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March 7, 2025

Honorable Mayor, City Commissioners,  
and City Manager of the City of Delray Beach, Florida

**Re: Assessment of the City of Delray Beach Budget Transfer and Amendment Process**

We performed an assessment of the City of Delray Beach (the “City”) Budget Transfer and Amendment process. The assessment focused on budget transfers during the period beginning on October 1, 2021 and ending on September 30, 2024. We also conducted an analysis of the adjusting journal entries posted as a result of the external audit for the year ended September 30, 2023.

We performed procedures to determine whether formally approved budgetary amendments were properly entered into the City’s general ledger system and that the budgetary amendments made within the City’s general ledger system were performed as a result of properly approved budgetary amendments. Our analysis considered all of the City’s thirty-one budgetary amendments which comprised approximately \$404 million of budgetary amendments over the three-year period ended September 30, 2024. These amendments impacted 1,900 line items within the general ledger. This analysis is ongoing and is nearing completion. Our analysis to date has identified instances where purchase orders from previous periods were not properly rolled over to the next fiscal year. Our analysis of the City’s adjusting journal entries posted for the audit for the year ended September 30, 2023 did not indicate any internal control issues within the City that we considered to be significant.

Except as noted in the Opportunities for Improvement Section, we identified no other violations or questionable transactions at this time. Opportunities for Improvement are identified in this report.

The information presented herein is not considered an audit in accordance with Generally Accepted Governmental Auditing Standards. Had we conducted an audit, we may have identified additional Opportunities for Improvement and Recommendations.

Our services were performed in conformity with the applicable professional standards, specifically the Statements on Standards for Consulting Services promulgated by the American Institute of Certified Public Accountants. These services are considered to be non-attest services and are considered advisory in nature under the AICPA's code of professional conduct section ET 1.295.105.

We appreciate the cooperation and assistance provided by the Finance Department throughout the course of our assessment.

Sincerely,

A handwritten signature in black ink that reads "Citrin Cooperman Advisors LLC". The script is cursive and fluid, with the letters "C", "C", "A", and "L" being particularly prominent and stylized.

Citrin Cooperman Advisors LLC

## **Opportunity for Improvement #1:**

**Condition:** Rollover purchase orders are not consistently available for departments to use.

### **Criteria:**

This process is described in the City's Administrative Policies and Procedures, Policy Number BF-7, Revision 7. Per section BF-7.3 E:

*At the start of each fiscal year, encumbrances outstanding at the end of the previous year will be automatically reappropriated (rolled over), provided that the goods/ services have been ordered before October 1. The encumbrances are budget amounts for goods or services for which a contract or purchase order has been issued but has not been paid prior to the fiscal year end. These encumbered budget amounts must be brought forward.*

**Cause:** Per our discussions with City staff, purchase orders that were intended to rollover from the previous fiscal year were not available to them when they needed to make the purchases that should have been encumbered. This indicates that purchase orders were either not rolled over as intended, or the rollover funds were inappropriately used for purchases other than the original purchase order. The City does not have a procedure in place to review that the encumbrances from the previous period were properly rolled over.

**Effect:** If purchase orders are not properly rolled forward, the City's departments will not have sufficient budgetary appropriations to pay their previously approved expenses. This can either lead to inefficiencies in the payment process or the inability to pay vendors for services rendered from the previously approved purchase order.

**Recommendation:** We recommend that management:

- a. Develop policies and procedures to review the purchase order rollover process for accuracy and completeness. This will allow department directors to know whether their purchase orders are appropriately rolled forward to the next fiscal year.
- b. Develop a process to review year-to-date budgets compared to actual activity on a quarterly basis (or more frequently) to enable department directors to take ownership of their budgetary performance and timely request amendments to the adopted budget if appropriate.

**Management's Response:** We agree with Citrin Cooperman's recommendation. We will be proposing a change to City's Policy from requiring all unspent Purchase Order funds to be rolled over to departments in the subsequent year, to one where rollovers will only be made by approval of the CFO and the City Manager.

