
**Seminole County
City of Casselberry, Florida
Community Redevelopment Agency (CRA)**

Review of the CRA Trust Fund

The Internal Audit Division of the Office of the Clerk of the Circuit Court has completed a review of the City of Casselberry's Community Redevelopment Agency Trust Fund. This review was requested by the Seminole County Board of County Commissioners.

PURPOSE

The purpose of the audit was to determine if the internal controls over the CRA trust fund are in compliance with Seminole County and City of Casselberry ordinances and resolutions; and to ensure compliance with Florida Statutes and any other general laws. Specifically, the audit was performed to determine if both governments had properly funded the CRA, and if established management controls are operating effectively.

BACKGROUND

Chapter 163, Part III, Florida Statutes, also known as the **Community Redevelopment Act of 1969** (Act) authorizes the creation of redevelopment agencies for the purposes of redevelopment of slums and blighted areas that are injurious to the public health, safety, morals, and welfare of residents; and, in which there is a shortage of housing affordable to residents of low or moderate income, including the elderly. Part III, page 163 provides requirements that address the manner in which such an agency may be established, the powers of the agency, the funding of the agency, expenditure restrictions, and reporting and audit requirements.

Community redevelopment agencies (CRAs) are funded through tax increment financing whereby the CRA is to receive annually 95 percent of the difference between the amount of ad valorem taxes levied by each taxing authority (exclusive of amounts derived from debt service millages) on taxable properties within the designated community redevelopment area, and the amount of taxes that would have been produced by the millage rates levied by the taxing authorities prior to the effective date of the CRA.

A CRA is comprised of not fewer than five or no more than nine commissioners. FS 163.356 (3) (b) states:

“Any person may be appointed as a commissioner if he or she resides or is engaged in business, which means owning a business, practicing a profession, or performing a service for compensation, or serving as an officer of a corporation or other business entity so engaged, within the area or operation of the agency.”

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This is addressed in more detail in the report that follows.

On November 14, 1995, the Seminole County Board of County Commissioners, by Resolution No. 95-R-255, authorized the City of Casselberry to create a CRA for a period of fifteen years for properties identified as the Casselberry redevelopment taxing district (C-2). Seminole County provided no funding to the CRA until 1998, at which time it agreed to match percentages set in City of Casselberry ordinances. City of Casselberry Ordinances provided for 70 percent of the increment revenues from the district, in 2000 the percentage increased to 95 percent via Ordinance No 98-918.

In June 2006, interested parties questioned the funding of the CRA. It was noted that the City of Casselberry might not have funded in accordance with its city ordinances and resolutions. Also, the CRA and the City of Casselberry at the time were in the process of transferring six properties from the CRA to the City of Casselberry. On June 6, 2006, the interim city manager requested that City Commissioners approve by resolution an inter-local agreement to address the transfer of these six properties to the city and to address funding issues.

The city had loaned the CRA a total of \$908,832.00 (four individual loans) from November 1996 to October 2001 to purchase the six properties. To relieve the CRA from the debt of these properties, the city suggested forgiveness of the debt to the city in exchange for the land valued (by certified appraisal) at \$470,000.00. The city was advised by an independent accounting firm that the difference between the book value of the property and the fair market value could be considered special funding to the CRA. Subsequently, the city hired Mr. Thomas Kohler, senior vice president, of Real Estate Research Consultants, Inc. of Orlando, as a consultant. Mr. Kohler advised commissioners that a more appropriate time to make a determination as to loan forgiveness would be at the time of the sale of the property¹. The funding to the CRA is calculated in accordance with city, county ordinances and resolutions.

On June 13, 2006, the Seminole County Board of County Commissioners requested the Clerk of the Circuit Court, conduct an audit of the Casselberry CRA. The report that follows is the results of the audit:

SCOPE

The scope of this audit included a review of the administrative controls over the Casselberry CRA in compliance with Florida Statutes, Seminole County and City of Casselberry laws and policies. Specifically, the audit included a review of the funding of the CRA for the period January 1, 1995 through June 30, 2006. All source documents during this period were subject to our review.

