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# AUDITOR GENERAL STATE OF FLORIDA

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October 5, 2023

Honorable Harvey Ward  
Mayor, City of Gainesville  
P.O. Box 490, Station 19  
Gainesville, Florida 32627-0490

Dear Mayor Ward:

Enclosed is a list of 18 preliminary and tentative audit findings and recommendations that may be included in a report to be prepared on our operational audit of the City of Gainesville.

Pursuant to Section 11.45(4)(d), Florida Statutes, you are required to submit within 30 days after receipt of this list a written statement of explanation concerning all of the findings, including therein your actual or proposed corrective actions. If within the 30-day period you have questions or desire further discussion on any of the preliminary and tentative audit findings and recommendations, please contact this Office.

Your written explanation should be submitted electronically in source format (e.g., Word) and should be accompanied by a cover letter with your digitized signature. For quality reproduction purposes, if you are not submitting your response in source format, please convert your response to PDF and not scan to PDF. If technical issues make an electronic response not possible, a hard copy (paper) response will be acceptable.

Please e-mail this Office at [flaudgen\\_audrpt\\_lg@aud.state.fl.us](mailto:flaudgen_audrpt_lg@aud.state.fl.us) to indicate receipt of the list of preliminary and tentative audit findings and recommendations. Absent such receipt, delivery of the enclosed list is presumed, by law, to be made when it is delivered to your office.

Sincerely,

A handwritten signature in blue ink that reads "Sherrill F. Norman".

Sherrill F. Norman

SFN/bk

Enclosure

c: City Commission  
Charter Officers

**PRELIMINARY AND TENTATIVE AUDIT FINDINGS  
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## **SUMMARY**

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

Our audit disclosed that the City had:

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

## **BACKGROUND**

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

## **FINDINGS AND RECOMMENDATIONS**

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**GAINESVILLE REGIONAL UTILITIES (GRU)**

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

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

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

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GRU and has exclusive management jurisdiction and control over the operating and financial affairs of the GRU.

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

**Finding 1: GRU Debt Levels**

**Previously Reported**

GRU debt levels were significantly higher than comparable municipal utilities.

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

**Results of Follow-Up Procedures**

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

However, our August 2023 review of GRU records disclosed that the debt reduction plan did not include in the projected borrowings Integrated Resource Plan (IRP)<sup>6</sup> related costs to maintain its existing power generation assets or to decommission existing plants. Additionally, the debt reduction plan did not

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

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

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

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

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include Capital Improvement Plan (CIP) project funding amounts totaling \$1.3 billion over a 10-year period.

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

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

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

**Finding 2: GRU Transfers to the General Fund**

**Previously Reported**

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

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

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**Results of Follow-Up Procedures**

**The City corrected this finding.** On May 4, 2023, the City Commission adopted a resolution<sup>7</sup> that established a methodology for calculating the GSC,<sup>8</sup> formerly known as the GFT.

The new methodology was a joint effort of City and GRU staff. The new methodology has two components, a franchise fee component and a property tax component. The property tax component uses the total insured values in the most recent property insurance policy of GRU, discounted to 70 percent, and the adopted total operating millage rate, and the franchise fee represents 5 percent<sup>9</sup> of the prior year audited electric system revenue less fuel and Rate Stabilization Fund (RSF) transfers.

According to the City and GRU, the GSC will result in sustainable transfers from GRU to the City and provided to us a 10-year projection of the GSC, which is estimated to result in a decrease of \$18.2 million in the budgeted GSC for the 2023-24 fiscal year from the 2022-23 fiscal year GSC of \$33.5 million, and indicates that the GSC fluctuates between \$15.3 and \$17.1 million through 2033, as shown in Table 1.

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

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

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

Source: GRU records.

<sup>7</sup> Resolution No. 2023-417.

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

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

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

**Finding 3: Indirect Cost Recovery**

**Previously Reported**

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

We recommended that the City enhance its indirect cost allocation procedures to provide for an independent review of the indirect cost allocation worksheet, require a reconciliation of estimated indirect costs to actual indirect costs after each fiscal year is completed, and require periodic adjustments for differences between estimated and actual amounts. In addition, we recommended that the City either restore the 2017-18 and 2018-19 fiscal year indirect cost overcharges to the GRU or offset the overcharges against future fiscal year indirect cost assessments.

