

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

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January 2022

CITY OF GAINESVILLE

Operational Audit



Sherrill F. Norman, CPA
Auditor General

Mayor, City Commissioners, and Charter Officers

During the audit period, the following individuals served as the City of Gainesville Mayor, City Commissioners, and Charter Officers:

Mayor

Lauren Poe

City Commissioners

Gigi Simmons, Commissioner District I

Harvey Ward, Commissioner District II

David Arreola, Commissioner District III

Adrian Hayes-Santos, Commissioner District IV

Gail Johnson, Commissioner at Large

Helen Warren, Commissioner at Large

Charter Officers

Lee Feldman from 11-4-19, City Manager ^a

Anthony Lyons through 1-18-19, City Manager ^a

Edward Bielarski, General Manager for Utilities

Nicolle Shalley, City Attorney

Omichele Gainey, Clerk of the Commission

Virginia "Ginger" Bigbie from 2-24-20, City Auditor ^b

Carlos Holt through 6-7-19, City Auditor ^b

Teneeshia Marshall from 12-1-18, Equal Opportunity Director ^c

^a Deborah Bowie served as Interim City Manager 1-19-19, through 11-3-19.

^b Three City employees served as Interim City Auditor 6-8-19, through 2-23-20.

^c Bridget Lee served as Interim Equal Opportunity Director through 11-30-18.

The team leader was Stefanie Johnson, CPA, and the audit was supervised by Derek H. Noonan, 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

SUMMARY

This operational audit of the City of Gainesville focused on selected processes, programs, and functions. Our audit disclosed the following:

Gainesville Regional Utilities (GRU) Financial Condition and Payments for General Government Services

Finding 1: GRU debt levels are significantly higher than comparable municipal utilities.

Finding 2: 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 considering the GRU's long-term ability to pay.

Finding 3: 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.

Reichert House Youth Academy (RHYA) Program and Related Organizations

Finding 4: The City did not effectively oversee or control RHYA Program operations.

Finding 5: 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.

Finding 6: The City did not effectively oversee Reichert House, Inc. operations.

Finding 7: Reichert House, Inc. and RHYA Program operations lacked appropriate transparency.

Finding 8: 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.

Administration and Management

Finding 9: 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 years 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.

Finding 10: 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.

Finding 11: Monitoring and transparency of the City’s golf course operations could be improved.

Finding 12: The City could improve accountability and transparency over redevelopment activities carried out pursuant to an interlocal agreement with Alachua County.

Payroll and Personnel Administration

Finding 13: City policies and procedures for obtaining and documenting background checks of applicants seeking employment need enhancement.

Finding 14: Contrary to City policy, 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.

Expenditures – Use of Public Resources, Purchasing Cards, and Travel

Finding 15: The GRU did not periodically use a competitive process to select certain professionals who assisted in the bond issuance process.

Finding 16: Controls over City-assigned purchasing cards (P-cards) need improvement to ensure that P-card assignments and credit limits are periodically evaluated and appropriately adjusted.

Finding 17: The City needs to enhance efforts to ensure that P-cards are promptly canceled upon a cardholder’s separation from City employment.

Finding 18: The GRU needs 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.

BACKGROUND

The City of Gainesville (City) was established in 1854, incorporated in 1869, and has operated under a Commission-Manager form of government since 1927. The City is located in Alachua County and has a population of 133,857, 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.

¹ *Florida Population Estimates for Counties and Municipalities, April 2019*, Florida Office of Economic and Demographic Research.

² The Charter Officers are established in the City of Gainesville City Charter. The six Charter Officers consist of the Clerk of the Commission, City Manager, General Manager for Utilities, City Attorney, City Auditor, and Equal Opportunity Officer.

FINDINGS AND RECOMMENDATIONS

GAINESVILLE REGIONAL UTILITIES (GRU) FINANCIAL CONDITION AND PAYMENTS FOR GENERAL GOVERNMENT SERVICES

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. The General Manager for Utilities, as Charter Officer, is responsible for the efficient administration of the GRU and has exclusive management jurisdiction and control over operating and financial affairs of the GRU.

As shown in Table 1, the GRU provides substantial support to the City’s General Fund through operating transfers and utility taxes levied on GRU customers.

Table 1
GRU Support Provided to the City General Fund
For the 2017-18 Through 2019-20 Fiscal Years
(in millions)

Resource Type	2017-18	2018-19	2019-20
GRU Operating Transfer to City General Fund	\$ 36.4	\$ 38.3	\$ 38.3
GRU Utility Taxes (Excluding Telecommunication Taxes)	12.3	13.4	13.8
Total GRU Support Provided to City General Fund	<u>\$ 48.7</u>	<u>\$ 51.7</u>	<u>\$ 52.1</u>
Total City General Fund Revenue	\$ 83.9	\$ 87.9	\$ 94.1
Total City General Fund Other Financing Sources	37.2	39.8	42.1
Total City General Fund Revenues and Other Financing Sources	<u>\$121.0</u>	<u>\$127.7</u>	<u>\$136.2</u>
Total GRU Support as a Percentage of City General Fund Revenue	58.0%	58.8%	55.4%
Total GRU Support as a Percentage of City General Fund Revenue and Other Financing Sources	40.2%	40.5%	38.3%

Source: City records.

Not only is the GRU’s financial health important for the GRU’s continued support of the City’s general governmental services, the GRU’s financial health is imperative to support its mission, which is to provide safe, reliable, competitively priced utility services in an environmentally responsible manner to enhance the quality of life in the Gainesville community.

As discussed in the findings below, our audit procedures disclosed high debt levels, large transfers to the City’s General Fund to support general government services, and City overcharges of indirect costs, that represent significant challenges to GRU’s financial sustainability.

Finding 1: GRU Debt Levels

As part of our audit, we evaluated the GRU’s long-term sustainability to provide reliable utility services to its customers in the most effective and cost-efficient manner possible and to continue to support the City’s general government services. Insofar as the amount of debt relative to net position is one indicator of

the long-term financial health of a utility, we evaluated the amount of GRU debt relative to that of comparable municipal utilities. The following utilities were considered comparable to the GRU:³

- City of Lakeland Utilities
- City of Tallahassee Utilities
- Jacksonville Electrical Authority (JEA)
- Orlando Utilities Commission (OUC)

We obtained the 2019-20 fiscal year audited financial statements⁴ for these utilities and the GRU and computed the long-term-debt-to-net position ratios. The computed ratios are shown in Table 2.

Table 2
Long-Term Debt, Net Position, and
Long-Term-Debt-To-Net-Position Ratio
for the GRU and Comparable Municipal Utilities
For the 2019-20 Fiscal Year

Utility	Long-Term Debt (in thousands)	Net Position (in thousands)	Ratio
GRU	\$1,761,684	\$ 409,373	4.30
City of Lakeland Utilities	\$ 487,014	\$ 677,675	.72
City of Tallahassee Utilities	\$ 933,767	\$ 835,584	1.12
JEA	\$3,257,290	\$3,223,990	1.01
OUC	\$1,385,935	\$1,498,418	.92
GRU Peer Average			.94

Source: 2019-20 fiscal year audited financial statements of the GRU and comparable utilities.

Higher debt-to-net-position ratios indicate the degree to which an organization is financing its operations through debt rather than with available assets. As shown in Table 2, the GRU's long-term debt-to-net-position ratio of 4.3 is approximately 5 times higher than the .94 average of its 4 peers.

High levels of debt can also negatively impact credit ratings. Credit rating agencies assign credit ratings to debt based upon the likelihood that an issuer will default on debt obligations and the capacity of an issuer to make timely debt service payments in accordance with the terms of its obligations. Debt leverage is a key benchmark utilized by credit rating agencies in analyzing financial risk. A lower credit rating indicates higher risk for debt holders and can increase borrowing costs for the lender, in this case the GRU.

Debt rating agencies have recently lowered the GRU's debt ratings and have expressed concern over the GRU's high leverage or large amount of debt. For example:

- In May 2021, Standard & Poor's Rating Service downgraded the GRU's debt from A to AA-, citing high debt levels as one of the reasons for the downgrade.

³ The City engaged a consultant to provide alternative methods to calculate the amounts of GRU transfers to the City's General Fund. The consultant determined City of Lakeland Utilities, City of Tallahassee Utilities, Jacksonville Electrical Authority, and Orlando Utilities Commission to be comparable to the GRU.

⁴ The 2019-20 fiscal year financial statements were the most recent available at the conclusion of our fieldwork in September 2021.

- In January 2021, Moody's Investors Service issued a "periodic review of ratings," and although the GRU's debt rating was not lowered and was affirmed at Aa3, Moody's noted that, "GRU's rating is constrained by a high leverage."
- In March 2019, Fitch assigned an A+ rating to three 2019 GRU debt issues⁵ and downgraded pre-2019 GRU debt issues from AA- to A+, citing high leverage.

Further, the GRU may be required to issue additional debt to maintain its existing power generating assets or construct new power generating assets. The Energy Authority (TEA)⁶ issued an Integrated Resource Plan (IRP) for the 20-year period 2019 through 2039. An IRP is the result of a comprehensive planning study, which provides a recommended mix of supply- and demand-side resources a utility may use to meet its customers' future electricity needs. An IRP includes the following:⁷

- Demand forecast over a 20-year time horizon.
- Assessment of supply-side generation resources.
- Economic appraisal of renewable and non-renewable resources.
- Assessment of feasible conservation and efficiency resources.
- Least-cost plan for meeting the utility's requirements.
- Action plan

The IRP projected the GRU's additional debt needs for various "cases." The least-expensive case is the "reference case" which involves GRU maintaining its existing power generating assets. The most-expensive case is transitioning to all renewable energy in accordance with an October 2018 City resolution⁸ "establishing a goal of providing 100 percent of the City's energy from renewable resources by 2045." The IRP estimates that the range in new GRU debt required to provide power to its customers through 2039 ranged from a low of \$254 million for the reference case to \$895 million for the renewable energy case.

The GRU's flexibility in addressing its high debt levels may be affected by its lack of growth in power demand and its high electricity rates. Specifically, the IRP indicated that the GRU's power demand is projected to remain essentially flat, increasing at an annual rate of approximately 0.4 percent during the 20-year IRP period. Consequently, any moneys needed to service additional debt would need to be mostly generated through increases in customer utility rates rather than through increased power demand. In addition, according to the Florida Municipal Electric Association (FMEA),⁹ as of August 2021, the GRU charged higher electricity rates for residential and commercial customers than comparable municipal utilities as shown in Table 3.

⁵ In March 2019, Fitch was assigning its first rating on these three debt issues.

⁶ According to the City's 2019-20 audited financial statements, the TEA is a power marketing corporation composed of seven municipal utilities: Municipal Electric Authority of Georgia, Jacksonville Electric Authority (Florida), South Carolina Public Service Authority, Nebraska Public Power District, GRU, City Utilities of Springfield (Missouri), and American Municipal Power, Inc. (Ohio). The TEA provides energy products and resource management services to equity members and nonmembers and allocates transaction savings and operating expenses to equity members pursuant to Settlement Procedures under the Operating Agreement.

⁷ *Gainesville Regional Utilities Integrated Resource Plan, 2019*, page 15.

⁸ City of Gainesville Resolution No. 180442.

⁹ According to the FMEA's Web site, the FMEA is an association that represents the interests of 33 Florida public power communities.

Table 3
Electricity Rates for the GRU and Comparable Florida Municipal Utilities
As of August 2021

	GRU	City of Lakeland Utilities	City of Tallahassee Utilities	JEA	OUC
Residential Cost for 1,200 KWH	\$148.88	\$125.08	\$133.29	\$129.10	\$133.40
Commercial Cost for 1,500 KWH	\$223.60	\$152.54	\$144.18	\$155.64	\$169.02

Source: FMEA Web site, *Comparison of Residential Electric Rates*.

Insofar as the GRU’s electrical rates are already significantly higher than the rates of comparable utilities, the City Commission’s willingness to further increase electricity rates may constrain the GRU’s ability to meet current and future debt service payment requirements and also fund general government services.

Given the GRU’s already high debt levels, weakening credit ratings, stable level of power demand, and high electrical power rates, the GRU’s ability to meet the needs of its power customers while simultaneously funding a large portion of the City’s general government services could be limited. On October 4, 2021, GRU personnel told us that, as of that date, they were working with the City’s municipal advisor to establish a de-leveraging policy and a credit metrics policy.

Recommendation: To help ensure 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 and the City Commission jointly establish a long-term debt management plan with quantitative performance measures and timelines.

Finding 2: GRU Transfers to the General Fund

The annual General Fund Transfer (GFT) paid by the GRU to the City’s General Fund to assist the City in providing general government services represents a large financial obligation for the GRU. The GFT represents the amounts that the GRU would pay to the City for property taxes and franchise fees as well as the return on investment to shareholders that would be paid if the GRU were an investor-owned utility. The GFT helps fund critical City services such as the Police, Fire, Parks and Recreation, and Public Works Departments.¹⁰

Table 4 shows the actual GFT amounts for the 2018-19 and 2019-20 fiscal years and the budgeted amounts for the 2020-21 and 2021-22 fiscal years.

¹⁰ Request for Proposal (RFP) for Consultant for General Fund Transfer, August 4, 2020.

Table 4
GFT Amounts Paid by the GRU to the City General Fund
For the 2018-19 Through 2021-22 Fiscal Years
(in millions)

	Fiscal Year			
	2018-19	2019-20	2020-21 ^a	2021-22 ^a
GFT Amount	\$ 38.3	\$ 38.3	\$ 38.3	\$ 36.3
GRU Operating Revenues	\$416.7	\$390.6	\$395.9	\$410.4

^a The 2020-21 and 2021-22 fiscal year amounts are budgeted amounts.

Source: City records.

Debt rating agencies have recognized that the GFT is significant to GRU operations,¹¹ and the GRU's municipal advisor, in a January 2021 letter to a City consultant, observed that "it appears that GRU and the City Commission need to determine what is the larger priority for the City: the financial condition and viability of the utility; a stable, consistent GFT revenue stream from GRU and/or the level and type of services the City provides to its constituents."

Given the significant GFT amounts and competing priorities of providing reliable utility services to customers and financially supporting general government services, it is imperative that the City utilize a reasonable and consistent methodology for determining the GFT amount that considers the GRU's ability to pay the GFT over an extended period of time. However, instead of utilizing such a methodology, the City Commission approved the GFT amounts as part of each annual budget process based upon amounts required to fund general government services for the budgeted fiscal year at the level desired by the City Commission.¹²

In October 2020, the City contracted with a consultant to "develop alternative General Fund Transfer (GFT) mechanisms based on a formula that balances General Government's need for certainty of funding, with GRU's ability to sustainably fund the GFT over an extended amount of time." The contract provided that the consultant's work products would consist of a presentation and a conference call to review and discuss the presentation.

A draft of the presentation was prepared in January 2021 and provided to various City personnel, including GRU personnel, but was not discussed at any publicly noticed meetings. The draft presentation indicated that five transfer methodologies were considered by the consultant:¹³

- Percentage of revenues.

¹¹ For example, in January 2021, Moody's issued a "periodic review of ratings," which noted that GRU's rating was, in part, constrained by high annual transfers to the City's General Fund which reduced the utility's ability to apply free cash flow generation toward rate reductions or investments into the system.

¹² On July 19, 2021, the City Commission approved Gainesville Resolution No. 210451, which provided that the GFT would be \$36.3 million for the 2021-22 fiscal year and would decrease by \$2 million each fiscal year to \$26.3 million in the 2026-27 fiscal year.

¹³ The presentation indicated that some of the five methodologies included more than one variation, resulting in a total of nine transfer options that were considered.

- Percentage of utility plan improvement fund (UPIF).¹⁴
- Rate per-unit of retail sales.
- Franchise fee equivalent plus percentage of available funds.
- Percentage of available funds only (i.e., without franchise fee equivalent).

The consultant reduced the five methodologies to three options for further evaluation and ranking. As indicated in Table 5, the consultant ranked Option 2 the highest and, accordingly, recommended that the City adopt Option 2 when calculating the annual GFT.

**Table 5
Consultant Evaluation and Ranking of GFT Options**

	Certainty of Funding and Ability to Fund	Certainty of Funding	Ability to Fund	In Common Use	Ranking
Option 1 (Percent of Revenue Less Fuel)	Not Balanced	Yes	No	Yes	2
Option 2 (Percent of UPIF Calculation)	Balanced	No	No	No	1
Option 3 (Rate per-Unit Sales)	Not Balanced	Yes, but Limited	No	Yes	3

Source: City records.

However, our review of the draft presentation indicated that the transfer methodologies described by the consultant did not comply with the contract scope of work, to “develop alternative General Fund Transfer (GFT) mechanisms based on a formula that balances General Government’s need for certainty of funding, with GRU’s ability to sustainably fund the GFT over an extended amount of time.” Specifically:

- The presentation stated that the consultant “developed parameters for each option to result in the targeted GFT on average (\$38.3 million).”
- As shown in Table 5, the presentation stated that the GRU’s ability to fund each of the three options considered was “No.”

