

**CITY OF MELBOURNE,
MELBOURNE COMMUNITY
REDEVELOPMENT AGENCY,
AND OLDE EAU GALLIE RIVERFRONT
COMMUNITY REDEVELOPMENT AGENCY**

Prior Audit Follow-up



Sherrill F. Norman, CPA
Auditor General

Mayor, Council Members, and City Manager

During the period, Kathy Meehan served as Mayor through November 23, 2020, Paul Alfrey served as Mayor beginning November 24, 2020, and the following individuals served as City of Melbourne Vice Mayor or Council Member:

Paul Alfrey, Vice Mayor through November 23, 2020

Tim Thomas, Vice Mayor November 24, 2020, through November 22, 2021

Julie Sanders, Vice Mayor from November 23, 2021

Debbie Thomas, Council Member

Yvonne Minus, Council Member

Mimi Hanley, Council Member

Shannon Lewis served as City Manager during the period October 2020 through May 2022.

Community Redevelopment Agencies' Board Members

The Melbourne Community Redevelopment Agency Board and Olde Eau Gallie Riverfront Community Redevelopment Agency Board each consist of seven members who also serve as the City of Melbourne Mayor, Vice Mayor, and City Council. During the period October 2020 through May 2022, the Mayor and Vice Mayor served as the Chair and Vice-Chair, respectively, of the Community Redevelopment Agencies' Boards.

The team leader was Walter K. Cunningham, CPA, and the audit was supervised by Derek H. Noonan, CPA.

Please address inquiries regarding this report to Derek H. Noonan, CPA, Audit Manager, by e-mail at dereknoonan@aud.state.fl.us or by telephone at (850) 412-2864.

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CITY OF MELBOURNE, MELBOURNE COMMUNITY REDEVELOPMENT AGENCY, AND OLDE EAU GALLIE RIVERFRONT COMMUNITY REDEVELOPMENT AGENCY

SUMMARY

In our operational audit report No. 2021-116 of the City of Melbourne, Melbourne Community Redevelopment Agency (Downtown CRA), and Olde Eau Gallie Riverfront Community Redevelopment Agency (Riverfront CRA), we noted 14 findings related to various functions and activities. This operational audit focused on the progress that the City and CRAs have made, or were in the process of making, in addressing the findings and recommendation in report No. 2021-116.

Our audit disclosed the following:

City of Melbourne

- Corrected 4 findings (Findings 1, 3, 4, and 5)
- Partially corrected 1 finding (Finding 2)
- Did not correct 1 finding (Finding 6)

Downtown CRA and Riverfront CRA

- Corrected 6 findings (Findings 7, 9, 10, 11, 13, and 14)
- Partially corrected 1 finding (Finding 8)
- Did not correct 1 finding (Finding 12)

BACKGROUND

The City of Melbourne (City) was formed in 1969 as a result of the unification of the former cities of Melbourne and Eau Gallie.¹ The City is located in Brevard County and has an estimated population of 87,007.² The City is governed by the City Council composed of six elected Council members and an elected Mayor. The City Council is responsible for enacting ordinances, resolutions, and policies governing the City, as well as appointing the City Manager. The City Manager serves as the Chief Administrative and Executive Officer and is responsible for the administration of all City affairs.

The City provides a full range of services including general government administration; police and fire protection, public works, water and sewer service; a stormwater utility; recreational activities, including two golf courses; and an airport.

¹ Chapter 69-879, Laws of Florida.

² *Florida Population Estimates for Counties and Municipalities, April 2022*, Florida Office of Economic and Demographic Research.

State law³ authorizes the creation of community redevelopment agencies (CRAs) by counties and municipalities for the purpose of redeveloping slums and blighted areas that are injurious to the public health, safety, morals, and welfare of residents and for which there is a shortage of housing affordable to residents of low or moderate income, including the elderly. CRA funding is accomplished through tax increment financing provided by applicable taxing authorities and expenditures from such funding must be in accordance with an approved plan. In addition, CRA revenues and expenditures must be accounted for in a separate trust fund.

The Melbourne CRA, referred to as the Downtown CRA,⁴ was created as a dependent special district of the City of Melbourne on August 10, 1982, under the authority granted by State law⁵ and City ordinances.⁶ The Downtown CRA's boundaries include approximately 322 acres, and its activities are accounted for by the City within the Downtown Redevelopment Fund.

The Olde Eau Gallie Riverfront CRA (Riverfront CRA) was created as a dependent special district of the City of Melbourne on May 22, 2001, under the authority granted by State law,⁷ County resolutions,⁸ and City ordinances.⁹ The Riverfront CRA's boundaries include approximately 297 acres and its activities are accounted for by the City within the Olde Eau Gallie Redevelopment Fund.

The governing bodies of the Downtown CRA and Riverfront CRA are composed of the Melbourne City Council, and the City manages the CRAs' operations. In addition, each CRA has a CRA Advisory Committee, which is tasked with reviewing projects and programs and making recommendations to their respective CRA Boards. The CRA Advisory Committees are composed of seven members and two alternate members appointed by the City Council and are either City residents or people who conduct business or own property within the CRA.

FINDINGS AND RECOMMENDATIONS

CITY OF MELBOURNE

Finding 1: Donation Policies

Previously Reported

The City did not always follow City policies when making donations to external organizations.

