



**Internal Audit Committee of
Brevard County, Florida**

**Internal Audit Review of
Fire Rescue: Financial Condition Review**

**Prepared By:
Internal Auditors of Brevard County
April 18, 2008**

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April 18, 2008

The Audit Committee of
Brevard County, Florida
Viera, Florida 32940-6699

Pursuant to the request of the Brevard County Board of County Commissioners on September 5, 2007, we hereby submit our internal audit report, representing a financial condition review of the Fire Rescue department. We will be presenting this report to the Audit Committee at the next scheduled meeting on April 30, 2008.

Our report is organized into the following sections:

Executive Summary	This provides a summary of the issues related to our financial condition review of the Fire Rescue department.
Observations and Recommendations	This provides a summary of observations and recommendations.
Background	This provides an overview of the Fire Rescue department.
Section Reviews	The objectives and focus are expanded upon in this section as well as a review of the various phases of our approach. Results of analysis are included in these sections.
County Management's Response	This provides County management's response to our financial condition review.

We would like to thank the Fire Rescue department, the Budget Office, County Finance and all others who were involved in assisting the Internal Auditors in connection with the financial condition review of the Fire Rescue department.

Respectfully Submitted,

INTERNAL AUDITORS

Executive Summary

Executive Summary

From an accounting and budgeting perspective, the Fire Rescue department is complex. The department has multiple unique revenue streams and is responsible to budget and account for six separate funds, including approximately \$70 million of annual operating and capital expenditures (per FY 07/08 budget). Based on our observations, we note the Fire Rescue department is currently understaffed to manage the necessary accounting and budgeting needs of the department. This observation is also supported by the Financial Position Review report presented by the Internal Auditors in 2007, which recommended two financial positions be upgraded within the Fire Rescue department to a Finance Officer and a Budget Analyst. Further, significant turnover in recent years has contributed to this issue. There has been no consistency in Fire Rescue accounting staff from year to year.

One of the recurring themes throughout this report is that Fire Rescue management must work more closely and collaboratively with the Budget Office and County Finance to generate well-founded budgets. Each brings a separate set of skills, knowledge and perspectives critical to the process. This same group must also work together throughout the year to monitor budget vs. actual results in order to improve the department's budgeting process and to maximize the efficiency with which taxpayer dollars are collected and spent.

Based on our analysis and results documented throughout this report, we noted several recommendations for improvements to the budgeting process. These recommendations apply specifically to the Fire Rescue department. However, the Board should consider whether such concepts are applicable to other County departments as well. See 'Observations and Recommendations' for a summary.

General Fund Transfer

Included in the original FY 06/07 budget was a \$19 million General Fund Transfer to Fire Rescue Fund 1351 (EMS). That transfer was subsequently reduced to \$13.6 million via a remittance of \$5.4 million back to the General Fund based on County management's identification of available funds. We understand this issue precipitated many of the discussions that led to this financial condition review. We have reviewed the assumptions and circumstances surrounding the \$5.4 million remittance. Based on our analysis, which is detailed in Section 5 of this report, we note the following contributed significantly to the \$5.4 million remittance:

- ❑ The original FY 06/07 budget underestimated EMS net charges for services by \$2.7 million, which caused an over-reliance on the projected General Fund transfer in the same amount. Fire Rescue management, relying on guidance from County Finance, underestimated net charges for services due to the inappropriate accounting treatment of EMS's bad debt expense, or the difference between gross billings and actual receipts. The accounting for EMS's bad debt has subsequently been corrected.
- ❑ The original FY 06/07 budget included an estimate of balance forward of \$0, which turned out to be significantly higher. Balance forward represents the cumulative net savings of EMS through September 30, 2006 (the starting point for the FY 06/07 budget). The underestimation of balance forward caused an over-reliance on the projected General Fund transfer by \$1.9 million.

Based on the above, Fire Rescue management recorded certain other adjustments to the FY 06/07 budget that resulted in a net decrease in EMS reserves of \$0.8 million.

Trends in Cash Balance and Fund Balance

We noted Fire Rescue cash balances and fund balance have increased dramatically in recent years. Fire Rescue's cash balance increased from \$1.2 million at September 30, 2004 to \$15.4 million at September 30, 2007, increasing by a factor of 12 over the three-year period. Similarly, Fire Rescue's fund balance increased from \$1.8 million to \$16.1 million over the same period. Fund balance is defined as total assets, including cash, in excess of total liabilities.

Executive Summary - continued

We note such increases represent cash balances and fund balances in excess of those originally approved and anticipated by the Board. Such excesses are primarily due to inadequate and overly conservative budgeting practices. The following is a summary of results based on our budget vs. actual analysis for FY 06/07 (all such figures are AFTER the \$5.4 million remittance back to the General Fund described):

- Budgeted operating expenditures exceeded actual operating expenditures by \$4.1 million.
- Actual revenues exceeded budgeted revenues by \$0.4 million.
- Budgeted capital outlay expenditures exceeded actual expenditures by \$7.5 million.
- The FY 06/07 budget originally approved by the Board included an estimated balance forward of \$5.0 million. The actual balance forward was \$10.8 million. The difference of \$5.8 million represents funds not originally known to be available to support approved service levels and operations for FY 06/07. As noted above, approximately \$1.9 million of this total was effectively remitted back to the General Fund during FY 06/07.

Are the "excesses" identified above *truly* excess? The Board approved a service level and funding for the FY 06/07 budget. These excesses are clearly outside the scope of what was approved at that time. However, we also understand that such excesses are only *truly* excesses to the extent they are not needed to support future service levels. Such a determination can only be made collectively by the Fire Rescue department, County Administration, and the Board.

Recommended Actions

Based on the above trends and findings, we recommend County management critically review each line item of the upcoming FY 08/09 Fire Rescue budget to identify opportunities for cost reductions and efficiencies. Fire Rescue has consistently under-spent its budget. In reviewing the FY 08/09 budget, County management should consider the following:

- The Fire Rescue budgeting process is complex. As the Fire Rescue department is currently understaffed, both the Budget Office and County Finance should be involved extensively in preparing the FY 08/09 budget, including the estimation of balance forward.
- Increased consideration should be given to historic actual spending, rather than historic budgeted spending.
- County management should focus on identifying the minimum amount of operating and capital expenditures required to operate the Fire Rescue department on an annual basis. As a base, revenues should be matched to this minimum requirement to avoid future excesses.
- County management should focus on high dollar budgeted items such as salaries and benefits, discretionary operating expenditures, internally allocated costs (Fund 1360), and capital outlay.

Ultimately, the Board, with the assistance of County management, will need to make the determination as to future Fire Rescue funding levels, in light of the current excesses (balance forward) generated in recent years. We note available options include:

- Balance forward could be used to reduce future costs to the taxpayer (or be given back to the General Fund, in the case of EMS). Such an option assumes revenue streams and expenditures will remain materially consistent with those from FY 06/07. Most notably, this option would require the Board to closely review the projected capital needs of the Fire Rescue department (\$11.7 million budgeted for FY 07/08). We note the balance forward has been generated over time. Accordingly, reducing costs to taxpayers now may result in a one time reduction, requiring increases in subsequent years.
- Balance forward may be needed to fund future operating and capital costs projected by Fire Rescue management. Such an option assumes operating and capital needs of the department will increase significantly over those actually incurred during FY 06/07 and previous years.
- Some portion of the balance forward could be set aside as contingency reserves in the event of unanticipated cost increases or unanticipated interruptions in revenue streams.

County management's response has been included in this report.

Observations and Recommendations

Observations and Recommendations

Based on our analysis and results documented throughout this report, we have summarized below our recommendations for improvements to the budgeting process. These recommendations are specific to the Fire Rescue department. However, the Board should consider whether such concepts are applicable to other County departments as well. The following is a summary:

Observations and Recommendations	
1.	We recommend the Budget Office and County Finance play a more active role reviewing and critically analyzing the budget initially submitted by Fire Rescue, including estimates of revenues, expenditures and balances forward. We note several of the deficiencies described in this report may have been identified by the Budget Office or County Finance if each was more involved in the budgeting process.
2.	We noted the working relationship between Fire Rescue, County Finance and the Budget Office is generally deficient. A positive and collaborative working relationship among the three is critical to generating a well-founded budget, recording the actual results in accordance with generally accepted accounting principles, and utilizing taxpayers' money in the most efficient way possible. We recommend these parties be required to work together in preparing the annual budget, in monitoring budget vs. actual performance, and in amending the budget as necessary. The specific roles and responsibilities of each of the three parties, including required staffing levels, should be discussed and documented.
3.	<p>During the course of the year, actual results have varied significantly from those budgeted, such that excess funds have been generated. Budget amendments have been made to reclassify or increase revenues and expenditures. However, amendments are not typically made to reflect cost savings, resulting in the significant budget vs. actual variances noted throughout this report. We recommend management amend the budget, during the year, for these known variances. These budget amendments will assist in the following ways:</p> <ul style="list-style-type: none"> • When savings are identified, County management and the Board should be involved in determining how the savings will be allocated. For example, if savings from operating expenditures are generating excess funds in the current year, the Board can determine if such excesses should be set aside for future capital projects, go into general reserves, or be used to reduce future costs to the taxpayer. Currently these decisions are made judgmentally by Fire Rescue management and only presented aggregately in the subsequent year's budget. • The starting point in preparing or reviewing a proposed budget is the previous year's budget. If the previous year's budget has not been amended and is not reflective of actual results, it cannot serve as a meaningful benchmark. • Budget amendments can be useful in drawing attention to deficient budgets. The Budget Office should be responsible to monitor and post the amendments, which assumes they are provided the authority to do so by County management.
4.	We recommend County management provide guidance to Fire Rescue with respect to the sufficiency of its reserves. It is certainly fiscally responsible to set aside some amount of funds to compensate for either unexpected operating costs or unanticipated interruptions in revenues. The guidance should include an indication as to whether the General Fund or Fire Rescue will maintain such reserves. The guidance should also indicate a benchmarked amount that can be used to hold management accountable for significant variances from said benchmark. Three to six months of operating expenditures is a recommended minimum reserve amount in the case of emergencies.

