Hollywood and the Hollywood Community Redevelopment Agency. The response from the City and the CRA addresses those findings (numbers 4, 5, 8, 9, 11, and 12) which were identified as either "Not Corrected" or "Partially Corrected" in the preliminary and tentative findings.

Please let us know if you need any additional information from the City or the CRA.

Regards,


Wazir Ishmael, Ph.D.
City Manager

c: City of Hollywood Commissioners
Jeffrey Sheffel, City Attorney
Jorge Camejo, CRA Executive Director

Our Mission: We are dedicated to providing municipal services for our diverse community in an atmosphere of cooperation, courtesy and respect. We do this by ensuring all who live, work and play in the City of Hollywood enjoy a high quality of life.

"An Equal Opportunity and Service Provider Agency"

**EXHIBIT B
MANAGEMENT'S RESPONSE (CONTINUED)**

City Response to State Auditor General Follow-up on Findings from the Operational Audit of the State Auditor General (completed February 2013)

Background

In February, 2012, the State Auditor General initiated an Operational Audit of the City based on a request of State Senator Eleanor Sobel to the Joint Legislative Auditing Committee. The Operational Audit of the City and the CRA was completed by the Auditor General in February 2013. The Operational Audit primarily covered the period of fiscal year 2011. A response from the City was included in the final version of the Operational Audit. On February 11, 2013, the City Attorney, the Financial Services Director, and the Deputy Director of the CRA appeared before the Joint Legislative Auditing Committee to address questions concerning the Operational Audit.

Per Florida Statutes, the State Auditor General is required to follow-up on their audits approximately 18 months after the issued date. On March 18, 2015, the City received the preliminary and tentative findings of the AG in relation to the City's implementation of the recommendations included in the Operational Audit. The AG categorizes the implementation status of its recommendations as "Corrected," "Partially Corrected," "Not Corrected," or "No Occasion to Correct." The City has 30 days to complete a response to the preliminary and tentative findings. The following summarizes the City's response to the preliminary and tentative findings of the AG.

FINDING NUMBER ONE

The City did not consider all available funds in its determination to declare a financial urgency.

AG Recommendation: Prior to declaring a financial urgency or taking actions to address General Fund budget shortfalls, the City should consider available funds on a City-wide basis, including those available in the Water and Sewer Utility Fund.

AG Results of Follow-up Procedures: No Occasion to Correct

City's Response and Implementation Status of Finding Number One

No need for the City to respond to this finding as no financial urgencies have been declared since fiscal year 2012.

FINDING NUMBER TWO

The City needed to develop a formal plan to replenish General Fund fund balance reserves, as required by its fund balance policy.

AG Recommendation: The City should develop a formal plan for replenishing General Fund fund balance reserves and continue its efforts to build General Fund fund balance reserves to the established target level.

AG Results of Follow-up Procedures: Corrected

**EXHIBIT B
MANAGEMENT'S RESPONSE (CONTINUED)**

City Response to State Auditor General Follow-up on Findings from the Operational Audit of the State Auditor General (completed February 2013)

City's Response and Implementation Status of Finding Number Two

No need for the City to respond to this finding as AG categorized the finding as corrected.

FINDING NUMBER THREE

The City needed to establish minimum target levels of working capital that should be maintained for its Water and Sewer Utility Fund.

AG Recommendation: The City Commission should, by formal resolution, establish a policy indicating minimum target levels of working capital funds that should be maintained for its Water and Sewer Utility Fund.

AG Results to Follow-up Procedures: Corrected

City's Response and Implementation Status of Finding Number Three

No need for the City to respond to this finding as AG categorized the finding as corrected.

FINDING NUMBER FOUR

The City had not adopted a funding policy for its defined benefit pension plans to ensure that sufficient resources would be available to fund benefits promised to employees. Additionally, scheduled wage increases and rising costs of pension benefits pursuant to collective bargaining agreements, most of which were funded by the General Fund, may have been unsustainable in the long run.

AG Recommendation: The City should adopt a funding policy for its defined benefit plans. In doing so, the City should consider GFOA's best practice recommendations to ensure sustainable funding. For collective bargaining purposes, the City should carefully evaluate the impact of projected salary and benefit package costs provided to employees over time to ensure sufficient resources will be available to fund future expenses.

