

CITY OF FORT LAUDERDALE

OFFICE OF THE CITY AUDITOR

Follow-up review of the Stormwater Enterprise Fund (#06/07-03)

Report #11/12-01

December 6, 2011

CITY OF FORT LAUDERDALE

Our Vision

The City of Fort Lauderdale is committed to improving productivity, streamlining expenses and developing a stronger, more effective organization.

This City's vision embraces:

- Fiscal Responsibility
- Accountability
- High Ethical Standards and
- Quality Delivery of Services

Our Values

- **Respect** for the dignity of our citizens and co-workers and the diversity of all groups.
- **Integrity** as demonstrated by honesty and fairness and conduct beyond reproach.
- **Courage** to do the right thing, for the right reason, in the right way.
- **Teamwork** through recognition that excellence is achieved cooperation, communication and collaboration.
- **Service** to the public, our elected officials and other employees that is exemplary and exceeds expectations.
- **Creativity** as the foundation for ingenuity and innovation in the delivery of service.
- **Accountability** for our decisions, actions and results.



Memorandum

Memorandum No: 11/12-06

Date: December 6, 2011

To: Honorable Mayor and Commissioners

From: John Herbst, CPA, CGFO
City Auditor

Re: **Stormwater Enterprise Fund - Follow-up Review**

In accordance with our audit workplan, we have performed a follow-up review of our *Audit of the Stormwater Enterprise Fund (Report #06/07-03)*. Our review was conducted in accordance with government auditing standards. Review procedures consist of staff inquiries and limited analysis of documentation provided by management. We did not perform substantial tests of evidence supporting the responses from staff responsible for resolving audit findings and recommendations.

City administration has the ultimate fiduciary responsibility to make sure that all known operational deficiencies are addressed and to manage public resources in the most efficient manner. According to the Comptroller General of United States:

Audit recommendations are well researched solutions to deficiencies noticed during the audit. Implementation of recommendations results in improvements in processes and controls. Not implementing recommendations allows the known deficiencies to continue resulting in waste or operational inefficiencies.

In our initial audit report we identified nine findings. Of those, three have been implemented and are closed. The remaining six findings are still open and represent deficiencies that require remediation:

- Finding 2.1 (pages 2 & 3)
- Finding 2.2 (pages 3 & 4)
- Finding 2.3 (page 4)
- Finding 2.4 (page 5)
- Finding 2.5 (pages 6-8)

We are concerned that staff has failed to meet their implementation dates, which date back to June 2008, more than 3 years ago. Failure to implement agreed-to recommendations constitutes a material weakness. A detailed schedule of the findings, recommendations, and their current status is included in the attached report.

Since considerable time has passed between the original audit and this follow-up audit, current management was given an opportunity to respond to the open findings. Management responses from the Finance Director are listed below.

- Finding 2.1: is partially completed. There is about \$3,850 still owed to us from Broward County. Our testing of the corrected files support that the corrections have been made.
- Finding 2.2: I have found no evidence that this has been done. The Treasury Department will work with IT and the Sustainability Department to complete this item.
- Finding 2.4: The Treasury Division has developed a procedure establishing how to periodically verify the stormwater billing. This item appears to overlay item 2.2 as it relates to implementing the GIS. From my review this has not yet been completed. Again Treasury will work with GIS and the Public Works Department to complete this item.
- Finding 2.5: I have asked staff to develop a city-wide accounts receivable write-off policy when I learned that there wasn't one. This is now in draft form. Completion of this project should satisfy this finding.

The CAO will perform another review in the near future to determine if the corrective action mentioned above has been implemented.

Attachment(s)

cc: Lee R. Feldman, City Manager
Harry A. Stewart, City Attorney
Jonda K. Joseph, City Clerk
Stanley D. Hawthorne, Assistant City Manager
Susanne M. Torriente, Assistant City Manager
Albert Carbon, Public Works Director

Finding- 1.1

Finding/Condition- Our review revealed that management has not yet developed a comprehensive Stormwater Master Plan. Historically, management in Public Works identified stormwater capital needs/projects through the annual Capital Improvement Plan. This approach is not as comprehensive and holistic as a long-term Stormwater Master Plan. Public Works is currently negotiating with an engineering consultant, Camp Dresser & McKee for the development of a comprehensive Stormwater Master Plan.

Auditor Recommendation- The City Manager should direct the Public Works Department to finalize implementation of a comprehensive Stormwater Master Plan and review the adequacy of stormwater fees in relation to financing future stormwater capital improvement projects.