## **Opportunity for Improvement #2:**

**Condition:** Expenses from prior periods were not allocated to their respective funds in a timely manner. Specifically, we noted that the actual expenditures for health insurance were not allocated timely to the funds in which the employees incurring the claims were employees of. Instead, actual health insurance expenditures were liquidated by the General Fund. In the fiscal years ended September 30, 2019, September 30, 2020, and September 30, 2021, it was previously calculated by City personnel that the General Fund incurred expenses on behalf of other funds in the amount of \$ 849,290. These expenses were charged to their respective funds during the fiscal year ending September 30, 2023. Upon requesting the documents to recalculate this balance, City personnel informed us that the actual amount that was liquidated by the General Fund was \$ 879,233. Using the City's allocation basis and payroll reports for the fiscal years ended September 30, 2019, September 30, 2020, and September 30, 2021, we agreed that the amount allocated over the three-year period should have been \$ 879,233.

**Criteria:** The Governmental Accounting Standards Board states that consistent and sensible reporting of expenses should be allocated to their respective funds in a timely manner.

**Cause:** Management did not have a closing procedure that allocated costs to their appropriate funds.

**Effect:** Without allocating health insurance expenses timely, departments will be impacted by several years of health insurance expenses in one period as opposed to the expenses being spread out for the years they were incurred. In this case, the Water and Sewer fund, the Stormwater Utility Fund, the Beautification Trust Fund, the Neighborhood Services Fund, and the Sanitation Funds were impacted by three years of health insurance expenses in the year ended September 30, 2023. These expenses were not anticipated by the affected department heads nor were they budgeted for. This can prevent departments from achieving budgetary compliance.

**Recommendation:** Management should develop policies and procedures to ensure that all expenses are accurately allocated to their proper funds in a timely manner.

**Management's Response:** We concur. Finance will develop and implement procedures to ensure annual allocations are done accurately and on a timely basis (minimum of each year).

### **Opportunity for Improvement #3:**

**Condition:** There is a lack of clarity amongst department heads about which funds have been encumbered exclusively for them to use within their departments.

**Criteria:** Appropriated money needs to be tracked in the General Ledger Software at a level of detail necessary to be uniquely identified to its applicable department.

**Cause:** Because the appropriations were not isolated to a particular department, there was confusion amongst departments regarding the amount of funds that each department had allocated to them. Adequate training was not provided to Department Directors to ensure that encumbrances are entered into the General Ledger Software. This can lead to confusion when using encumbered funds.

**Effect:** Per conversation with City personnel, we were made aware of one instance where the funds for a particular line item were budgeted but an individual in a different department was able to encumber part of those funds.

**Recommendation:** The City should implement a training program for appropriate City personnel to ensure that encumbrances are entered into the General Ledger Software properly amongst all departments. The City may need to reach out to the vendor of the General Ledger Software provider to ensure that they are entering budgetary transactions properly. This training can be led by the Finance Director or another designated individual. The training should include instructions to:

- a. Record encumbrances in the general ledger software and how to draw against encumbered funds when purchases are made.
- b. Ensure encumbrances are restricted to individual departments to ensure that funds are used for their intended purposes. The City may need to reach out to the vendor of the General Ledger Software provider in order to implement these restrictions within the software.

**Management's Response:** We concur. We will work with our vendor, Tyler Systems, to make sure that appropriations cannot be utilized by more than one department head, and then train Finance Staff and Dept Heads so that they are aware of the proper procedures and controls.

We are in the early stages of migrating our Accounting ERP System from New World to MUNIS both of which are products of Tyler Software. We will coordinate with them on the most efficient way of correcting this issue.

#### **Opportunity for Improvement #4:**

**Condition:** Our analysis of the budgetary amendment process identified issues with journal entry postings related to the accounts indicated in the resolutions. In some cases, the accounts specified in the resolutions did not exist, preventing proper posting. Additionally, certain account designations required minor corrections to align with the resolution's intended purpose. As a result, journal entries were not recorded in the accounts indicated on the approved budgetary amendment.

**Criteria:** Budgetary amendments should be accurately provided to the party approving the amendment.

**Cause:** The budgetary amendments included inaccurate or nonexistent account numbers.

**Effect:** City personnel had to determine the intent of the budgetary amendment in order to post to the correct account.

**Recommendation:** The City personnel should review the budgetary amendments in detail prior to them being approved by the appropriate party. If time does not allow for such review, City personnel should notify the appropriate party once they learn they must deviate from the accounts specified in the budgetary amendment in order to post the journal entry to ensure that the intent of the budgetary amendment is being carried out.

**Management's Response:** We concur. In the event there is not enough time to conduct a full review of the budgetary amendments at the general ledger account level prior to the Commission meetings, we would plan to notify the appropriate party if the journal entry posting needs to deviate from the approved budgetary amendment for any reason.