We made inquiries in October 2021, regarding the introduction of the “targeted GFT of \$38.3 million” into the consultant’s scope of work and the resultant January 2021 draft presentation. Although we requested, no documentation was provided to evidence that the City Manager, or other City personnel, had contacted the consultant and amended the scope of work to include a minimum GFT of \$38.3 million. According to GRU personnel, the City Manager verbally contacted the consultant after the signing of the contract and indicated that any work product must allow for a minimum \$38.3 million GFT amount. However, insofar as the scope of work indicated that the GFT mechanisms had to result in the “GRU’s ability to sustainably fund the GFT over an extended amount of time,” it is not apparent why the consultant selected three options for consideration, including the recommended Option 2, that GRU would not have the ability to pay. Consequently, the consultant’s draft presentation did not appear to comply with the contract’s scope of work, and the usefulness of the analysis and recommendations to achieve the contract’s stated objectives was limited.

¹⁴ The UPIF is a formulaic reserve required under GRU debt covenants. Its purpose is to assure bondholders, customers, and other stakeholders that the GRU is setting aside an appropriate level of funds to ensure that its five utility systems (electric, water, wastewater, natural gas, and telecommunications) are being properly maintained and that necessary capital improvements are being made.

In response to the Utility Director's written concerns addressed to the consultant, which included concerns similar to our observations disclosed above, the consultant developed Option 10, which was communicated to the General Manager of Utilities in a letter dated February 4, 2021. The consultant's letter described Option 10 as Option 2 (percent of UPIF) modified so that the transfer amount cannot exceed the amount of GRU "profit" in a given year.¹⁵

The consultant prepared an additional presentation,¹⁶ which compared Option 2 and Option 10, and discussed the presentation with the General Policy Committee¹⁷ on March 25, 2021. In the presentation, the consultant indicated that "Option 10 would reduce to a greater extent the GFT, especially, for the next several years, and allow GRU more flexibility to strengthen its financial position." However, the consultant also indicated that, based on experience with municipal utilities, "the City would have a harder time adapting to the lower and less stable level of GFT under Option 10 than Option 2." The consultant's March 2021 presentation did not recommend either Option 2 or Option 10 but instead recommended that a "determination should be made by the City working with GRU." The General Policy Committee did not recommend either Option 2 or Option 10 be discussed at a future City Commission meeting.

In May 2021, during preparation of the 2021-22 fiscal year budget,¹⁸ the GRU and the City Commission agreed to a 2021-22 fiscal year GFT amount of \$36.3 million, or \$2 million less than the previous 3 fiscal years' \$38.3 million GFT amount. In July 2021, the City Commission signed a resolution setting the amount of the GFT to decrease by \$2 million annually through fiscal year 2027.

Notwithstanding the July 2021 resolution, absent a reasonable and consistent methodology for determining the GFT amount that considers the GRU's ability to pay and provides predictable amounts to facilitate long-term GRU planning, there is an increased risk that the GRU may not be able to provide reliable utility services to its customers in the most effective and cost-efficient manner possible over an extended period of time.

Recommendation: The City Commission should adopt and consistently utilize a reasonable and sustainable methodology to calculate the GFT amount. The methodology should consider the long-term ability of the GRU to pay.

Finding 3: Indirect Cost Recovery

The City allocates and charges indirect costs to its various departments, including the GRU, for administrative services performed by certain City departments, such as the Human Resources, Information Technology, and Equal Opportunities departments. Indirect costs are costs incurred for a common or joint benefit and are not readily identified with a specific project or organizational activity.

The City contracted with a consultant to develop a cost allocation plan (CAP) to allocate administrative services costs using actual departmental expenditure data from the most recently completed fiscal year at the time of the CAP development. For example, the consultant prepared the:

¹⁵ The consultant indicated "profit" is to be calculated as: Net revenues less transfers from (to) rate stabilization funds, total debt service requirements, 2019 debt restructuring savings, and UPIF contributions.

¹⁶ *GRU General Fund Transfer Policy Review Summary for City Commission Presentation.*

¹⁷ The General Policy Committee is composed of the seven members of the City Commission.

¹⁸ The 2020-21 budget was adopted on September 23, 2021, pursuant to City of Gainesville Resolution No. 210451.

- 2018 CAP based upon the City’s 2015-16 fiscal year actual departmental expenditures to be used for allocating indirect costs for the 2017-18 and 2018-19 fiscal years.
- 2020 CAP based upon the City’s 2017-18 fiscal year actual departmental expenditures to be used for allocating indirect costs for the 2019-20 and 2020-21 fiscal years.

Budget and Finance Department personnel developed *Indirect Cost Analysis Instructions* to assist in allocating indirect costs. During the City’s budget preparation process, Budget and Finance Department personnel enter allocated cost amounts from the most recent CAP and adjust the amounts based upon changes in departmental budgets for the upcoming fiscal year. For example, the actual 2015-16 fiscal year amounts from the 2018 CAP were adjusted for changes in the 2018-19 fiscal year departmental budgets. The adjusted amounts are allocated using the CAP administrative cost recovery methodology, and the various City departments are charged indirect costs monthly based upon amounts included on indirect cost allocation worksheets.

Our examination of the City’s indirect cost allocation worksheets for the 2017-18, 2018-19, and 2019-20 fiscal years noted that the indirect cost allocations to the GRU of \$3.2 million, \$3.2 million, and \$3.5 million, respectively, were significantly higher than the actual indirect costs of \$2.6 million from the 2015-16 fiscal year. In response to our audit inquiry in June 2020, City personnel reviewed the indirect cost allocation worksheets and found an input error in the 2017-18 fiscal year allocation worksheet that carried forward into the subsequent fiscal years. City personnel corrected the input error and adjusted the 2019-20 fiscal year allocation to \$2.5 million, which was \$1 million less than the original allocation. City personnel also corrected the error in the 2017-18 and 2018-19 fiscal year allocation worksheets. As a result of the error, the GRU was overcharged approximately \$700,000 and \$600,000 in the 2017-18 and 2018-19 fiscal years, respectively.

Table 6 shows the indirect cost amounts allocated to and paid by the GRU for the 2017-18, 2018-19, and 2019-20 fiscal years and the corrected amounts for the 2017-18 and 2018-19 fiscal years.

Table 6
Indirect Costs Allocated and Paid by the GRU
(in millions)

	2017-18	2018-19 ^a	2019-20 ^b
Indirect Costs Allocated to and Paid by the GRU	\$3.3	\$3.2	\$2.5
Corrected Amounts	2.6	2.6	
Amount Over-Allocated to the GRU	\$. 7	\$. 6	

^a For the 2018-19 fiscal year, the GRU allocation on the indirect cost allocation worksheet was \$3.4 million; however, only \$3.2 million was actually assessed to and paid by the GRU.

^b For the 2019-20 fiscal year, the initial indirect cost allocation was \$3.5 million; however, the amount was decreased by \$1 million prior to the end of the 2019-20 fiscal year.

Source: City accounting records.

In June 2020, City personnel indicated that they would review the 2018-19 fiscal year indirect cost allocation overcharge as time allowed. In October 2021 we again inquired whether the indirect cost

overcharges for the 2017-18 and 2018-19 fiscal years would be refunded to the GRU or credited against future indirect cost assessments; however, City personnel did not provide a response indicating how or if the overcharges would be resolved.

Neither the *Indirect Cost Analysis Instructions* nor other City procedures provide for an independent review process for the worksheet used to allocate indirect costs. A review of the indirect cost allocation worksheet by someone other than the worksheet preparer would provide additional assurance that the worksheet is free of errors and help avoid potentially significant indirect cost overcharges or undercharges. In addition, absent a process to reconcile indirect costs charged using budgeted numbers in the CAP to amounts that should have been charged based upon actual costs, amounts allocated and paid may not accurately reflect the actual costs of administrative services provided in the fiscal years to which the charges apply. In addition, such a reconciliation process may have earlier detected the error in the indirect cost allocation worksheet that resulted in the GRU overcharges.

Recommendation: The City should enhance its indirect cost allocation procedures to provide for an independent review of the indirect cost allocation worksheet, require a reconciliation of the estimated indirect costs to the actual indirect costs after each fiscal year is completed, and require periodic adjustments for differences between the estimated and actual amounts. In addition, the City should 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.

REICHERT HOUSE YOUTH ACADEMY (RHYA) PROGRAM AND RELATED ORGANIZATIONS

The RHYA Program is an after-school program designed for youth who are in need of assistance in making the transition from adolescence to adulthood. The RHYA Program offers a variety of activities including, for example, academic assistance, etiquette training, anger and stress management techniques and training, vocational training, and meals. The RHYA Program is functionally located within the Youth and Community Services Bureau of the Gainesville Police Department, and the Bureau Director is responsible for administration of the RHYA Program. According to City records, the City expended \$1,296,078 and \$986,917 for the 2018-19 and 2019-20 fiscal years, respectively, for RHYA Program activities.

In April 2019, the City Auditor's Office issued a report on the results of an audit of the RHYA.¹⁹ The report included several findings regarding the RHYA Program, including a finding about the use of certain nonprofit organizations in support of RHYA Program operations. Our audit also disclosed that the City could have exercised better control and more effective oversight of RHYA Program operations, including the use of certain nonprofit organizations for the benefit of the RHYA Program. The pervasive lack of controls and ineffective oversight over RHYA Program operations increases the risk that fraud, waste, and abuse could occur without timely detection.

¹⁹ City Auditor report dated April 3, 2019, titled *Audit of the City of Gainesville's Reichert House Youth Academy – Governance, Financial Processes, and Performance Metrics - Part A*.

Finding 4: RHYA Program Oversight and Control

Given the significant amount of City resources and the donor and grantor funds utilized for the RHYA Program,²⁰ it is important that the City provide for adequate oversight and control of the Program. In addition, making accurate RHYA Program financial information readily available, for example on the City Web site, would increase RHYA Program transparency to members of the general public and other interested parties.²¹ Our audit procedures disclosed that City oversight of RHYA Program operations needed improvement. Specifically, we noted that:

- The City used a designated account code prescribed in the Florida Department of Financial Services *Uniform Accounting System Manual* to account for RHYA Program expenditures in the City accounting records; however, City accounting records did not always provide adequate accountability for RHYA Program financial transactions. Although requested, we were not provided records evidencing that the City used a designated account code to separately account for revenues received on behalf of, or allocated to, the RHYA Program.
- Financial and budgetary information was not consistently and accurately updated.
- The City Commission was not periodically provided financial reports showing RHYA Program financial activity.
- The City Web site included Web pages titled “Open Budget” and “Open Checkbook,” which allow users to view budget and actual expenditures and total expenditures with expenditure detail, respectively, for City departments, projects, or programs for several fiscal years. While these Web pages were intended to provide transparency regarding City budgets and expenditures, as shown in Tables 7 and 8, we noted discrepancies, regarding budget and expenditure amounts reported on these Web pages for the RHYA Program, as well as discrepancies between budget documents provided to us and the amounts on the Web pages.

Table 7
Comparison of Budgeted Expenditures
For the 2018-19 and 2019-20 Fiscal Years

	2018-19 Fiscal Year Budgeted Expenditures	2019-20 Fiscal Year Budgeted Expenditures
City Budget Document	\$656,900	\$656,900
Open Budget Web Page	\$724,423	\$668,400

Source: City records.

²⁰ For example, the April 3, 2019, City Auditor report indicated that the City provided resources totaling approximately \$2.3 million to the RHYA Program during the period October 2015 through September 2018.

²¹ Including grantors and donors of funds earmarked for the RHYA Program.

Table 8
Comparison of Actual Expenditures
For the 2018-19 and 2019-20 Fiscal Years

	2018-19 Fiscal Year Actual Expenditures	2019-20 Fiscal Year Actual Expenditures
City Records	\$1,296,078	\$986,917
Open Budget Web Page	\$ 952,796	\$997,190
Open Checkbook Web Page	\$ 214,077	\$143,494

Source: City records.

We noted these discrepancies on March 3, 2021, approximately 17 and 5 months, respectively, after the 2018-19 and 2019-20 fiscal year ends. In response to our inquiries, City personnel indicated that it was not practical for City personnel to timely update actual expenditure amounts reported on the City Web site.

- The City had not established policies and procedures addressing RHYA Program administration.

Absent established RHYA Program policies and procedures, including requiring separate accounting for RHYA Program revenues, complete and accurate budget and actual expenditure information, and periodic financial reports, the City Commission lacks the information necessary to gain an appropriate understanding of the RHYA Program’s financial status and how City resources are used for RHYA Program activities and, consequently, the City Commission’s ability to make informed decisions about the Program is diminished. Furthermore, without accurate RHYA Program financial information readily available to members of the general public and other interested parties, the transparency of RHYA Program activities is diminished.

Recommendation: The City should establish policies and procedures for adequate RHYA Program oversight, control, and transparency. Such policies and procedures should 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.**

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

The Legislature has recognized that a governmental entity’s use of a nonprofit corporation or other non-governmental entity to provide services may be beneficial. However, the Legislature has also recognized that, before creating or contracting with other entities to assist in performing its functions, a governmental entity should make a determination of whether doing so is cost effective and in the public’s

best interest.²² In addition, once created and used, good business practices require periodic evaluation of the non-governmental entity's cost effectiveness and continued value to the government.

Reichert House, Inc. was incorporated in February 2006 and the original registered agent was the City's Police Chief. According to the Police Chief, the sole purpose of Reichert House, Inc. was to "support and enhance the Reichert House Youth Academy programs utilizing fund raising and other methods to obtain private funds and other resources to benefit the Reichert House Youth Academy." According to its Articles of Incorporation, Reichert House, Inc. was governed by a board of directors, which initially consisted of six members; however, the number of board members declined to four in 2018 and only one board member remained as of July 2020. In April 2021, City personnel notified us of the last board member's resignation, and on August 29, 2021, Reichert House, Inc. filed for voluntary dissolution.

In response to our inquiry as to whether the City Commission or City management directed that Reichert House, Inc. be created to benefit the RHYA Program, City personnel indicated that a former City Manager suggested, due to budget constraints from the City, a non-profit organization be created to raise funds to support RHYA operations and expenses and asserted that some donors expressed a preference to donate to a nonprofit entity rather than to the City. However, although we requested, City personnel did not provide records to support this assertion.

Our audit disclosed certain disadvantages to creating and using Reichert House, Inc. to support RHYA Program operations. Those disadvantages include less accountability and transparency for RHYA Program operations than would have been provided had the City opted to operate the RHYA Program using City employees within the City operational structure. Specifically, as a nonprofit entity, Reichert House, Inc. was not required to comply with certain key provisions of State law applicable to local governments that help establish and foster ethical behavior, accountability, and transparency. For example, there was no requirement for Reichert House, Inc. to:

- Comply with the code of ethics established by State law,²³ which, among other things, provides standards for the conduct of elected officials and government employees and for protection against conflicts of interest.
- Comply with the Public Records Law,²⁴ which requires the maintenance of public records.
- Comply with the Sunshine Law,²⁵ which establishes requirements to provide public access to governmental proceedings, including a requirement that meetings of governing bodies be reasonably noticed and minutes of those meetings be promptly recorded and open to public inspection.
- Establish safeguards required by State law²⁶ regarding the investment of public moneys.

²² For example, Section 455.32, Florida Statutes, known as the Management Privatization Act, authorizes the Department of Business and Professional Regulation to contract with nonprofit corporations to assist regulatory boards in carrying out their oversight responsibilities; however, the Department may only do so based on a privatization request from a regulatory board that includes a financial feasibility study. Similarly, pursuant to Section 216.023(4)(a)7., Florida Statutes, State agency legislative budget requests for outsourcing or privatizing agency functions must contain a cost-benefit analysis. Additionally, Sections 125.3401, 180.301, and 189.054, Florida Statutes, require counties, municipalities, and special districts, respectively, to make a determination of public interest before entering into a wastewater facility privatization contract.

²³ Chapter 112, Part III, Florida Statutes.

²⁴ Chapter 119, Florida Statutes.

²⁵ Section 286.011, Florida Statutes.

²⁶ Section 218.415, Florida Statutes.

- Post governing body-approved budgets and budget amendments required by State law²⁷ to their Web sites and limit expenditures to budgeted expenditures as shown in the approved budget.
- Comply with the State law²⁸ establishing requirements for the procurement of certain types of services.
- Undergo annual financial audits in accordance with State law²⁹ and Rules of the Auditor General.³⁰ Such audits help ensure that management and those charged with governance are informed of control deficiencies and financial-related noncompliance.

Although we requested, we were not provided records (e.g., audio recordings or printed minutes of City Commission workshops or meetings) evidencing the City’s initial determination or periodic evaluation that it was economically or otherwise more advantageous for the City to use Reichert House, Inc. rather than using City employees within the City organizational structure to carry out RHYA Program activities. In addition, as discussed in Findings 6 and 7, the use of Reichert House, Inc. to assist in carrying out RHYA Program activities decreased accountability and transparency for those activities.

Recommendation: The City should 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.

Finding 6: Oversight of Reichert House, Inc.