Management Response- Public Works staff agrees with this recommendation. The Stormwater Master Plan will provide an analysis of the current rate structure and provide recommendations as to the most appropriate (fair and equitable) method of assuring that the revenue collected meets the operational needs of the system and long-term capital improvements. Staff reviewed Request for Qualifications (RFQ) earlier this year. Through the CCNA selection process a consultant was selected. Staff has been working with the City Attorney's office in finalizing the agreement, scope of services, etc. Final comments on the agreement were sent to Camp, Dresser & McKee (CDM) for execution. It is anticipated that the agreement will be approved by the Commission on November 6, 2007.

Follow-Up Action - The Public Works Department provided the CAO with:

1. A comprehensive Stormwater Master Plan (SWMP) dated August 2009 which was summarized and presented to the City Commission on January 6, 2010.

The SWMP was designed to investigate a regional approach to stormwater concerns. The Engineering Division maintains a project list of local issues, which are addressed as the capital budget allows.

2. A Stormwater Rate Study which was presented to the City Commission on 2/1/11.

One objective of the rate study was to determine whether stormwater fees are sufficient to meet projected operating and capital cost requirements considering the current level of service and whether such fees reflect a proper distribution of costs to each category of customer. Based upon data in the SWMP a cost allocation for each rate class was updated to meet FY11 revenue requirements. The study concluded that current stormwater rates are equitable and would maintain the current level of service for the next 5 years.

Status - CLOSED

Finding- 2.1

Finding/Condition- The Treasury division has not performed an audit to verify the accuracy and completeness of stormwater collections remitted monthly on behalf of the City by Broward County for the annexed areas.

Auditor Recommendation- The City Manager should request that Broward County provide a reconfigured Payment by Customer Report complete with all pertinent details and perform a comprehensive audit to verify the accuracy and completeness of the monthly stormwater remittance from Broward County.

Management Response- Management concurs with this recommendation. The City's revenue collection staff first requested such a report from the Broward County billing supervisor in early 2007, and has repeated the request several times. To date the County has not complied with staff's request. To further emphasize the City's commitment to reconcile this issue, Treasury will escalate this request by drafting a letter for the City Manager's signature that will request Broward County's cooperation to create the required reports.

Follow-Up Action – In August 2011, the Treasury Division requested a reconfigured Payment by Customer Report from Broward County to:

1. Include square footage billed.
2. Specify if the report is inclusive of all targeted properties in the Melrose Park and Rock Island annexed areas.

Further, a Broward County representative informed the CAO that reconfiguring the Payment by Customer Report would require an assessment of programing costs and special account charges.

In response to the CAO follow-up audit the Treasury Division reviewed the stormwater collections performed by Broward County on behalf of the City for the month of July 2011 and noted the following:

1. Broward County did not adjust stormwater rates for FY 2010 to account for a 5% rate increase. The impact of incorrect billing for the year amounts to approximately \$3,850 per Broward County and Treasury Division calculations.
2. The original data file containing the name and address of the owner, the stormwater rate, square footage billed and the parcel location that was submitted in 2002 to Broward County by the City (when both parties entered into this agreement) was never updated. As a result, 6 accounts belonging to the City were never included in the billing and 26 accounts listed in the billing report pertain to other municipalities.

Follow-Up Auditor Recommendation – The CAO reiterates the above recommendation regarding a comprehensive audit to verify the accuracy and completeness of the monthly stormwater remittance from Broward County. Additionally, The City Manager should determine the corrective action to be taken by the Treasury Division concerning:

1. Reimbursement to the City for accounts billed based on incorrect rates.
2. Updating data submitted to Broward County.
3. Accounts never billed and accounts pertaining to other municipalities.

Auditor Note - The CAO was informed of a proposal to include stormwater fees in the annual tax bills as a non ad valorem fee. If this practice is adopted, it would eliminate a monthly service charge imposed by the county as well as the necessity for verifying the accuracy and completeness of the monthly stormwater remittance.

Status - OPEN

Finding- 2.2

Finding/Condition- There is no formal process in place to ensure that changes in land use are consistently communicated to the appropriate personnel in Utility Billing. To assure the accuracy of the UB database, a formal process is necessary through which the Building Department communicates changes in parcel use to the Utility Billing staff.

Auditor Recommendation- The City Manager should direct the affected departments to formalize a set of written procedures to address this communication deficiency. Interdepartmental coordination is essential to assure that changes in parcel use are timely communicated to Utility Billing staff.

Management Response- Management concurs with this recommendation. The City Manager will draft a memo to the Building, Finance, Information Technology, and Public Works departments directing them to cooperate in developing a formal set of written procedures to communicate changes in parcel use. The Finance Department will take the leadership role in managing this process. This process is expected to begin no later than January 1, 2008, and to be completed no later than June 30, 2008.