To ensure that donations to external organizations are distributed fairly and used for their intended purposes, we recommended that the City comply with the requirements of the City's policies for donations

³ Chapter 163, Part III, Florida Statutes, also known as the Community Redevelopment Act of 1969.

⁴ City personnel refer to the Melbourne CRA as the Downtown CRA to distinguish it from the City's other two CRAs (i.e., the Olde Eau Gallie Riverfront CRA and Babcock Street CRA).

⁵ Chapter 163, Part III, Florida Statutes, also known as the Community Redevelopment Act of 1969.

⁶ City of Melbourne Ordinance No. 1982-38.

⁷ Chapter 163, Part III, Florida Statutes, also known as the Community Redevelopment Act of 1969.

⁸ Brevard County Resolution No. 2000-249.

⁹ City of Melbourne Ordinance No. 2001-23.

to external organizations made from the Grants-in-Aid Program (GIA Program) or, alternately, establish effective procedures for donations made apart from that Program.

Results of Follow-Up Procedures

The City corrected this finding. Our examination of City records disclosed that the City Council revised City Council policies¹⁰ to establish procedures for donations made apart from the City’s GIA Program pursuant to “critical community needs funding” to exercise control over City donations made outside of the GIA program. The critical community needs funding provisions require that:

- Organizations present requests for donations from the City at a regularly scheduled City Council meeting.
- Organizations apply for donations using a standard City-developed funding application.
- A City review committee review the application and recommend the donation to the City Council.
- Upon City Council approval of the funding, the City and the organization sign a funding agreement that includes donation terms and conditions, reporting and record retention requirements, and provisions that allow the City to request additional documentation, as needed.

During the period October 2020 through May 2022, the City made two critical community needs funding donations totaling \$102,000 to two organizations. Our examination of City records for those donations disclosed that the City complied with its revised policy.

Finding 2: Donation Monitoring

Previously Reported

City records did not always demonstrate that the City appropriately monitored the use of City donations to external organizations.

To ensure that City-donated funds to external organizations are used for the intended public purposes, the, we recommended that the City:

- Execute agreements with external organizations requiring those organizations to submit, as part of their annual report, documentation showing how the donated funds were expended to accomplish the intended purpose of the donations.
- Periodically examine records maintained by the external organizations to verify that reports and documentation provided to the City are supported by organization records.
- Adhere to the City’s policy that requires all repair, maintenance, and improvement projects for City property leased to external organizations and funded by City donations be coordinated, procured, and managed by the City Facilities Management Divisions in accordance with applicable City policies and procedures and building codes.

Results of Follow-Up Procedures

The City partially corrected this finding. Our examination of City records disclosed that between October 2020 and May 2022, the City Council approved and made 36 donations totaling \$185,147 to 13 external organizations. Of these 36 donations, 15 donations totaling \$72,000 were made following

¹⁰ City of Melbourne Council Policy No. 10.

the GIA Program requirements, 2 donations totaling \$102,000 were made as critical community needs funding, and 19 donations were made as utility reimbursements or payments.¹¹

To determine whether the City effectively monitored the external organizations that received City donations, we selected for examination donations totaling \$48,000 made to 10 organizations pursuant to the GIA Program. The executed agreements for the donations to all 10 organizations required the organizations to submit annual progress reports to the City and authorized the City to examine organization documents and records supporting the funded activities. Our examination disclosed that the City received the annual reports from each organization and determined that organization records supported the program and grant spending information reported to the City.

We also examined the executed agreements for the two donations made as critical community needs funding. The agreements required the organizations to submit quarterly and annual reports to the City and authorized the City to examine organization documents and records supporting funded activities. However, our examination disclosed that the reports provided by the organizations did not include all the information required by the agreements nor was there evidence that the City reviewed documents provided by one of the organizations. For example, one of the agreements required the organization to provide a quarterly report that included 13 statistics including the activities performed and the number of people assisted. However, the report provided did not include 9 of the 13 required statistics. Additionally, although we requested, the City did not provide documentation evidencing review of the reports provided by one of the organizations.

Our examination of City records disclosed that no repair, maintenance, or improvement projects for City property leased to external organizations and funded by City donations occurred between October 2020 and May 2022. Accordingly, the City had no occasion to implement our recommendation that City policy be adhered to for such projects.

Recommendation: To ensure that City-donated critical community needs funding is expended for the intended public purposes and all funding agreement requirements are addressed, the City should review the reports and documentation submitted by the external organizations receiving the funds.

Finding 3: City-Owned Properties

Previously Reported

The City did not periodically obtain and compare the fair market lease values of City-owned properties leased to or used by external organizations to the value of public services provided by the organizations using the property.

To assist the City Council in deciding the best use of City-owned property, we recommended that the City periodically determine the fair market lease value of City-owned properties leased to or used by external organizations to determine whether those values are comparable to the value of public services provided by the organizations using the property.

¹¹ Since the utility reimbursements were made through a lease agreement, there were not any donated funds for the City to monitor.

Results of Follow-Up Procedures

The City corrected this finding. Our examination of City records and discussions with City personnel disclosed that, as of September 2022, the City leased City-owned properties to 11 external organizations for nominal amounts, ranging from \$1 to \$10 annually, as provided by the associated lease agreements. The City also provided use of a City-owned property to another external organization without payment through an operation and use agreement.

On December 14, 2021, the City adopted a policy¹² establishing procedures for obtaining an estimate of the fair market lease value for City-owned real properties leased to or used by external organizations. The policy requires the City to prepare an estimated fair market lease value for any City-owned property under lease as of December 15, 2021, prior to any lease extensions or renewals, and for any leases entered into after that date.