¹ Likewise, Internal Audit also is of the opinion that a more appropriate time to consider market value losses is at the time of sale of the property. Therefore, we did not consider market value losses in our calculation.

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The audit included:

- Review of Florida Statutes, Seminole County and City of Casselberry ordinances and resolutions;
- Interviews with appropriate personnel;
- Review of Seminole County and City of Casselberry financial records; and,
- Any other procedure considered necessary under the circumstances.

The audit was performed by Gail Joubran and Bill Carroll.

OVERALL EVALUATION

It is our opinion that the internal accounting controls over the program are inadequate and ineffective. Specifically, the parties who established the CRA did not draft written policies and procedures nor management plans that address all of the accounting issues. Although there is no requirement as such, no inter-local agreement or memorandum of understanding (MOU) exists between Seminole County, the City of Casselberry, and the CRA. A document such as a MOU would discuss how each agency is to participate in the CRA. It is the opinion of Internal Audit that an MOU should be established for "all joint ventures" dealing with taxpayer dollars.

The City of Casselberry has under funded the CRA by \$584,290.00; with calculated interest (\$117,303.80) and penalties (\$63,901.76) bringing the total shortfall to \$765,495.56.

Similarly, Seminole County has under funded the CRA by \$60,485.00; with calculated interest (\$121.42) and penalties (\$1,616.80) bringing the total shortfall to \$62,223.22.

Bottom line: the Casselberry CRA is owed \$827,718.78 by its two funding agencies.

There are some very complex variables involved in calculating the interest and penalties potentially owed to the CRA. For instance, for the years 1996 through 2000, the city over funded by \$25,816. In other words, the CRA had use of this money advanced in error for about four years. For years 2001 through 2005, it under funded the CRA by \$610,106.00. Seminole County had under funded by \$60,485.00 even though it had paid the money into the fund as it was billed and in many years paid earlier than the due date. As the report that follows indicates much of the under funding is not the fault of any one person or parties but the fact that a sound business process had not been established when the program was first initiated.

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We noted the following internal accounting control weaknesses that warrant management's immediate attention:

- The CRA does not have written policies and procedures that address the internal accounting control issues;
- CRA is not providing for an independent financial audit required by Florida Statute 163.387 (8);
- CRA does not publish monthly or quarterly management reports;
- CRA does not adopt a budget by resolution each fiscal year as required;
- Seminole County and the City of Casselberry are not funding the CRA by Jan. 1st as required by Florida Statutes; and,
- CRA by-laws are not in compliance with FS 163.356.

FINDING NO. 1

The CRA does not have written policies and procedures that address internal accounting control issues.

Internal Audit was informed that certain expenses had been paid out of the general fund on behalf of the CRA, because the CRA at the time did not have enough funds. There are no written procedures that address how these expenses are to be reviewed and approved by the CRA, paid by the CRA and, finally, documented.

Certain types of expenses are considered allowable expenses to be paid from the redevelopment trust fund. Florida Statute (FS) 163.387 (6) states:

"Moneys in the redevelopment trust fund may be expended from time to time for undertakings of a community development agency which are directly related to financing or refinancing of redevelopment in a community redevelopment area pursuant to an approved community redevelopment plan for the following purposes, including, but not limited to:

- (a) Administrative and overhead expenses necessary or incidental to the implementation of community redevelopment plan adopted by the agency.*
- (b) Expenses of redevelopment planning, surveys, and financial analysis, including the reimbursements of the governing body or the community redevelopment agency for such expense incurred before the redevelopment plan was approved and adopted.*

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- (c) *The acquisition of real property in the redevelopment area.*
- (d) *The clearance and preparation of any redevelopment area for redevelopment and relocation of site occupants as provided in FS163.370.*
- (e) *The repayment of principal and interest or any redemption premium for loans, advances, bonds, bond anticipation notes, and any other form of indebtedness.*
- (f) *All expenses incidental to or connected with the issuance, sale, redemption, retirement, or purchase of agency bonds, bond anticipation notes, or other form of indebtedness.*
- (g) *The development of affordable housing within the area.*
- (h) *The development of community policing innovations.*

The City of Casselberry has compiled a list of expenditures that appear to fall within the guidelines of FS 163.387 (6). It is requesting reimbursement for roughly \$252,000.00 of such expenses that have been paid out of the general fund. These expenses have not been formally reviewed and approved by the CRA and should not be considered properly authorized expenditures. (Internal Audit has reviewed these expenditures and they appear to be related to the CRA activities.)