Observations and Recommendations - continued

Observations and Recommendations	
5.	<p>Actual interest income has been significantly over budget in recent years, contributing more than \$1 million of excess cash and fund balance during FY 06/07. We note Fire Rescue management's methodology used to project interest income is generally inadequate. We note budgeted interest income should be based on a combination of projected cash balances and projected interest rates. County Finance provides annually a projected interest rate, as County Finance makes all investment decisions and is responsible to manage all pooled cash accounts. We recommend the Budget Office provide (to all County departments with significant cash balances) guidance and a template to project average cash balances for the upcoming year. We also recommend the Budget Office review projected interest income prior to it being included in the annual budget.</p>
6.	<p>We noted mid-year Fire Rescue budget vs. actual comparisons have not been formally provided to either County management or to the Board for review since approximately 2005. The review of such comparisons is critical to an efficient budget process. We recommend County management and the Board be provided with a mid-year budget vs. actual comparison report to monitor the success of Fire Rescue's operations and to hold management accountable for significant variances from the Board-approved budget. The Board should also consider requesting and reviewing a final budget vs. actual comparison for the entire year. Such comparisons are only useful to the extent that updated actual data in SAP is available in a timely manner, which would include any key/material accrual entries being recorded as of the date of the comparisons.</p>



FLORIDA'S SPACE COAST

Office of the County Manager
 Brevard County Government Center
 2725 Judge Fran Jamieson Way, Building C, Viera, FL 32940

(321) 633-2004
 (321) 633-2115 fax



TO: THE BREVARD COUNTY INTERNAL AUDIT COMMITTEE

FROM: STOCKTON WHITTEN, ASSISTANT COUNTY MANAGER
 MANAGEMENT SERVICES GROUP *SW*

SUBJ: FINANCIAL CONDITIONS REPORT – FIRE RESCUE DEPARTMENT

DATE: APRIL 22, 2008

The Internal Auditors have completed a financial conditions review of the Fire Rescue Department as directed by the Board of County Commissioners. This memorandum is intended to serve as Management's formal response as the review is formatted in a different manner than previous audit reports. All management responses are addressed to the six "Observations and Recommendations".

OBSERVATION AND RECOMMENDATION #1

Although the Budget Office has always required departments and offices to submit justification with regards to the department's revenue and fund balance projections, only major revenue and general government fund balance projections have been forwarded to and reviewed by the Finance Department. In an effort to address this recommendation, the Budget Office will forward all fund balance and revenue estimates to the County Finance Department for review. County staff is currently in the process of critically reviewing all of Fire Rescue's expenditures to determine the appropriateness of maintaining current budget levels based on operational needs, historical actuals, and known commitments and obligations.

OBSERVATION AND RECOMMENDATION #2

County staff agrees that an effective working relationship with Finance is vital, and feels it has taken many steps to facilitate an improved working relationship with the County Finance Department. The County Manager will again invite the County Finance Director to monthly or quarterly meetings with her and her staff to discuss issues and opportunities that may be present.

In an effort to further define roles in the budget development process, staff will review and draft changes to the Budget and Financial Policy that clearly outline roles and responsibilities of the Budget Office and County Finance Department.

OBSERVATION AND RECOMMENDATION #3

In an effort to comply with this recommendation County staff will undertake the following actions.

- The Budget Office will prepare an analysis of financial conditions at the end of the second, third and fourth quarters of each fiscal year. These reports will specifically focus on year-to-date actuals versus budgeted projections for both revenues and expenditures.
- Staff is refocusing and reformatting the traditional mid-year budget process that has traditionally focused on amending and supplementing the current fiscal year budget to one that critically reviews current actuals to budget for both revenues and expenditures and one that addresses the issue of retaining excess fund balances from the previous fiscal year in departmental budgets or returning them to general government accounts.

County staff strongly believes that in order to be successful in the above referenced actions, the County Finance Department must conduct timely monthly and/or quarterly reconciliations of the County's financial records.

OBSERVATION AND RECOMMENDATION #4

County staff will recommend to the Board of County Commissioners that the Budget and Financial Policy also be amended to address a recommended level of reserves for departments and/or programs and services funded exclusively from special revenues. It is most probable that the staff recommendation will be to establish reserves that are equal to 3 months operating expenses for those programs and services that receive the majority of their funding from special and/or enterprise revenues.

OBSERVATION AND RECOMMENDATION #5

The Budget Office does currently provide a template with instructions (attached) for projecting cash balance for the upcoming fiscal year. County Budget staff will work with the Internal Auditors, County Finance staff, and representatives from Departments to review these instructions and template to ensure that they are addressing cash balance issues referenced within this financial conditions review. All changes and recommendations will be incorporated into FY08-09 budget development.

OBSERVATION AND RECOMMENDATION #6

The management comments and responses outlined under "OBSERVATION AND RECOMMENDATION #3" also address these observations and recommendations. Again, County staff believes that a regular reconciliation by County Finance must occur in order for data contained in these reports to be reliable and meaningful.

cc: Peggy Busacca, County Manager
Steve Burdett, Finance Department
Dennis Rogero, Budget Office Director

REVENUE PROJECTION INSTRUCTIONS

I. PURPOSE:

The revenue projections are used to identify the funding sources anticipated to cover the requested expenditure projections.

II. SUBMISSION INSTRUCTIONS:

1. Revenue projections are done as part of the budget preparation. The Department, based on anticipated revenue for FY 2008-2009, should update these projections.
2. Before submitting your requested budget, ensure that each fund's **revenue equals its expenditure total**. *Note: The Budget Office will return your agency's entire budget if the revenue doesn't equal the expenditures.*

III. MISCELLANEOUS PROJECTION INSTRUCTIONS:

1. Identify particular revenue sources that can be directly related to particular expense estimates. *Note: This information is essential should budget reductions be necessary.*
2. Be able to provide explicit explanations for all revenue sources.
3. **GENERAL FUND TRANSFERS:** Departments/Agencies FY 2008-2009 General Fund Transfer request should not exceed your FY 2007-2008 transfer amount. Any additional General Fund transfer needed by your department/office should be included as a Program Change.
4. **GRANTS:** Grant information should include amounts to be received from federal, state or local sources and matching requirements should specify either cash or services match. **New and existing grants must be evidenced by an approved grant application, contract, proof of state appropriation or documentation of on-going nature of the grant.** Grants cannot be included without sufficient documentation proving that receipt is likely. The Grant Management SAP module will not be active for budget preparation for FY 2008-2009. Each grant will be budgeted in its own fund center. See SAP materials.
5. **BALANCE FORWARD:** **Only** agencies with a separate fund and revenue source are to estimate balance forward for their funds. *Note: Agencies primarily dependent on General Fund Revenue are not to budget for balance forward.* Balance forward represents the unexpended funds carried over from the current fiscal year (FY 2007-2008) and available to be appropriated in the new fiscal year (FY 2008-2009). To determine balance forward refer to the Balance Forward instructions and form.
6. **USER FEES:** Agencies which charge user fees should review the cost of services provided and determine if the current user fees are sufficient to support those services. If an agency determines that the current fees are not adequate, prepare a Program Change Justification Form, BDG-4, to provide solution(s) that will better align user fees with services provided. This Form should be turned in during the budget preparation process.
7. **INTEREST REVENUE ESTIMATIONS:** All programs should estimate interest revenue for the temporary investment of cash on hand. Agencies which are not self-supporting should consider estimating interest earnings if the Agency anticipates receiving and holding a significant amount of cash for at least two to three months.

REVENUE PROJECTION INSTRUCTIONS

Note: If an Agency individually purchases a security the interest earning on that security should be individually determined. Consult your fund accountant if assistance is needed. The value of this security and the estimated earnings shall be excluded from the calculation methodology given below. The separately calculated interest revenue should be added to the general interest revenue estimate if the separately calculated interest is to be received in cash and expenditure is allowable.

There are two methods of estimating interest revenue; (a) the cash balance method and (b) the revenue ratio method. Worksheets are provided for both methods. The cash balance method requires the department/office to estimate quarterly cash receipts and expenditures so that a quarterly cash balance can be estimated. The recommended interest rate assumption is applied to this cash balance. The calculated interest for the four quarters are added together to determine the estimated interest revenue for the fiscal year. The revenue ratio method incorporates a historical review of the re-occurring revenues and interest collected over the past three or five fiscal years. Interest revenue as a percentage of operating revenue plus balance forward is determined for the past three fiscal years. The average of these three years adjusted by an interest trend factor is used as the interest revenue estimate for the coming fiscal year.

The projected interest rate for FY 2008-2009 is 4.25%.

Interest Revenue Worksheet

REVENUE PROJECTION INSTRUCTIONS

8. FY 2008-2009 CERTIFIED PROPERTY VALUE PROJECTIONS:

In order to assist County Agencies that receive ad valorem revenues based on the gross taxable value of the properties located in their district(s), the following property values have been projected for revenue estimation purposes:

TBD

Note: The certified property values will be received from the Property Appraiser on July 1, 2008.

9. **Don't Forget!** You need to compute the **5% REDUCTION** of anticipated revenue, as required by law. To compute, total all revenue except balance forward, interfund/intrafund transfers, debt proceeds and multiply by 5%. Record the result in Revenue Code 3021000 as a negative number.

Note: Only Enterprise and Internal Service funds are exempt.

REVENUE PROJECTION INSTRUCTIONS

REVENUES

Balance Forward - Operating	3013000
Balance Forward Restricted	3014000
Balance Forward Capital	3015000
Less Five Percent of Anticipated Receipt	3021000
Taxes	3110000 - 3199999
Licensing & Permits	3200000 - 3299999
Intergovernmental	
Federal Funding	3310000 - 3339999
State Grants	3340000 - 3349999
State Shared Revenue	3350000 - 3369999
Local Funding	3370000 - 3389999
Charges for Service	3400000 - 3499999
Fines & Forfeits	3500000 - 3599999
Miscellaneous	3600000 - 3699999
Interfund Transfers	3810000 - 3819999
Intrafund Transfers	3860000 - 3879999
Other Financing Sources	3820000 - 3859999
	3890000 - 3899999

BALANCE FORWARD PROJECTION, FORM BDG-7

I. PURPOSE:

Balance forward represents the unexpended funds carried forward from the current fiscal year and available to be appropriated in the coming fiscal year. This form is an internal form that needs to be submitted to the Budget Office for review of the methodology used to calculate the projections. If you would like assistance in projecting balance forward or determining your beginning cash balance, please contact your Budget Analyst.