To determine whether the City complied with policy and periodically determined the fair market lease value of City-owned properties, we examined City records for the only lease agreement entered into, extended, or renewed after the policy was adopted. Our examination disclosed that the City engaged a real estate professional, who estimated the annual fair market value of the lease. The estimate was provided to the City Council during its July 2022 meeting, and the City Council concluded that the lease extension constituted the best use of City-owned property.

Finding 4: Land Acquisition Options

Previously Reported

City records did not demonstrate that the acquisition of land for pollution remediation purposes was prudent and appropriate, that the City Council was provided the necessary information to make an informed decision, or that the acquisition was the most cost-effective or advantageous option for the City.

We recommended that the City establish land acquisition policies and procedures that:

- Require the City Council to solicit guidance, before and during the land acquisitions, from the City Attorney and document consideration of and necessary action based on that guidance.
- Ensure that the City Council is provided complete and accurate information, including relevant consultant reports, prior to land acquisitions.
- Require City personnel to obtain all significant information, including seller-obtained land appraisals, and document all land acquisition negotiation efforts.

Results of Follow-Up Procedures

The City corrected this finding. In November 2021, the City made one land purchase of \$3.2 million for a new police station. To determine whether the City Council was provided the necessary information to make an informed decision to purchase the property, we examined City records and City Council meeting minutes and determined that City personnel:

- Solicited and obtained guidance from the City Attorney's Office before and during the purchase and documented consideration of and necessary actions based on that guidance. For example,

¹² City of Melbourne Administrative Policy No. 608.

the City Attorney assisted in drafting the purchasing agreement and advised City personnel whether the agreement was in the best interest of the City.

- Provided complete and accurate information, including relevant reports, to the City Council. For example, the City Council was provided Phase 1 and Phase II environmental site assessment (ESA) reports¹³ for consideration during its April 13, 2021, meeting.
- City personnel obtained significant information, including seller-obtained land appraisals and documented negotiation efforts and presented these documents and the City's own land appraisal to the City Council for consideration during its April 13, 2021, meeting.

Additionally, in April 2022 the City adopted a policy¹⁴ that substantially addressed our recommendations.

Finding 5: Land Acquisition Contracts

Previously Reported

The City had not established effective land acquisition policies and procedures. Absent such, there is an increased risk that the City may acquire land that either cannot be used for City-intended purposes or requires significant remediation costs.

We recommended that the City establish policies and procedures that require, before taking title to land, documented inquiries with previous owners and the Florida Department of Environmental Protection about potential contamination on or adjacent to proposed site acquisitions, the conduct of ESAs, and communication of identified concerns to City management and the City Council. In addition, we recommended that such policies and procedures also require that land acquisition contracts establish the seller and buyer's responsibilities for remediating any air, water, or soil contaminations and that the terms of the contracts not be amended or waived without City Council approval.

Results of Follow-Up Procedures

The City corrected this finding. As discussed in Finding 4, the City adopted a land acquisition policy in April 2022, which substantially addressed our recommendations. Initially, the policy did not require that land acquisition contracts establish the seller and buyer's responsibilities for remediating any air, water, or soil contaminations and that the terms of the contracts not be amended or waived without City Council approval. However, in response to our inquiries, during its February 14, 2023, meeting, the City Council amended the policy to require land acquisition contracts to establish the seller and buyer's responsibilities for remediating any air, water, or soil contaminations and that the terms of the contracts not be amended or waived without City Council approval.

As also discussed in Finding 4, in November 2021 the City purchased land for \$3.2 million and, although the City policy in effect at the time of purchase did not require contracts to establish the seller and buyer's responsibilities for remediating contaminations, our review of the land purchase contract disclosed that

¹³ The objective of a Phase 1 ESA is to identify conditions indicative of releases or threatened releases of hazardous substances on, at, in, or to the subject property through a review of the site history and site reconnaissance. In addition, a Phase 1 ESA includes examination of United States Environmental Protection Agency and Florida Department of Environmental Protection records and inquiry of the property owner regarding knowledge of any pollutants. A Phase II ESA involves near-surface soil and groundwater testing for indicators of actual contamination resulting from the potential sources of contamination identified in the Phase I ESA.

¹⁴ Administrative Policy No. 310.

the contract addressed those responsibilities, was approved by the City Council, and had not been amended.

Finding 6: City Salary and Benefit Costs Charged to Community Redevelopment Agencies

Previously Reported

City records did not document that a systematic and rational methodology was used to allocate City costs to the City community redevelopment agencies (CRAs).

We recommended that the City develop a reasonable and systematic cost allocation methodology to support the salary and benefit costs charged to the CRAs and periodically adjust the charges allocated as necessary to reflect the actual cost of City services provided to the CRAs.

Results of Follow-Up Procedures

The City had not corrected this finding. According to City records, the City allocated \$247,000 and \$102,700 to the Downtown CRA and Riverfront CRA, respectively, for the 2020-21 fiscal year. Table 1 shows the City personnel salary and benefit cost allocation percentages to be allocated to the Downtown CRA and Riverfront CRA for the 2020-21 fiscal year.