Because the sole purpose of the Reichert House, Inc. was to support and enhance the City’s RHYA Program, it was incumbent on the City to maintain sufficient oversight and control of Reichert House, Inc. operations. The Florida Attorney General has opined that, when a public purpose is involved, a municipality may accomplish this purpose through the medium of a nonprofit quasi-public corporation provided that some degree of control over public funds or property be retained by the public authority through implementation of proper safeguards to assure accomplishment of the public purpose.³¹

Our examination of City records and discussions with City personnel disclosed that the City’s oversight of Reichert House, Inc. operations needed improvement. Specifically:

- The City did not execute a written contract with Reichert House, Inc. Provisions in a written contract could, among other things, obligate Reichert House, Inc. to comply with State and local laws and City policies and procedures applicable to the RHYA Program; require Reichert House, Inc. to establish policies and procedures with controls designed to provide for the appropriate reporting of moneys received and disbursed on the RHYA Program’s behalf; and address the safeguarding of residual assets in the event of dissolution of Reichert House, Inc.
- Both the Reichert House, Inc. articles of incorporation and bylaws included provisions addressing the Reichert House, Inc. board of directors. However, neither the articles of incorporation nor the

²⁷ Section 166.241, Florida Statutes.

²⁸ Sections 218.391, 255.0525(2), and 287.055, Florida Statutes.

²⁹ Section 218.39, Florida Statutes.

³⁰ Chapter 10.550, Rules of the Auditor General, prescribe requirements for local governmental entity financial audits.

³¹ Attorney General Opinion No. 86-44.

bylaws specifically address the RHYA Program or Reichert House, Inc. responsibilities related thereto.

- Given the significant RHYA Program resources entrusted to Reichert House, Inc., it was incumbent on the City to ensure that policies and procedures with appropriate internal controls were established by that organization regarding RHYA Program responsibilities. Although we requested, City personnel did not provide records evidencing established Reichert House, Inc. policies and procedures. Established policies and procedures addressing the various aspects of Reichert House, Inc. operations (e.g., revenue processing, procurements of goods and services, disbursement processing) related to its RHYA Program-related responsibilities would have provided additional assurance that Reichert House, Inc. conducted RHYA Program-related business in an effective, efficient, and appropriate manner consistent with City Commission and Reichert House, Inc. board members' intent.
- The City lacked the financial information necessary to gain an appropriate understanding of how the Reichert House, Inc. used resources to support RHYA Program operations and whether such uses were consistent with the City Commission's intent.
 - In response to our inquiry, City personnel indicated that reports showing Reichert House, Inc. financial transactions and activities related to the RHYA Program, including moneys received or expended on the RHYA Program's behalf, were made available to City personnel through the Community Foundation of North Central Florida (CFNCF) Web site and member login portal.³² However, such reports were not made available to City Commissioners or the general public.
 - According to City personnel, Reichert House, Inc. financial statements³³ for the 2018-19 and 2019-20 fiscal years were provided to City personnel; however, it was not apparent that the financial statements were made available to the general public and, although we requested, we were not provided copies of the Reichert House, Inc. financial statements, or with the amounts of Reichert House, Inc. revenues and expenses, for those fiscal years.
 - City personnel indicated that Reichert House, Inc. budgets for the 2018-19 and 2019-20 fiscal years were not made available to City Commissioners, City personnel, or the general public.
 - We inquired with City personnel as to whether Reichert House, Inc. had filed with the Federal Internal Revenue Service (IRS) a Return of Organization Exempt from Income Tax Form 990 for the 2018-19 and 2019-20 fiscal years.³⁴ City personnel were unable to provide copies of the forms and attempted to obtain a Reichert House, Inc. response but were unsuccessful. Failure to provide the Form 990s to the City resulted in reduced transparency of Reichert House, Inc. operations and IRS fines and penalties may result if the nonprofit entities failed to file the forms with the IRS.

Absent periodic financial transaction and activity reports, financial statements, and budgets, City Commissioners and the general public lack the information necessary to gain an appropriate understanding of how the Reichert House, Inc. used the provided resources to support RHYA Program operations and whether such uses were consistent with the City Commission's intent. In addition, the City Commission's ability to assess the program's economic viability is diminished.

- The Reichert House, Inc. articles of incorporation did not explicitly provide for Reichert House, Inc.'s residual assets to be provided to RHYA upon dissolution. We inquired as to whether any

³² On October 28, 2021, City personnel indicated that City employees no longer have access to the CFNCF portal and therefore, no longer have access to CFNCF records.

³³ Required by Article 8.01 of the Reichert House, Inc. bylaws.

³⁴ Most nonprofit organizations exempt from income tax, such as Reichert House, Inc., are required to annually file Form 990. Parts I through XII of the form must be completed by all filing organizations and require reporting on the organization's exempt and other activities, finances, governance, compliance with certain Federal tax filings and requirements, and compensation paid to certain persons by the organization.

residual assets existed on August 29, 2021, when Reichert House, Inc. filed for dissolution and, if so, whether any of those assets should revert to the City. In response to our inquiries, City personnel responded on October 22, 2021, that all Reichert House Inc. assets belong to the CFNCF and that CFNCF representatives stated that they are willing to “move in whatever direction is desired for the funds to support Reichert House.”

Executing a well-written contract with the Reichert House, Inc. that included sufficient provisions would have provided the City additional assurance that RHYA Program operations performed by Reichert House, Inc. were conducted in an effective, efficient, and appropriate manner consistent with City Commission intent and that the City received any residual assets in the event of Reichert House, Inc. dissolution.

Recommendation: Should the City Commission decide to use another nonprofit entity to support RHYA Program operations, we recommend 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, the City should 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 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.

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

Certain State laws require municipalities to provide transparency regarding their transactions and activities. These open government laws include the Public Records Law,³⁵ which requires the maintenance of public records for public inspection, and the Sunshine Law,³⁶ which provides for public access to governmental proceedings. The Sunshine Law includes a requirement that meetings of governing bodies be reasonably noticed, and minutes of those meetings be promptly recorded and open to public inspection. As Reichert House, Inc. was created to assist with the City’s RHYA Program, it is important to effectively communicate how the public may locate the information necessary to understand Reichert House, Inc. activities and to view or request copies of Reichert House, Inc. records.

The Florida Attorney General’s Office annually compiles a comprehensive guide, known as the *Government-in-the-Sunshine Manual (Sunshine Manual)*, to address the requirements of and

³⁵ Chapter 119, Florida Statutes.

³⁶ Section 286.011, Florida Statutes.

exemptions to Florida's open government laws. Based on guidance provided in the *Sunshine Manual*, Reichert House, Inc. activities may have been subject to the Public Records and Sunshine Laws.

Public Records Law. Any entity meeting the definition of "agency," as defined by State law³⁷ is subject to the Public Records Law. According to the *Sunshine Manual*, the fact that a private entity is incorporated as a nonprofit corporation is not the sole factor that determines whether the private entity is subject to the Public Records Law. Rather, the determining factor is whether the entity is "acting on behalf of" a public agency. The *Sunshine Manual* further indicates that, when a public agency, such as the City, uses a private entity to provide goods or services to facilitate the agency's performance of its duties, a significant level of involvement by the public agency would subject the private entity to the Public Records Law.

Our audit procedures disclosed that the Reichert House, Inc. primarily operated on behalf of the City in carrying out the RHYA Program, a City function, and that City personnel were significantly involved in Reichert House, Inc. activities. Therefore, based on *Sunshine Manual* guidance, it appears that the Reichert House, Inc. was subject to the Public Records Law and should have made every effort to comply with the Public Records law. Specifically, we found that:

- According to City personnel, the sole purpose of Reichert House, Inc. was to "support and enhance the Reichert House Youth Academy programs utilizing fund raising and other methods to obtain private funds and other resources to benefit the Reichert House Youth Academy programs." We inquired with City personnel as to whether Reichert House, Inc. performed activities on behalf of any governmental or nonprofit organization other than the City's RHYA Program. However, City personnel were unsuccessful in attempts to obtain a Reichert House, Inc. response to our inquiry.
- A City employee (either the Police Chief or the current Police Department's Youth and Community Services Bureau Director) acted as the Reichert House, Inc. registered agent from its inception in 2006 through at least January 17, 2019.
- City personnel indicated that, to the best of their knowledge, Reichert House, Inc. did not have any employees and that Reichert House, Inc. had used City employees to perform RHYA Program activities since its inception. Insofar as Reichert House, Inc. activities were performed by City employees, it is apparent that City personnel had a significant level of involvement in Reichert House, Inc. activities.
- City personnel indicated that Reichert House, Inc. activities were conducted on City-owned property or property owned by another nonprofit organization. Although requested, no evidence was provided to indicate that the Reichert House, Inc. owned, or performed activities, on any other property.

Sunshine Law. According to the *Sunshine Manual*, the Sunshine Law applies to private entities created by law or by public agencies, and to private entities providing services to governmental agencies and acting on behalf of those agencies in the performance of their public duties. The *Sunshine Manual* further notes that, although private entities are generally not subject to the Sunshine Law simply because they do business with public agencies, the *Sunshine Law* can apply if a public entity has delegated "the performance of its public purpose" to a private entity. As Reichert House, Inc. had primarily been acting on behalf of the City in support of the RHYA Program, it appears that Reichert House, Inc. was subject

³⁷ Section 119.011(2), Florida Statutes.

to the Sunshine Law and should have made every effort to comply with the Sunshine Law regarding Reichert House, Inc. board meetings.

Our examination of City records and discussions with City personnel disclosed that City efforts to promote transparency of Reichert House, Inc. and RHYA Program operations could be enhanced. For example, as of March 3, 2021:

- No official Web site had been established for Reichert House, Inc. specifically, or for the RHYA Program generally.
- Although the City Web site includes a search button and disclosed how to request City public records, the City Web site did not indicate how to view or request copies of Reichert House, Inc. board meeting minutes or other records. City personnel asked Reichert House, Inc. to respond to our inquiry regarding whether Reichert House, Inc. maintained minutes of its board meetings; however, Reichert House, Inc. did not provide a response.

It was not apparent from the City Web site that Reichert House, Inc. board meeting minutes and other records were available for public inspection. Establishment of a Reichert House, Inc. Web site or provision of clearer directions and information on the City Web site for requesting and obtaining Reichert House, Inc. public records, including board meeting minutes, would have facilitated access to that information and increased public awareness of RHYA Program activities.

Recommendation: The City should establish a RHYA Program Web site. If, in the future, the City elects to use Reichert House, Inc. or another nonprofit entity to support RHYA Program operations, the City should 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.

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

The City Auditor's April 2019 report mentioned several nonprofit organizations, in addition to Reichert House, Inc., that contributed to the support of the RHYA Program. Our examination of City records and discussions with City personnel also disclosed other nonprofit organizations, including the Community Foundation of North Central Florida, Inc. (CFNCF),³⁸ Palm Breeze Youth Services, Inc. (PBYS),³⁹ and the National Police Athletic/Activities Leagues, Inc. (NPAL), contributed to the support of the RHYA Program and that transparency and accountability for grantor or donor moneys received for the RHYA Program and deposited with these nonprofit organizations could be enhanced.

CFNCF. To ascertain the nature of the CFNCF's relationship with the City and Reichert House, Inc., we made several inquiries of City personnel. City personnel answered some of our questions and, as requested by the City, the CFNCF responded to the remaining questions.

According to City personnel, during the 2018-19 and 2019-20 fiscal years, the CFNCF maintained a bank account into which grantor and donor moneys for the RHYA Program were deposited, including moneys solicited or received by Reichert House, Inc. board members and City personnel. Certain Reichert

³⁸ According to the CFNCF's Web site, the mission of the CFNCF, which provides training and support for nonprofit organizations, is to promote and sustain philanthropy among the communities of North Central Florida. The CFNCF services other nonprofit organizations in addition to Reichert House, Inc.

³⁹ The mission of the PBYS nonprofit organization is to support and serve the youth of Alachua County through the provision of academic and vocational education and training in life skills and civic responsibility.

House, Inc. board members and City employees, including the Youth and Community Services Bureau Director, were authorized to request the CFNCF to make disbursements from this account for RHYA Program purposes.

We inquired with City personnel as to whether Reichert House, Inc. had executed a written contract with the CFNCF or had otherwise communicated in writing with the CFNCF regarding the use of grantor and donor moneys received for the RHYA Program and deposited into the CFNCF account. City personnel unsuccessfully attempted to obtain a response to this inquiry. A well-written contract identifies the responsibilities and protects the interests of all parties, defines the services to be performed, and provides the basis for payment. Such a contract between Reichert House, Inc. and the CFNCF would have provided the City and Reichert House, Inc. board members additional assurance that the CFNCF accounted for and expended grantor or donor moneys received for the RHYA Program in an effective, efficient, and appropriate manner consistent with City Commission and Reichert House, Inc. board member intent and in accordance with applicable grantor or donor restrictions.

According to City personnel, when grantor and donor moneys received for the RHYA Program were deposited into the CFNCF account they were not identified as RHYA Program funds. Ensuring that all such moneys are identified as available moneys to support RHYA Program activities would improve transparency and accountability for RHYA Program funds.

Because of concerns raised in the City Auditor's April 2019 report, the City engaged a CPA firm to perform an agreed-upon procedures (AUP) engagement that included a review of deposits into, and disbursements from, the CFNCF account for the period October 1, 2015, through December 31, 2018. The CPA firm issued a report (Reichert House AUP report) dated February 11, 2020, on the engagement results. The Reichert House AUP report included schedules showing Reichert House, Inc. moneys deposited into and disbursed from the CFNCF account. The schedules showed that donations, grants, and other moneys totaling approximately \$188,000 were deposited into the account for Reichert House, Inc. for the period October 2015 through December 2018, and, for the same period, disbursements totaling approximately \$149,000 were made from the account.

Because the schedules in the Reichert House AUP report did not include details as to how the transactions specifically related to the RHYA Program, we made inquiries regarding the nature of selected transactions shown on the schedules. As requested by the City, the CFNCF responded to our inquiries. While the CFNCF response explained many of the transactions, including the relationship of receipts and disbursements to the RHYA Program, the CFNCF response did not:

- Explain the nature and source of \$22,500 of Reichert House, Inc. moneys deposited into the CFNCF account.
- Identify whether certain payments totaling \$30,421 from the CFNCF account were related to the RHYA Program. Specifically, while CFNCF provided explanations for payments totaling \$16,390, the explanations were not in sufficient detail to explain how the payments specifically related to the RHYA Program and no explanations were provided for the remaining \$14,031.

PBYS. The PBYS was incorporated in August 2006 and its original registered agent was the City's Police Chief. To ascertain the nature of the PBYS relationship with the City and Reichert House, Inc., we made several inquiries of City personnel. City personnel answered some of our questions but, as requested by the City, the PBYS responded to most of our questions.

According to the PBYS response, for the period November 2017 through April 2019,⁴⁰ at the request of City personnel, the PBYS maintained a bank account specifically for moneys, including grants and donations, received in support of the RHYA Program. Two City employees and the PBYS registered agent and Treasurer during that period were signatories on the account, and certain City employees, including the Police Chief and Youth and Community Services Bureau Director, could “make request for activities on the account.”

We asked why the PBYS maintained a bank account on behalf of the RHYA Program and were advised that the PBYS established the bank account for the RHYA Program because Reichert House, Inc. did not have a bank account or a mechanism for disbursing funds in an appropriate time frame and it was determined that the PBYS could create an account to receive funds from the CFNCF and allow City employees access to funds for operational purposes. However, although we requested, City personnel did not indicate who opened the account (e.g., a City employee or Reichert House, Inc. board member) or explain why City personnel could not have used a City bank account for this purpose. In addition:

- The PBYS response indicated that support for using the PBYS to maintain the RHYA Program bank account was voted on at a PBYS board meeting, but minutes from that meeting could not be provided. According to City personnel, the decision to create an account was a mutual decision between the PBYS board, City employees, and Reichert House Inc.
- Although the PBYS established the bank account for the RHYA Program, neither the City nor Reichert House, Inc. had executed a written contract with the PBYS addressing responsibilities regarding the bank account. A written contract with the PBYS would have provided the City and Reichert House, Inc. board members additional assurance that the PBYS accounted for and expended funds earmarked for the RHYA Program in an effective, efficient, and appropriate manner consistent with the City Commission and Reichert House, Inc. board members’ intent and in accordance with applicable grantor and donor restrictions.

Because of concerns raised in the former City Auditor’s report, the City also engaged the aforementioned CPA firm to perform an AUP engagement that included a review of deposits into, and disbursements from, the PBYS RHYA Program bank account for the period October 1, 2015, through December 31, 2018. The CPA firm issued a report (PBYS AUP report)⁴¹ dated February 11, 2020. The PBYS AUP report included schedules showing moneys purportedly for the benefit of the RHYA Program deposited into, and disbursements from, the PBYS bank account. The schedules showed that donations, grants, and other moneys totaling approximately \$105,000 were deposited into the bank account for the RHYA Program from November 2017 through December 2018, and, for the same period, disbursements totaling approximately \$94,000 were made from the bank account.

Because the schedules in the PBYS AUP report did not include details as to how the transactions specifically related to the RHYA Program, we made inquiries regarding the nature of selected transactions shown on the schedules. As requested by the City, the PBYS responded to our inquiries. While the PBYS response explained many of the transactions, including the relationship of receipts and

⁴⁰ The bank account was closed in April 2019.