II. SUBMISSION INSTRUCTIONS:

- A. Only agencies with a separate fund and revenue source are to estimate balance forward for their funds.
Note: Agencies whose budgets are part of Fund 0001 or Fund 0002 are not to budget for balance forward.
- B. Prepare a separate page for each fund.

III. FORM INSTRUCTIONS:

- A. DEPARTMENT: Enter the name of the department/office.
- B. BUSINESS AREA OR FUND: Enter the 4-digit fund number.
- C. BEGINNING CASH BALANCE: Determine the current cash balance, preferably the beginning cash balance as of March 1, 2005, using the SAP Balance Sheet Report.
- D. RECEIPTS/REVENUES: Project your revenue collections and interfund and intrafund transfers for the remainder of the current Fiscal Year. *Note: Only intrafund transfers IN should be budgeted as revenue in the fund.* List each source and the amount. Summarize all the amounts on the Total Receipts line.
- E. INTRAFUND TRANSFERS - OUT: Subtract out intrafund transfers for the remainder of the Fiscal Year. *Note: Only intrafund transfer OUT should be treated as a negative amount on the revenue side.*
- F. EXPENDITURES: Subtract out what is anticipated to be spent through the end of Fiscal Year 2005-2006. List each source and the amount. Summarize all the amounts on the Total Expenditures line.
- G. PROJECTED BALANCE FORWARD: Add the figures of each area in the far right column. This will be your balance forward projection. *Note: Do not overestimate balance forward for the coming year. An overestimated balance forward projection will result in an immediate deficit situation in the NEW fiscal year when appropriations are matched to the projected revenues. However, do not deliberately underestimate balance forward by a significant amount. This could lead to increases in tax rates, which is contrary to the stated desires of the Commissioners.*

FORM

EXAMPLE

INTEREST REVENUE PROJECTION WORKSHEET

A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	
1	<u>Cash Balance Method Calculation</u>																			
2																				
3																				
4																				
5																				
6																				
7																				
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Balance Forward - October 1, (Year) _____

All Revenues Anticipated from 10/01/Yr to 12/31/yr (Note 1) _____

All Expenditures Anticipated from 10/01/Yr to 12/31/yr _____

Operating Balance: End of First Fiscal Quarter _____

Anticipated Interest Revenue [(Col. P, Line 7) x .0275 x .25] _____

All Revenues Anticipated from 01/01/Yr to 3/31/yr (Note 1) _____

All Expenditures Anticipated from 01/01/Yr to 3/31/yr _____

Operating Balance: End of Second Fiscal Quarter _____

Anticipated Interest Revenue [(Col. P, Line 11) x .0275 x .25] _____

All Revenues Anticipated from 4/01/Yr to 6/30/yr (Note 1) _____

All Expenditures Anticipated from 4/01/Yr to 6/30/yr _____

Operating Balance: End of Third Fiscal Quarter _____

Anticipated Interest Revenue [(Col. P, Line 15) x .0275 x .25] _____

All Revenues Anticipated from 01/01/Yr to 3/31/yr (Note 1) _____

All Expenditures Anticipated from 01/01/Yr to 3/31/yr _____

Operating Balance: End of Fourth Fiscal Quarter _____

Anticipated Interest Revenue [(Col. P, Line 19) x .0275 x .25] _____

Total Estimated Interest Revenue for the Fiscal Year _____

Note 1. = Excludes Interest Income

Examples

INTEREST REVENUE PROJECTION WORKSHEET

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T
1	<u>Cash Balance Method Calculation</u>																			
2																				
3																\$800,000				
4																				
5																(+)	\$1,000,000			
6																(-)	\$900,000			
7																(=)	\$900,000			
8																		\$6,188		
9																(+)	\$750,000			
10																(-)	\$900,000			
11																(=)	\$750,000			
12																		\$5,156		
13																(+)	\$900,000			
14																(-)	\$950,000			
15																(=)	\$700,000			
16																		\$4,813		
17																(+)	\$900,000			
18																(-)	\$950,000			
19																(=)	\$650,000			
20																		\$4,469		
21																				
22																		\$20,625		
23																				
24																				
25																				
26																				
27																				
28																				
29																				
30																				
31																				

Note 1. = Excludes Interest Income

INTEREST REVENUE PROJECTION WORKSHEET

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T
2																				
3																				
4																				
5																				
6																				
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Revenue Ratio Method Calculation

Total Actual Interest Revenue - Last Complete Preceding Fiscal Year \$ _____
 Total Actual Revenues (Note #1) - Last Complete Preceding Fiscal Year \$ _____
 Actual Interest Revenue / Total Actual Revenue (Col. P Line 4 / Col P Line 5) _____ %

Total Actual Interest Revenue - Second Complete Preceding Fiscal Year \$ _____
 Total Actual Revenues (Note #1) - Second Complete Preceding Fiscal Year \$ _____
 Actual Interest Revenue / Total Actual Revenue (Col. P Line 8 / Col P Line 9) _____ %

Total Actual Interest Revenue - Third Complete Preceding Fiscal Year \$ _____
 Total Actual Revenues (Note #1) - Third Complete Preceding Fiscal Year \$ _____
 Actual Interest Revenue / Total Actual Revenue (Col. P Line 12 / Col P Line 13) _____ %

Total Actual Interest Revenue - Fourth Complete Preceding Fiscal Year (Optional) \$ _____
 Total Actual Revenues (Note #1) - Fourth Complete Preceding Fiscal Year \$ _____
 Actual Interest Revenue / Total Actual Revenue (Col. P Line 16 / Col P Line 17) _____ %

Total Actual Interest Revenue - Fifth Complete Preceding Fiscal Year (Optional) \$ _____
 Total Actual Revenues (Note #1) - Fifth Complete Preceding Fiscal Year \$ _____
 Actual Interest Revenue / Total Actual Revenue (Col. P Line 20 / Col P Line 21) _____ %

Average Annual Interest as Percentage of Total Actual Revenue
 Three Year Average ((Col R Lines 6,10 & 14) / 3) x Interest Trend Factor) _____ %
 Five Year Average((Col R Lines 6,10,14, 18 & 22) / 3) x Interest Trend Factor) (Optional) _____ %

Note 1. = Excludes Interest Income

Recommended Interest Trend Factor for FY 2004-2005 is .85 or 85%

Examples

INTEREST REVENUE PROJECTION WORKSHEET

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T
2	<u>Revenue Ratio Method Calculation</u>																			
3	Total Actual Interest Revenue - Last Complete Preceding Fiscal Year																			
4	Total Actual Revenues (Note #1) - Last Complete Preceding Fiscal Year																			
5	Actual Interest Revenue / Total Actual Revenue (Col. P Line 4 / Col P Line 5)																			
6	<u>0.51%</u>																			
7	Total Actual Interest Revenue - Second Complete Preceding Fiscal Year																			
8	Total Actual Revenues (Note #1) - Second Complete Preceding Fiscal Year																			
9	Actual Interest Revenue / Total Actual Revenue (Col. P Line 8 / Col P Line 9)																			
10	<u>0.71%</u>																			
11	Total Actual Interest Revenue - Third Complete Preceding Fiscal Year																			
12	Total Actual Revenues (Note #1) - Third Complete Preceding Fiscal Year																			
13	Actual Interest Revenue / Total Actual Revenue (Col. P Line 12 / Col P Line 13)																			
14	<u>0.82%</u>																			
15	Total Actual Interest Revenue - Fourth Complete Preceding Fiscal Year (Optional)																			
16	Total Actual Revenues (Note #1) - Fourth Complete Preceding Fiscal Year																			
17	Actual Interest Revenue / Total Actual Revenue (Col. P Line 16 / Col P Line 17)																			
18	<u>0.91%</u>																			
19	Total Actual Interest Revenue - Fifth Complete Preceding Fiscal Year (Optional)																			
20	Total Actual Revenues (Note #1) - Fifth Complete Preceding Fiscal Year																			
21	Actual Interest Revenue / Total Actual Revenue (Col. P Line 20 / Col P Line 21)																			
22	<u>0.93%</u>																			
23	Average Annual Interest as Percentage of Total Actual Revenue																			
24	Three Year Average ((Col R Lines 6,10 & 14) / 3) x Interest Trend Factor																			
25	Five Year Average((Col R Lines 6,10,14, 18 & 22) / 3) x Interest Trend Factor (Optional)																			
26	<u>0.58%</u>																			
27	<u>0.66%</u>																			
28	Note 1. = Excludes Interest Income																			
29	Recommended Interest Trend Factor for FY 2004-2005 is .85 or 85%																			
30																				
31																				

Background

Background

Brevard County Fire Rescue (BCFR) is the largest fire rescue service in Brevard County and one of the largest throughout Florida. BCFR employs approximately 435 firefighters and support staff, in addition to more than 250 volunteers. BCFR responds to calls for assistance from 33 fire stations throughout the County.

As our financial condition review is focused on the finances of BCFR, it is important to understand how BCFR segregates its operations from an accounting perspective. The following is a summary of the six governmental funds managed by BCFR:

Fund 1350 - Fire Rescue Operations

Fund 1350 accounts for BCFR's general fire rescue operations. Primary costs include the salaries and benefits of approximately 210 firefighters and fire prevention inspectors, as well as the costs to maintain BCFR fire stations and facilities. In addition, Fund 1350 is allocated a portion of the costs required to manage the BCFR dispatch center and a portion of the costs incurred in the Fire Rescue Support (1360), Ocean Rescue (1362) and Hazmat (1363) funds - see below.

Fire Rescue Operations is funded predominantly by a fire assessment, which totaled \$21.2 million for FY 06/07. The fire assessment is restricted and can only be spent to support fire rescue operations. In addition, Fund 1350 records fire prevention fees charged on construction permits pulled in unincorporated areas of Brevard County, which totaled \$0.7 million for FY 06/07.

Fund 1351 - Emergency Medical Services (EMS)

Fund 1351 accounts for BCFR's EMS operations. BCFR is responsible for 100% of the EMS support and responses throughout Brevard County. Primary costs include the salaries and benefits of approximately 200 Fire Medics, as well as costs to maintain each of the EMS stations. In addition, Fund 1351 is allocated a portion of the costs required to manage the BCFR dispatch center and a portion of the costs incurred in the Fire Rescue Support (1360) - see below.