**Table 1
Allocation of City
Personnel Salary and Benefits by Position and CRA
For the 2020-21 Fiscal Year**

Position	Downtown CRA Allocation	Riverfront CRA Allocation
Community Development Director	10 percent	5 percent
Economic Development Manager	25 percent	15 percent
Planner	35 percent	15 percent
Administrative Assistant	25 percent	25 percent
Police Officer	100 percent	-
Maintenance Worker I	75 percent	-
Maintenance Worker I	75 percent	-
Maintenance Worker I	-	100 percent

Source: City records

In January 2023, we inquired of City personnel as to how the estimated time spent performing tasks and duties by each employee was determined. According to City personnel, the estimated costs charged directly to the CRAs are reviewed each year during budget discussions with departments. However, although requested, detailed records evidencing the basis for the allocation percentages using a reasonable and systematic methodology, such as time and effort studies or interviews of City personnel that provide CRA services, were not provided. To determine whether City personnel salary and benefit costs were charged to the Downtown CRA and Riverfront CRA in accordance with the planned allocations for the 2020-21 fiscal year, we compared the planned allocations to actual allocations in the City's accounting records. Our comparison disclosed that, except for the Maintenance Worker I position, the City allocated costs to the CRAs in accordance with the planned allocations.

Based upon the planned allocations, the City was to allocate \$71,600 to the Downtown CRA for two maintenance workers and \$45,400 to the Riverfront CRA for one maintenance worker. However, the City actually charged \$68,150 to the Downtown CRA and \$46,500 to the Riverfront CRA because, while the City appropriately allocated 75 percent of one maintenance worker's salary and benefit costs to the Downtown CRA, the City allocated 70 percent of a second maintenance worker's salary and benefits to the Downtown CRA and 103 percent of another maintenance worker's salary and benefits to the Riverfront CRA. In response to our inquiries, City personnel indicated that the differences were due to coding errors in the accounting records.

In addition, the City did not periodically adjust the charges allocated as necessary to reflect the actual costs of City services provided to the CRAs. City personnel indicated that, since personnel costs charged to the CRA's are considered a dedicated cost allocation to recover costs for providing services to the CRAs, it was not necessary to reconcile or otherwise true up actual CRA costs to the planned allocations. Notwithstanding, had City personnel reconciled planned allocations to actual 2020-21 fiscal year charges, an under-allocation of \$3,450 to the Downtown CRA and an over-allocation of \$1,100 to the Riverfront CRA would have been detected.

In response to our inquiries, City staff agreed that, while there were differences and City personnel costs were not allocated to the CRAs in accordance with the planned amounts, the differences were immaterial. We acknowledge that the over- and under-allocations were not quantitatively significant for the 2020-21 fiscal year, however, absent periodic reconciliations of allocated costs to actual costs, there is an increased chance that City personnel will not detect and correct significant allocation errors, should they occur.

Subsequently, the City adopted a 2021-22 fiscal year cost allocation plan for the Downtown CRA in March 2022.¹⁵ The cost allocation plan indicates that City services charges are allocated as indirect costs¹⁶ to the various City departments and that "the allocation basis is determined by the tasks and duties for each specific position" and includes lists of services provided by specific City departments for each allocation and detailed schedules supporting the allocations.¹⁷ In contrast, the plan states that the allocations of City services to the CRAs are "charged directly to the agencies via direct payroll allocations each pay period"¹⁸ and that "costs are reflective of the estimated time spent performing tasks and duties by each employee." We noted that the cost allocation plan Downtown CRA allocations were the same as the allocations used for the 2020-21 fiscal year and as disclosed in our report No. 2021-116. Consequently, the cost allocation plan Downtown CRA allocation percentages were not supported by detailed records or a detailed cost allocation methodology, such as the methodology used in the cost allocation plan for other City services charges, to evidence the basis for the allocation percentages.

Recommendation: We continue to recommend that the City develop a reasonable and systematic cost allocation methodology to support the salary and benefit costs charged to the

¹⁵ As discussed in Finding 9, the Riverfront CRA was not included in the cost allocation plan because it was no longer able to charge personnel costs to the City beginning with the 2021-22 fiscal year.

¹⁶ The Central Services Cost Allocation Plan defines indirect costs as "costs 1) incurred for a common or joint purpose benefiting more than one cost objective, and (2) not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved."

¹⁷ Central Services Cost Allocation Plan, Schedules A through D.

¹⁸ The Central Services Cost Allocation Plan defines direct costs as "costs that can be identified specifically with a particular final cost objective. An example of a direct cost would be a professional service cost for design of a building."

CRAs and periodically adjust the charges allocated as necessary to reflect the actual cost of City services provided to the CRAs. In addition, we recommend that the City restore the \$3,452 of overcharged allocations to the Riverfront CRA and collect the \$1,114 of undercharged allocations from the Downtown CRA.

DOWNTOWN CRA AND RIVERFRONT CRA

Finding 7: CRA Policies and Procedures

Previously Reported

The Downtown CRA and the Riverfront CRA each lacked comprehensive policies and procedures governing all aspects of CRA operations.

We recommended that the Downtown CRA Board and Riverfront CRA Board establish policies and procedures governing all aspects of CRA operations and that such policies and procedures should be developed, as appropriate, based on State law specifically applicable to CRAs and generally applicable to special districts.