AG Results to Follow-up Procedures: Not Corrected

City's Response and Implementation Status of Finding Number Four

In its original response, the City noted that the lack of sustainability cited in the Auditor General's report has been an identified concern of the City and included in budget presentations over the past several fiscal years. The City has held two pension workshops in recent months (March and April 2015) to attempt to develop policies to address the issue of growing pensions.

The City stated in its original response to the Operational Audit that the City would adopt the GFOA best practice titled *Sustainable Funding Practices of Defined Benefit Pension Plans*. A Resolution to adopt the GFOA best practice will again be brought forward for City Commission consideration.

**EXHIBIT B
MANAGEMENT'S RESPONSE (CONTINUED)**

**City Response to State Auditor General Follow-up on Findings from the Operational
Audit of the State Auditor General (completed February 2013)**

FINDING NUMBER FIVE

The City's financial management and monitoring could be improved to avoid budget shortfalls due to ineffective revenue projections and over expenditures.

AG Recommendation: The City should continue its efforts to improve revenue projections and ensure that future expenditures do not exceed budgetary authority. In addition, budget-to-actual comparisons for all budgeted funds should be prepared and submitted to the City Commission on a more frequent basis, such as monthly, and included in City Commission agendas and minutes.

AG Results to Follow-up Procedures: Partially Corrected

City's Response and Implementation Status of Finding Number Five

The AG report categorizes this finding as partially corrected – primarily for the City's General Fund. To fully implement the recommendation associated with this finding, staff will need to provide midyear forecasts for all funds in the same manner as the General Fund (including presenting the midyear forecasts for all City funds at City Commission meetings).

City staff will try to extend midyear forecasting practices beyond the General Fund, but the burden this change places on the City's limited Budget Office staff must be recognized. The City's ability to fully implement this finding is constrained by available resources.

FINDING NUMBER SIX

The City's adopted budgets did not include prior year balances brought forward and budgets were not adopted for its special revenue or capital projects funds, contrary to law.

AG Recommendation: The City should ensure that future annual budgets include all balances brought forward from prior fiscal years and that budgets are adopted for all funds as required by law.

AG Results to Follow-up Procedures: Corrected

City's Response and Implementation Status of Finding Number Six

No need for the City to respond to this finding as AG categorized the finding as corrected.

FINDING NUMBER SEVEN

The City did not provide for timely bank account reconciliations.

AG Recommendation: The City should ensure that its established policies and procedures are followed regarding the timely preparation of bank account reconciliations.

AG Results to Follow-up Procedures: Corrected

EXHIBIT B
MANAGEMENT'S RESPONSE (CONTINUED)

City Response to State Auditor General Follow-up on Findings from the Operational Audit of the State Auditor General (completed February 2013)

City's Response and Implementation Status of Finding Number Seven

No need for the City to respond to this finding as AG categorized the finding as corrected.

FINDING NUMBER EIGHT

The City's fuel and fleet management systems used for numerous City-owned vehicles were ineffective for monitoring and investigating significant fluctuations in miles per gallon by vehicle.

AG Recommendation: The City should continue its efforts to obtain a new automated fuel and fleet management software system and ensure that the new system accurately collects vehicle odometer readings. Once implemented, the City should develop procedures for monitoring vehicle maintenance, repair, and fuel usage records to ensure the economic and efficient use of City resources.

AG Results to Follow-up Procedures: Partially Corrected

City's Response and Implementation Status of Finding Number Eight

The City's new Fleet & Fuel Maintenance & Management Software is planning to go "live" in July 2015 as planned according to the contract schedule with our contractor ASSETWORKS. Public Works staff had indicated this same time frame regarding the fleet software implementation previously to the Auditor General staff, and nothing has changed. Public Works is currently working with the software contractor in the process of downloading information and transferring of files, installing hardware and software, and conducting employee training.

The City's Public Works Department, working with Procurement Services, had begun the bid process on obtaining this fleet software prior to the Auditor General's office making their finding. The AG's finding made was after the City had already begun this process of obtaining the new fleet software. The software will address any and all fleet software and fleet fueling & tracking, vehicle mileage, fleet condition issues, and will assist in investigating and identifying fluctuations in fuel usage and mileage per vehicle and other fleet concerns. The City will consider this finding and the associated recommendation fully corrected once the fleet management software is operational in July.