A significant funding source for EMS is user fees, or charges for ambulance services, which are approximately \$400 per patient. EMS utilizes a third party billing agency, collects and records net revenues of approximately \$11 million per year. The following is a summary of patient types:

- ❑ For patients covered by Medicare or Medicaid, the negotiated fee is approximately half of the \$400 charge. The difference is considered a contractual write-down and does not contribute to net EMS revenues. Medicare and Medicaid patients represent over 90% of EMS billings.
- ❑ The remaining EMS billings relate to patients with either third party insurance or no insurance. EMS has historically collected only a small portion of billings that are in excess of third party insurance coverage. The difference is considered bad debt, or uncollected billings. Such uncollected billings do not represent cash balances or fund balance that can be spent by the Fire Rescue department.

Through FY 05/06, Fund 1351 was also funded by an EMS Municipal Service Taxing Unit (MSTU) of approximately \$12 million annually. Beginning with FY 06/07, the Board approved to discontinue the EMS MSTU. The Board resolved to begin funding EMS with a General Fund transfer (in addition to charges for services). According to the original FY 06/07 budget, the General Fund transfer was approved to be \$19.0 million. On October 23, 2007, the Board amended the FY 06/07 budget to decrease the General Fund transfer to \$13.6 million. We note this change in the amount of the General Fund transfer precipitated many of the discussions that led to our financial condition review.

Background - continued

Fund 1354 - Referendum

In 1998, Brevard County taxpayers voted for an increase in the Fire Rescue service level to be consistent with Advanced Life Support (ALS), the advanced treatment for cardiac arrest and related medical problems. Effectively, voters approved a Fire Control MSTU to fund the increase in service (approximately \$11.5 million for FY 06/07).

Fund 1354 accounts for the revenues and expenses related to this voter-approved increase in service level. Specifically, the funding is designed to cover the salaries and benefits of certain fire medics to accompany all fire rescue vehicles. In addition, the funding is to be used to modernize the fire rescue fleet and certain other capital projects.

Fund 1360 - Support

Fund 1360 accounts for the operation support provided to BCFR. The primary expenditures accounted for in this fund are the salaries and benefits of District Chiefs, accounting and administrative staff, certain supplies, training costs, and fleet maintenance (and insurance) for approximately 200 vehicles.

Fund 1360 is primarily funded by other Fire Rescue funds, based on an allocation of costs. Funds 1350 (Fire Rescue Operations) and 1351 (EMS) each cover nearly half of the total costs, while Fund 1354 (Referendum) covers an additional small portion. These funds are only charged based on the actual expenditures incurred by Fund 1360.

Fund 1361 - Dispatch

Fund 1361 accounts for the operation and management of Fire Rescue's dispatch center. Costs include primarily the salaries and benefits of approximately 27 employees required to operate the dispatch center.

Costs to operate the dispatch center are funded primarily by an allocation to funds 1350 (Fire Operations) and 1351(EMS), based on the proportionate amount of calls for each fund. In addition, the dispatch center charges certain other municipalities that do not have their own dispatch center and utilize BCFR's.

Fund 1362 - Ocean Rescue

Fund 1362 accounts for lifeguard services for nearly all Brevard County beaches south of Jetty Park. Costs include primarily the salaries and benefits 2 full-time employees and approximately 100 seasonal (part-time) employees.

Fund 1362 is funded approximately 50% by Fund 1350 (Fire Rescue) and approximately 25% from contracts with certain beach-side municipalities that do not provide their own lifeguard services. The remainder of funding for BCFR's ocean rescue services comes from the General Fund.

Fund 1363 - Hazmat

The BCFR operates the only hazmat station in Brevard County (station #47) that can accommodate the disposal of hazardous materials. Fund 1363 accounts for the general operation of the hazmat station, including salaries for 9 employees and one District Chief, in addition to various miscellaneous costs to operate the department's hazmat vehicle.

Fund 1363 is funded primarily by the General Fund (\$1 million annually). Charges for services (collection fees for the disposal of hazardous waste) contribute approximately \$60,000 of funding annually and Fund 1350 (Fire Operations) covers the remaining funding needs.

Reviews

Section 1 - Overview

Objective

The objective of this section is as follows:

- ❑ Hold meetings with the following to obtain an understanding of processes and procedures related to this audit:
 - County Commissioners
 - Fire Rescue management
 - County Finance
 - Budget Office
 - County Administration

Approach

We held meetings with the above groups to meet the stated objective.

Results

We utilized the understanding obtained above in performing all remaining procedures.

Section 2 - Budget vs. Actual

Objective

The objective of this section is to compare budget to actual revenues and expenditures.

Approach

To achieve the above objective, our procedures included the following:

- Perform a detailed budget vs. actual analysis for FY 06/07
- Investigate significant variances, including assumptions made to create budgeted figures, as well as the impact of such variances on year end cash balances, balance forward and fund balance

Results

The following pages include a summary of our detailed FY 06/07 budget vs. actual analysis (by fund), including an analysis of the FY 07/08 budget, for each fund within the Fire Rescue department. Budgeted figures represent the final budget, which includes Board-approved amendments to the original budget for various changes to revenues and expenditures, including balance forward. Revenue and expenditure categories are grouped with the intent of highlighting noteworthy budget-to-actual relationships. All balances were obtained from SAP, and are consistent with all known documents provided to and approved by the Board.

Fund 1350 - Fire Rescue Operations (in thousands)

	<u>FY 06/07 Budget</u>	<u>FY 06/07 Actual</u>	<u>Variance</u>		<u>% Variance</u>
Revenues					
Balance forward	\$ 7,229	\$ 7,229	\$ -		-
Assessment, net of 5% reduction	21,809	21,221	(588)	A	(3)%
Fire prevention fees	631	684	53		8%
Interest	240	660	420	B	175%
Miscellaneous	32	118	86	C	269%
Total revenues	29,941	29,912	(29)		< (1)%
Expenditures					
Salaries and benefits	14,663	13,796	867	D	6%
Other contracted services	947	837	110		12%
Supplies	130	43	87		67%
Assessment fees	1,189	1,090	99	E	8%
Other operating expenses	447	238	209	F	47%
Total operating expenses	17,376	16,004	1,372		8%
Capital	394	82	312	G	79%
Transfers out, net	8,013	6,937	1,076	H	13%
Total expenditures, before reserves	25,783	23,023	2,760		11%
Budgeted reserves	4,158	4,158	-		-
Total expenditures, after reserves	29,941	27,181	2,760		9%
Excess (deficiency)	\$ -	\$ 2,731	\$ 2,731		

Section 2 - Budget vs. Actual - continued

Fund 1351 - Emergency Medical Services (in thousands)

	<u>FY 06/07 Budget</u>	<u>FY 06/07 Actual</u>	<u>Variance</u>		<u>% Variance</u>
Revenues					
Balance forward	\$ 2,319	\$ 2,319	\$ -		-
User fees, including 5% reduction	11,548	11,055	(493)	I	(4)%
General Fund transfer	13,600	13,600	-		-
Interest and other	51	283	232	B	454%
Miscellaneous	327	192	(135)	J	(41)%
Total revenues	27,845	27,449	(396)		(1)%
Expenditures					
Salaries and benefits	15,830	15,176	654	D	4%
Other contracted services	4,258	3,991	267	K	6%
Other current charges	175	42	133	L	76%
Tax collector fees	160	-	160	M	100%
Other operating expenses	492	299	193	J	39%
Total operating expenses	20,915	19,508	1,407		7%
Capital	1,476	590	886	G	60%
Transfers out, net	4,744	3,740	1,004	H	21%
Total expenditures, before reserves	27,135	23,838	3,297		12%
Budgeted reserves	710	710	-		-
Total expenditures, after reserves	27,845	24,548	3,297		12%
Excess (deficiency)	\$ -	\$ 2,901	\$ 2,901		

Fund 1354 - Referendum - for ALS Support (in thousands)

	<u>FY 06/07 Budget</u>	<u>FY 06/07 Actual</u>	<u>Variance</u>		<u>% Variance</u>
Revenues					
Balance forward	\$ 952	\$ 952	\$ -		-
Taxes, incl. 5% reduction	11,014	11,136	122	A	1%
Debt proceeds	1,600	-	(1,600)	N	(100)%
Interest and other	15	416	401	B	2673%
Total revenues	13,581	12,504	(1,077)		(8)%
Expenditures					
Salaries and benefits	4,443	4,240	203	D	5%
Other operating expenses	276	286	(10)		(3)%
Total operating expenses	4,719	4,526	193		4%
Capital	7,223	2,329	4,894	G	68%
Debt service	489	261	228	N	47%
Transfers out, net	1,109	969	140	H	13%
Total expenditures, before reserves	13,540	8,085	5,455		40%
Budgeted reserves	41	41	-		-
Total expenditures, after reserves	13,581	8,126	5,455		40%
Excess (deficiency)	\$ -	\$ 4,378	\$ 4,378		

Section 2 - Budget vs. Actual - continued

Fund 1360 - Support (in thousands)

	<u>FY 06/07 Budget</u>	<u>FY 06/07 Actual</u>	<u>Variance</u>		<u>% Variance</u>
Revenues					
Balance forward	\$ 258	\$ 258	\$ -		-
Transfers in, net	14,684	12,376	\$ (2,308)	H	(16)%
Miscellaneous	45	170	125	O	277%
Total revenues	14,987	12,804	(2,183)		(15)%
Expenditures					
Salaries and benefits	5,077	5,032	45	D	1%
Professional services	301	123	178	P	59%
Other contracted services	733	552	181	Q	25%
Rentals and leases	371	230	141	R	38%
Supplies	2,169	1,929	240	S	11%
Grant match/transfer	109	-	109	T	100%
Other operating expenses	3,331	3,145	186		6%
Total operating expenses	12,091	11,011	1,080		9%
Debt service	193	193	-		-
Capital	2,393	1,284	1,109	G	46%
Total expenditures, before reserves	14,677	12,488	2,189		15%
Budgeted reserves	310	310	-		-
Total expenditures, after reserves	14,987	12,798	2,189		15%
Excess (deficiency)	\$ -	\$ 6	\$ 6		

Fund 1361 - Dispatch (in thousands)

	<u>FY 06/07 Budget</u>	<u>FY 06/07 Actual</u>	<u>Variance</u>		<u>% Variance</u>
Revenues					
Dispatch fees, incl. 5% reduction	\$ 2,471	\$ 2,280	\$ (191)	U	(8)%
Interest and other	1	5	4		-
Total revenues	2,472	2,285	(187)		(8)%
Expenditures					
Total operating expenses	1,549	1,465	84		5%
Debt service	127	124	3		2%
Capital	260	246	14		5%
Total expenditures, before reserves	1,936	1,835	101		5%
Budgeted reserves	536	536	-		-
Total expenditures, after reserves	2,472	2,371	101		4%
Excess (deficiency)	\$ -	\$ (86)	\$ (86)		

Funds 1362 (Ocean Rescue) and 1363 (Hazmat)

We reviewed the budget vs. actual comparison for funds 1362 (Ocean Rescue) and 1363 (Hazmat), noting total budgeted revenues and expenditures were reasonably consistent with actual figures.