Results of Follow-Up Procedures

The CRAs have corrected this finding. In September 2021, the Downtown CRA Board and the Riverfront CRA Board adopted resolutions¹⁹ establishing comprehensive policies and procedures²⁰ governing all aspects of CRA operations. Our examination of the policies and procedures disclosed that they are adequate to promote the safeguarding of CRA resources, including the effective, efficient, and appropriate use of those resources in accordance with applicable State laws, including those specifically applicable to CRAs and generally applicable to special districts.²¹

Finding 8: CRA Board Meeting Notices

Previously Reported

For the 2018 calendar year, the published meeting notices for the Downtown CRA and Riverfront CRA meetings were included in the notice for City Council meetings. However, since the City Council did not always convene as the governing body for the CRAs at the meetings, the notice did not sufficiently identify when CRA public meetings would be held.

To provide appropriate notice of CRA Board meetings to interested parties, we recommended that the Downtown CRA and Riverfront CRA comply with State law²² by publishing in a newspaper of general paid circulation meeting schedules that include the date, time, and location of each scheduled CRA Board meeting.

¹⁹ Downtown CRA Resolution No. 4048 and Riverfront CRA Resolution No. 4049.
²⁰ Melbourne Downtown Community Redevelopment Agency, *Policies and Procedures of the Community Redevelopment Agency* and Olde Eau Gallie Riverfront Community Redevelopment Agency, *Policies and Procedures of the Community Redevelopment Agency*
²¹ For example, Chapter 163 Part III and Chapter 189, Florida Statutes.
²² Section 189.015(1), Florida Statutes.

Results of Follow-Up Procedures

The CRAs partially corrected this finding. Our examination of CRA records disclosed that for the 2021 and 2022 calendar years, the City advertised meeting notices for the Downtown CRA and Riverfront CRA in a periodically published newspaper separate from the notice for the City Council meetings. Our examination of the 2021 and 2022 calendar year advertisements disclosed that the advertisements stated that:

- The City Council is the governing body of both CRAs.
- Meeting schedules mirror that of the City Council meetings.
- CRA business may not appear on every City Council agenda.
- Members of the public should review the City’s Web site prior to each the City Council meeting to determine whether the City Council meetings will also include business pertaining to the CRAs.

Accordingly, the advertisements did not specifically provide CRA Board meeting dates and times and it is not apparent how referring interested parties to the City Web site to search for potential CRA-related agenda items at an upcoming City Council meeting constituted proper notice of the 2021 and 2022 calendar year CRA Board meetings. Absent CRA Board meeting notices²³ with specific dates and times, parties interested in attending CRA meetings without attending City meetings may not be properly informed about the meetings.

Recommendation: We continue to recommend that, to provide appropriate notice of CRA Board meetings to interested parties, the Downtown CRA and Riverfront CRA should comply with State law by providing separate notice of the date, time, and location of each CRA Board meeting.

Finding 9: CRA Plans

Previously Reported

The Riverfront CRA Plan did not comply with the provisions in State law²⁴ requiring identification of up-to-date, publicly funded capital projects to be undertaken and detailed statements of the projected costs of redevelopment.

We recommended that the Riverfront CRA Plan include detailed estimates of projected redevelopment costs and be periodically amended to reflect changes both in the scope of planned redevelopment activities and in the associated cost estimates.

Results of Follow-Up Procedures

The Riverfront CRA corrected this finding. Our examination of Riverfront CRA records and discussions with City personnel disclosed that, pursuant to State law,²⁵ the City and Riverfront CRA entered into an interlocal agreement²⁶ with Brevard County on May 4, 2021, to:

²³ Effective January 1, 2023, Chapter 22-103, Laws of Florida, amended Section 189.015, Florida Statutes and allows a special district (including CRAs) to provide the notice for meetings on a governmental agency Web site in certain circumstances.

²⁴ Section 163.362, Florida Statutes.

²⁵ Section 163.410, Florida Statutes.

²⁶ Interlocal Agreement between City of Melbourne, Olde Eau Gallie Riverfront Community Redevelopment Agency and Brevard County date May 4, 2021.

- Extend the Riverfront CRA’s duration to September 2038.
- Amend the Riverfront CRA Plan, eliminating all projects, programs, and planned priorities established within the Riverfront CRA Plan as of September 30, 2021, and replacing those projects with a single authorized project: the public parking facilities project with an estimated cost of \$8.5 million.²⁷

Finding 10: CRA Budgets

Previously Reported

Contrary to State law,²⁸ the Downtown CRA and Riverfront CRA Board-adopted budgets for the 2017-18 and 2018-19 fiscal years did not account for balances brought forward from prior fiscal years. In addition, CRA budget transparency needed improvement.

We recommended that the Boards of the Downtown CRA and Riverfront CRA establish budget policies and procedures for their respective CRAs that:

- Ensure that future CRA Board-adopted budgets include all balances brought forward from prior fiscal years as required by State law, and that City personnel estimate and amend the budgeted beginning fund balances to reflect using the most current information available.
- Establish the desired legal level of budgetary control for CRA budgets and ensure that budgeted expenditures reported on the financial statements accurately reflect the established legal level of budgetary control to enable financial statement users to readily determine whether resources were expended within budgeted amounts consistent with CRA Board intent.
- Ensure that the CRA Web pages clearly inform Web page users how to access the CRA Board-adopted budgets.