⁴¹ According to the PBYS AUP report, the engagement procedures were performed for the period October 2015 through December 2018. As the bank account was not established until November 2017, there was no activity between October 2015 and October 2017.

payments to the RHYA Program, the PBYS response did not explain how certain payments totaling \$16,790 from the PBYS bank account were specifically related to the RHYA Program.

NPAL. Between August 2017 and June 2020, several NPAL subaward grants were awarded to the City of Gainesville Police Athletic/Activities League (GPAL), including a subaward grant for \$20,000.⁴²

The City Auditor's April 2019 report indicated concerns regarding receipt and use of the \$20,000 NPAL grant. Through examination of the Reichert House AUP and PBYS AUP reports and inquiry of City personnel, we determined that:

- The grant was intended to benefit the RHYA Program.
- The grant proceeds were initially deposited to the CFNCF bank account.
- The grant proceeds were subsequently paid to the PBYS and deposited to the PBYS bank account in November 2017.
- Records provided by City personnel indicated that the grant proceeds were used for expenditures associated with the Police Department's GPAL "Mentoring Initiative."

In response to our inquiry, we were advised that, in a memorandum, a City employee directed the CFNCF to disburse the grant proceeds of \$20,000 to the PBYS because the PBYS had been designated to administer the grant. We requested, but were not provided, a copy of the memorandum or an explanation for why the PBYS was selected to administer the grant. Although the grant proceeds were reportedly used for the Police Department's GPAL "Mentoring Initiative" in connection with the RHYA Program, City records provided for our review did not evidence City Commission or City management authorization for the grant proceeds to be administered by the PBYS or explain why City personnel could not have administered the grant proceeds.

As discussed in Findings 5 through 7, nonprofit organizations are not required to comply with certain key provisions of State law that ensure local governments establish and foster ethical behavior, accountability, and transparency. Notwithstanding any benefits provided by the use of the CFNCF and the PBYS, using these organizations rather than City personnel to receive and disburse grantor and donor funds solicited and received for the RHYA Program resulted in diminished transparency and accountability for those resources. Especially as the resources were not subject to City policies and procedures designed to promote the safeguarding and effective, efficient, and appropriate use of resources in accordance with applicable State and local laws and prudent business practices.

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

- **Discontinue using the CFNCF and 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.**

⁴² In October 2021, City personnel provided records indicating that during the period August 2017 through June 2020, the GPAL received subaward grants from the NPAL of \$20,000, \$34,200, \$25,200, and \$12,600.

Effective administration and management policies and procedures are essential to establish sufficient internal controls to ensure City officials and employees administer their assigned responsibilities in accordance with applicable statutory⁴³ and ordinance requirements. Such policies and procedures should be designed to promote and monitor compliance with these requirements and demonstrate accountability for public resource use.

Finding 9: Financial Statement Preparation

Government Finance Officers Association (GFOA) Best Practices⁴⁴ recommend that local governments prepare their annual external financial statements in accordance with generally accepted accounting principles (GAAP) and fulfill their financial reporting responsibilities by hiring, training, developing, and retaining accounting staff with the knowledge and capability to produce GAAP financial statements.

Our examination of City records and inquiries with City personnel disclosed that City personnel did not have the knowledge and capability required to prepare GAAP financial statements for the 2017-18, 2018-19, and 2019-20 fiscal years. As a result, the City additionally compensated the independent certified public accountant hired to perform the City's financial audit for those fiscal years, \$81,500, \$51,050, and \$75,235, respectively, for assistance in preparing the City's financial statements and for substantial additional work effort required to perform the audits. Additionally, the financial auditor included findings in the City's audited financial statements for the 2017-18, 2018-19, and 2019-20 fiscal years, that were considered to be significant deficiencies⁴⁵ or material weaknesses⁴⁶ in the City's internal controls over financial reporting.⁴⁷

For example, the material weaknesses related to:

- Untimely bank reconciliations with unreconciled differences.
- Several accounts that were materially misstated and required the financial auditor to propose material adjustments and perform reconciliations.
- Assets not properly capitalized.

According to the 2019-20 fiscal year audit report, the material weaknesses occurred because the Finance Department continued to experience significant turnover resulting in a significant loss of institutional knowledge and limited staff availability to perform the necessary reconciliations. In response to our inquiry, City personnel confirmed in September 2020 that the Finance Department staffing issues resulted in the additional fees paid to the financial auditor. For example, the City Finance Director terminated

⁴³ For example, Chapter 166, Florida Statutes, *Municipal Home Rule Powers Act*.

⁴⁴ GFOA Best Practice: *Meeting and Exceeding Minimum GAAP Financial Reporting Requirements*, September 2021.

⁴⁵ *AICPA Professional Standards* define a significant deficiency as a deficiency, or a 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.

⁴⁶ *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.

⁴⁷ For the 2017-18, 2018-19, and 2019-20 fiscal years, the GRU obtained separate financial statement audits, the results of which were included in the City's audited financial statements with a reference to the work of the other auditor. The standalone GRU audits for those fiscal years did not include any significant deficiencies or material weaknesses.

employment in December 2018 and was not replaced until July 2020. In addition, City personnel indicated in an October 2020 response that Finance Department staff were heavily involved in the implementation of a new enterprise resource planning system. Notwithstanding, the City is responsible for preparing annual financial statements in accordance with GAAP, and the City's staffing issues resulted in the City incurring significant additional financial audit costs.

Effective internal controls over financial reporting, including controls to ensure financial records are prepared and maintained by personnel with the appropriate knowledge and capabilities, are essential to management's assurance regarding accurate financial reporting in accordance with GAAP.

Recommendation: The City should enhance its efforts to hire, train, develop, and retain staff with the knowledge and capability to produce GAAP financial statements.

Finding 10: Budget Management

Pursuant to State law,⁴⁸ the City Commission is to adopt a budget each fiscal year by ordinance or resolution unless otherwise specified. The adopted budget must regulate the City's expenditures, and it is unlawful for any City officer to expend or contract for expenditures in any fiscal year except pursuant to the adopted budget. The City Commission may at any time within a fiscal year, or within 60 days following the end of the fiscal year, amend the budget for that year.⁴⁹ Additionally, GFOA Best Practices⁵⁰ recommend that all governments establish a formal set of processes for comparing budget to actual results to monitor financial performance. Establishing and conducting regular budget monitoring provides organizations the opportunity to promptly adjust for any significant variances to ensure continuity of services.

Our examination of City records and discussions with City personnel disclosed that the City's budgetary process could be improved. Specifically, we noted that:

- The City approved resolutions⁵¹ adopting budgets for the 2018-19 and 2019-20 fiscal years. The adopted budgets presented budgeted expenditures at the department, account, and project level for the General Fund and at the function and project level for the other City funds⁵² and included a summary of the General Fund's budgeted expenditures by function. However, the resolutions did not include language specifying the legal level of budgetary control. Upon inquiry, City personnel indicated the City had not defined the legal level of budgetary control but had implemented several budget policies. However, the budget policies also did not define the legal level of budgetary control, and, in the absence of such, the established legal level of budgetary control was the lowest level at which budgeted expenditure amounts were presented in the adopted budgets.
- Although the adopted budgets presented budgeted expenditures at the department, account, and project level for the General Fund and at the function and project level for the other City funds, the budgeted expenditures were reported in the City's 2018-19 and 2019-20 fiscal year audited

⁴⁸ Section 166.241(2), Florida Statutes.

⁴⁹ Section 166.241(5), Florida Statutes (2019).

⁵⁰ GFOA Best Practice: *Budget Monitoring*, March 2018.

⁵¹ City of Gainesville Resolution Nos. 180364 and 190397 adopted the City's 2018-19 and 2019-20 fiscal year budgets, respectively.

⁵² The City Commission separately approves the GRU annual budgets (for example, City of Gainesville Resolution No. 190368 for the 2019-20 fiscal year GRU budget), and GRU budget documents indicate that the GRU budget is presented in accordance with the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts.

financial statements at the function level (e.g., general government), and the budgets did not include reconciling information between the summary of the General Fund's budgeted expenditures by function and the budgeted expenditures by department, account, and project. As a result, financial statement users could not readily determine whether City resources were expended within the budgeted amounts consistent with City Commission intent.⁵³

- Budget-to-actual comparison reports had not been provided to the City Commission since June 30, 2018. In response to our inquiry, City personnel indicated in September 2020 that Budget and Finance Department personnel conducted quarterly budget meetings with every department to review their budget-to-actual performance. Starting with the 2020-21 fiscal year, Budget and Finance Department personnel began providing the Audit and Finance Committee, consisting of two of the seven members of the City Commission, with quarterly budget-to-actual comparison reports. However, absent timely presented budget-to-actual comparison reports presented to the entire City Commission, 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 for significant variances and ensure continuity of services.

Recommendation: The City Commission should 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.
- Budget-to-actual comparison reports are timely presented to the entire City Commission.

Finding 11: Transparency of Golf Course Operations

The City of Gainesville owns and operates Ironwood Golf Course (Ironwood). Ironwood was acquired by the City in March 1992 for \$1.2 million and is managed by the City Department of Parks, Recreation, and Cultural Affairs. The City accounts for Ironwood's financial activities in the General Fund; however, prior to the 2019-20 fiscal year, Ironwood's financial activities were accounted for separately in the Ironwood Golf Course Fund.

As shown in Table 9, Ironwood experienced operating losses ranging from \$639,228 to \$1,058,563 for the 2014-15 through 2018-19 fiscal years. To mitigate the operating losses, the City transferred General Fund moneys ranging from \$783,691 to \$832,450 to the Ironwood Golf Course Fund in each of those fiscal years.

⁵³ The GRU posts quarterly *Budget to Actual Comparison* reports on its Web site, and the reports are presented using the same FERF basis of accounting used in the City Commission-approved budget, which enables readers to readily determine whether GRU resources were expended within budgeted amounts consistent with City Commission intent.

Table 9
Ironwood Golf Course Fund Operating Losses
For the 2014-15 Through 2018-19 Fiscal Years

	2014-15	2015-16	2016-17	2017-18	2018-19
Operating Revenues	\$ 892,998	\$ 895,996	\$ 539,477	\$ 776,184	\$ 937,299
Operating Expenses	(1,532,226)	(1,660,862)	(1,598,040)	(1,718,551)	(1,714,146)
Operating Loss	(639,228)	(764,866)	(1,058,563)	(942,367)	(776,847)
Net Nonoperating Expenses	(60,955)	(62,854)	(48,706)	(67,895)	(63,454)
Capital Contributions		78,295	28,776	71,182	
Transfers Out	(4,977)	(5,016)	(5,017)	(5,736)	(6,082)
Change in Net Position before General Fund Transfers	(705,160)	(754,441)	(1,083,510)	(944,816)	(846,383)
Transfers In from General Fund	832,450	804,746	783,691	813,684	799,700
Increase (Decrease) in Net Position	\$ 127,290	\$ 50,305	\$ (299,819)	\$ (131,132)	\$ (46,683)

Source: City's audited financial statements.

For several years, the City attempted to identify and remediate the factors resulting in the Ironwood operating losses. For example:

- In 2009,⁵⁴ the City Commission met several times and:
 - Hired a consultant to evaluate Ironwood and its operations and provide options and recommendations.
 - Based on recommendations from the consultant and City personnel, decided to complete capital improvements essential to the ongoing viability of the golf course beginning in April 2010.
 - Decided to continue reporting Ironwood as an enterprise fund and make annual transfers of \$300,000 over a 10-year period to pay off accumulated deficit, then begin accounting for Ironwood operations in the General Fund beginning with the 2019-20 fiscal year. Once in the General Fund, the City would no longer assess indirect costs to Ironwood,⁵⁵ and Ironwood would be treated like other Parks, Recreation, and Cultural Affairs operations with no expectation of being self-sustaining.
- In 2013,⁵⁶ the City Commission awarded a contract to a contractor for full groundskeeping services and maintenance to enhance the appearance of the golf course.
- In 2014,⁵⁷ the Recreation, Cultural Affairs and Public Works Committee discussed marketing strategies to increase course revenues.

Notwithstanding these efforts, Ironwood continued to experience operating losses. As noted above, the City began reporting Ironwood within the City's General Fund in the 2019-20 fiscal year. By reporting Ironwood in the City's General Fund, the operations of the golf course are no longer discretely presented in the City's audited financial statements, and Ironwood's financial position is less transparent.

⁵⁴ City Commission meeting minutes for meetings held on February 19, 2009, May 21, 2009, and September 17, 2009.

⁵⁵ For the 2018-19 fiscal year, the last fiscal year in which indirect costs were allocated to Ironwood, the City charged Ironwood indirect costs of \$256,194.

⁵⁶ City of Gainesville agenda item 120296, dated October 17, 2013.

⁵⁷ City of Gainesville agenda item 130455, dated January 27, 2014.

When asked how City personnel could continue to monitor the financial position of Ironwood, they indicated that Budget and Finance Department personnel hold quarterly budget meetings with each department, including the Parks, Recreation and Cultural Affairs Department, to review their budget-to-actual performance and financial position. As it is the City's intent to retain Ironwood as a recreational facility, providing periodic financial reports of Ironwood's operations to the City Commission for discussion would allow the City Commission to periodically assess Ironwood's financial activity and provide information necessary to make informed decisions about Ironwood's operations. In addition, discussion of such financial reports at public meetings would provide transparency of Ironwood's operations to members of the public.

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

Finding 12: Gainesville Community Reinvestment Area

State law⁵⁸ authorizes the creation of community redevelopment agencies (CRAs) by counties and municipalities for the purpose of redeveloping slums and blighted areas that are injurious to the public health, safety, morals, and welfare of residents and providing affordable housing to residents of low and moderate income, including the elderly. State law also addresses CRA powers, funding, expenditure restrictions, and reporting and audit requirements.

A CRA is funded through tax increment financing whereby, generally, the CRA annually receives 95 percent of the difference between the amount of ad valorem taxes levied by each taxing authority (exclusive of amounts derived from debt service millage) on taxable properties within the designated community redevelopment area and the amount of taxes that would have been produced by the millage rates levied by the taxing authorities prior to the effective date of the ordinance providing for the funding.

The Gainesville Community Redevelopment Agency (Gainesville CRA)⁵⁹ was made up of four distinct districts established between 1979 and 2001, each with its own redevelopment plan, budget, and advisory board. The Gainesville CRA was governed by the City Commission seated as the Gainesville CRA Board and the City Manager also held the position of Executive Director of the Gainesville CRA. During the 2018-19 fiscal year, the Gainesville CRA operated four redevelopment districts and incremental tax revenues collectively totaling \$4.3 million were deposited in the respective special revenue trust funds established to account for redevelopment trust fund financial activity associated with these districts.

In April 2019, pursuant to State law,⁶⁰ the City and the Alachua County Board of County Commissioners (County) entered into an interlocal agreement providing that the City Commission would adopt an ordinance creating the Gainesville Community Reinvestment Area (GCRA) and establishing requirements for the GCRA pertaining to GCRA funding and annual work plans. The interlocal agreement was effective April 9, 2019, with a termination date of December 31, 2029. In September 2019, the City

⁵⁸ Chapter 163, Part III, Florida Statutes, also known as the "Community Redevelopment Act of 1969."

⁵⁹ City of Gainesville Resolution R-81-84, dated September 28, 1981, renamed the existing Downtown Community Redevelopment Agency as the Gainesville CRA.

⁶⁰ Chapter 163, Florida Statutes.

Commission adopted an ordinance,⁶¹ effective October 1, 2019, dissolving the Gainesville CRA, creating the GCRA, and incorporating the pertinent interlocal agreement provisions. The City dissolved the Gainesville CRA and created the GCRA effectively avoiding changes to State law that the Florida Legislature was considering. According to a Frequently Asked Questions document located on the GRCA Web site, the City and County wished to “insulate the GCRA from future state legislative mandates.”

Since October 1, 2019, State law⁶² has required increased accountability and transparency for CRAs. For example, State law requires CRAs with revenues or a total of expenditures and expenses in excess of \$100,000, to provide for a financial audit each fiscal year in accordance with rules for audits of local governments adopted by the Auditor General;⁶³ greater specificity for the types of expenditures that a CRA may incur; and the CRA to report performance data and provide a summary indicating to what extent, if any, the CRA has achieved the goals set out in its community redevelopment plan.

By dissolving the Gainesville CRA and creating the GCRA, the City effectively removed its redevelopment activities from State law accountability and transparency requirements applicable to CRAs. The GCRA is not a separate governmental entity but instead is administered as a City department and because the GCRA is not a CRA as contemplated by State law, the GCRA is not funded by tax increment financing. Instead, City ordinances⁶⁴ and the interlocal agreement include schedules of ten annual contributions the City and County are each required to make to the GCRA for reinvestment activities, with City and County contributions totaling \$37.4 and \$33.3 million, respectively.