Section 2 - Budget vs. Actual - continued

Observations

- ❑ We note the department's budgeting for revenues and expenditures has been generally inadequate and overly conservative. Such conservative budgeting contributes directly and significantly to excess cash and fund balances.
- ❑ Based on the above summaries, we noted the following related to FY 06/07:
 - Budgeted operating expenditures exceeded actual expenditures by approximately \$4.1 million, excluding variances in capital outlay and net transfers out.
 - Actual revenues exceeded budgeted revenues by approximately \$0.4 million over the same period, excluding balance forward, debt proceeds and net transfers in. This variance includes adjustments for the 5% statutory reduction.
 - Budgeted capital outlay expenditures exceeded actual expenditures by approximately \$7.5 million (see also 'Trends in Capital Outlay' at the end of this section).
- ❑ We note numerous instances where budgeted revenue and expenditure line items were simply inaccurate and should have been identified both by department management, the Budget Office and County Finance. In addition, we noted numerous instances where revenue and expenditure line items were conservatively budgeted. In both of these cases, we note budget amendments were rarely initiated during the year to correct known deficiencies.
- ❑ See 'Observations and Recommendations' for various recommendations for improvement to the budgeting process.

Section 2 - Budget vs. Actual - continued

The following are explanations regarding FY 06/07 budget vs. actual variances noted above.

A	Variance due to management budgeting 100% of collections, net of offsetting 5% statutory reduction, but not projecting early payment discounts.
B	See 'Trends in Interest Income' at the end of this section. Department-wide, Fire Rescue underestimated FY 06/07 interest income by approximately \$1.1 million.
C	Variance due primarily to unanticipated delinquent assessment collections.
D	See 'Trends in Salaries and Benefits' at the end of this section. Department-wide, Fire Rescue overestimated the total amount needed for FY 06/07 salaries and benefits by approximately \$1.8 million.
E	Represents fees paid to property tax appraiser and tax collector offices for administration of fire assessment. Management budgeted based on full value of assessment, although only ~95% is typically collected, after discount.
F	\$166k of the variance due to expenditure budgeted here, but paid out of Fund 1354 (Referendum). While the budget should have been amended, there is no net effect to Fire Rescue as a whole.
G	See 'Trends in Capital Outlay' at the end of this section. Department-wide, Fire Rescue expended approximately 38% of its capital budget for FY 06/07.
H	Fund 1360 is funded by transfers from funds 1350 (~47%), 1351 (47%) and 1354 (6%). The majority of the variance is due to overestimation of required funding. See budget vs. actual analysis for Fund 1360.
I	Variance due to initial calculation of General Fund transfer and \$5.4 remittance back to General Fund - see Section 5 of report.
J	\$113k of the variance is due to a grant received in the prior year. As the funds were expended in the current year, Fire Rescue management did not realize the expenditure was already budgeted (as a supplies expenditure), and proposed a budget amendment to record additional revenues and expenditures, effectively duplicating both.
K	\$228k of the variance relates to overestimation of Fund 1351's portion of costs to operate dispatch center. See budget vs. actual analysis for Fund 1361.
L	\$132k budgeted for property appraiser fees (related to old EMS assessment), even though EMS assessment was replaced by General Fund transfer. Accordingly, management budgeted for the cost in error.
M	\$160k budgeted for tax collector fee (related to old EMS assessment), even though EMS assessment was replaced by General Fund transfer. Accordingly, management budgeted for the cost in error.
N	Management projected issuing \$1.6 million of debt to fund renovations to station #83. As this project has been postponed, debt proceeds were not recognized. Capital outlay was under budget by the same amount. Additional debt service expenditures were also not recognized.
O	Variance due to a combination of unbudgeted insurance proceeds (\$90k) and unbudgeted interest income (\$19k).
P	Variance is due mainly to budget including costs for approximately 400 employees to receive annual physicals. Only approximately half of those employees received physicals due to contract negotiations with physician. 100% of required employees will receive physicals in subsequent years.
Q	Management under-budgeted costs of parking lot improvements (stations #22, #63 & #64) by 91% (\$73k). The projects have not been re-budgeted in FY 07/08. Management under-budgeted costs of online background checks by 90% (\$37k). In addition, \$31k of the variance is due to budget for 800 MHz tower antennae replacement project, which did not occur.
R	Variance due primarily to management's projection that Fire Rescue would assume control of the first floor of its administrative building, which would require rental payments to Criminal Justice Services. This move was never formally approved and therefore did not occur. We recommend such expenditures not be budgeted until movements are formally approved by the Board.
S	Management over-budgeted first aid supplies and office supplies by 23% (\$156k) and 40% (\$73k), respectively.
T	Variance due to an anticipated matching requirement for a certain federal grant. Fire Rescue's match of \$109k was not required in FY 06/07.
U	Variance due to management underestimating dispatch fees charged to funds 1350 (Fire Operations) and 1351 (EMS), in addition to those charged to certain other Brevard municipalities, offset by the 5% statutory reduction. Variance due generally to total actual expenditures being less than budgeted. However, we also note the 5% statutory reduction should not apply to charges to funds 1350 and 1351, as these are only transfers from one Fire Rescue fund to another.

Section 2 - Budget vs. Actual - continued

Analysis of the FY 07/08 Budget

The following represents a summarized comparison of the FY 07/08 budget vs. FY 06/07 actual results (in thousands). We note the data has been categorized consistent with the above FY 06/07 analysis. We have also excluded transfers in and out. We note the FY 07/08 budget is presented as it is reported in SAP through the date of this report, in addition to certain known amendments relating to capital and salary reserves that will be presented to the Board.

	FY 07/08 Budget	FY 06/07 Actual	Variance	% Variance
Revenues				
Balance forward	\$ 16,064	\$ 10,758	\$ 5,306	49%
Assessment, net of 5% reduction	23,795	21,221	2,574	12%
Taxes, net of 5% reduction	11,131	11,136	(5)	-
Fire prevention fees	958	684	274	40%
User fees, including 5% reduction	11,064	11,276	(212)	(2)%
General Fund transfer	15,723	14,759	964	7%
Dispatch fees, incl. 5% reduction	2,908	2,280	628	28%
Other transfers, net	1,301	1,098	203	18%
Interest and other	408	1,380	(972)	(70)%
Miscellaneous	221	480	(259)	(54)%
Total revenues	83,573	75,072	8,501	11%
Expenditures				
Salaries and benefits	42,643	40,829	1,814	4%
Professional services	261	123	138	112%
Other contracted services	6,702	5,380	1,322	25%
Other current charges	23	42	(19)	(45)%
Rentals and leases	157	230	(73)	(32)%
Supplies	2,062	1,972	90	5%
Assessment fees	964	1,090	(126)	(12)%
Grant match/transfer	114	-	114	-
Other operating expenses	5,899	4,194	1,705	41%
Total operating expenses	58,825	53,860	4,965	9%
Capital	11,674	4,570	7,104	155%
Debt service	609	578	31	5%
Total expenditures, before reserves	71,108	59,008	12,100	21%
Budgeted reserves	12,465	5,828	6,637	114%
Total expenditures, after reserves	83,573	64,836	18,737	29%
Excess (deficiency)	\$ -	\$ 10,236	\$ 10,236	

Section 2 - Budget vs. Actual - continued

We reviewed the FY 07/08 budget compared to FY 06/07 actual results, noting the following:

- ❑ The fire assessment is expected to increase significantly due to the addition of Melbourne Village, the Town of Palm Shores and the City of West Melbourne.
- ❑ Interest and other has been budgeted at a 70% reduction from the prior year, which is conservative. See 'Trends in Interest Income' at the end of Section 2.
- ❑ Salary and benefit increases of 4% are due primarily to regular wage increases, in addition to approximately 10 vacant positions that must be budgeted, unless they are deemed unnecessary.
- ❑ Other contracted services are projected to increase 25% over the prior year due to various approved items including a projected \$524k increase in Fund 1351's portion of dispatch charges, and \$274k for 2 parking lot renovation projects not present in the prior year.
- ❑ Other operating expenses are projected to increase 41% due to management budgeting \$499k of operating contingencies, as well as various other approved expenditure increases. Operating contingencies are more appropriately reported as budgeted reserves.
- ❑ Capital outlay is projected to increase 155% over the prior year due to various budgeted capital projects not completed in the prior year. See 'Trends in Capital Outlay' at the end of Section 2.

The following pages include results of our analysis of trends noted in Fire Rescue's budgeting for interest income, salaries and benefits, and capital outlay, as well as an analysis of certain internal cost allocations.

