



# Taxation, Revenue, and Utilization of Expenditures (TRUE) Commission

Niki Brunson – Chair

## AUDIT COMMITTEE MEETING MINUTES

May 16, 2019

3:00 p.m.

City Council Conference Room B

Suite 425, City Hall

**Attendance:** Commissioners Daniel Henry and Niki Brunson

**Also:** Tommy Carter – Council Auditor’s Office, Jeff Clements – Council Research Division

The meeting was called to order at 3:06 p.m. by Commissioner Henry.

Tommy Carter of the Council Auditor’s Office reported that the office had released 2 reports since the last committee meeting.

Audit #824 – Capital Assets Audit: capital assets are items with a purchase price of \$1,000 or more and an expected life of 1 year or more. The City had 30,666 assets on the books as of the end of FY17-18. The current asset management system is a database that does not distinguish between fiscal years and can’t be made to print an asset list as of a particular date in the past (it only shows what is currently on the books). Items cannot be added to the inventory during the annual audit period, but must wait until the audit is complete. That system will be replaced by the new 1Cloud ERP (Enterprise Resource Planning) software. The audit found the following issues: lack of segregation of duties (some asset transactions performed without proper third-party review); inappropriate or unnecessary computer access to the capital asset tracking system; the annual inventory form does not facilitate compliance with Florida Administrative Code requirements; incomplete and inappropriately authorized supporting documentation; some City assets not able to be located; untimely and erroneous entries in the system; incomplete and out-of-date policies and procedures; and discrepancies between the capital assets system and Note 6 on Capital Asset Activity in the City’s Comprehensive Annual Financial Report (CAFR). The Accounting Division agreed with all of the recommendations and is in the process of implementing many of them. The new ERP system is expected to rectify a number of the identified shortcomings.

Report #825 – Quarterly Budget Summary for the Six Months Ended March 31, 2019: the General Fund/General Services District projects a favorable budget variance of \$12.4 million by year-end, consisting of a \$5.9 million favorable variance in revenues and a favorable variance of \$6.4 million in expenditures. The Sheriff’s Office projects to an unfavorable variance in overtime costs of \$13.2 million for the year, which includes overtime from early in 2019 to battle a spike in violent crime and \$4.8 million for the unreimbursed costs of the School Guardian program, with JSO officers currently staffing schools for which civilian guardians have not yet been hired. Mr. Henry will provide staff with a list of questions by e-mail to convey to the representatives of the Sheriff’s Office who will be attending the June 6 TRUE Commission meeting for responses.

Five departments/activities in the General Fund currently project to have unfavorable balances at year-end: Military Affairs and Veterans Services; Office of Ethics, Compliance and Oversight; Public Defender; State

Attorney; and Jacksonville Citywide Activities. The shortfall in Military Affairs is primarily related to salary costs being more than budgeted; the ECO, Public Defender and State Attorney shortfalls are primarily due to internal service charges being more than budgeted.

Hurricane Matthew and Hurricane Irma updates: Hurricane Matthew's fiscal impact is estimated to total \$50.4 million, of which the City has incurred \$31.2 million in costs to date; \$6.2 million has been appropriated to cover the City's 12.5% share of unreimbursed costs. Hurricane Irma's projected fiscal impact is \$77.2 million, of which the City has incurred \$60.6 million in expenditures to date; \$8.8 million has been appropriated to cover the City's share of unreimbursed costs.

Five enterprise funds are projected to experience negative values by year-end: Public Parking; Solid Waste Disposal; ITD Operations; Self-Insurance; and Insured Programs. The ITD unfavorable variance is largely due to a revenue shortfall in service charges because of a failure to have memoranda of understanding executed with the City's independent agencies before the fiscal year began, which means that payments for services rendered are not being made in a timely basis. ITD also incurred costs relating to the ERP conversion in the second quarter that were not paid before the quarter ended.

The committee discussed the City's system of internal service charges from one department to another. Mr. Clements explained that the system is used as a tool to encourage efficiency and economy in operations by charging departments for services and materials they use, but questions have been raised over the years as to whether it is worth the time and effort of accounting for all those transactions among departments when the net result to the City budget is the same. There has been discussion in the past by City Council members and mayoral administrations of doing away with the system and just allocating sufficient budgetary capacity to the internal service departments to provide the needed goods and services without a charge-back system, but no change has ever made.

The committee discussed the enterprise funds and how they're supposed to be financially self-sufficient, charging sufficient user fees to cover their operations. The Solid Waste enterprise fund is self-sufficient, but the Stormwater Utility fund is not, in part because not-for-profit organizations are exempt from paying the user fee. The stormwater utility needs an annual subsidy from the General Fund in the form of a loan that must be repaid each year and another loan issued to make up for the shortfall in user fee revenues.

Regarding the independent authorities, Jaxport's revenues are up substantially due to increased port traffic, but the port is incurring increased dredging costs to combat siltation caused by Hurricane Irma in the berthing areas along the wharves. The authority will be asking for a budget amendment to appropriate a portion of its increased operating revenues and some savings to cover the additional dredging cost. The Jacksonville Aviation Authority is also experiencing good revenue growth due to increased usage and is planning for construction of a new Terminal B in the next couple of years. Commissioner Henry asked about how the JAA will pay for the expansion – likely a combination of a Federal Aviation Authority grant and borrowed funds backed by revenues from the passenger ticket surcharge and leases by the airlines that will utilize the new space. The Jacksonville Housing Finance Authority projects a favorable budget variance due to increased revenue from three bond closings this year. Mr. Carter will find out what constitutes JHFA's bond-related revenues and why this year's performance is over budget.

There being no further business, the meeting was adjourned at 4:24 p.m.

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Posted 5.17.19 10:00 a.m.

Tape: TRUE Audit Committee 5.16.19 – Legislative Services Division