City Ordinances include certain requirements designed to provide for accountability over GCRA operations. For example, the City Commission must adopt a reinvestment plan to guide community redevelopment within the GCRA,⁶⁵ separate funds must be maintained to account for GCRA revenues and expenditures,⁶⁶ and the City must annually present a work plan describing planned GCRA community redevelopment and report GCRA community redevelopment activities for the preceding calendar year.⁶⁷ However, certain other requirements would enhance transparency and accountability for City redevelopment activities. For example, we noted that:

- City ordinances do not provide for a separate annual audit of the GCRA. Although the GCRA financial operations are audited as part of the City’s annual financial audit, requiring a periodic external or internal audit of the GCRA’s compliance with City ordinances, policies, and procedures governing GCRA operations would improve accountability for GCRA resources, provide additional transparency regarding GCRA operations, and provide the City and the County with additional assurance as to the proper use and disposition of GCRA trust fund moneys.
- City ordinances⁶⁸ specify certain purposes for which GCRA trust fund moneys may not be used including, for example, construction or expansion of administrative buildings for public bodies or

⁶¹ City of Gainesville Resolution No. 181001, which is codified as Chapter 2, Article V, Division 9 of the City of Gainesville Code of Ordinances.

⁶² Chapter 2019-163, Laws of Florida, and Sections 163.387(6), (7) and (8)(a) and (b), and 163.371(2), Florida Statutes.

⁶³ Chapter 10.550, Rules of the Auditor General, prescribes requirements for local governmental entity financial audits.

⁶⁴ Section 2-409, City of Gainesville Code of Ordinances.

⁶⁵ Section 2-410, City of Gainesville Code of Ordinances.

⁶⁶ Section 2-409, City of Gainesville Code of Ordinances.

⁶⁷ Section 2-407, City of Gainesville Code of Ordinances.

⁶⁸ Section 2-409, City of Gainesville Code of Ordinances.

police and fire buildings, unless the construction or expansion is contemplated as part of a community policing innovation, or general government operating expenses unrelated to community redevelopment. However, City ordinances do not otherwise limit GCRA expenditures. Specifically, City ordinances do not require the GCRA to only expend moneys pursuant to the City Commission-adopted reinvestment plan. Prescribing specific purposes for which GCRA trust fund moneys may be expended and requiring that such moneys be expended only pursuant to the City Commission-adopted reinvestment plan would provide additional assurance that GCRA moneys are expended consistent with City and County intent.

- City ordinances⁶⁹ provide that on or before April 1 of each year the City Commission will hold a joint meeting with the County, at which the City will present an annual (or longer duration) work plan that describes the GCRA's planned community redevelopment and an annual report of GCRA community reinvestment activities for the preceding calendar year. However, City ordinances do not specify performance data or require a summary of the extent to which the GCRA achieved the goals set out in the work plan. Imposing some performance reporting requirements on the GCRA would provide the City, the County, and the general public additional information necessary to assess whether the GCRA is operating effective.

Recommendation: We recommend that City ordinances be amended to establish additional 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.

PAYROLL AND PERSONNEL ADMINISTRATION

Effective payroll policies and procedures establish controls to ensure that payroll transactions are handled accurately and consistently in accordance with applicable laws and the directives of the City Commission and City management. Effective personnel policies and procedures address, among other things, employee background screenings and evaluation of employee performance.

Finding 13: Employee Background Screenings

State laws⁷⁰ provide for background screenings for employees in positions of special trust or responsibility or sensitive location. For example, a level 2 background screening⁷¹ is required for owners, operators, employees, and volunteers working in summer camps providing care for children; personnel hired to fill positions requiring direct contact with students in any district school system; and certain State employment positions. Although municipalities are not required to conduct background screenings under State law, the City has established a policy⁷² that provides for “screening assessments” and established Human Resources (HR) Practices (Practices)⁷³ to describe the screening process. The HR Practices provide that:

- The HR Technician will order the following types of background screenings: Identity confirmation, consumer report (when credit history is job-related), and criminal history.

⁶⁹ Section 2-407, City of Gainesville Code of Ordinances.

⁷⁰ Sections 409.175, 110.1127, and 1012.32(2)(a), Florida Statutes.

⁷¹ A level 2 background screening includes fingerprinting for Statewide criminal history records checks through the Florida Department of Law Enforcement and national criminal history records checks through the Federal Bureau of Investigation.

⁷² City Human Resource Policy E-1, *Employment*.

⁷³ Human Resources Practices – *Background Screening Process*.

- “Unfavorable” screening results will be communicated to the Staffing Services Manager, who will consult the Assistant HR Director and possibly the HR Director or the City Attorney to jointly assess the risks of employing the applicant based upon the job’s requirement. The unfavorable results will be considered based upon the nature of the work to be performed, job responsibilities, the level of risk the offense may pose, the time that has passed since the offense, and whether there is a pattern of the same or similar violations.
- Background screening information will be maintained electronically in a file separate from employee personnel files.
- The HR Department is accountable for ensuring fairness and consistency in background processing decisions.

However, we noted that the HR Practices could be improved to:

- Define what constitutes an “unfavorable” background screening result that would require consideration by the Staffing Services Manager, Assistant HR Director, HR Director, and City Attorney.
- Identify the types of offenses that would be considered disqualifiers or potential disqualifiers for employment, regardless of job requirements.
- Describe how the consideration of “unfavorable” background screening results by City personnel will be documented in the personnel records.
- Require periodic screenings of employees in executive-level positions, in positions of trust, or who work with vulnerable populations.

While it is the City’s practice to perform background screenings on all applicants prior to employment, the absence of an official policy identifying these items increases the risk that individuals hired for positions of special trust and responsibility may not be suitable for employment in such a position.

From a population of 712 employees hired during the period October 2018 through February 2020, we examined records for 30 individuals to determine whether the individuals had undergone background screenings prior to employment. All the employees in our tests had undergone a background screening; however, one employee’s screening disclosed convictions for two second degree misdemeanors and one first degree misdemeanor. In response to our request for documentation evidencing consideration of the results by the various City personnel required to review screening results per the HR Practices, City personnel indicated that notes evidencing such consideration were not prepared because the applicant was deemed acceptable.

Enhanced HR Practices defining what constitutes an unfavorable background screening result, identifying the types of offenses that would be considered disqualifiers for City employment, requiring documentation of consideration of unfavorable screening results, and requiring periodic screenings for City employees in executive-level positions, in positions of trust, or who work with vulnerable populations, would improve consistency in how applicants are evaluated, reduce the likelihood of disparate treatment of applicants with similar background check results that apply for similar positions, and provide additional assurance that individuals employed by the City have suitable backgrounds.

Recommendation: We recommend 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 HR Practice-required consideration of unfavorable background screening results to be documented in writing and maintained in City records.**
- **Require periodic screenings of employees in executive-level positions, in positions of trust, and who work with vulnerable populations.**

Follow-Up to Management’s Response

Management’s response indicates that the City does not believe that a background grid that specifically excludes applicants is consistent with the City’s philosophy of being a “second chance employer” and that applying a grid of that nature may have a disparate impact on candidates based on race or other protected class. However, our finding does not indicate that any sort of grid should be used or that applicants be automatically excluded based upon background screening results. Rather, the point of the finding is that policies and procedures that indicate how unfavorable background screening results will be considered and how such consideration will be documented would result in more consistency in evaluating applicants and reduce the likelihood of disparate treatment of applicants with similar background screening results. Management’s response also indicates that the City’s “very robust Code of Conduct” is sufficient to address both misdemeanor and felony arrest and convictions of current employees. The point of our finding is that periodic screenings of employees in executive-level positions, in positions of trust, or who work with vulnerable populations would provide additional assurance that employees continue to have suitable backgrounds and not rely on self-reporting by the employee. Consequently, the finding stands as presented.

Finding 14: Employee Evaluations

City policy⁷⁴ requires the City to establish and maintain a formal performance management program for all regular non-represented employees, which includes management, administrative, and professional employees. The performance management program is to link performance to pay, support the market mid-point pay structure, and motivate employees to achieve the City Commission-established organizational goals and objectives. The policy recognizes that performance management covers the entire management responsibility of monitoring and managing employee performance, including: the development of goals, objectives, and development plans; the monitoring and annual evaluation of performance; a process to address poor performers through performance improvement plans and progressive discipline; and the communication and training necessary to provide employees with an understanding of the process used to evaluate performance and determine pay.

To accomplish these goals and objectives, the City Commission designated the HR Department to maintain and administer a Citywide Performance Management System (PM System), which is part of the HR Module of the City’s enterprise resource planning application.

The PM System provides a comprehensive and systematic way to:

- Evaluate performance for the achievement of individual, departmental, and organizational goals.
- Reward top performers and incent low performers to improve.

⁷⁴ Human Resources Policy C-5 *Performance Management Policy*.

- Establish developmental plans for every employee to encourage each employee to optimize their potential.
- Link individual's pay to the successful accomplishment of individual, departmental, and organizational goals through the performance evaluation process.
- Provide a mechanism to manage pay to the market mid-point system.
- Communicate to employees the process used to evaluate and reward performance.

The PM System has several components, one of which is to monitor the completion of the annual employee performance evaluations at the end of each fiscal year.

As part of our audit, we reviewed the evaluations for 30 selected employees from the population of 2,873 City employees employed during the 2018-19 fiscal year. Our examination disclosed that the evaluation for 1 employee was not completed and signed by the employee and the employee's supervisor, and evaluations for 6 employees were not promptly communicated to the employee. These evaluations were communicated to the employee 14 to 449 days after the evaluation due dates, with an average of 307 days late.

In response to our audit inquiry, City personnel indicated that the PM System generates automatic alerts reminding supervisors and employees at various phases in the evaluation cycle to complete the evaluation form. If the alert is for an employee who no longer reports to the supervisor, the supervisor is instructed to notify HR so an update can be made to the PM System. Police officers and firefighters frequently rotate on different shifts and assignments and, as a result, report to multiple or different supervisors and, as the evaluation update process is manual, updates are not always timely. The delays in completing the evaluations we noted were due to a change in supervisor during the rating period. Notwithstanding this response, City policy indicates that annual evaluations are required at the end of each fiscal year, and the HR Module indicated that the 2018-19 fiscal year evaluations were due on December 31, 2019.

Timely conducted performance evaluations are an important management tool to inform employees of their accomplishments, training needs and areas for improvement, and to assist management in making and supporting personnel decisions. In addition, evaluations are used to determine and support pay increases and to motivate employees to achieve the City Commission-established organizational goals and objectives.

Recommendation: The City should ensure that performance evaluations are timely performed at least annually for all City employees and documented in the personnel files.

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

Included in City Commission stewardship and fiduciary responsibilities associated with managing public resources is the responsibility to ensure that City controls provide for the effective and efficient use of resources in accordance with applicable laws, contracts, grant agreements, and City ordinances, policies, and procedures. To promote responsible spending and improved accountability, it is important that the City consistently utilize an effective and efficient process for procurement and that City records demonstrate that public funds are properly utilized in fulfilling the legally established responsibilities of the City.

Finding 15: Selection of Debt Professionals

During the period September 2017 through February 2020, the GRU issued \$954 million of bonded debt, and \$40 million of commercial paper notes. Specifically, the GRU issued:

- Utilities System Revenue Bonds, Series 2017A,⁷⁵ 2017B,⁷⁶ and 2017C,⁷⁷ totaling \$681 million, to finance the acquisition of the Gainesville Renewable Energy Center power generation station (GREC Biomass Plant).
- Subordinated Utilities System Revenue Bonds, Series 2018A of \$25 million, to fund capital projects and other improvements to the utilities systems.⁷⁸
- Utilities System Revenue Bonds, Series 2019A and 2019B, totaling \$181 million, to fund capital improvements to the system and refund outstanding commercial paper notes Series C and D and variable rate utilities system revenue bonds Series 2005B.⁷⁹
- Utilities System Revenue Bonds, Series 2019C, in the amount of \$67 million, to fund capital projects and other improvements to the utilities systems and to refund outstanding variable rate bonds Series 2005C, 2006A, 2007A, 2008B, and 2012B.⁸⁰
- Utilities System Commercial Paper Notes, Series C, of \$40 million, to partially fund 2018 capital improvement program for the utilities system.⁸¹

Governments typically employ professionals, such as a municipal advisor, legal counsel, and an underwriter⁸² to assist in the debt issuance process. Municipal advisors can assist in determining the debt sale method and may have various other responsibilities depending on which sale method is selected. Legal counsel renders an opinion on the validity of the note offering; the security for the offering; and whether, and to what extent, interest on the debt is exempt from income and other taxation. According to the GFOA,⁸³ the opinion of legal counsel provides, both to issuers and to investors who purchase the notes, assurance that all legal and tax requirements relevant to the matters covered by the opinion are met.

Insofar as the GRU has significantly higher debt leverage than its peers (as discussed in Finding 1), it is especially important for the City to contract with the most qualified professionals. The GFOA recommends that issuers selecting municipal advisors, legal counsel, and underwriters to assist with the debt issuance process employ a competitive selection process and review their relationships with debt professionals periodically. A competitive selection process:

- Allows the issuer to compare the qualifications of proposers and to select the most qualified firm based on the scope of services and evaluation criteria.

⁷⁵ City of Gainesville Resolution 170394, September 21, 2017.

⁷⁶ City of Gainesville Resolution 170403, September 21, 2017.

⁷⁷ City of Gainesville Resolution 170404, September 21, 2017.

⁷⁸ City of Gainesville Resolution 171089, May 17, 2018. This bond issue functions similarly to a line of credit, in which up to \$25 million may be drawn upon and outstanding at one time. As of September 2020, the City had not issued any bonds pursuant to this bond issue.

⁷⁹ City of Gainesville Resolution 180747, February 21, 2019.

⁸⁰ City of Gainesville Resolution 180818, March 21, 2019.

⁸¹ City of Gainesville Resolution 171087, May 17, 2018.

⁸² Underwriters purchase debt securities, such as government, corporate, or municipal debt, from an issuing body (like a government agency) to resell them either directly to the marketplace or to dealers, who will sell them to other buyers.

⁸³ GFOA Best Practice: *Selecting Bond Counsel*.

- Provides objective assurance that the best services and interest rates are obtained at the lowest cost possible.
- Demonstrates that marketing and procurement decisions are free of self-interest and personal or political influences, reducing the opportunity for fraud and abuse and providing fairness to competing professionals.

Our audit procedures disclosed that, during the period February 2017 through February 2020, the City did not competitively select certain professionals who assisted in the bond issuance process for that period. Specifically, the GRU did not competitively select:

- The municipal advisor who was paid a total of \$505,925. Our examination of GRU records disclosed that in February 2006,⁸⁴ pursuant to competitive selection, the City Commission contracted with the advisor for a 5-year period. In January 2012,⁸⁵ the City Commission approved a 5-year contract extension, and on March 2, 2017,⁸⁶ the City Commission approved another 5-year extension through March 22, 2022. In response to our inquiry, GRU personnel indicated that, because the municipal advisor had extensive history in the region and had provided years of service as municipal advisor for the GRU, the contract has been extended since 2006 absent a competitive selection process.
- The bond counsel who was paid a total of \$798,004. Our examination of GRU records disclosed that, in May 2014 pursuant to competitive selection, the GRU contracted with the bond counsel and, because the contract lacked an established term, the GRU continued to use the bond counsel through July 2020. In response to our inquiry, GRU personnel indicated that City policy⁸⁷ exempted legal services from competitive solicitation; therefore, the bond counsel was not competitively selected. Additionally, the City Attorney indicated that the City retained the bond counsel since May 2014 without conducting an additional competitive selection process because she believes the bond counsel's extensive knowledge and history and familiarity with the City results in cost savings for the City.

Notwithstanding City Attorney and GRU personnel's satisfaction with the services provided by its current municipal advisor and bond counsel and the City policy exemption for competitive procurement of legal services, without periodically employing a competitive selection process to select professionals to assist in the 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 free from self-interest and personal or 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: When selecting professionals to assist in the debt issuance process, we recommend that the City employ a competitive selection process. In addition, the City should periodically reevaluate ongoing relationships and document the results of the evaluation.

⁸⁴ City of Gainesville Resolution 050899, February 13, 2006.

⁸⁵ City of Gainesville Resolution 110627, January 19, 2012.

⁸⁶ City of Gainesville Resolution 160743, March 2, 2017.

⁸⁷ Section 6.6(f), City of Gainesville Procurement Policy. Prior to July 10, 2017, legal services exceeding \$50,000 were required to be competitively selected.

Finding 16: Purchasing Cards – Periodic Reviews

To provide an efficient and effective procurement method for employees to purchase low dollar goods and services and reduce the administrative costs of processing purchase orders, the City and GRU established a purchasing card (P-card) program. Although P-cards provide an efficient and effective method for purchasing and paying for supplies and services, P-cards are vulnerable to fraud and misuse and, therefore, it is essential that City policies and procedures provide effective controls over the safeguard, accountability, and use of P-cards.