Section 2 - Budget vs. Actual - continued

Trends in Interest Income

During the budget vs. actual comparison, we noted interest income was significantly under-budgeted across all Fire Rescue funds. The following is a summary of interest income (in thousands):

	<u>FY 07/08</u>			<u>FY 06/07</u>			<u>FY 05/06</u>			<u>FY 04/05</u>		
	<u>Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Diff</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Diff</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Diff</u>		
1350 - Fire Rescue Ops	\$ 245	\$ 240	\$ 660	\$ 420	\$ 220	\$ 747	\$ 527	\$ 377	\$ 284	\$ (93)		
1351 - EMS Ops	120	50	275	225	65	197	132	-	-	-		
1354 - Referendum	16	15	405	390	-	-	-	-	-	-		
1360 - Support	-	-	19	19	-	-	-	-	-	-		
1361 - Dispatch	2	1	3	2	-	-	-	-	-	-		
1362 - Ocean Rescue	-	-	-	-	-	-	-	-	-	-		
1363 - Hazmat	3	-	13	13	-	-	-	-	-	-		
Total revenues	\$ 386	\$ 306	\$ 1,375	\$ 1,069	\$ 285	\$ 944	\$ 659	\$ 377	\$ 284	\$ (93)		
<i>Percentage of actual revenue over (under) budget</i>				350%			232%			(25)%		

Observations

- We note actual interest income has been significantly over budget in recent years, contributing more than \$1 million of excess cash and balance forward for the fiscal year ended September 30, 2007.
- Historically, management has budgeted interest income based on previous years interest income, though in some cases the most recent fiscal year has not been considered. We note this methodology does not lead to very accurate projections, as future interest income is not based on history.
- Based on the total Fire Rescue cash balance at September 30, 2007 (approximately \$15.4 million), as well as projected cash balances for the current fiscal year, we note budgeted interest income for FY 07/08 appears to again be conservative and should be increased.

Conclusion

We recommend budgeted interest income should be based on a combination of projected cash balances and projected interest rates. For further details, see 'Observations and Recommendations.'

Section 2 - Budget vs. Actual - continued

Trends in Salaries and Benefits

During the budget vs. actual comparison, we noted salary and benefit expenditures were significantly over-budgeted across all Fire Rescue funds. The following is a summary of salaries and benefits (in thousands) for funds 1350, 1351, 1354 and 1360, which is where the vast majority of Fire Rescue salaries and benefits are reported:

	<u>FY 07/08</u>	<u>FY 06/07</u>			<u>FY 05/06</u>		
	<u>Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Diff</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Diff</u>
1350 - Fire Rescue Ops							
Salaries	\$ 9,046	\$ 9,444	\$ 8,911	\$ (533)	\$ 11,920	\$ 11,192	\$ (728)
Benefits	4,797	5,219	4,885	(334)	5,653	5,764	111
1351 - EMS Ops							
Salaries	10,160	10,167	9,847	(320)	9,459	8,588	(871)
Benefits	5,487	5,663	5,330	(333)	4,487	4,563	76
1354 - Referendum							
Salaries	2,984	2,823	2,692	(131)	-	-	-
Benefits	1,650	1,620	1,548	(72)	-	-	-
1360 - Support							
Salaries	3,859	3,560	3,524	(36)	4,490	4,307	(183)
Benefits	1,668	1,517	1,508	(9)	1,719	1,707	(12)
Total salaries and benefits	<u>\$ 39,651</u>	<u>\$ 40,013</u>	<u>\$ 38,245</u>	<u>\$ (1,768)</u>	<u>\$ 37,728</u>	<u>\$ 36,121</u>	<u>\$ (1,607)</u>
<i>Percentage under budget</i>				<i>(4.6)%</i>			<i>(4.5)%</i>
<i>Additional budgeted salary reserve</i>	<u>\$ 1,173</u>			<u>\$ 448</u>			<u>\$ 1,100</u>

Observations

- We note actual salaries and benefits have been significantly over budgeted in recent years, contributing nearly \$1.8 million of excess cash and balance forward during FY 06/07.
- Fire Rescue employees receive "step" raises on the anniversary of their hire dates. Management budgets salary costs for the entire year at the next step rate, even though they will be at a lower step rate starting the year and through their anniversary date.
- Further, management included in the budget, in addition to normal budgeted salary and benefit line items, a salary reserve that ranged from \$448k to \$1,173k over the past three years. There is no documented support for how these reserves are calculated.

Conclusion

We recommend management should project salary costs based on known timing of changes in step rates. Per discussion with the Budget Office, such a change has already been implemented. Further, we note the salary reserves are intended to cover unanticipated salary and benefit costs, which should eliminate the need for the salary and benefits budgeted line items having such large excess budgeted funds.

Section 2 - Budget vs. Actual - continued

Trends in Capital Outlay

During the budget vs. actual comparison, we noted actual capital expenditures incurred are significantly less than budgeted capital expenditures across all Fire Rescue funds. The following is a summary of capital outlay (in thousands):

	<u>FY 07/08</u>	<u>FY 06/07</u>			<u>FY 05/06</u>			<u>FY 04/05</u>		
	(*) <u>Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Diff</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Diff</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Diff</u>
1350 - Fire Rescue Ops	\$ 1,946	\$ 394	\$ 82	\$ (312)	\$ 4,783	\$ 2,350	\$ (2,433)	\$ 4,895	\$ 3,910	\$ (985)
1351 - EMS Ops	1,990	1,476	590	(886)	632	374	(258)	-	-	-
1354 - Referendum	5,416	7,223	2,329	(4,894)	-	-	-	-	-	-
1360 - Support	1,863	2,393	1,284	(1,109)	1,767	1,077	(690)	-	-	-
1361 - Dispatch	74	260	246	(14)	-	-	-	-	-	-
1362 - Ocean Rescue	50	60	37	(23)	-	-	-	-	-	-
1363 - Hazmat	335	313	2	(311)	-	-	-	-	-	-
Total capital outlay	\$ 11,674	\$ 12,119	\$ 4,570	\$ (7,549)	\$ 7,182	\$ 3,801	\$ (3,381)	\$ 4,895	\$ 3,910	\$ (985)
<i>% of budget spent</i>				<u><u>38%</u></u>			<u><u>53%</u></u>			<u><u>80%</u></u>

(*) FY 07/08 budget balances include approximately \$1.5 million of anticipated budget increases due to increase in balance forward.

Observations

- During FY 06/07, we noted the following, which contributed to the \$4.9 million capital outlay variance in Fund 1354 (Referendum):
 - \$3.2 million budgeted for stations #83 and #87 (\$1.6 million each). Construction did not begin in FY 06/07. The projects were re-budgeted in FY 07/08 at a revised estimated total cost of \$3.0 million due to Fire Rescue no longer being required to acquire land (station #83), offset by other projected cost increases. Station #83 was originally to be financed by debt (commercial paper), but will now be funded by the Fire Referendum MSTU.
 - \$1.0 million budgeted for 4 engines. None of the engines were delivered in FY 06/07. The vendor has been unable to complete the delivery. Management has ordered and budgeted 8 engines for FY 07/08 - 4 re-budgeted from FY 06/07 and 4 new engines for FY 07/08.
 - \$650k budgeted to complete station #21. Actual costs to complete were only \$441k, which generated savings of \$209k.

Section 2 - Budget vs. Actual - continued

Trends in Capital Outlay - continued

- During FY 06/07, we noted the following, which contributed to the \$0.9 million capital outlay variance in Fund 1351 (EMS):
 - \$360k budgeted for station #66 and #67 modular units. These projects were not started and have been re-budgeted in FY 07/08 with a revised estimated cost of \$728k.
 - \$162k budgeted for station #84 modular. This project was originally budgeted in FY 05/06, was carried forward to FY 06/07, and has been carried forward again to FY 07/08 with a revised estimated cost of \$630k. Cost projection was originally estimated by Fire Rescue management. Revised estimate was provided by the County's Facilities department. We recommend the Facilities department review all significant capital projects prior to being presented to the Board for approval.
 - \$360k budgeted for station #46 modular. This project was cancelled and has not been re-budgeted. According to management, the savings from FY 06/07 have been applied toward cost increases in station #84, #46 and #46 modular units above.
- The FY 06/07 variance in Fund 1360 (Support) is due primarily to the Ansin Road supply warehouse project and various roofing projects that were not completed during the year.
- In general, we noted capital projects and purchases are frequently delayed, which results in projects being funded in one year, but the benefits of those projects are not received until the subsequent year(s).
- We also noted original cost projections have tended to increase dramatically. Once a project becomes an "approved project", there is no documented tracking of the increased costs, other than by comparing details of current year and prior year capital improvement programs.
- In addition to the \$11.7 million of budgeted capital outlay, the FY 07/08 budget includes \$5.1 million of budgeted reserves designated for capital.

Conclusion

The Fire Rescue department has consistently and significantly under-spent its proposed capital budget. We note the proposed FY 07/08 capital outlay of \$11.7 million cannot be supported by the Fire Rescue department's capital spending trends in recent years, and it must be determined whether or not management will be able to spend these accumulating funds in the near future. Management should review the five year capital plan submitted to the Board to generate a more reasonable timeframe for capital expenditures. Budgeted capital reserves should be identified in the budget and should be more directly linked to cost projections for years 2 through 5 of the five year capital plan.

Section 2 - Budget vs. Actual - continued

Allocating Support Costs: an Analysis

The Fire Rescue department incurs various costs that are allocable to more than one Fire Rescue fund. Such allocable costs include executive and administrative personnel, training, insurance, facility maintenance, supplies, and fleet maintenance, and are reported in Fund 1360 (Support). For FY 06/07, aggregate costs of Fund 1360 were allocated ~47% to Fire Operations (1350), ~47% to EMS (1351) and ~6% to Referendum (1354). For FY 07/08, management projects allocable costs to exceed \$15 million.

Fire Rescue management allocates costs using 4 different cost pools - training costs, fleet costs, support costs, and supply costs. Depending on the nature of the cost pools, management uses a combination of one of the following 3 allocation methodologies:

- Personnel split - based on the total number of employees and what function they perform (i.e. - do they serve Fire Operations only, EMS only, or both?).
- Station split - based on the total number of stations and whether they serve Fire Operations, EMS, or both.
- Vehicle split - based on what function the vehicle serves (EMS, Fire Operations, etc.).

Approach and Results

We recognize the costs being allocated are significant, and can have a significant impact on the funding needs of Fire Operations (1350) and EMS (1351). Specifically, we note the following 2 risks:

1. Costs are included in the total pool of allocable costs, but those costs could be more accurately linked to a specific fund (the cost need not be allocated, but should be directly charged to another Fire Rescue fund).
2. Costs are not allocated in the most meaningful way, which could lead to one fund being allocated more or less than is reasonable.

