CITY OF ATLANTA
City Auditor's Office
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April 2008

Performance Audit:

Review of the FY 2008 General Fund Budget

Why We Did This Audit

The mayor and chief financial officer projected in January 2008 that the city will face a $70M shortfall by the end of the fiscal year. The City Council passed Resolution 08-R-0186 requesting a performance audit of the City of Atlanta 2008 general fund budget process.

What We Recommended

Our recommendations are intended to better align city policies and practices with state and local budgeting guidelines and to begin to address escalating pension costs.

The City Council should:

- Amend the City Charter to remove the requirement to anticipate revenue of no more than 99% of prior year actual receipts and to eliminate Budget Commissioners' personal liability for overestimated revenues
- Establish financial policies to guide long- and short-term financial planning and monitoring, including maintaining fund balance, uses of non-recurring and surplus revenues; presentation of 5-year financial forecasts; and interim financial reporting

The chief financial officer should:

- Present alternatives to reduce pension costs or offset the increased costs
- Review revenues to consider opportunities for increased fees and charges

The chief operating officer should:

- Review service levels and goals to prioritize and make strategic budget cuts, rather than implement across-the-board budget cuts

Please contact Eric Palmer at 404.330.6455 or epalmer@atlantaga.gov for more information.

What We Found

While we confirmed some of the errors and poor practices that the mayor and chief financial officer have cited as reasons for the current year shortfall, the city's primary problem is structural – ongoing general fund revenues are not sufficient to cover ongoing costs. Current year expenditures exceeded current year revenues for six of the last ten years, and escalating pension costs will continue to pressure the general fund. The city's long-standing budgeting policies and practices have contributed to and largely hidden this structural deficit. The change in fiscal year also delayed identification of the current budget shortfall.

- Charter provisions dating from 1937 make revenue anticipations artificially low. Consequently, the city has relied on cash carry-forward – the difference between prior years' actual receipts and actual expenditures – to balance its annual budgets.
- The city has budgeted more carry-forward than it ended up with at the close of the year. The cumulative overestimation since 2003 was $241M. Hence, the city drew down its fund balance even as revenues exceeded anticipations by nearly 12%.
- Budget variances did not identify the impending shortfall because the city received more revenue than projected and spent less than budgeted in fiscal years 2002 through 2005.
- The city overspent its budget in the first six months of 2006 (the transition period to a new fiscal year) and in fiscal year 2007 (July 1, 2006 – June 30, 2007). City departments (excluding non-departmental expenditures) spent nearly $90M over the adopted budget in fiscal year 2007. However, most of this overspending was in categories not under departments' control, including $34M in employee benefits and $42M in internal service charges.
- The city had budgeted to use to $64.6M carry-forward from FY 2007 in the FY 2008 budget, but had less than $1M cash available when the FY 2007 books were closed.

Bain & Company, which provided pro bono assistance to help city officials identify the scope of the 2002 budget gap, identified similar issues. Our analysis and recommendations build on this previous work.