City and GRU P-card procedures are established in the *Financial Services Procedures Manual*⁸⁸ and *Purchasing Card Program Procedures*, respectively. City P-card procedures provide that the Department Head is responsible for approving P-card assignments and setting two limits for each cardholder, a single purchase limit and a monthly purchase limit. In addition, the Department Head is responsible for initiating and authorizing requests for spending limit changes. The GRU's P-card procedures provide that department supervisors and managers are authorized to request a purchasing card for employees who need to purchase goods and services for their department and designate a single purchase limit and monthly purchase limit for each cardholder. The procedures also provide that the supervisor or manager is responsible for authorizing changes to a cardholder's single or monthly purchase limit.

During the period October 2018 through January 2020, the City's general government P-card expenditures totaled \$7.1 million and the GRU's P-card expenditures totaled \$7.7 million. As of January 31, 2020, there were 190 and 339 employees with active City general government and GRU P-cards, respectively. To determine the reasonableness of the City's general government and GRU employee P-card monthly purchase limits, for cardholders with credit limits over \$1,000, we compared the highest monthly purchase amount for each cardholder during the period October 2018 through January 2020 to the cardholders' monthly purchase limit. We found that, given the amount of the cardholder's highest monthly purchases, it appeared 98 City general government P-cards and 157 GRU P-cards had excessive credit limits, ranging from \$2,000 to \$35,000. The usage for these cards ranged between 1 and 49 percent of the limits for the City general government P-cards and 2 and 49 percent of the limits for the GRU P-cards. In addition, 12 City general government cardholders and 21 GRU cardholders with credit limits ranging from \$2,000 to \$35,000 did not use their cards during the period.

Our discussions with City and GRU personnel and examination of City records disclosed that the City and GRU did not perform periodic reviews and evaluations of P-card use and the reasonableness of cardholder purchasing limits relative to the frequency and dollar amounts of actual P-card usage as neither the City's *Financial Services Procedures Manual*, the GRU's *Purchasing Card Program Procedures*, or other City and GRU policies and procedures required such reviews and evaluations.

In response to our inquiry, City personnel indicated that, previously two employees conducted general government P-card reviews; however, the employees are no longer employed with the City and their positions have not been filled. GRU personnel indicated in response to our inquiry that the department employee manager is responsible for requesting, assigning, and maintaining P-card limits for their

⁸⁸ Chapter 43-000 is dedicated to the Procurement Card Program. Section 43-323 of the manual relates to dollar limitations.

employees and they could not answer whether the department manager performed periodic reviews of the limits.

Without periodic reviews and evaluations of P-card use and cardholder purchasing limits, there is an increased risk that P-card errors, fraud, or misuse could occur and not be timely detected and resolved and the P-card purchasing limits may exceed the amounts needed relative to the cardholder's responsibilities.

Recommendation: The City and GRU should 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.

Finding 17: Purchasing Cards – Separations

During the period October 2018, through January 2020, 27 City general government employees and 26 GRU employees who had been assigned P-cards separated from employment. Per City personnel, when an employee separates, each department is required to collect the P-card from the employee and fill out a Procurement Card Request Form stating to cancel the card. Once the Purchasing Department receives the form with the P-card, the individual's account will be "suspended" for several cycles to ensure that all charges and credits previously made have been applied. The P-card is unable to be used for new purchases once placed in the suspended profile. The GRU has a similar process but uses a different form.

To determine whether P-cards had been timely suspended upon the cardholders' employment separation, we requested for examination records supporting the 29 City general government P-cards (assigned to 27 employees) and the 27 GRU P-cards (assigned to 26 employees) showing when each P-card was suspended and could no longer be used for new purchases. City general government personnel indicated that it was not possible to generate a report that showed the suspend date but could provide a report that showed an inactive date⁸⁹ instead. Therefore, for the City general government analysis, we used the inactive date and identified 19 P-cards, assigned to 19 cardholders, that were deactivated 17 to 182 days, or an average of 65 days, after the employees' separation dates. Our examination also disclosed 3 GRU P-cards, assigned to 3 cardholders, that were suspended from 24 to 32 days, or an average of 27 days, after the employees' separation dates.

Although our audit tests did not disclose any charges incurred subsequent to the cardholders' separation, prompt cancellation of P-cards upon a cardholder's separation reduces the risk that unauthorized charges will occur.

Recommendation: The City should strengthen procedures to ensure that P-card privileges are timely suspended upon a cardholder's separation from City employment.

Finding 18: Travel

Effective policies and procedures for the administration of travel advances, travel reimbursements, and other travel-related expenses promote compliance with travel guidelines and requirements and, among

⁸⁹ Per City general government personnel, the inactive date is the date the P-card is actually inactivated or deactivated.

other things, require supervisory approval, documented justification for travel, travel by the most economical means possible, and maintenance of documentation supporting the travel expenses incurred. Such policies and procedures provide travelers and those responsible for approving travel and related expenses a clear understanding of their responsibilities. To provide a reasonable and systematic means by which travel for official City business is approved and controlled, the City has established policies and procedures⁹⁰ for travel that apply to City elected officials, charter officers, employees, members of advisory boards, volunteers, and all others authorized to travel on City business. The GRU follows the City's travel policies and procedures but has also implemented procedures and standard travel documents⁹¹ specific to the GRU.

During the period October 2018 through February 2020, the GRU recorded 463 travel expenses totaling \$577,739. Our examination of GRU records and discussions with GRU personnel disclosed that controls over travel expenses could be enhanced. Specifically, our examination of records for 24 GRU travel expenses totaling \$80,310 disclosed that:

- Although travel vouchers supporting GRU-approved travel were submitted, contrary to City policy,⁹² travel vouchers for 23 GRU expenditures totaling \$78,609 were not signed by the travelers to certify that the expenditures incurred were necessary in the performance of official GRU duties. In response to our inquiries, GRU personnel indicated that their procedures do not require travelers to sign travel vouchers.⁹³ However, State law requires that any claim authorized or required to be made under any provision of State law⁹⁴ shall contain a statement that the expenses were actually incurred by the traveler as necessary travel expenses in the performance of official duties and shall be verified by a written declaration that it is true and correct as to every material matter.⁹⁵
- Although City policy⁹⁶ prohibits travelers from being reimbursed for any meal included in a convention or conference registration fee paid by the City without appropriate approval and explanation, three travelers were reimbursed \$48 for lunches provided at a conference. In response to our inquiry, GRU personnel were able to provide an explanation for the reimbursement. However, appropriate approval and explanation was not documented in GRU records at the time of reimbursement.
- 11 GRU employees attended the annual SAP for Utilities conference for a total cost of \$32,037, including \$600 in late registration fees for 3 employees. GRU personnel indicated that 1 employee was added late due to the timing of a change in project focus. The 2 other employees were added late since the registration deadline occurred at the end of the fiscal year and there was uncertainty whether travel completed in the following fiscal year would be covered and authorized. By the time it was clarified, the early registration deadline had expired.
- One traveler incurred additional hotel, meal, and flight expenses that may have been avoided if travel arrangements for a conference had been timely made. Specifically, the traveler purchased airfare 4 days before the flight for a total of \$764 and had to travel 2 days prior to the start of the

⁹⁰ Chapter 25-000, City of Gainesville *Finance Department Procedures Manual*.

⁹¹ *Gainesville Regional Utilities Travel Procedures*.

⁹² City Policy Section 25-260, *Travel Expense Reports* states that each person who travels for the City is required to complete and sign a report containing a full accounting of expenses incurred.

⁹³ General government and GRU use different travel vouchers in processing travel. The general government travel expense document includes a certification and authorization statement and an area where the traveler signs, whereas the GRU travel expense document does not include such certification or require the traveler to sign.

⁹⁴ Section 112.061, Florida Statutes.

⁹⁵ Section 112.061(10), Florida Statutes.

⁹⁶ City Policy Section 25-233, *Meals*.

conference, due to a GRU vehicle not being available,⁹⁷ which led to additional costs of \$248 for an additional night at the hotel and a full day of meal reimbursements.

Absent the traveler's attestation that they incurred the expenses reflected on the travel voucher and that the expenses were necessary in the performance of official GRU duties, accountability for travel expenses is limited. Additionally, without policies or procedures regarding how far in advance travel plans should be made, there is an increase risk that travel options will be limited, resulting in additional travel costs.

Recommendation: The GRU should 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.**

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations. Pursuant to Section 11.45(3)(a), Florida Statutes, the Legislative Auditing Committee, at its November 14, 2019, meeting, directed us to conduct this operational audit of the City of Gainesville.

We conducted this operational audit from April 2020 through October 2021 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 operational audit of the City of Gainesville focused on selected processes and administrative activities. For those areas addressed by this audit, our objectives were:

- To evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, administrative rules, contracts, grant agreements, and other guidelines.
- To examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and

⁹⁷ The traveler originally planned to drive to the conference in a GRU-owned vehicle.

efficient operations, the reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those internal controls.

- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in management's internal controls significant to our audit objectives, instances of noncompliance with applicable governing laws, rules, or contracts, and instances of inefficient or ineffective operational policies, procedures, or practices. The focus 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 judgment 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 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 judgment 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's 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 October 2018 through January 2020, and selected City actions taken prior and subsequent thereto. Unless otherwise indicated in this report, these transactions and records were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning 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, abuse, or inefficiency.

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 processes and administrative activities.
- Examined minutes of City Commission meetings held during the audit period, and the minutes of selected meetings held prior and subsequent to the audit period, to determine the propriety and sufficiency of actions taken related to the programs, activities, and functions included in the scope of this audit.
- Determined whether City financial audit reports for the 2017-18, 2018-19, and 2019-20 fiscal years were filed with us no later than 9 months after the end of the City's fiscal year as required by Section 218.39(7), Florida Statutes.
- Examined City records to determine the amounts of additional financial audit costs incurred by the City and the reasons for incurring such costs.

- Examined City records and inquired of City personnel to determine whether the City had established policies and procedures designed to effectively promote compliance with the statutory and ordinance requirements requiring the maintenance of public records, including electronic records, City Commission meeting minutes, and financial disclosure filings.
- Reviewed the placement of the City Auditor's office in the City organizational structure to determine whether City Auditor personnel could fulfill their responsibilities without interference when determining the scope of the audit activities, performing the work, and communicating the results free from any undue influence from senior management.
- Obtained City Auditor internal audit reports issued during the period January 2014 to October 2021 and evaluated the City's progress in taking corrective action to address findings identified in those reports.
- Examined City records and inquired of City personnel to determine whether the City general government and Gainesville Regional Utilities (GRU) had established and maintained adequate policies and procedures for budgetary planning and oversight and monitoring of financial condition. Specifically, we:
 - Assessed the financial condition of the GRU and the City as a whole.
 - Examined City records to determine whether the City maintained a General Fund reserve amount in accordance with the City policies and Government Finance Officers Association (GFOA) best practices.
 - Evaluated the adequacy and transparency of City actions to address ongoing losses incurred by the City's golf course.
 - Examined City records to determine whether the GRU's enterprise funds working capital was maintained in accordance with City policies and GFOA best practices.
 - Compared the GRU's long-term debt to net position ratio to the long-term debt to net position ratios of comparable Florida municipal utilities.
 - Evaluated the reasonableness and significance of the dollar amounts of various energy conservation incentive programs compared to total GRU operations.
 - Determined whether the City complied with Section 166.24(3) and (5), Florida Statutes, by timely posting the tentative and final budgets for the 2019-20 fiscal year to the City Web site.
 - Examined City budget documents for the 2018-19 fiscal year budget from the original adopted through amendments to the final budget reported in the City's audited financial statements.
- Evaluated the GRU's rate setting methodology, including whether the utility had obtained a rate study.
- Examined the City's allocation of indirect costs for the 2017-18, 2018-19 and 2019-20 fiscal years to determine whether such costs were allocated using a reasonable methodology and were correctly allocated based upon that methodology.
- Examined City records to determine whether cash incentives to GRU's customers for energy savings measures were significant relative to GRU's overall revenues and expenses and whether such incentives were consistent with incentives offered by other comparable Florida municipal utilities.
- Examined City records to determine whether the general government levied ad valorem taxes for the 2019-20 fiscal year were within Section 200.065, Florida Statutes.
- Examined City records to determine whether the GRU customer utility taxes and surcharges for the 2019-20 fiscal year were assessed in accordance with Sections 166.231 and 180.191, Florida Statutes, respectively. In addition, we obtained and reviewed a court case final judgment issued

in July 2015 to determine whether the GRU's utility tax assessment methodology complied with Section 166.231, Florida Statutes.

- Examined City records and inquired of City personnel to determine whether the annual transfers from the GRU to the General Fund for the 2018-19, 2019-20, 2020-21, and 2021-22 fiscal years were established using a reasonable and systemic methodology that considered the GRU's ability to pay the transfer over an extended period of time.
- Assessed the reasonableness of the GRU's economic dispatch⁹⁸ methodology.
- Evaluated the extent to which the GRU had established debt administration policies and procedures to minimize borrowing costs and to ensure compliance with applicable Federal, State, and local laws and GFOA best practices. Specifically, we examined City records and inquired of City staff to determine whether:
 - The City realized net economic gains from the 2019A, 2019B, and 2019C debt refundings.
 - The City documented that the 2019A, 2019B, and 2019C debt issuance private placements and negotiated sales were in its best interest, as required by Section 218.385, Florida Statutes.
 - Services of the municipal advisors, underwriters, and bond counsel were competitively selected in accordance with City policy and GFOA best practices.
 - Financial information included in debt issuance documentation agreed with amounts in the applicable City audited financial statements.
 - The City Commission was provided with sufficient documentation of significant debt terms and conditions necessary to make informed decisions regarding the debt refundings.
- Determined whether the GRU's policies and procedures for administering interest rate swaps issued in conjunction with variable rate debt issues were in accordance with GFOA best practices.
- From the population of 712 employees hired during the period October 2018 through February 2020, examined records for 30 employees to determine whether the City verified the employees met the education and experience qualifications established by the City's written job descriptions and whether the City performed the background criminal history checks required by City policy.
- Examined City records to determine whether the City Commission performed the annual performance evaluations of its six Charter Officers for the 2018-19 fiscal year. In addition, from the population of 2,637 employees employed during the 2018-19 fiscal year, examined records for 30 employees to determine whether performance evaluations for the 2018-19 fiscal year were timely completed and signed by both the evaluator and the employee.
- Reviewed the City's Total Rewards Study pay plan adjustments to determine whether such adjustments complied with Section 215.425(1), Florida Statutes.
- From the population of 3,975 travel expenditures totaling \$1.8 million October 2018 through February 2020 (463 totaling \$577,739 from GRU and 3,512 totaling \$1,172,206 from general government), examined documentation for 39 expenditures totaling \$86,246 (24 totaling \$80,310 from GRU and 15 totaling \$5,936 from general government) to determine whether expenditures complied with State law and City policies and procedures.
- Reviewed vendor payment detail to determine if there was evidence of bid splitting to avoid City Commission approval.

⁹⁸ The United States Department of Energy defines "economic dispatch" to mean "the operation of generation facilities to produce energy at the lowest cost to reliably serve consumers, recognizing any operational limits of generation and transmission facilities."

- From the 16,156 general government payments totaling \$35.9 million and 487 GRU payments totaling \$12.2 million for contractual services for the period October 2018 to February 2020, examined records supporting 15 general government payments totaling \$173,648 to 12 different contractors and 15 GRU payments totaling \$3.7 million to 14 different contractors to determine whether the payments were reasonable, adequately documented, served a documented public purpose, properly authorized and approved prior to payment being made, and in compliance with applicable, State laws, City ordinances, City policies and procedures, and contract terms. In addition, we determined whether the services were competitively selected in accordance with applicable State laws and City policies and procedures.
- Examined City records to determine whether the City documented the cost effectiveness of employing temporary employees. Examined rates paid on 13 invoices totaling \$43,231 from the temporary staffing contractor to determine whether the invoiced temporary employee rates complied with the contract terms.
- Evaluated the reasonableness of City procedures for assignment and use of City-issued purchasing cards (P-cards). Specifically, we:
 - Determined whether City personnel periodically reviewed and evaluated P-card use and cardholder purchasing limits.
 - From the 39,388 P-card expenditures totaling \$14.8 million paid during the audit period, examined general government records supporting 30 P-card expenditures totaling \$294,304,199 to determine whether expenditures were made in accordance with general government policies and procedures.
 - Examined City records to determine whether the City timely canceled the P-cards of 53 cardholders who separated from employment during the audit period.
 - From the population of 36 P-cards reported as lost or stolen by cardholders during the audit period, examined City records for 10 P-cards to determine whether the P-card service provider was timely notified and that City personnel verified that no improper P-card charges were made subsequent to the P-cards being lost or stolen.
- Evaluated the reasonableness of the City's \$50,000 competitive purchasing threshold and the City Commission's \$100,000 approval threshold by comparing those thresholds to those of comparable municipalities.
- Evaluated the reasonableness of the City's process for procuring and implementing a new enterprise resources planning system.
- Evaluated the adequacy of the City's cost-benefit analysis to determine whether the City's acquisition of the Gainesville Renewable Energy Center (GREC) was cost effective.
- Examined City records to determine whether the transition from contracted services to City employee services for GREC operations was cost effective.
- Examined City records and inquired of City personnel regarding ongoing discussions with an investor-owned utility, whereby the City would cease generating electricity and would instead construct a power transmission station to purchase power from the investor-owned utility, to determine whether such a transition to purchased electricity was economically justified.
- Examined City records to determine whether the \$221,355 purchase of land from a not-for-profit corporation in 2016 was economically justified and whether the City obtained independent appraisals.
- Examined City records to determine whether a \$10,000 speaker fee to obtain a guest speaker in May 2019 was reasonable and served a public purpose. In addition, examined City records to determine whether the speaker donated the fee to the Brighter Tomorrow Scholarship Program as asserted.