FINDING NUMBER NINE

Minutes of City Commission meetings and workshops were not timely prepared and approved.

AG Recommendation: The City should develop guidelines for the timely recording, review, and approval of City Commission minutes, and enhance its procedures to ensure that minutes are timely recorded, approved, and available for public inspection.

**EXHIBIT B
MANAGEMENT'S RESPONSE (CONTINUED)**

City Response to State Auditor General Follow-up on Findings from the Operational Audit of the State Auditor General (completed February 2013)

AG Results to Follow-up Procedures: Partially Corrected

City's Response and Implementation Status of Finding Number Nine

The follow-up of the audit findings states that "the 155 day deadline provides approximately five months between the date of the meeting and the approval of the meeting minutes, a more timely approval would increase transparency, enhance citizen involvement, and provide Commission members a more reasonable time frame within which to review, and correct as necessary, the minutes. Our review indicated that for the 13 regular City Commission meetings held in calendar year 2014 for which minutes had been approved as of February 12, 2015, the meeting minutes were approved between 147 and 210 days after the date of the meeting, with an average of 177 days. As of February 12, 2015, meeting minutes had not been approved for meetings held after July 15, 2014."

The City implemented guidelines for recording, reviewing, and approving the City Commission minutes and hired a part time secretary to help reduce the back log of regular City Commission minutes. The City has reached its goal, as the 21 regular City Commission meeting held in calendar year 2014 for which minutes had been approved as of April 15, 2015, the meeting minutes were approved between 118 and 210 days after the date of the meeting, with an average of 133 days.

As of April 15, 2015, all regular City Commission meeting minutes for the 2014 year have been approved. Staff is working diligently to have the regular City Commission meeting minutes for 2015 approved under the 155 day deadline.

FINDING NUMBER TEN – CRA

The CRA's adopted budget did not include prior year balances brought forward, contrary to law.

AG Recommendation: The CRA should ensure that balances brought forward from prior fiscal years are included in the adopted budgets for the CRA trust funds.

AG Results to Follow-up Procedures: Corrected

CRA's Response and Implementation Status of Finding Number Ten

No need for the CRA to respond to this finding as AG categorized the finding as corrected.

FINDING NUMBER ELEVEN – CRA

Several CRA expenditures were not in accordance with law or the approved CRA plans, and the Downtown District and Beach District CRA plans had not been updated since 1995 and 1997, respectively.

AG Recommendation: The CRA should adopt procedures to ensure that CRA trust fund expenditures are authorized pursuant to Chapter 163, Part III, Florida Statutes, and only made pursuant to its CRA plans. In addition, the CRA should revise its CRA plans to include current projects in sufficient detail to demonstrate that expenditures of CRA funds are in accordance with Section 163.387(6), Florida

EXHIBIT B
MANAGEMENT'S RESPONSE (CONTINUED)

City Response to State Auditor General Follow-up on Findings from the Operational Audit of the State Auditor General (completed February 2013)

Statutes. The CRA plans should include information in sufficient detail so that taxing authorities required to contribute to the CRA, and the general public, will be properly informed as to the CRA's intentions and how the CRA will accomplish its redevelopment objectives. The CRA should also request reimbursement from the City for the \$1,500,000 in CRA funds expended on community policing activities and the \$187,885 in CRA funds expended on the enhanced maintenance program. Additionally, the CRA should determine the portion of the capital improvement plan operating support paid by the Beach District Trust Fund that was applicable to the Downtown District and transfer the appropriate amount from the Downtown District Trust Fund to the Beach District Trust Fund.

AG Results to Follow-up Procedures: Partially Corrected

CRA's Response and Implementation Status of Finding Number Eleven

As reported earlier, the CRA has contracted with Bell David Planning Group, Inc. to update the plans for both the Beach and Downtown districts. Specifically, the consultants will assist the CRA in Updating/Amending each district's Redevelopment Plan. This may include changes such as: amendments to the boundaries, updating business and development information, redevelopment concepts, City Comprehensive Plan changes affecting the CRA's, changes to development standards, new programs and capital improvement updates, all in order to create more contemporary documents reflecting work completed and those projects which will be moving forward (identified in the 1995 and 1997 Plans). The CRA has been working with Bell David and is currently reviewing a 50% DRAFT of the updated redevelopment plans. We anticipate that the final plans will be completed by early summer 2015. The CRA is committed to update its redevelopment plans at a greater frequency moving forward.