Follow-Up Action – Procedures regarding updates/changes to stormwater accounts sent to utility billing personnel were provided in e-mail format. Utility billing procedures for processing those updates/changes received from Public Works were also in e-mail format.

Auditor Note - The City implemented a new utility billing system (Cayenta Utility Billing) in June 2010, which has the capability of GIS and ownership information being provided electronically.

The CAO was informed that:

1. Data cleanup is a vast project that has not been completed; however, two employees have been hired to assist in the process so that the GIS portion of the system can be implemented.
2. December 2011 is the expected target date for GIS implementation.

Follow-Up Auditor Recommendation – The CAO reiterates the above recommendation regarding development of formal written procedures by the departments affected to ensure that changes in land use are consistently communicated to appropriate personnel in Utility Billing. Additionally, The City Manager should ascertain when the utility billing system (UBS) will be completely functional.

Status - OPEN

Finding- 2.3

Finding/Condition- Management had previously asserted to us that they had adequate and functioning systems of internal control over their utility billing system. During the course of our audit of the Stormwater fund, the Finance Department identified a faulty procedure in their utility account set-up process as described in CM memo #07-158 dated 6/15/07.

Auditor Recommendation-The City Manager should discuss with the Department Directors the importance of free and open communication of all relevant/emerging issues with the City Auditor's Office to encourage collaboration, improve transparency and enhance the integrity of the audit process.

Management Response- Management concurs with the recommendation. The City Manager has always supported and continues to support open and continuous communication throughout City Management including the City Commission, City Attorney, City Auditor and City Clerk.

Follow-Up Action - The Public Works Department provided the CAO with procedures for verifying proper account-set for commercial/multifamily accounts. However, the department is working with Information Technology to create a report which will identify single family, duplex or triplex accounts that are improperly coded.

Status - OPEN

Finding- 2.4

Finding/Condition- The Treasury Division does not have a written policy nor have they developed effective procedures to periodically verify the accuracy of the stormwater bills and the integrity of billing data in the UBS. Monitoring is an essential element of an effective system of internal controls. Periodic verification and testing will assure the integrity of the database.

Auditor Recommendation- The City Manager should direct staff to develop a written policy to periodically verify the accuracy of the UB database based on a comparison of UBS billing square footage relative to GIS square footage. As a result, UBS commercial billings will have a higher degree of accuracy and revenues will be appropriately collected.

Management Response- Management concurs with this recommendation. Staff from Public Works, Information Technology and Finance Departments have begun the process of creating formal procedures and an automated system to validate the UBS billing square footage. The aforementioned memo from the City Manager will direct the Public Works, Information Technology and Finance to further cooperate to complete this process. The Finance Department will take the leadership role in managing this process. This process is expected to be completed no later than March 31, 2008.

Follow-Up Action – The Treasury Division provided the CAO with an e-mail, pertaining to the annexed areas, outlining monthly and yearly steps for verifying the accuracy of stormwater bills and the integrity of billing data in the UBS.

The Public Works Department provided the CAO with standard operating procedures for performing quarterly audits to identify and correct accounts lacking square footage. These quarterly audits are performed to create a higher degree of accuracy in revenue collection. Additionally, the CAO was informed that a GIS overlay in the UBS (once implemented) will auto-populate square footage and provide property type data on record with the Broward County Property Appraiser's office.

Follow-Up Auditor Recommendation - The CAO reiterates the above audit finding regarding the development of a formal written policy and procedures for verifying the accuracy of stormwater bills and the integrity of billing data in the UBS. Both the Treasury Division written policy and procedures should contain evidence of supervisory review and approval. As mentioned earlier (Finding 2.2, Follow-Up Auditor Recommendation) the City Manager should ascertain when the UBS will be completely functional.

Status – OPEN

Finding- 2.5

Finding/Condition- Stormwater revenues and expenses are not being accurately reported and the City Commission needs to be included in their proper role in determining which accounts should be written off.

Auditor Recommendation- The City Manager should direct staff to develop a process for writing off uncollectible stormwater accounts. An analysis of the costs of processing a lien should be conducted to establish a dollar threshold under which receivables would be automatically written off. The cost should not outweigh the benefits. This will require a change to section 28.1 (a) and (d) of the ordinance code. All other accounts are required to have a lien recorded and this should be reflected in the process.