Results of Follow-Up Procedures

The CRAs corrected this finding. As discussed in Finding 7, the Downtown CRA and Riverfront CRA Boards adopted policies and procedures to govern various CRA processes, including budgets. To determine whether the CRAs followed the adopted procedures for the 2021-22 fiscal year, we examined CRA budget records, and found that:

- The Downtown CRA and Riverfront CRA 2021-22 fiscal year budgets included the estimated ending fund balances for the 2020-21 fiscal year at the time of budget adoption, and budget amendments were subsequently adopted to adjust the 2021-22 budgeted beginning fund balances to 2020-21 fiscal year actual ending fund balance amounts.
- The Downtown CRA and Riverfront CRA resolutions²⁹ adopting the 2021-22 fiscal year budgets established the fund level as the legal level of budgetary control.

In addition, our review of the City’s Web site on January 6, 2023, found that the Web site included the CRAs’ 2021-22 fiscal year adopted budgets and budget amendments.

²⁷ Brevard County Resolution No. 2021-083 and City of Melbourne Ordinance No. 2021-37.

²⁸ Section 189.016(3), Florida Statutes.

²⁹ City of Melbourne Resolutions No. 4039 and 4041.

Finding 11: Ending Balances in CRA Trust Funds

Previously Reported

Downtown CRA and Riverfront CRA records did not demonstrate that moneys remaining in the CRA trust funds on the last day of the 2016-17 and 2017-18 fiscal years were disposed of in accordance with State law.

We recommended that the Downtown CRA and Riverfront CRA maintain records evidencing that moneys remaining in CRA trust funds at the end of the fiscal year were either obligated for purposes authorized by State law or returned to the applicable taxing authorities that contributed tax financing moneys.

Results of Follow-Up Procedures

The CRAs corrected this finding. Moneys remaining in the Downtown CRA Trust Fund and Riverfront CRA Trust Fund on the last day of the CRAs' 2020-21 fiscal year totaled \$217,213 and \$252,250, respectively. Our examination of City Council meeting minutes disclosed that, as authorized by State law,³⁰ the CRAs appropriated the fund balances to specific redevelopment projects included in the approved CRA community redevelopment plans.

Finding 12: CRA Trust Fund Uses

Previously Reported

For the 2016-17 and 2017-18 fiscal years, the Downtown CRA and Riverfront CRA transferred moneys to the City for capital projects. As a result, the CRA trust funds did not report any expenditures, reducing transparency of CRA operations to the public and possibly affecting the determination of whether a CRA met the statutory threshold for a separate financial audit.

To enhance the transparency of Downtown CRA and Riverfront CRA operations and help ensure that financial audit thresholds are properly determined, we recommended that the amounts expended from CRA resources be reported as expenditures in the CRA trust funds instead of transfers out.

Results of Follow-Up Procedures

The CRAs had not corrected this finding. Our examination of the 2020-21 fiscal year audited financial statements for the Downtown CRA and Riverfront CRA and discussions with City personnel disclosed that the CRAs continued to make transfers to the City capital project funds and not record capital project expenditures in the CRA financial statements.

In response to our inquiries, City personnel indicated that capital projects are managed by the City engineering department and the CRAs make transfers to the City's various capital project funds to cover the costs of CRA capital projects. In an effort to increase transparency, the City included supplementary information schedules in the CRA financial statements documenting that City capital expenditures incurred using CRA trust fund moneys transferred to the City, by project, for the 2020-21 fiscal year.

³⁰ Section 163.387(7), Florida Statutes.

Notwithstanding the City's responses, reporting CRA trust fund transfers out instead of expenditures reduces the transparency of CRA operations to the public and could affect the determination of whether the CRA expenditures meet the statutory threshold requiring a separate financial audit.³¹

Recommendation: To enhance the transparency of Downtown CRA and Riverfront CRA operations and help ensure that financial audit thresholds are properly determined, we continue to recommend that amounts expended from CRA resources be reported as expenditures in the CRA trust funds instead of transfers out.

Finding 13: Guarantees for Payment

Previously Reported

Downtown CRA procedures were not sufficient to ensure that project developers provided letters of credit, performance bonds, or other forms of security necessary to protect CRA interests.

To protect the Downtown CRA's interests and provide assurance of satisfactory completion of development projects, we recommended that the CRA establish procedures that require, prior to executing a contract with a developer, the developer to provide guarantees for payments, such as letters of credit, payment and performance bonds, or other forms of security.

Results of Follow-Up Procedures

The Downtown CRA corrected this finding. As discussed in Finding 7, as the governing body of the Downtown CRA, the City Council adopted a resolution³² establishing policies and procedures³³ for the Downtown CRA. The policies included provisions that require developers performing development projects on Downtown CRA property execute and record a payment and performance bond with a surety if the work to be done exceeds \$200,000. In instances where the work will not exceed \$200,000, the developer is not required to obtain a payment and performance bond unless the City Council determines it to be in the best interest of the Downtown CRA.

Our examination of Downtown CRA records, discussions with City and Downtown CRA personnel and examination of City Council meeting minutes disclosed that the Downtown CRA did not have any development projects in process, started, or completed during the period October 2020 through May 2022.

Finding 14: CRA Donations

Previously Reported

The Downtown CRA and Riverfront CRA needed to enhance policies and procedures to ensure that funds donated to external organizations are used for their intended public purposes.

³¹ Section 163.387(8), Florida Statutes, requires that CRAs with revenues or a total of expenditures and expenses in excess of \$100,000 provide for a separate financial audit of the CRA. CRAs with revenues or a total of expenditures and expenses of \$100,000 or less may provide for a trust fund audit as part of the financial audit of a county or municipality.