By having the CRA formally review and approve the expenses ensures that the charges are properly authorized, documented, and in compliance with FS 163.387(6).

Recommendation

1. All CRA expenses should be formally approved by the CRA at their regularly scheduled meeting but not less than quarterly.
2. A written procedure should address the specific steps taken to ensure compliance with FS 163.387(6).
3. Appropriate internal controls, policies and procedures should be established to ensure proper checks and balances.
4. To create an adequate audit trail, the CRA should review and approve each individual invoice that comprises the \$252,000 in expenses noted above.

FINDING NO. 2

The CRA is not providing for an independent financial audit as required by Florida Statute 163.387(8).

Section 163.387(8), Florida Statutes, requires each CRA to provide for an independent financial audit of its redevelopment trust fund each fiscal year and a report of such audit. The law requires the audit to describe the amount and

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sources of deposits into, and the amount and purpose of withdrawals from, the redevelopment trust fund during the fiscal year. The CRA must provide a copy of the audit report to each taxing authority.

Management stated that it believed this requirement was met by the CRA being included in the financial audit of the City of Casselberry. However, the statute requires an expression of opinion specifically on the financial statements of the CRA. The city audit generally does not include all the specific information required by Section 163.387(8), Florida Statutes, such as the amount and sources of deposits into, and the amount and purpose of withdrawals from the CRA during the fiscal year.

Recommendation

CRA should provide for an annual independent financial audit of the redevelopment trust fund in accordance with Florida Statute Section 163.387(8). If the audit is included in the city audit, it should include all the information required by the law and copies of the audit furnished to each taxing authority.

FINDING NO. 3

The CRA does not regularly publish a management report.

The CRA does not publish regularly a management report nor is there a requirement to publish such a report.

By not producing nor providing a monthly management report, the CRA is “flying blind”. Consequently, we believe that no one, including the members of the CRA board, the Casselberry City Commission, the county manager nor county staff can accurately assess the financial condition of the CRA at any one point.

Section 163.387(8), Florida Statutes, requires each CRA to provide for an independent financial audit of its redevelopment trust fund each fiscal year and provide a report of said audit to all interested parties. Even though the report is supposed to provide the source of deposits and a description of expenses, the report is a snapshot of a specific point in time only. Publishing a quarterly report of all financial activities provides a tool to monitor the program.

Recommendation

Formally publish a management report quarterly of all activities relating to the CRA program.

FINDING NO. 4

The CRA does not adopt a budget by resolution each fiscal year as required.

Florida Statute 189.418 (3) requires the CRA to adopt a formal budget and have it approved. FS 189.418(3) states:

“The governing body of each special district shall adopt a budget by resolution each fiscal year. The total amount available for taxation and other sources, including amounts carried over from prior fiscal years, must equal the totals of appropriations for expenditures and reserves. The adopted budget must regulate expenditures of the special district, and is unlawful for any officer of a special district to expense or contract for expenditures in any fiscal year except in pursuance of budgeted appropriations.”

In June 2006, it was noted that the CRA was not being fully funded. We believe this issue would have surfaced earlier had the CRA gone through the process of projecting its revenues and expenses for the year.

By adopting a formal budget, the city, county, and other interested parties have an opportunity to assess the current financial status of the program and the anticipated revenues and expenditures for the upcoming year.

Recommendation

To comply with FS 189.418 (3), the CRA should adopt a budget by resolution.

FINDING NO. 5

Certain parcels were not properly included in the Casselberry (C2) district.

In 2003, the Office of the Seminole County Property Appraiser found that 22 parcels had been inadvertently left out in calculating base year value, taxable values, and increments from 1996 through 2002. The Property Appraiser’s Office has since corrected its records and furnished the following adjustments.