Based on the above, we reviewed the pool of costs being allocated. We noted the following instances where we believe the costs could be more accurately linked to a specific fund and not allocated:

- Indirect costs charged by the County (for HR, administrative support, etc.) are identified as either "Fire Ops" or "EMS" by the County, but are included in the allocable pool of costs, where they are reallocated by the Fire Rescue department.
- Based on cost descriptions noted in management's budget support documents, there are individual costs that could be linked to a specific fund, such as certain operating and safety equipment, supplies, repair and maintenance charges, etc. and could therefore be charged directly instead of being allocated.
- Included in the FY 07/08 budget (Fund 1360 allocations) are operating contingencies of \$463k and budgeted reserves of \$309k. Such unidentified costs should be removed from the 1360 budget. Necessary contingency reserves are more appropriately recorded in the funds that are being allocated the expenditures of Fund 1360.

In addition, we reviewed management's allocation methodology. In general, the allocation methodology appears reasonable. However, there is significant judgment involved, and we recommend management analyze its methodology to identify efficiencies and potential improvements for accuracy. As an example, the number of lifeguard and fire prevention vehicles is used to allocate various costs to Fire Operations and to EMS, though the use of such vehicles has no correlation to EMS activities.

Section 3 - Cash Flows

Objective

The objective of this section is to evaluate cash flows of the Fire Rescue department for the year.

Approach

To achieve the above objective, our procedures included the following:

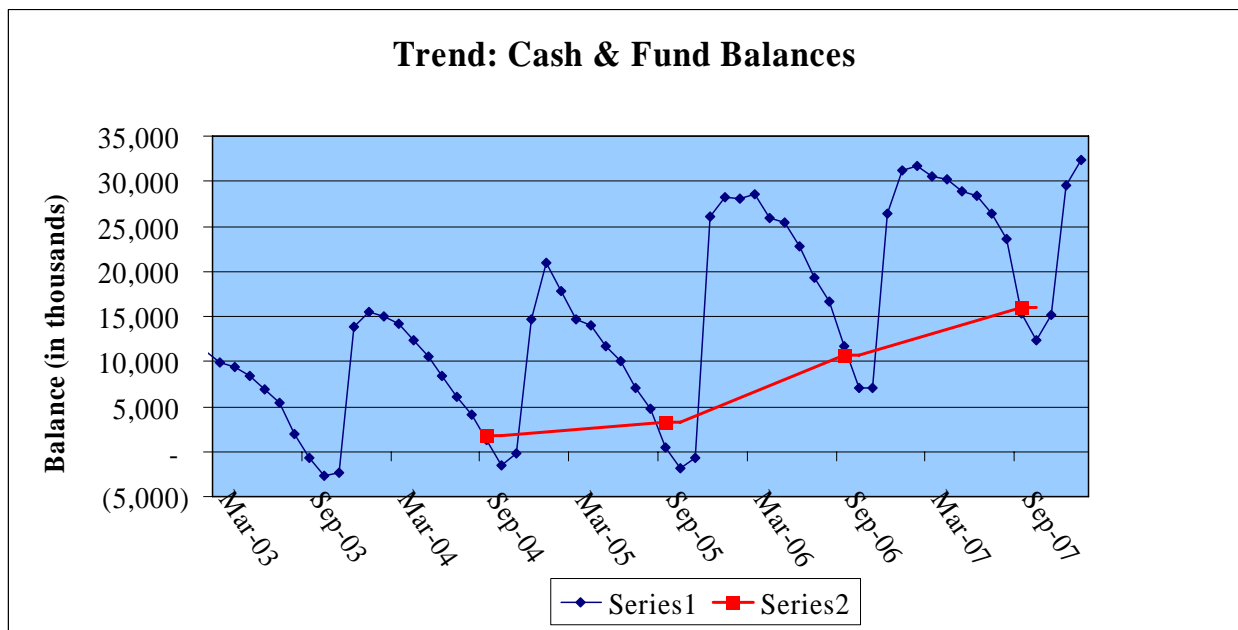
- Perform a detailed analysis of cash in and cash out for FY 06/07
- Review the correlation between cash position and fund balance over a three year period

Results

To perform a detailed analysis of cash in and cash out for FY 06/07, we judgmentally selected a sample of 40 revenue transactions and 60 expenditure transactions.

For each revenue and expenditure transaction selected, we reviewed supporting documentation to verify the transaction was appropriately recorded in the general ledger, the corresponding cash balances were correctly adjusted, and the item was budgeted by management (and approved by the Board). Of the 100 revenue and expenditure transaction tested, we noted no significant exceptions that caused us to question the accuracy of either the budgeted or actual figures in SAP, including cash.

In addition, we performed the following analysis of Fire Rescue's cash position and fund balance:



Observations

- Cash balances fluctuate during the year, as the majority of Fire Rescue cash is received in December and January each year, due to the timing of tax collections.
- Fund balance is presented above only annually (at September 30th), as this is the only time fund balance consistently includes 100% of the accrual adjustments.
- At each fiscal year end, fund balance is materially consistent with cash balances, as anticipated. Variances between the two are due to other non cash assets and liabilities reported in accordance with generally accepted accounting principles.

Section 3 - Cash Flows - continued

Conclusions

As shown above, cash balances and fund balance have increased dramatically in recent years. Fire Rescue's cash balance increased from \$1.2 million at September 30, 2004 to \$15.4 million at September 30, 2007, increasing by a factor of nearly 13 over the three-year period. Similarly, Fire Rescue's fund balance increased from \$1.8 million to \$16.1 million over the same period. We note the dramatic increase in cash and fund balance is a direct result of the budget vs. actual variances described in Section 2 of this report, as well as underestimated balance forward described in Section 4 of this report.

Section 4 - Fund Balance

Objective

The objective of this section is to perform a detailed analysis of Fire Rescue fund balance as of September 30, 2007 and for the period from September 30, 2003 to September 30, 2007.

Approach

To achieve the above objective, our procedures included the following:

- Consider whether fund balance amounts are either:
 - legally restricted,
 - Board designated for capital, etc.
 - department designated as excess funds in the event of an emergency or other unexpected need of the department, or
 - unrestricted
- Document historic fund balance compared to historic Fire Rescue operating costs

Consider the following when analyzing fund balance and balance forward:

- Fund balance = assets in excess of liabilities as of the end of each fiscal year
- Balance forward* is a budgeting term used to represent the "excess funds" carried forward as revenue to the next year's budget
- Balance forward = prior year's ending fund balance
- Balance forward used to be called by County management *cash carry forward*. This term stopped being used as it is not equal to cash (it is assets in excess of liabilities)
- Designated fund balance = that portion of fund balance approved by the Board for an intended purpose, such as capital, debt service, etc.

Observations

Through discussions with management, we note none of Fire Rescue's fund balance is legally restricted by bond covenants, etc. During the budgeting process, Fire Rescue management designates fund balance in the following ways:

- Prior to the FY 07/08 budget, balance forward (fund balance from the previous year carried forward) was reported as a lump sum amount, with no indication as to what generated the balance forward in the prior year or how it was to be used in the upcoming year.
- Beginning with the FY 07/08 budget, management began identifying balance forward as either unrestricted, restricted or designated for capital. Such determinations are judgmentally made by Fire Rescue management.
- In addition, Fire Rescue management budgets "reserves" as an expenditure item. This effectively represents management's expectation of fund balance at the end of the current budget year. Such balances can only be spent in the current budget year with the Board's approval. Management segregates these reserves as being for capital, salaries, debt service or a general contingency. The amounts are judgmentally determined by Fire Rescue management, and there is no documented support for how these numbers were calculated.

We note there is a policy for General Fund reserves equal to 10% of operating revenues. However, there is no such policy that provides guidance to departments with dedicated funding sources other than the General Fund. We recommend the County establish such guidance for each individual department based on operational needs. This type of benchmarking is critical in reviewing the financial performance of a department and provides a way to provide accountability for significant variances from the benchmark.

Section 4 - Fund Balance - continued

The following is a summary of Fire Rescue's fund balance at the beginning of the year, as a percentage of operating expenditures for the year (in thousands):

	<u>FY 07/08</u>	<u>FY 06/07</u>	<u>FY 05/06</u>	<u>FY 04/05</u>	<u>FY 03/04</u>
Actual operating expenditures (*)	<u>\$ 61,058</u>	<u>\$ 53,853</u>	<u>\$ 47,507</u>	<u>\$ 45,189</u>	<u>\$ 43,261</u>
Fund balance - beginning of year	<u>\$ 16,064</u>	<u>\$ 10,757</u>	<u>\$ 3,338</u>	<u>\$ 1,761</u>	<u>\$ 1,844</u>
Fund balance as a % of operating expenditures	<u>26%</u>	<u>20%</u>	<u>7%</u>	<u>4%</u>	<u>4%</u>

(*) Operating expenditures exclude capital outlay, debt service, transfers to other Fire Rescue funds, bad debt expense, and budgeted reserves.

Dramatically increasing trends in fund balance as a percentage of operating expenditures has been caused by the excesses generated from budgeted revenues and operating and capital expenditures, as discussed in Section 2 of this report.

Conclusions

Per review of the County's most recently published Comprehensive Annual Financial Report (CAFR) (FY 05/06), the Fire Rescue department's entire fund balance is reported as "unrestricted". In accordance with generally accepted accounting principles, we recommend County Finance provide more detail in the CAFR to show material designations (approved by the Board) for capital or debt service, rather than these balances being reported only as unrestricted.

We note it is not currently possible in SAP to accurately track the changes in fund balance designations from one year to the next. Accordingly, there is currently no transparent way to identify changes in fund balance designations from one year to the next. What has occurred in recent years is that savings from budgeted operating revenues and expenditures, in addition to delayed capital projects, has significantly contributed to increased reserves for capital purposes.

The following pages include results of our analysis of management's estimation of balance forward, which has also contributed significantly to increased fund balance in recent years.