³² Downtown CRA Resolution No. 4048.

³³ Melbourne Downtown Community Redevelopment Agency, *Policies and Procedures of the Community Redevelopment Agency*, adopted September 2021.

To ensure that Downtown CRA and Riverfront CRA donations to external organizations are used for their intended purposes, we recommended that the CRAs:

- Ensure that agreements executed with external organizations require those organizations to submit documentation showing how the donated funds were expended to accomplish the specific public purpose for the donations.
- Periodically examine records maintained by the external organizations to verify the documentation provided to the CRAs is supported by external organization records.

Results of Follow-Up Procedures

The CRAs corrected this finding. As discussed in Finding 7, in September 2021, the Downtown CRA and Riverfront CRA Boards adopted resolutions³⁴ establishing CRA policies and procedures, including procedures to ensure that funds donated to external organizations are used for the intended public purposes.

During the period October 2020 through May 2022, the CRAs donated \$186,250 to two external organizations. The CRAs executed agreements with both organizations that required the organizations to submit quarterly progress reports and an annual financial report and authorized the CRAs to examine organization documents and records supporting the contracted activities. Our examination of CRA records disclosed that both organizations filed the required quarterly progress reports and annual financial reports, and City personnel obtained a sample of receipts from both organizations for both the 2021 and 2022 fiscal years and verified that the receipts evidenced that the donations were used for the intended public purposes.

OBJECTIVES, SCOPE, AND METHODOLOGY

Pursuant to Section 11.45(3)(a), Florida Statutes, we conducted an operational audit of the City of Melbourne, Downtown CRA, and Riverfront CRA and issued our report No. 2021-116 in January 2021. Pursuant to Section 11.45(2)(j), Florida Statutes, the objective of this audit was to perform, no later than 18 months after the release of that report, appropriate follow-up procedures to determine the City and CRAs' progress in addressing the findings and recommendations contained within report No. 2021-116.

We conducted this follow-up audit from July 2022 through March 2023 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the follow-up audit, weaknesses in management's internal controls; instances of noncompliance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines; and instances of inefficient or ineffective operational policies, procedures, or practices. The overall objective of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used

³⁴ Downtown CRA Resolution No. 4048 and Riverfront CRA Resolution No. 4049.

in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities, and functions included within the scope of our follow-up audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included transactions, as well as events and conditions, occurring during the period October 2020 through May 2022, and selected City and CRA actions taken prior and subsequent thereto. Our follow-up audit included the examination of pertinent City and CRA records and transactions, inquiry of City and CRA personnel, observation of procedures in practice, and additional follow-up procedures as appropriate. Unless otherwise indicated in this report, these records and transactions were not selected with the intent of projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

In conducting our audit, we:

- Reviewed applicable laws, grants, contracts, City and CRA policies and procedures, and other guidelines, and interviewed City personnel to gain an understanding of applicable processes and administrative activities to determine whether the City had established effective policies and procedures for selected City and CRA functions, such as providing contributions to non-profit organizations, CRA procurement, and CRA reporting.
- Examined minutes of City Council and CRA Board meetings held during the period July 2019 through August 2022 to determine the propriety and sufficiency of actions taken relative to the programs, activities, and functions included in the scope of the original audit.
- Examined City records to determine whether the City adopted policies and procedures detailing the process to be used for monetary contributions made outside the Grants-in-Aid (GIA) Program.
- Examined City records supporting the two non-GIA Program cash donations, totaling \$102,000, paid to external organizations during the period October 2020 through May 2022 to determine whether the City Council approved the public purposes served by such donations prior to the donations being made. In addition, we examined City records to determine whether the City entered into written agreements with the organizations that included adequate accountability measures to provide assurance that the donations were expended for the authorized purposes and whether the donations followed City policies and procedures.
- Examined City records for ten GIA Program monetary donations totaling \$72,000 and two non-GIA Program monetary donations totaling \$102,000 to external organizations during the period October 2020 through May 2022, to determine whether the City donations served a documented public purpose and City personnel sufficiently monitored the use of the donated funds to ensure that the documented public purposes were served.