With regard to expenditures, the CRA continues to refute the finding that expenditures totaling \$569,118 reimbursements to the City for community policing, expenses of the Hollywood Office of Tourism, and enhanced maintenance of the downtown area were not in accordance with the approved CRA plans.

The CRA maintains its position that although the CRA redevelopment plan does not specifically have a community policing strategy, the premise of ensuring a safe environment to redevelop is at the core of the redevelopment agency's mission and part of the CRA mission of eliminating slum and blight. The CRA pays for an enhanced level of police service over and above normal police zone patrols in both districts. It is not considered community policing based on the Statute, rather these enhanced officers are in addition to normal patrols and are necessary expenses that are incidental to the implementation of the plan as allowed pursuant to State Statute and vital to the objective of eliminating slum and blight.

The Hollywood Office of Tourism is no longer an official component of the CRA. However, the CRA has continued its effort to promote tourist destinations within the Beach district through integrated sales,

**EXHIBIT B
MANAGEMENT'S RESPONSE (CONTINUED)**

**City Response to State Auditor General Follow-up on Findings from the Operational
Audit of the State Auditor General (completed February 2013)**

marketing and advertising programs that drive visitation to the area. The CRA maintains that these efforts are supported by two (2) of the twelve (12) Redevelopment Objectives outlined in the Plan which specifically recognize Tourism:

- To enhance Hollywood Beach as a tropical destination
- To re-establish tourism as a vital industry in Hollywood Beach.

Although the CRA has not requested a reimbursement from the City for funds expended on enhanced maintenance program, it has discontinued funding to the City for these programs. The CRA now funds maintenance programs specific to each district in an effort to fulfill the objective of eliminating slum and blight.

FINDING NUMBER TWELVE – CRA

Some salaries and benefits costs and other expenditures were not allocated using time records documenting actual effort or another systematic and rational approach.

AG Recommendation: Procedures should be implemented to ensure that expenditures for CRA activities are supported by documentation evidencing proper cost allocations for City or CRA employees providing direct time to CRA projects or activities, such as time records or activity logs, or a systematic and reasonable approach used to allocate time spent on CRA projects or activities.

AG Results to Follow-up Procedures: Partially Corrected

CRA's Response and Implementation Status of Finding Number Twelve

The CRA contracted with a CPA firm to perform agreed upon procedures involving the 2012-13 and 2013-14 fiscal years to determine whether the salary and benefits costs and other expenditure allocations for services provided by the City, and between the Beach and Downtown Districts, were appropriate. The final draft of the report was delivered to the CRA on March 31, 2015 and the official report will be released shortly. The initial findings of the report acknowledge that there is a lack of transparency and sufficient documentation provided by the City of Hollywood to determine the level of service provided to the CRA, as well as a lack of accepted accounting procedures which support the level of payments by the CRA. The recommendation of the report is that the CRA enter into an interlocal agreement with the City of Hollywood for needed services. The City in turn, should employ a cost allocation methodology based on key cost drivers for the services provided to the HCRA. The report also recommends that all cost reimbursements be based on measured cost drivers with invoices submitted to the CRA for payment on a quarterly basis. The result of this methodology will allow all cost drivers to be accounted for and tracked against actual outcomes.

**EXHIBIT B
MANAGEMENT’S RESPONSE (CONTINUED)**

**City Response to State Auditor General Follow-up on Findings from the Operational
Audit of the State Auditor General (completed February 2013)**

FINDING NUMBER THIRTEEN – CRA

CRA records did not demonstrate compliance with Section 163.387(7), Florida Statutes, regarding the disposition of unexpended CRA trust fund moneys.

AG Recommendation: The CRA should ensure that capital improvement plans and amounts appropriated are based on realistic goals and time frames. The CRA should also take steps to ensure that its records document compliance with Section 163.387(7), Florida Statutes, including returning funds to the taxing authorities if such funds are not otherwise used in accordance with law.

AG Results to Follow-up Procedures: Corrected

CRA’s Response and Implementation Status of Finding Number Thirteen

No need for the CRA to respond to this finding as AG categorized the finding as corrected.