<u>Year</u>	<u>Original Value</u>	<u>Additional Parcel</u>	<u>New Taxable Value</u>
1995	\$81,997	\$9,626,130	\$91,624,290 (Base Year)
1996	\$82,934,087	\$10,271,050	\$93,192,685
1997	\$89,934,087	\$11,140,834	\$101,074,921
1998	\$91,238,632	\$11,781,203	\$103,019,835
1999	\$92,902,888	\$11,836,433	\$104,739,321
2000	\$97,570,623	\$11,949,345	\$109,519,968
2001	\$104,348,524	\$12,242,249	\$116,590,773
2002	\$117,064,816	\$14,546,264	\$131,611,080

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Internal Audit re-calculated the amounts owed to the CRA by Seminole County and the City of Casselberry based on the new values furnished by the Office of the Property Appraiser. As a result of these changes, the tax increment increased by \$68,723.90 for City of Casselberry and \$61,199.16 for Seminole County.

Corrective Action Taken

The Office of the Property Appraiser has taken appropriate action. No further action necessary at this time. The amounts now owe the CRA are included in the report for appropriate management action.

FINDING NO. 6

Seminole County and the City of Casselberry are not funding the CRA by Jan. 1st as required by Florida Statutes.

FS 163.387 (2) (b) states:

“Any taxing authority that does not pay the increment to the trust fund by January 1 shall pay to the trust fund an amount equal to 5 percent of the amount of the increment and shall pay interest on the amount of the increment equal to 1 percent for each month the increment is outstanding.”

Since inception of this program, both the county and the city have, at times been late on funding the CRA. The following chart illustrates the cost of penalties and interest in accordance with FS 163.387 (2) (b).

SEMINOLE COUNTY

<u>Total Increment</u>	<u>Total Paid</u>	<u>Balance</u>	<u>Penalty</u>	<u>Interest</u>	<u>Total</u>
\$1,063,580	\$1,003,097	\$60,485	\$1,616.80	\$121.42	\$62,223.22

CITY OF CASSELBERRY

<u>Total Increment</u>	<u>Total Paid</u>	<u>Balance</u>	<u>Penalty</u>	<u>Interest</u>	<u>Total</u>
\$1,096,071	\$511,789	\$584,290	\$63,901.76	\$117,303.80	\$765,495.56

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By not funding by January 1st each year, both the county and city are subject to significant penalties and interest. No penalties and interest are assessed for the 22 parcels that were inadvertently left out of the base year values, taxable values, and increments from 1996 through 2002.

Recommendation

Seminole County and the City of Casselberry should remit its tax increment funding no later than January 1st each year for compliance with FS 163.387 (2) (b).

FINDING NO. 7

CRA by-laws are not in compliance with FS 163.356.

In March 2003, the agency published by-laws. Article III A states:

*“The Community Redevelopment Agency shall consist of **seven members, all of whom reside in, own property in, or operate a business** located within the area of operation of the Community Redevelopment Agency.”*

Also, Article III B states:

“Four of the members of the CRA shall be nominated and appointed by the Casselberry City Commission and three of the members of the CRA shall be nominated by the Board of County Commissioners of Seminole County and appointed by the Casselberry City Commission, per City Ordinance No. 02-1048.”

Currently, the CRA has only six appointments not seven per the by-laws. Seminole County is short one appointment. Also, another appointment expired on January 2005. This appointee continues to serve on the board even though the appointment has expired. Florida Statute states that all appointees must have a business connection within the area of the agency. Of the six appointments, one appointee may not fulfill this requirement. However, for Seminole County to be adequately represented the CRA board meetings are open to the public.

Florida Statute 163.356 3 (b) states:

*“Any person may be appointed as a commissioner if he or she **resides or is engaged in business, which means owning a business, practicing a profession, or performing a service for compensation, or service as an officer of a corporation or other business entity** so engaged, within the area or operation of the agency.”*

Florida Statutes is much more flexible as to the membership of the committee.

Recommendation

1. By-laws should be reviewed by the CRA and updated to ensure compliance with Florida Statutes; and,
2. New appointments to the CRA should be made in compliance with the statute.