**Results of Follow-Up Procedures**

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

Our examination of City 2022-23 fiscal year indirect cost records disclosed that the City Auditor reviewed the indirect cost allocation worksheet. In addition, during the 2019-20 fiscal year, the City partially restored the 2017-18 and 2018-19 indirect cost overcharges, which totaled \$1.3 million, by reducing the

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

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GRU's budgeted 2019-20 fiscal year indirect costs by \$807,915. In August 2023, the City restored the remaining overcharges of \$466,589 to the GRU by journal entry.

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

REICHERT HOUSE YOUTH ACADEMY (RHYA)

**Finding 4: RHYA Program Oversight and Control**

**Previously Reported**

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

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

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

**Results of Follow-Up Procedures**

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

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

**Previously Reported**

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

We recommended that the City assess and document the economic or other advantages gained by using a nonprofit entity to assist with RHYA Program operations and whether such advantages are sufficient to offset the decreased accountability and diminished transparency of RHYA Program activities. If the City

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determines that utilizing a nonprofit entity is advantageous, the City should periodically reevaluate the continued cost effectiveness and value of such use to the City.

**Results of Follow-Up Procedures**

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

**Finding 6: Oversight of Reichert House, Inc.**

**Previously Reported**

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

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

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

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

**Results of Follow-Up Procedures**

***The City had no occasion to correct this finding.*** As indicated in Finding 4, effective May 31, 2023, the City no longer funded or administered the RHYA Program. According to City personnel, there were no residual assets, including cash, held by Reichert House, Inc. at the time of dissolution that should be transferred back to the City.



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

**Previously Reported**

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

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

**Results of Follow-Up Procedures**

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

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

**Previously Reported**

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

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

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

**Results of Follow-Up Procedures**

***The City corrected this finding.*** The PBYS bank account was closed in May 2019. Subsequent to our audit inquiries in April 2023, City staff contacted the CFNCF to obtain the balance of funds held for the

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

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City. According to the CFNCF, as of March 31, 2023, \$62,514 was in the Friends of the Reichert House Fund;<sup>12</sup> however, per the CFNCF and City personnel, none of that amount belonged to the City.

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

ADMINISTRATION AND MANAGEMENT

**Finding 9: Financial Statement Preparation**

**Previously Reported**

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

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

**Results of Follow-Up Procedures**

***The City partially corrected this finding.*** Our examination of City records and inquiries with City personnel in June 2023 disclosed that City personnel continued to lack the knowledge and capability required to prepare generally accepted accounting principles (GAAP) financial statements for the 2021-22 fiscal year. As a result, in addition to the \$35,000 audit fee in the engagement letter, the City paid its financial statement auditor \$39,096 for additional work effort needed to audit the City’s 2021-22 fiscal year financial statements. While the \$39,096 in additional compensation paid to the financial statement auditor for the 2021-22 fiscal year audit was less than the amounts ranging from \$51,050 to \$81,500 similarly paid for the 2017-18 through 2019-20 fiscal year audits disclosed in our report No. 2022-087, the City’s staffing issues continued to result in the City incurring significant additional financial audit costs.

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

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Additionally, the financial statement auditor reported two material weaknesses<sup>13</sup> in the City's internal controls over financial reporting for the 2021-22 fiscal year.<sup>14</sup> The material weaknesses related to:

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

According to the 2021-22 fiscal year audit report, the material weaknesses occurred due to ongoing turnover during the past several years and the implementation of a new enterprise resource planning (ERP) system during the 2020-21 fiscal year. The turnover, which resulted in significant loss of institutional knowledge in the City's Department of Financial Services and limited staff to perform the necessary reconciliations, in combination with delays in financial statement preparation associated with the implementation the new ERP system, delayed the completion of the 2020-21 fiscal year audit until December 2022 and resulted in City personnel having less time to prepare for the 2021-22 fiscal year audit.

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

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

Effective internal controls over financial reporting, including controls to ensure financial records are 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.

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<sup>13</sup> 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.

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

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

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**Recommendation:** We continue to recommend that the City enhance its efforts to hire, train, develop, and retain staff with the knowledge and capability required to produce GAAP financial statements.

**Finding 10: Budget Management**

**Previously Reported**

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

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

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

**Results of Follow-Up Procedures**

***The City partially corrected this finding.*** In September 2021, the City updated its budget policy<sup>16</sup> to set the legal level of budgetary control at the department level. Our examination of the 2021-22 fiscal year budget disclosed that the City prepared the budget at the department level.