- Examined City records to determine whether the City adopted policies and procedures to determine the estimated fair market lease value of City-owned properties leased or otherwise provided to external organizations at nominal rates.
- Examined City records supporting 11 City-owned properties leased or otherwise provided to external organizations at nominal rates as of September 2022 to determine whether the City periodically assessed the fair market lease value of those properties and ensured that information was made available to assist the City Council in determining whether those values were comparable to the value of public services provided by the organizations using the property.
- Determined whether the City adopted policies and procedures detailing the process to be used to acquire real property.
- Inquired of City personnel and examined City records supporting a \$3.2 million City land purchase in November 2021 to determine whether the City purchased the land in accordance with City policies and procedures and good business practices.
- Evaluated the adequacy of the methodology for allocating City salary and benefit costs to the Downtown CRA and Riverfront CRA and compared planned allocations to actual allocations for the 2020-21 fiscal year to determine whether the allocations accurately reflected the actual cost of services provided by City personnel to the CRAs.
- Determined whether the Downtown CRA and Riverfront CRA developed adequate policies and procedures to govern all aspects of CRA operations, including compliance requirements specific to CRAs.
- Examined minutes of Downtown CRA and Riverfront CRA Board meetings conducted during the period October 2020 through May 2022 to determine whether the CRAs held all required meetings and properly publicly noticed the meetings for the period October 2020 through May 2022 pursuant to Section 189.015(1), Florida Statutes.
- Examined City and Riverfront CRA records to determine whether the Riverfront CRA plan was revised and periodically amended to reflect changes in project scopes and associated cost estimates in accordance with Section 163.362, Florida Statutes.
- Examined the resolutions adopting the 2021-22 fiscal year Downtown CRA and Riverfront CRA budgets to determine whether the budgets were properly prepared, included balances brought forward from prior fiscal years, and established the legal level of budgetary control.
- Determined whether Downtown CRA and Riverfront CRA information required by State law was maintained on the CRAs or City's Web sites.
- Determined whether the Downtown CRA and Riverfront CRA disposed of ending trust fund balances as of September 30, 2021, in accordance with Section 163.387, Florida Statutes.
- Examined City, Downtown CRA, and Riverfront CRA accounting records to determine whether the records provided adequate accountability for CRA transactions.
- Examined City and Downtown CRA records and inquired of City personnel to determine whether any developer-funded projects were started, completed, or in progress during the audit period, for which guarantees of payment were required.
- Examined Downtown CRA and Riverfront CRA records supporting three monetary contributions totaling \$131,250 made to non-profit organizations by the CRAs during the period October 2020 through May 2022, to determine if the donations were properly approved and documented as serving public purposes prior to the donations being made. For the donations approved by the CRA boards, we examined CRA records to determine whether City personnel sufficiently monitored the use of the donated funds to ensure that the organizations used the donations to carry out the agreed-upon documented public purposes.

- Reviewed City, Downtown CRA, and Riverfront CRA records and inquired of City personnel to determine whether the City or CRAs made any expenditures or entered into any contracts utilizing the authority granted by an applicable state of emergency.
- Examined City, Downtown CRA, and Riverfront CRA records, including City Council meeting minutes, for the period October 2020 through May 2022, and inquired of City personnel, to determine if any construction or electrical projects with estimated or actual costs exceeding the thresholds specified in Section 255.20, Florida Statutes, were performed using City or CRA services, employees, and equipment.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

AUTHORITY

Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.

A handwritten signature in blue ink that reads "Sherrill F. Norman". The signature is fluid and cursive, with a large initial "S" and "N".

Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE

City of Melbourne



City Manager's Office
900 E. Strawbridge Avenue • Melbourne, FL 32901 • (321) 608-7200 • Fax (321) 608-7219

June 1, 2023

Sherrill F. Norman
Auditor General
State of Florida
Claude Denson Pepper Building, Suite G74
111 West Madison Street
Tallahassee, FL 32399

Re: Response to Preliminary and Tentative Audit Findings

Dear Ms. Norman:

Please find attached the City of Melbourne's response to the Preliminary and Tentative Audit Findings.

Sincerely,

 Recoverable Signature

X Cindy Dittmer

Cindy Dittmer
Acting City Manager
Signed by: 15734294-ea38-41ca-bf67-21ab bf9311af

Cindy Dittmer
Acting City Manager

CD/tlb

Finding 2 – Donation Monitoring

Recommendation: To ensure that City-donated critical community needs funding is expended for the intended public purposes and all funding agreement requirements are addressed, the City should review the reports and documentation submitted by the external organizations receiving the funds.

Management’s Response:

Management is in agreement with the recommendation to review reports and documentation submitted by external organizations receiving City-donated funds to ensure the funding is expended for the intended public purposes and all funding agreement requirements are met. As required in City Council Policy #10, corrective action will take place immediately.

Finding 6 – City Salary and Benefit Costs Charged to Community Redevelopment Agencies

Recommendation: We continue to recommend that the City develop a reasonable and systematic cost allocation methodology to support the salary and benefit costs charged to the CRAs and periodically adjust the charges allocated as necessary to reflect the actual cost of City services provided to the CRAs. In addition, we recommend that the City restore the \$3,452 of overcharged allocations to the Riverfront CRA and collect the \$1,114 of undercharged allocations from the Downtown CRA.

Management’s Response:

Management is in agreement with the recommendation to develop a cost allocation methodology to support salary and benefits charged to the CRAs with periodic adjustments and reconciliations to reflect actual cost of City services. Corrective actions to do so will take place during the preparation of the FY 2024 budget, and journal entries to restore and collect the over and undercharged allocations will be done with immediate effect.

Finding 8 – CRA Board Meeting Notices

Recommendation: We continue to recommend that, to provide appropriate notice of CRA Board meetings to interested parties, the Downtown CRA and Riverfront CRA should comply with State law by providing separate notice of the date, time, and location of each CRA Board meeting.

Management’s Response:

Management is committed to providing appropriate notice of CRA Board meetings to interested parties as required by F.S. § 189.015.

Finding 12 – CRA Trust Fund Uses

Recommendation: To enhance the transparency of Downtown CRA and Riverfront CRA operations and help ensure that financial audit thresholds are properly determined, we continue to recommend that

amounts expended from CRA resources be reported as expenditures in the CRA trust funds instead of transfers out.

Management's Response:

Management is in agreement with the recommendation to report transactions previously recorded as transfers out as expenditures within the CRA trust funds. In implementing an interlocal agreement with Brevard County, a process within the City's accounting software was developed that allowed for CRA capital projects to be reported as expenditures within the CRA trust funds. Corrective action will take place beginning in FY 2023.