- Examined City records to determine whether the City Commission’s abolition of the Gainesville Community Redevelopment Agency, a legally separate community redevelopment agency, and creation of the Gainesville Community Reinvestment Area (GCRA), a City department, pursuant to an interlocal agreement with Alachua County (County), was publicly discussed in a transparent manner. We also:
 - Evaluated the sufficiency of GCRA accountability provisions included in the City’s interlocal with the County to provide assurance that City and County redevelopment moneys are expended in accordance with the interlocal agreement.
 - Determined whether the County and City timely made the 2019-20 fiscal year redevelopment contributions to the GCRA in accordance with the interlocal agreement.
 - Tested 10 GCRA expenditure transactions totaling \$546,354, from a population of 1,211 transactions totaling \$1.3 million from the period October 2019 through March 2020, to determine whether City and County redevelopment moneys were expended in accordance with the interlocal agreement.
 - Examined City records to determine whether the City Commission approved the sale of an office building formerly used by the Gainesville Community Redevelopment Agency in accordance with City ordinances and whether the City obtained an independent appraisal prior to selling the property for \$690,000.
- Reviewed the interlocal agreement between the City and the County that established allowable uses of Wild Spaces Public Places Program (WSPP Program) resources, funded through the one-half percent county sales surtax levied pursuant to Section 212.055, Florida Statutes, to determine whether the agreement provided adequate accountability of WSPP Program resources
- To determine whether the City expended WSPP Program moneys in accordance with the interlocal agreement and the voter referendum that authorized the sales surtax, tested 30 expenditures and transfers totaling \$4.0 million from the population of 1,885 transactions totaling \$8.7 million incurred during the period October 2018 through February 2020.
- Examined City records to determine whether the City had policies or procedures that define the criteria for providing donations to other organizations, establish a methodology for determining the amount of assistance, require agreements with the entities specifying how the donations will serve a documented public purpose, and specify records that the organizations must provide to the City to properly account for the use of the donations.
- Examined City records and inquired of City personnel to determine whether the City had provided for adequate oversight and control of the Reichert House Youth Academy (RHYA) Program. Specifically, we:
 - Requested records to determine whether the City had documented, of record, that it was economically or otherwise advantageous for the City to use Reichert House, Inc. to support RHYA Program operations.
 - Evaluated whether City policies and procedures provided for adequate oversight over Reichert House, Inc.
 - Evaluated City efforts to promote transparency of the RHYA, Reichert House, Inc., and certain other nonprofit organizations that support RHYA Program activities.
 - Evaluated the adequacy of accountability over grantor and donor funds received and disbursed by the nonprofit organizations for the RHYA Program.
 - Determined whether any of the nonprofit organizations employed City staff and, if so, whether such outside employment was handled in accordance with applicable City policies and procedures.

- Evaluated the relationship between the City, Reichert House, Inc., and the other nonprofit organizations for potential conflicts of interest.
- Obtained the City Auditor’s April 2019 report, titled *Audit of the City of Gainesville’s Reichert House Youth Academy – Governance, Financial Processes, and Performance Metrics – Part A.*, and evaluated the sufficiency of City actions to address selected issues noted in that report.
- Evaluated the adequacy of City policies and procedures related to identifying potential conflicts of interest. For selected City officials, we reviewed Department of State, Division of Corporations, records; statements of financial interests; and City records to identify any potential relationships that represented a conflict of interest with City vendors.
- Evaluated severance pay provisions in three employment agreements to determine whether the provisions complied with Section 215.425(4), Florida Statutes.
- 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

Lauren Poe, Mayor



January 6, 2022

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 Generals' Preliminary and Tentative Audit Findings

Dear Ms. Norman:

In accordance with section 11.45(4)(d), Florida Statutes, I am enclosing our final management responses to the 18 preliminary and tentative audit findings and recommendations that are included in your City of Gainesville operational audit report. Our management responses specifically address our efforts to mitigate risk identified in each of the preliminary and tentative findings, as well as edits requested by your office.

We appreciate the work of the Auditor General staff and cooperated fully throughout the engagement. We are committed to following through with our action plans in a transparent and fully accountable manner. We are looking forward to receiving the final report and your presentation of said report at our January 11, 2022 Audit Committee meeting.

If you or your office requires any additional information from the City of Gainesville, please do not hesitate to contact us at any time.

Sincerely

Lauren Poe

Cc: Attachments
Members of the City Commission
Charter Officers

200 East University Avenue • Station 19 • P.O. Box 490 • Gainesville, Florida 32627
(352) 334-5015 • Facsimile: (352) 334-2036 • E-Mail: mayor@cityofgainesville.org

**Management Responses to the Auditor General Preliminary and Tentative Findings
(received 11/22/2021)**

The City is providing the following responses to the Auditor General's November 22, 2021 preliminary and tentative audit findings and recommendations for the operational audit of the City of Gainesville.

The City of Gainesville considers itself One City. For purposes of clarity, all responses are bifurcated between the responsible Charter Officers, City Manager for General Government (GG) and General Manager of Gainesville Regional Utilities (GRU), except for the response for Finding 2 regarding the General Fund Transfer (GFT).

In addition to the responses provided below, the City's Interim City Manager, appointed November 15, 2021, established a General Government Policy Review Committee on December 7, 2021 to address how best to develop, manage, and most importantly, communicate those policies to the workforce and community at large. The core mission of the Committee will be to identify, review, and establish a framework to ensure policies are reviewed on a regular and ongoing basis. It is important for the City to develop a framework that ensures the organization is establishing and adhering to policies that are consistent with best practices in local government. This Committee will have three initial objectives: 1) create a base inventory for all City policies and identify gaps; 2) review and evaluate policies to determine if an update or change is required; and 3) establish a process for Policy management that includes, at a minimum: timelines for policy reviews and updates, single source location for retrieval of policies, method to allow for recommendations/suggestion for policy modifications, develop strategy for policy communication citywide, and develop a training/acknowledgement process to ensure staff is educated and up to date on all policies and changes. The Policy Review Committee will be comprised of subject matter experts throughout the City and from various departments. Additional information on this initiative is available in **Attachment A** to this response.

Gainesville Regional Utilities (GRU) Financial Condition and Payments for General Government Services

***Finding 1:** GRU debt levels are significantly higher than comparable municipal utilities.*

***Recommendation:** To help ensure 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 and the City Commission jointly establish a long-term debt management plan with quantitative performance measures and timelines.*

GG Management Response: This finding is not applicable to GG.

GRU Management Response:

GRU management and the City Commission are well aware of GRU's high debt levels. GRU's debt essentially doubled when the biomass plant, previously known as Gainesville Renewable Energy Center (GREC) came on line and was incorporated on the balance sheet as a capital

lease. Rating agencies noted significant debt levels related to this as early as 2012. Between 2012 and 2021, GRU was downgraded five times primarily due to high debt levels and high leverage.

Beginning in 2019, GRU working closely with the City Commission implemented a series of actions to stabilize the financial condition of the Utility:

February 2019, a Cash Balance Policy was approved by the Commission providing for minimum levels of reserves.

February 2019, a debt restructuring was approved by the Commission that provided for:

Funds for new construction projects to support the safety and reliability of GRU's utility services.

Restructure of a portion of GRU's existing debt, with the goal of creating near-term debt service savings and cash flow that would:

- Reduce rate pressure,

- Stabilize GRU's cash reserve levels, which had been declining over several years due to no or lower-than-requested utility rate increases, and

- Provide cash for technological investments in the utility.

March 2020, the City Commission approved a resolution that would allow GRU to take advantage of favorable market conditions based on certain parameters to achieve debt service savings. The debt service savings are required to be set aside to defease outstanding debt in future years.

September 2020, the City Commission approved a Pension Obligation Bond issuance for the City of which a portion was applicable to GRU. As part of that approval, the Commission directed GRU to use the pension savings from the issuance of the bonds for debt defeasance.

May 2021, the City Commission approved GRU to move forward with a formal debt defeasance policy.

July 2021, the City Commission approved a resolution for multi-year base rate increases to further stabilize the Utility which supports reserve levels and future debt defeasance.

August 2021 the City Commission authorized the first tranche of defeasance transactions through September 2026.

December 2021, the City Commission supported GRU's guidelines for the formal debt defeasance policy scheduled to come back to the Commission in late January or early February 2022.

Any debt defeasance plan or policy is reliant on current and future City Commission decisions related to adequately funding the Utility in order to support Utility operations, capital infrastructure needs, current and future debt service, reserves, general fund transfer payments, and retaining some portion of profits both now and going forward. Without adequate funding for safe and reliable Utility services and other payments, there is no ability to fund a long term debt defeasance plan/policy.

In addition to the mitigation activities above, GRU discussed the Utility's significant debt in dozens of public meetings from 2018 to present with the City Commission providing transparency to the community.

Finding 2: *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 considering the GRU's long-term ability to pay.*

Recommendation: *The City Commission should adopt and consistently utilize a reasonable and sustainable methodology to calculate the GFT amount. The methodology should consider the long-term ability of the GRU to pay.*

Management Response

Starting in 2015, both General Government and GRU sought out a defined agreement to provide budget stability when discussing the General Fund Transfer (GFT). This resulted in a five-year agreement with a 1.5% growth factor per year. In recognition of a GRU need for rate relief, the first year of the agreement was an approximate \$3 million reduction from the fiscal year 2014 level.

As the agreement was nearing the end of its term, GRU aggressively pursued the establishment of a GFT that is based on its ability to pay and remain a going concern. No organization that is as capital-intensive as GRU should be using funds required for maintaining capital infrastructure and/or providing the appropriate level of services, for GFT distributions. Therefore, in 2018, as part of the annual budget process, GRU alerted the commission to the emerging trend – GRU's earnings did not cover the level of the GFT payment. At the time, the shortfall in earnings from 2003 through 2018 was approximately \$42 million. That disparity grew to \$79 million over the next three years (2019 through 2021) and is projected to grow to \$118 million through fiscal year 2027.

In response, the following actions were taken:

- In April 2019, during the fiscal year 2020 budget development processes, the City Commission approved the removal of the previous five year agreement's growth factor (1.5%) and kept the GFT flat at \$38,285,000.
- In April 2020, during the fiscal year 2021 budget development processes, the City Commission approved keeping the GFT flat at \$38,285,000 while the financial stability plans were being researched and put into place.
- In August 2020, the Commission approved the hiring of a consultant to develop a formulaic approach to the GFT amount.
- In March 2021, GFT formula options were presented to the General Policy Committee. ([Agenda# 200739](#))
- In April 2021, the Commission did not accept the consultant GFT formula recommendation and gave direction to reduce the GFT by \$2 million to \$36,283,000 for fiscal year 2022. ([Agenda# 200739](#))

- In July 2021, the Commission formalized a reduction in the GFT by \$2 million per year from fiscal years 2023 through 2027. ([Resolution #210116](#))

For the years beyond 2027, the City Manager and the Utilities General Manager will develop a formula that is based on GRU's ability to pay. The ability to pay must include an appropriate return on investment using established criteria to allow for reinvestment in the Utility rather than all monies earned remitted in the GFT. This is considered prudent utility practice. In addition, this formula must support the goals set in the debt defeasance policy if the Commission wants a significant defeasance program established for long term debt reduction. This formula will be brought back for review and approval by the Commission at a yet-to-be determined time.

Note that the debt defeasance plan in the response to Finding 1 relies on the implementation of a long term general fund transfer formula that accounts for GRU's ability to pay as described in the preceding paragraph.

Finding 3: *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.*

Recommendation: *The City should enhance its indirect cost allocation procedures to provide for an independent review of the indirect cost allocation worksheet, require a reconciliation of the estimated indirect costs to the actual indirect costs after each fiscal year is completed, and require periodic adjustments for differences between the estimated and actual amounts. In addition, the City should 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.*

GG Management Response:

The Budget and Finance Department's Budget Division is in process of conducting an updated cost allocation study for the FY 2023 budget that is fair and equitable based on appropriate citywide allocations. This study update will be a collaborative process with input from other City departments and GRU regarding review of methodology. The City Auditor's Office will sit in the development meetings as well. Studies prior to FY 2018 were updated on a biennial basis. Studies going forward will be conducted annually and will include an explicit true-up methodology. The City Auditor's Office has also agreed to perform an attestation of the cost allocations and true-ups going forward.

Regarding the specifics of the cost allocations under previous studies as it relates specifically to GRU: FY 2018 and FY 2020 cost allocations were trueed up. The Budget Division will true-up FY 2019 based on the FY 2018 cost allocation study for which those estimates were determined. True-ups for FY 2021 and FY 2022 will be conducted based on the FY 2020 cost allocation study for which those estimates are based on and within 60 days of issuance of the annual audit for each respective fiscal year. The true-ups for FY18 – FY22 will be reviewed and attested to by the City Auditor's Office. There is no plan to true up cost allocations prior to FY 2018 at this time.

GRU Management Response: This finding is not applicable to GRU.

Reichert House Youth Academy (RHYA) Program and Related Organizations

Finding 4: *The City did not effectively oversee or control RHYA Program operations.*

Recommendation: *The City should establish policies and procedures for adequate RHYA Program oversight, control, and transparency. Such policies and procedures should 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.*

GG Management Response:

Management agrees with the recommendation regarding accurate and timely updates on the RHYA Program to the City Commission. Through the newly established Finance Committee, effective January 2022, the City will provide operational and budget to actual performance updates for the RHYA Program.

During the period in scope for this audit the Reichert House was a division of the Gainesville Police Department where revenues were budgeted separately. If the Reichert House division, at any point during the fiscal year needed additional funding, the department director had the authority to transfer funds from other divisions within the Gainesville Police Department to the Reichert House per established budget transfer policies and procedures. Any grants or donations received by the City for Reichert House are appropriated to the Reichert House division.

In addition, the Budget and Finance Department's Budget and Accounting Divisions are actively working to update the Open Budget and Open Checkbook transparency pages. As explained previously, these pages were updated with financial data from the city's legacy system which was limited to certain transactional data. We anticipate that the new financial system data extracts will show a complete budget and actual financial position.

GRU Management Response: This finding is not applicable to GRU.

Finding 5: *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.*

Recommendation: *The City should 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,*

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the City should periodically reevaluate the continued cost effectiveness and value of such use to the City.

GG Management Response:

The Reichert House, Inc. was dissolved on August 29, 2021. Future discussions regarding the use of a non-profit entity will be had with the appropriate City personnel and will be presented to City Commission for approval.

In early 2021 policies and procedures governing the receipt of donations, transfer of those funds to the City and transactional relationships with outside agencies, such as the CFNCF, were developed and implemented. Funds received from outside agencies are passed through to the City bank accounts and placed in the appropriate RHYA accounts.

GRU Management Response: This finding is not applicable to GRU.

Finding 6: The City did not effectively oversee Reichert House, Inc. operations.

Recommendation: Should the City Commission decide to use another nonprofit entity to support RHYA Program operations, we recommend 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, the City should 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 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.

GG Management Response:

Management agrees with the recommendations but would like to provide the following additional information:

- Regarding the financial reports from Community Foundation of North Central Florida (CFNCF), statements were made available to individuals who were "Fund Advisors", which was previously referred to as to individuals with member login access to the portal. There were some City personnel listed as Fund Advisors to the account.

Funds donated to CFNCF remain assets of that organization, regardless of the intended use. According to CFNCF, they are not required to post donor information or allotted amounts to the general public, outside of the federal requirements of IRS documents. The City was able to retain the documents and forwarded all statements from CFNCF on Friday, October 29, 2021 at 11:42 AM to the Auditor General, with the following statement from their organization:

“The Reichert House Endowment Fund was established May 2010, and Friends of Reichert House Fund was established January 2016. Both funds are under the exclusive legal ownership and control of CFNCF, and while they were established for the benefit of Reichert House, they are not bank accounts held by any entity other than CFNCF.”

- The Reichert House Inc. was still active for fiscal years 2018-19 and 2019-20 and was dissolved on August 29, 2021. During the time, Reichert House Inc. did not own any assets according to the statement above from CFNCF. After receiving recommendations, the City implemented the following changes in segregation of duties related to Reichert House, Inc.: City employees were no longer handling financial details such as having access to the CFNCF account, filing 990's, receiving official documents as registered agents, applying for grants, etc.

Management worked diligently to implement the following measures which were reviewed by the City Auditor's Office:

- Establish necessary third party agreements with agencies, and organizations (including non-profits) between the City of Gainesville assisting RHYA.
- Design internal controls establishing the separation of roles and responsibilities for increased accountability.
- Increase sharing of information to enhance transparency funds related to RHYA.
- Streamline cash flows and donations to decrease exchanges and expedite the proper placement of funds.