Section 4 - Fund Balance - continued

Trends in Estimated Balance Forward

During the analysis of Fire Rescue fund balance (see Section 4 of report), we noted management has consistently and significantly underestimated the balance forward when preparing the original Fire Rescue annual budget. The following is a summary of management's estimation of balance forward as part of the FY 07/08, FY 06/07 and FY 05/06 original budgets (in thousands):

	Balance Forward FY 07/08 Budget (*)			Balance Forward FY 06/07 Budget			Balance Forward FY 05/06 Budget		
	Original Budget	Updated Budget	Diff	Original Budget	Final Budget	Diff	Original Budget	Final Budget	Diff
1350 - Fire Rescue Ops	\$ 5,491	\$ 6,888	\$ 1,397	\$ 4,385	\$ 7,229	\$ 2,844	\$ 1,936	\$ 3,216	\$ 1,280
1351 - EMS Ops	2,761	3,609	848	-	2,319	2,319	-	-	-
1354 - Referendum	3,303	4,419	1,116	600	952	352	-	-	-
1360 - Support	16	316	300	-	258	258	-	122	122
1361 - Dispatch	450	450	-	50	-	(50)	-	-	-
1362 - Ocean Rescue	53	56	3	-	-	-	-	-	-
1363 - Hazmat	320	326	6	-	-	-	-	-	-
Total	\$ 12,394	\$ 16,064	\$ 3,670	\$ 5,035	\$ 10,758	\$ 5,723	\$ 1,936	\$ 3,338	\$ 1,402
<i>Variance between original budget and final</i>			<u>30%</u>			<u>114%</u>			<u>72%</u>

(*) - With respect to the FY 07/08 budget, Fire Rescue management underestimated balance forward by \$3.7 million. Management is currently in the process of updating the FY 07/08 budget, for approval by the Board, based on the final FY 06/07 actual figures. The FY 07/08 "updated budget" presented above represents the currently adjusted budget, plus \$3.1 million of adjustments (out of \$3.7 million total) that is anticipated by Fire Rescue management to impact FY 07/08 capital expenditures.

Departments initially prepare the upcoming year's budget in late April each year. Between late April and early September, the departments, Budget Office, County management, County Finance and the Board review and refine the original budget until it is approved by the Board in early September. Included in the original budget is an estimate of balance forward, which is equal to the previous year's ending fund balance. Fire Rescue management is basically being asked to project, as of early September, its resulting fund balance for the twelve month period ending September 30th. Such estimates should be based on an understanding of the department's position as of the date of the estimate, plus an estimation of the remaining revenues and expenditures for the final month of the year. The resulting estimation of fund balance is then reported as balance forward in the subsequent year's budget.

Section 4 - Fund Balance - continued

Trends in Estimated Balance Forward - continued

Observations

- We note Fire Rescue's balance forward for the FY 06/07 budget was significantly underestimated. The effect of such underestimation was that when the Board approved the original FY 06/07 budget in September 2006, it was not known at that time that there were \$5.8 million of additional Fire Rescue funds available that could have been used to either reduce total FY 06/07 costs to taxpayers, increase budgeted reserves, provide an increase in the service level through increased capital or operating expenditures, or fund other County expenditures unrelated to the Fire Rescue department.
- The resulting impact of the additional \$5.8 million of balance forward (to the FY 06/07 budget) was as follows:
 - \$3.9 million in additional reserves
 - \$1.0 million in additional capital expenditures
 - \$0.9 million in additional operating expenditures
- According to County policy, departments are requested to provide two updates to the original balance forward estimate between late April and early September. Per review of Fire Rescue's supporting schedule and per discussions with management, it is apparent Fire Rescue did **not** update its original estimate of balance forward after late April, which contributed significantly to the \$5.8 million variance. However, we also noted the overall budget process should have detected and prevented such an oversight.
- We reviewed Fire Rescue documents supporting the original estimate of the FY 06/07 balance forward to determine the cause of the variance. While documentation of many of the underlying assumptions is either missing or unclear, we noted the following:
 - Management estimated \$0.6 million of Fire Rescue assessment revenue from May 2006 to September 2006. However, \$3.0 million of such revenues were received over the same period, contributing \$2.4 million to the total variance. All Fire Rescue assessments were collected by the end of May 2006. Accordingly, such information should have been used by management to revise the balance forward estimate prior to being approved by the Board.
 - Management estimated \$0 of EMS assessment revenue from May 2006 to September 2006. However, \$1.2 million of such revenues were received over the same period, contributing to the total variance. Such information was available to management and could have been used to revise the balance forward estimate.
 - Management overestimated the amount of transfers required of Fire Rescue (1350) and EMS (1351) by \$1.2 million to fund Support (1360), Dispatch (1361) and Ocean Rescue (1362) for the remainder of the year. The methodology and assumptions used to estimate these transfers are unclear.

Conclusion

Calculating an accurate estimate of balance forward requires collaboration between Fire Rescue management, the Budget Office and County Finance. Fire Rescue is ultimately responsible for the calculation. Per County policy, the Budget Office is responsible to review and approve the estimate. County Finance is responsible to maintain the general ledger in SAP, which is the starting point for Fire Rescue management's estimation. We noted no such collaborative effort between the three parties.

Section 5 - Revenues and Expenditures

Objectives

The objective of this section is to perform a detailed analysis of net revenues and expenditures, including the following:

- Estimates of adjusting year end accrual entries, including the estimation of bad debt.
- An analysis of the effect of the bad debt estimation process on the revenue projections utilized for changing EMS from being funded by special assessments to being funded by the General Fund in FY 06/07.

Approach

To achieve the above objective, our procedures included the following:

- Test 100% of significant year end accrual entries, defined as those greater than \$50,000. For each, obtain supporting documentation to verify the accuracy and reasonableness of the entry. Also consider the effect of the entries on year end cash balances and fund balance.
- Review the methodology used to calculate the original General Fund transfer to EMS, considering Board directives (Resolution 06-048) and the reasonableness of the assumptions made and estimates used.

During our testing of year end accrual entries, we noted no significant exceptions that caused us to question the accuracy of the financial information obtained from the general ledger. Further, we noted none of the entries would have had an unanticipated effect on either Fire Rescue's fund balance or cash position as of September 30, 2007. Accordingly, the entries should not have impaired management's ability to prepare a reasonable budget or to accurately estimate balance forward.

Observations

The following is a summary of Fund 1351's (EMS) primary revenues and the initial calculation of General Fund transfers to EMS (in thousands):

	FY 04/05	FY 05/06	Original	FY 06/07
	Actual	Actual	FY 06/07	FY 06/07
			Budget	Actual
Charges for services, gross	\$ 18,077	\$ 14,215	\$ 19,000	
Bad debt expense	(8,437)	(3,886)	(9,493)	
Charges for services, net	9,640	10,339	9,507	10,983
EMS assessment	12,229	12,272	-	-
General Fund transfer	-	-	19,000	13,600
Total primary revenues	<u>\$ 21,869</u>	<u>\$ 22,601</u>	<u>\$ 28,507</u>	<u>\$ 24,583</u>

Budgeted increase over FY 05/06 actual (total primary revenues)

26%

Actual increase over FY 05/06 (after \$5.4m back to General Fund)

9%

Prior to FY 06/07, the primary revenue streams for EMS were charges for services and an EMS assessment. In accordance with Resolution 06-048, the EMS assessment was effectively replaced with a General Fund transfer beginning in FY 06/07. The resolution did not specify how funding was to be split between the two. According to management, the \$19 million requested transfer was required to fund EMS operations based on all remaining revenues. In short, management contends the \$19 million was the last component used to balance the FY 06/07 budget.

Section 5 - Revenues and Expenditures - continued

After the original budget was approved by the Board, it became evident that the \$19.0 million was excessive and was far more than what EMS required to fund current year operations. Based on our analysis, we note the initial calculation was incorrect due primarily to the following:

- ❑ Included in the original FY 06/07 budget, Fire Rescue management, relying on guidance from County Finance, underestimated net charges for services due to the inappropriate accounting treatment of EMS's bad debt expense, or the difference between gross billings and actual receipts. Management's original estimate was \$9.5 million, though trends in previous years would suggest much higher net charges for services. After the \$5.4 million remittance to the General Fund, management's projection increased to \$12.1 million. This represented a \$2.6 million excess that could have been used to reduce the FY 06/07 General Fund transfer, had a more accurate estimate of net charges for services been provided.
- ❑ Included in the original FY 06/07 budget, Fire Rescue management included projected balance forward of \$0, which ended up being \$2.3 million. \$0.4 million of this balance resulted in an increase in FY 06/07 operating and capital expenditures. The remaining \$1.9 million of this underestimation represented excess funds that could have been used to reduce the FY 06/07 General Fund transfer, had a more accurate estimate of balance forward been provided. See 'Trends in Estimating Balance Forward' included in Section 4.

Based on the above, Fire Rescue management recorded certain other adjustments to the FY 06/07 budget that resulted in a net decrease in EMS reserves of \$0.8 million, which represented excess funds that could have been used to reduce the FY 06/07 General Fund transfer, and allowed for the \$5.4 million remittance back to the General Fund.

We understand there have been numerous discussions regarding bad debt in recent years. As a result, we note the accounting for charges for services and bad debt has changed almost annually. However, bad debt is a non-cash transaction and has no impact on the department's cash balance or resulting fund balance, regardless of how bad debt is tracked in the general ledger or presented in the County's audited financial statements. Ultimately, the only impact to cash and fund balance is charges for services billed and collected within 60 days after year end, which is consistent with the modified accrual basis of accounting. We note an internal audit report was issued by us on September 19, 2005, which included limited internal audit procedures of Fund 1351 (EMS). This report specifically addressed the accounting issues related to EMS revenues and bad debt expenses. The report also provided guidance in projecting such future revenues. Considering the guidance of this report and with assumed assistance from both County Finance and the Budget Office, a more accurate projection of net charges for services should have been included in the original FY 06/07 budget.

Conclusion

Based on the above, we concur with the Board's decision on October 23, 2007 that Fire Rescue (EMS) remit \$5.4 million back to the General Fund.

- After such remittance, total budgeted revenues for FY 06/07 are more consistent with those from FY 05/06 (9% increase).
- After such remittance, Fund 1351 (EMS) still generated excess funds from operations of \$1.3 million during FY 06/07, of which only \$0.9 million was the result of budgeted capital expenditures not incurred. Further, Fund 1351 still generated fund balance of \$3.6 million at September 30, 2007, to be carried as balance forward in the FY 07/08 budget.

We understand the nature of the General Fund transfer is currently such that any excess General Fund transfer is remitted back to the General Fund. The Board's resolution should be amended to update in writing the Board's intentions. Specifically, the resolution should be amended to eliminate the outdated language suggesting that Fire Rescue (EMS) may retain any excess General Fund transfers.

County Management's Response