Management Response- Management concurs with this recommendation. The aforementioned memo from the City Manager will direct staff to develop a formal process for writing off uncollectible stormwater accounts consistent with Florida Statutes. The Finance Department will work with the City Attorney's Office to determine any necessary changes to the Municipal Code of Ordinances. This process is expected to begin no later than January 1, 2008 and be completed no later than June 30, 2008.

Follow-Up Action - The Treasury Division provided the CAO with:

1. A summary of seriously delinquent utility billing accounts.
2. A City wide write-off policy currently in draft form.

Follow-Up Auditor Recommendation – The CAO reiterates the above recommendation regarding:

1. Developing a process for writing off uncollectible stormwater accounts.
2. Analyzing the costs of processing a lien to establish an automatic dollar write-off threshold.
3. Revising section 28.1 (a) and (d) of the ordinance code.
4. Other accounts which are required to have a lien recorded.

Status - OPEN

Finding- 2.5

Finding/Condition- Stormwater revenues and expenses are not being accurately reported and the City Commission needs to be included in their proper role in determining which accounts should be written off.

Auditor Recommendation- The replacement UBS being evaluated by the Treasury division must include the ability to seamlessly interface with the general ledger such that the transaction detail in the subsidiary ledger reconciles to the general ledger control accounts.

Management Response- Management concurs with this recommendation. The necessity for a complete interface with the City's general ledger system was an obvious and important requirement for the new system. The vendor finalist was selected by the evaluation committee on September 20, 2007, and final contract negotiations are now underway with the vendor. The Finance Department will request that the City Attorney expeditiously review and approve the vendor contract so that process of implementing of the replacement system can begin as scheduled on January 1, 2008. The implementation process is scheduled to be completed in sixteen months.

Follow-Up Action – The Treasury Department provided the CAO with a subsidiary ledger dated 7/1/11 of stormwater revenue derived from billing and penalties reconciled to the accounts receivable general ledger account.

Status – CLOSED

Finding- 2.5

Finding/Condition- Stormwater revenues and expenses are not being accurately reported and the City Commission needs to be included in their proper role in determining which accounts should be written off.

Auditor Recommendation- The extremely overdue governmental accounts which have been identified, as having sovereign immunity should be brought to the Commission for approval to write off and further billing suspended.

Management Response- Management concurs with this recommendation. The Finance Department will work with the City Attorney's Office to determine which accounts are subject to sovereign immunity, and to determine the appropriate procedure to write off and suspend billing for any qualifying accounts. This process is expected to begin no later than January 1, 2008 and be completed no later than June 30, 2008.

Follow-Up Action – The CAO was informed that extremely overdue accounts have not been presented to the City Commission for approval to write-off. As mentioned earlier, a City wide write-off policy is currently in draft form.

Follow-Up Auditor Recommendation – The CAO reiterates the above recommendation that extremely overdue governmental accounts should be presented to the City Commission for approval to write-off and suspend further billing.

Status – OPEN

Finding- 3.1

Finding/Condition- We noted that administrative expenses were overcharged to the Stormwater Enterprise Fund because certain costs were included with the direct allocation (sub-object 4306) and again as part of the indirect allocation (sub-object 4304). The revenue received for the direct bill of UBS to the Stormwater Enterprise Fund did not reduce the net cost for the Finance Department in the overhead cost pool.

Auditor Recommendation- The City Manager should direct staff to revise the methodology used to allocate administrative charges to the Stormwater Enterprise Fund to avoid overcharging of administrative costs. The staff in the Office of Management and Budget should implement the Full Cost Allocation Plan developed for the City by Maximus, Inc.

Management Response- In response to your Finding 3.1, Office of Management and Budget (OMB) does not agree that the Stormwater Enterprise Fund is being double charged with regards to the \$69K in subobject 4306. Since this is not revenue to Finance/General Fund, rather a charge between Fund 450 and 470, it is not an issue regarding the calculation of the Indirect charges.

OMB will conduct a review of the spreadsheet along with the results of the Maximus study, prior to the development of the FY09 Indirect Administrative charges being established.

Follow-Up Action – The Finance Department provided the CAO with:

1. A worksheet for FY12 showing the methodology for calculating indirect administrative overhead charges based on a percentage of Non-General Fund operating budgets. This practice will reimburse the General Fund for services that administrative departments provided to Non-General Fund departments. The worksheet also shows that utility billing revenue is deducted from Finance Department expenditures to determine a cost pool figure and ensure that the Stormwater Enterprise Fund is not overcharged for administrative expenses.
2. The Full Cost Allocation Plan developed by Maximus, Inc. The above procedure represents the cost allocation plan currently utilized.

Status - CLOSED