Additional oversight improvements regarding using a non-profit entity to support RHYA in the future will include:

- Contractual agreement between the non-profit and the City of Gainesville outlining obligations including disposition of funds if/when non-profit ceases to exist.
- Development of policies and procedures to guide the reporting and transactional relationship between the non-profit and City including remittance and publishing of Federal financial disclosures per required deadlines.
- Quarterly reporting of operations and financial activity of the non-profit and RHYA program (including distribution of budgets and financial reports) to the appropriate City personnel and Finance Committee.

GRU Management Response: This finding is not applicable to GRU.

Finding 7: Reichert House, Inc. and RHYA Program operations lacked appropriate transparency.

Recommendation: The City should establish a RHYA Program Web site. If, in the future, the City elects to use Reichert House, Inc. or another nonprofit entity to support RHYA Program operations, the City should 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.

GG Management Response:

Management agrees with the recommendation to establish a RHYA program website, or page, within the main City of Gainesville website. The RHYA program will be transitioned to the Parks, Recreation and Cultural Affairs Department's newly established Youth Services Division. Management agrees to implement measures that offers increased transparency and accountability for the City managed program, which aligns with City policies and procedures, including proper maintenance of public records.

GRU Management Response: This finding is not applicable to GRU.

Finding 8: 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.

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

- ***Discontinue using the CFNCF and 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.***

GG Management Response:

Based on the reports and documentation provided, grant expenditures pertaining to the 2017 grant were deemed allowable and reimbursed from the national organization. Management will ensure all grant applications and processes align with the City of Gainesville's policies and procedures. City Staff will be required to receive prior approval to apply and accept any awards of grant funds under the City. City Staff will be required to submit timely reports, proper documentation concerning proof of purchase, and adhere to all other policies implemented to enhance accountability, consistency, and transparency.

Management has eliminated the use of all other non-City accounts exclusively supporting RHYA, with the exception of CFNCF due to their continued ownership of RHYA assets. In addition, Management has worked diligently to implement a mechanism that allows for the transferring of funds received by CFNCF to be deposited in a dedicated City general ledger account for consistency and transparency. Funds within the restricted account are subject to the

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stringent financial guidelines of the City of Gainesville such as approval for allowable expenditures, production of receipts and/or related documentation, and proper accounting records and reports of expenditures. Management has identified the current assets in the CFNCF and has begun discussions regarding the transfer of those funds to the City.

Lastly, the City Auditor's Office will be auditing the procedures for Reichert House program grants accepted in the future as part of their last open audit issue from their 2019 report. While those procedures are in place, the City has not received grants for RHYA to test the process.

GRU Management Response: This finding is not applicable to GRU.

Administration and Management

Finding 9: *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 years 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.*

Recommendation: *The City should enhance its efforts to hire, train, develop, and retain staff with the knowledge and capability to produce GAAP financial statements.*

GG Management Response:

Management agrees with this recommendation. The following actions are underway as of the date of this response:

- Management has engaged a CPA firm to assess staff, review and update job descriptions, include certification requirements where appropriate, such as CPA or CGFO, advise on need for additional positions and filling vacant positions, assist with establishing standard operating procedures (including monthly reconciliation processes and quarterly financial reporting), provide training and cross-training to ensure sustainability of operations, and establish internal control reviews to ensure compliance.
- Management will engage with the financial system implementation vendor to supplement staff training and cross-training on system operations.

The Interim City Manager is also reviewing the current organizational structure of the Budget and Finance Department to determine the most effective and efficient placement of functions and execution of duties with a restructuring planned for January 2022.

GRU Management Response: As noted in Footnote 47, this finding is not applicable to GRU.

Finding 10: *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*

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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.

Recommendation: The City Commission should 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.*
- *Budget-to-actual comparison reports are timely presented to the entire City Commission.*

GG Management Response:

The City updated its Budget Administration Policy on September 13, 2021 to clearly define the level at which a budget is adopted: fund, department and project ([#210402](#)).

The City also updated its Budget Amendment Policy on September 13, 2021 to more clearly define Commission intent regarding appropriations and adjustments and strengthen controls over fund adjustments between capital projects ([#210405](#)).

The Budget and Finance Department re-established budget to actual quarterly reporting in FY 2021. The most recent report was presented to the Audit & Finance Committee on November 17, 2021 and to the City Commission on November 18, 2021 ([#210659](#)).

The Budget and Finance Department will work to enhance the mapping of reported financial data between the budget documents and annual comprehensive financial report beginning with the annual report for the period ended September 30, 2021 (FY 2021).

GRU Management Response: As noted in Footnotes 52 and 53 this finding is not applicable to GRU.

Finding 11: Monitoring and transparency of the City's golf course operations could be improved.

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

GG Management Response:

The City Commission provided direction to transfer Ironwood Golf Course Operations (accounted for as an Enterprise Fund) to the General Fund on May 21, 2009 ([#080511](#)). The direction was to allow for the Ironwood Golf Course time to pay off debt. The transfer from Enterprise to General Fund occurred in FY 2020. The City will provide operational and budget to

actual performance updates for Ironwood Golf Course, through the newly established Finance Committee which reports to the full Commission.

GRU Management Response: This finding is not applicable to GRU.

Finding 12: *The City could improve accountability and transparency over redevelopment activities carried out pursuant to an interlocal agreement with Alachua County.*

Recommendation: *We recommend that City ordinances be amended to establish additional 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.*

GG Management Response:

The City maintains separate budget and accounting records for all GCRA funds, as detailed below:

- 1) Downtown Redevelopment Area (Tax Increment)
- 2) Fifth Avenue/Pleasant Street Redevelopment Area (Tax Increment)
- 3) College Park/University Heights Redevelopment Area (Tax Increment)
- 4) Eastside Redevelopment Area (Tax Increment)
- 5) Gainesville Community Reinvestment Area (Agreement between the City of Gainesville and Alachua County).

The City has the following oversight groups for GCRA expenditures: GCRA Advisory Board, GCRA staff, Budget & Finance Department, City Manager's Office, and City Commission. These groups confirm and ensure that funds received from the City & County Agreement are spent according to the GCRA's 10-year Reinvestment Plan. These same bodies also provide accountability for the remaining tax increment funding that must be spent in the specific geographical area from which it came and also support the priorities of the Reinvestment Plan.

The GCRA Advisory Board meets once a month and any recommendations for projects and programs are referred to the City Commission for final approval. All meetings meet Sunshine requirements and are open to the public.

Since the GCRA is now a department of the City, the City's annual audit process includes a review of financial activity in this area. Fund specific information can be found in the City's most recent annual audit report for the Fiscal Year ending September 30, 2020. In addition, the Budget and Finance Department Accounting Division will work to add a section specific to the GCRA in the next annual comprehensive financial report.

Through the newly established Finance Committee, effective January 2022, Management will provide GCRA specific budget updates including detailed accounting of all expenditures to ensure compliance with the funding from the City & County Agreement and the former redevelopment areas. The GCRA will also work to enhance its annual reporting to include performance data on its project and programs as a measure of its success.

GRU Management Response: This finding is not applicable to GRU.

Payroll and Personnel Administration

Finding 13: City policies and procedures for obtaining and documenting background checks of applicants seeking employment need enhancement.

Recommendation: We recommend that the City enhance policies and procedures to:

- 1) *Define what constitutes an unfavorable background screening result, specifically identifying the type of offenses that would be considered disqualifiers or potential disqualifiers for employment.*
- 2) *Require the HR Practice-required consideration of unfavorable background screening results to be documented in writing and maintained in City records.*
- 3) *Require periodic screenings of employees in executive-level positions, in positions of trust, and who work with vulnerable populations.*

GG Management Response:

- 1) The City of Gainesville has a policy of being a second chance employer and does not believe that a background grid that specifically excludes applicants is consistent with that philosophy. Furthermore, applying a grid of that nature may have a disparate impact on candidates based on race or other protected classes. Each background screening and consideration will be based on the facts and circumstances of the offense, length of time since the offense and how the background information relates to the specific position the candidate is seeking.

In addition, when there is any question around the screening, the hiring department may be utilized in making a final determination regarding the final decision with particular attention being made related to positions that have a financial function within the organization. Violent and honesty offenses that raise to the felony level will have additional scrutiny and discussion prior to an offer being made.

- 2) The City has a documented background screening practice and will establish criteria to consistently identify results to be handled as “do not hire”, such as those associated with positions subject to the Jessica Lunsford Act. The criteria will be documented in our HR practice E-1 Background Screening.
- 3) The City has a very robust Code of Conduct that specifically addresses both misdemeanor and felony arrest and convictions for incidents involving physical violence, theft, driving under the influence of alcohol or drugs or the possession or sale of drugs. The City believes these policies are sufficient.

GRU Management Response: This finding is not applicable to GRU.

Finding 14: *Contrary to City policy, 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.*

Recommendation: *The City should ensure that performance evaluation are timely performed at least annually for all City employees and documented in the personnel files.*

GG Management Response:

Management agrees with this recommendation and has recently implemented a new system that has enhanced performance requirements and notifications. In addition, the past performance system was not an integrated part of the larger Human Capital Management System which did lend to some of the completion issues associated with the system used during the audited period.

Workday's Perform system has specific notification attributes that notifies all supervisors of the goal setting stage, mid-year check in and finally the annual evaluation due dates. The system also requires employee notification and confirmation at each stage of the process. The City believes this will move the organization to an accountable employee evaluation process that holds supervisor's responsible for fulfilling the evaluation process.

GRU Management Response: This finding is not applicable to GRU.

Expenditures – Use of Public Resources, Purchasing Cards, and Travel

Finding 15: *The GRU did not periodically use a competitive process to select certain professionals who assisted in the bond issuance process.*

Recommendation: *When selecting professionals to assist in the debt issuance process, we recommend that the City employ a competitive selection process. In addition, the City should periodically reevaluate ongoing relationships and document the results of the evaluation.*

GG Management Response: This finding is not applicable to GG.

GRU Management Response:

Specifically the Auditor General noted the following regarding the Municipal Advisor:

The municipal advisor who was paid a total of \$505,925. Our examination of GRU records disclosed that in February 2006, pursuant to competitive selection, the City Commission contracted with the advisor for a 5-year period. In January 2012, the City Commission approved a 5-year contract extension, and on March 2, 2017, the City Commission approved another 5-year extension through March 22, 2022. In response to our inquiry, GRU personnel indicated that, because the municipal advisor had extensive history in the region and had provided years of service as municipal advisor for the GRU, the contract has been extended since 2006 absent a competitive selection process.

Specifically the Auditor General noted the following regarding Bond Counsel:

The bond counsel who was paid a total of \$798,004. Our examination of GRU records disclosed that, in May 2014 pursuant to competitive selection, the GRU contracted with the bond counsel and, because the contract lacked an established term, the GRU continued to use the bond counsel through July 2020. In response to our inquiry, GRU personnel indicated that City policy exempted legal services from competitive solicitation; therefore, the bond counsel was not competitively selected. Additionally, the City Attorney indicated that the City retained the bond counsel since May 2014 without conducting an additional competitive selection process because she believes the bond counsel's extensive knowledge and history and familiarity with the City results in cost savings for the City.

Municipal Advisor

As the Auditor General acknowledged, GRU has an extremely large and complex debt portfolio. 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, senior and subordinate debt. GRU was aware that changing the municipal advisor in 2012 and 2017, would take an extensive amount of time to review the existing debt structure and to make recommendations for future debt structures, restructuring, refundings, amortization periods, debt shaping, and other financial activities.

The decision to retain GRU's municipal advisor for multiple years when a debt portfolio is as complex as GRU's, is prudent business practice for a large municipal utility. It is more cost effective especially when taking into account GRU has a high debt load and high leverage. The municipal advisor during this time frame prudently and effectively provided financial services such as navigating five debt downgrades, establishment of a cash reserve policy, debt defeasance services, and other appropriate activities. Retaining the municipal advisor over a longer period of time has been instrumental in appropriately managing the complexity and high level of debt at GRU. The City Commission agreed and approved both contract extensions.

However, GRU will follow the Auditor General's recommendation and complete a competitive selection process before the end of the current contract.

Bond Counsel

GRU's Bond Counsel from 2017 through 2020 (Holland & Knight) was competitively selected in 2014 for bond work to begin after the 2014 debt issuance.

In 2014, the City Attorney's Office in conjunction with GRU's Budget, Finance and Accounting department determined that it was 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. The business plan was to have then current bond counsel, Orrick, Herrington & Sutcliffe for the 2014 bond issuance. After a competitive process, Holland & Knight was selected to serve first as disclosure counsel for the 2014 issuance and then to serve as bond counsel working on various debt related transactions allowing Holland & Knight to learn GRU's debt profile before issuing any bonds. In 2017, Holland & Knight first provided legal service to GRU as its bond counsel.

As the Auditor General acknowledged, GRU has an extremely large and complex debt portfolio. 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, senior and subordinate debt. GRU and the City Attorney's office were aware that changing bond 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.

The decision to retain bond counsel for multiple years when a debt portfolio is as complex as GRU's, is prudent business practice for a large municipal utility. It is more cost effective to retain a firm longer than one year, when a debt portfolio is as large and complex as GRUs. Retaining the same bond counsel over a longer period of time also avoids costly mistakes. Retaining this bond counsel has been instrumental in appropriately managing the significant complexity and level of debt. Holland & Knight, selected by a competitive process, provided legal services at a substantially lower cost than prior bond counsel.

Both the municipal advisor and bond counsel have and continue to provide excellent service 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.

Finding 16: *Controls over City-assigned purchasing cards (P-cards) need improvement to ensure that P-card assignments and credit limits are periodically evaluated and appropriately adjusted.*

Recommendation: *The City and GRU should 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.*

GG Management Response:

Management agrees with the recommendation and will conduct a quarterly review of P-card assignments and credit limits. The Budget and Finance Department's Procurement Division will conduct the review for the first quarter of FY 2021 (October 2021 – December 31, 2021) in January 2022 and a final report on P-card assignments and credit limits recommendations will be delivered by February 15, 2022 to the City Manager.

GRU Management Response:

GRU agrees with this recommendation. Beginning January, 2022, P-cards assignments and credit limits will be reviewed annually and recommendations will be made by the GRU P-card Administrator to the GRU department manager based on usage compared to the assigned limits. The P-card holder's department Manager will determine if any changes are needed based on the information provided.

Finding 17: *The City needs to enhance efforts to ensure that P-cards are promptly canceled upon a cardholder's separation from City employment.*

Recommendation: *The City should strengthen procedures to ensure that P-card privileges are timely suspended upon a cardholder's separation from City employment.*

GG Management Response:

Management agrees with the recommendation. The Budget and Finance Department's Procurement Division will work with the Human Resources Department to ensure that staff is aware of the procedures required to timely notify of an employee separation. This item will also be flagged for immediate review under the City Manager's newly established Policy Review Committee.

GRU Management Response:

GRU Management agrees with this recommendation. Currently upon receipt of an employee separation notice at GRU, the p-card is suspended. Once the charges have been allocated and paid, the p-card is deactivated. To enhance these efforts, beginning January 2022, the GRU P-card Administrator will review active cardholders quarterly to verify cardholders are still active GRU employees.

Finding 18: The GRU needs 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.

Recommendation: The GRU should 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.*

GG Management Response: This finding is not applicable to GG.

GRU Management Response:

GRU management concurs and has changed its procedures accordingly.



City of Gainesville

Office of the City Manager

City Manager Memorandum No. 210061

To: Leadership Team, Department Directors

From: Cynthia W. Curry, Interim City Manager

Date: December 7, 2021

Re: **Policy Review Committee**

In response to the recent culture audit, where we received feedback from our fellow community builders expressing frustration regarding many aspects of how the City develops and communicates its policies, I am establishing a Policy Review Committee to address how best to develop, manage and most importantly, communicate those policies to our workforce and the community at large. I feel it is important that the City establish a framework that ensures the organization is establishing and adhering to policies that are consistent with best practices in local government.

The Committee will be made up of designees from Police, Fire, Public Works, Parks, Recreation and Cultural Affairs, Finance, Strategic Initiatives, and Human Resources. The core mission of the Committee will be to identify, review and establish a framework to ensure policies are reviewed on a regular and ongoing basis.

The three initial objectives of the Committee will be:

1. Establish a base inventory of all City Policies and identify gaps to ensure the City is following best practices
2. Make recommendations for policies that need to be updated or added
3. Establish a process for Policy management that includes, but is not limited to;
 - a. Setting timelines for policy review and updates if needed
 - b. Establishing a single source for the posting of City Policies
 - c. Establish a method for Staff to make recommendations and suggestions for policy modifications or additions.
 - d. Establishing a strategy to effectively communicate those policies and any modification of those to all members of the organization
 - e. Develop a training and acknowledgment process to ensure staff is and remain updated on all policy changes.

While the Committee will be made up of the core designees from the Departments above, the Committee will also utilize input from various subject matter experts as needed. In the next week, I will be appointing the specific members of the Committee based on recommendations from those Department Heads included above. A separate communication will go out to ask for those recommendations or designees.

This work is very important to our organization and the community we serve as we move forward into a new year.