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

To determine whether budget-to-actual comparison reports were timely presented to the entire City Commission, we reviewed the minutes for City Commission meetings held during the audit period and did not note any record that such reports were presented to the City Commission. In response to our inquiries City personnel stated that they plan to quarterly present such reports beginning in the third quarter of fiscal year 2022-23 (i.e., the quarter ended June 30, 2023); however, as of August 2023, the reports still had not been presented to the City Commission. Absent timely presented budget-to-actual

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<sup>16</sup> City policy BU-1.1 *Budget Administration Policy*.

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comparison reports, the City Commission and the public lack the information necessary to gain an appropriate understanding of the City's financial status, and the City Commission may lack the information necessary to promptly adjust the budget for significant variances and ensure continuity of services.

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

**Finding 11: Transparency of Golf Course Operations**

**Previously Reported**

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

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

**Results of Follow-Up Procedures**

***The City corrected this finding.*** Our review of City records disclosed that in April 2023, the City presented to the City Commission budget-to-actual analyses for the Ironwood Golf Course for the 2019-20 and 2020-21 fiscal years along with estimated data for the 2021-22 fiscal year. In addition, in May 2023, the City presented a budget-to-actual analysis for Ironwood for the quarter ended March 31, 2023. According to City personnel, their goal is to quarterly submit these reports to the Finance Committee.

**Finding 12: Gainesville Community Reinvestment Area**

**Previously Reported**

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

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

**PRELIMINARY AND TENTATIVE AUDIT FINDINGS  
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**Results of Follow-Up Procedures**

***The City corrected this finding.*** Our review of City records disclosed that in June 2023, the City Commission adopted an ordinance<sup>17</sup> to amend previous ordinances<sup>18</sup> relating to the GCRA. The ordinance established GCRA accountability and transparency provisions requiring that:

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

PAYROLL AND PERSONNEL ADMINISTRATION

**Finding: 13 Employee Background Screenings**

**Previously Reported**

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

We recommended that the City enhance policies and procedures to:

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

**Results of Follow-Up Procedures**

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

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<sup>17</sup> Ordinance No. 2023-477, City of Gainesville Code of Ordinances.

<sup>18</sup> Sections 2-407 and 2-409, City of Gainesville Code of Ordinances.

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

In May 2023, the City adopted a practice<sup>19</sup> requiring employees in executive-level positions, in positions of trust, and who work with vulnerable populations undergo a background screening every 5 years. In June 2023, we requested a list of these employees and the dates of their most recent background screenings, and City personnel provided a list of 46 employees. Our examination of the provided list and supporting records disclosed that the City had obtained background screenings for 31 of the 46 employees. Subsequent to our inquiries, the City obtained background screenings for the remaining 15 employees.

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

**Finding: 14 Employee Evaluations**

**Previously Reported**

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

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

**Results of Follow-Up Procedures**

***The City corrected this finding.*** In July 2023, we selected 25 of the City's 2,384 employees and examined City records to determine whether performance evaluations for the period October 2021 through September 2022 were conducted. The 25 selected employees were full-time employees subject to performance evaluations and our examination disclosed that each of the 25 employees received a timely annual performance evaluation for the 2021-22 fiscal year, and that the results of the evaluation had been promptly communicated to the employee.

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<sup>19</sup> HR Practice E-1, *Background Screening Process*.

<sup>20</sup> Human Resources Practices – *Performance Review Process*.

**PRELIMINARY AND TENTATIVE AUDIT FINDINGS  
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EXPENDITURES- USE OF PUBLIC RESOURCES, PURCHASING CARDS, AND TRAVEL

**Finding: 15 Selection of Debt Professionals**

**Previously Reported**

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

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

**Results of Follow-Up Procedures**

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

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

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

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<sup>21</sup> GFOA Best Practice: *Selecting Bond Counsel*.



**PRELIMINARY AND TENTATIVE AUDIT FINDINGS  
NOT AN AUDIT REPORT**

**Finding: 16 Purchasing Cards – Periodic Reviews**

**Previously Reported**

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

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

**Results of Follow-Up Procedures**

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

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

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

**Finding: 17 Purchasing Cards – Separations**

**Previously Reported**

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

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

**Results of Follow-Up Procedures**

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

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

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

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

**Finding: 18 Travel**

**Previously Reported**

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

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

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

**PRELIMINARY AND TENTATIVE AUDIT FINDINGS  
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- Travel arrangements be made in a timely manner to allow for cost-efficient options to be utilized.

**Results of Follow-Up Procedures**

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

**End of Preliminary and Tentative Audit Findings.**

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<sup>22</sup> Chapter 25, *Finance Department Procedures Manual, Travel.*