

CITY OF FORT LAUDERDALE

OFFICE OF THE CITY AUDITOR

Audit of the Stormwater Enterprise Fund

Report #06/07-3

October 10, 2007

EXECUTIVE SUMMARY

1. Our audit indicated that the operational components of the Stormwater Enterprise Fund are functioning in compliance with applicable City of Fort Lauderdale ordinances and Florida Statutes.
2. In addition, all regulatory reporting and water quality requirements are being met.
3. However, our audit revealed that internal controls over the billing of Stormwater accounts could be improved to increase the accuracy of the amount billed.
4. Finally, we encourage the planned development of a Stormwater Master Plan to proceed as expeditiously as possible.

STATEMENT OF OBJECTIVES

1. To determine if the Stormwater rates are reasonable, supportable and sufficient to sustain current operations, capital needs and anticipated enhancements to meet future environmental requirements.
2. To determine if revenues are properly calculated, billed, collected and recorded.
3. To determine if expenses booked to the Stormwater Enterprise Fund for FY06/07 are reasonable, accurate and allowable.
4. To determine if Stormwater system operations are in compliance with all major regulatory requirements.

BACKGROUND

Pursuant to Chapter 166 and section 403 of the Florida Statutes, the City is authorized to construct, reconstruct, repair, improve and extend stormwater management systems and to establish just and equitable rates, fees and charges for the services and facilities provided by the stormwater system. The Stormwater Enterprise Fund was established effective 10/1/92 per Ordinance C-92-34 to provide for the collection, storage, treatment and conveyance of stormwater within the City of Fort Lauderdale. A stormwater fee is imposed upon each and every parcel within the city, as classified into 3 distinct customer categories. (I-Residential and Multifamily with 3 or less units, II-Commercial and Industrial and III-Undeveloped Land). Parcels with utility connections are billed for stormwater with the regular monthly utility bill. Undeveloped lots are generally billed annually on October 1.

The Public Works Department, under the direction of the Assistant Utilities Director, manages stormwater operations. The City's Treasury Division provides administrative support to Public Works by managing the billing and collection of stormwater fees through the Utility Billing System.

SCOPE & METHODOLOGY

We reviewed stormwater fees and operations for FY05/06 and FY06/07. We interviewed staff to obtain an understanding of stormwater operations and we performed a risk assessment from which we developed key audit objectives. We focused our testing on the billing and collection of stormwater receivables, reviewed the allowability of stormwater expenses and performed a physical count of stormwater fleet vehicles and equipment.

OBJECTIVE 1

To determine if the stormwater rates are reasonable, supportable and sufficient to sustain current operations, capital needs and anticipated enhancements to meet future environmental requirements.

FINDING 1.1

The sustainability of an Enterprise Fund depends on the development and maintenance of users fees that endeavor to recover all operational costs and provide for the long term capital needs of the system. Proper planning is integral to being able to anticipate and provide for the future capital needs of the system.

We found that while the stormwater rates are sufficient to cover current operating expenses we were not able to evaluate them from a long-term strategic perspective. Rate increases appear to have been developed on an ad hoc basis and were not aligned to changing prices in the economy. An analysis of stormwater rates from 1992 to 2006 indicates that the overall rate increases trail inflation by 7%.

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. Capital projects may not have been adequately prioritized to make the most effective use of capital dollars and stormwater fees may not be sufficient to finance future stormwater infrastructure projects. Public Works is currently negotiating with an engineering consultant, Camp Dresser & McKee for the development of a comprehensive Stormwater Master Plan.

Recommendation 1

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 Comment

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.

The Consultant will compile and evaluate land use, soil condition, existing flooding complaints, water quality, and rainfall data for development of a storm water system model. Funding options for stormwater improvements will be reviewed and new funding sources recommended. The existing stormwater ordinance and policies related to the administration and collection of the City's stormwater utility fees will be reviewed and appropriate recommendations will be made.

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 the Camp, Dresser & McKee (CDM) for execution. A funding source for the master plan has been identified. It is anticipated that the agreement will be approved by the Commission on November 6, 2007.

OBJECTIVE 2

To determine that revenues are properly billed, collected and recorded.

FINDING 2.1

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.

The Broward County Payment by Customer report is missing essential information to facilitate verification of the accuracy of the monthly remittance for stormwater fees.

Without proper testing the City has no assurance that the amount remitted by the County is accurate in terms of the stormwater rate, square footage billed and is inclusive of all targeted properties in the western portions of the Melrose Park and Rock Island annexed areas.

Recommendation 2

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 Comment

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.

FINDING 2.2

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.

The Finance and Building Departments have been operating under the assumption that there is a functioning informal system for notification, but have not undertaken efforts to confirm whether the informal process is achieving its intended control objectives.

Revenues may not be maximized if property owners are being undercharged, resulting in inconsistent and inequitable treatment of similar properties in the same class. In addition, staff may not be properly trained because of a lack of a formal written policy that they can refer to for guidance.

This is evidenced by the failure of the Utility Billing staff to properly set up new service accounts for over 900 residential and 64 commercial customers, as noted in City Manager memo #07-158. The current estimate of foregone revenue is in excess of \$200,000, or 1.1% of total revenues of \$16.1 million during the same time period. While the error was eventually caught and corrected by a utility billing employee, the problem had been occurring for at least 4 years without detection.

Recommendation 3

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 Comment

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.

FINDING 2.3

Management is responsible for developing and implementing effective systems of internal control. The control environment is the main platform upon which the rest of the control framework is built.

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.

Although staff was investigating the problem for several weeks, this information was not communicated to the City Auditor’s Office until the memo was published. An effective internal control environment depends on openness, transparency, and timely communication of pertinent information.

Recommendation 4

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 Comment

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.

FINDING 2.4

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.

Our testing revealed significant systemic stormwater billing inaccuracies relating to the square footage area used to bill commercial, industrial and undeveloped parcels as noted in the table below.

Description	Sample Size	Population	# Of accounts with a 10% Sq. Ft. Variance	Potential Error Rate as a % of the Sample Size
Stormwater Only 800 Series Accounts	140	1402	58	41.4%
Regular Water and Sewer Accounts				
UBS Code 803	145	5,557	44	30.4

Recommendation 5

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 Comment

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.

FINDING 2.5

The following conditions were noted:

1. Uncollectible stormwater receivables have been written off without appropriate authorization. The authority to write off delinquent accounts receivable should be documented in writing and be in accordance with City code, case law and Florida Statutes.
2. Uncollectible stormwater receivables were written off against the wrong general ledger account.
3. Tenant occupied accounts were not being liened, contrary to Section 28.198 (a) and (d) of the City code “Any unpaid stormwater fees shall constitute a lien against the property, which lien shall be prior to all other liens on such property except the liens of state, county, and municipal taxes and shall be on a parity with the lien of such state, county and municipal taxes.”
4. Uncollectible receivables from other governmental agencies remain on the books in spite of these agencies having sovereign immunity status that restricts the City’s ability to compel payment.

The following causes were identified:

1. Utility billing staff was unaware that the municipal code pertaining to stormwater accounts requires that all property owners’ accounts should be liened.
2. The Treasurer explained that stormwater receivables were written off against the water and sewer fund based on the materiality of the amount and the fact the City’s UBS does not provide sufficiently detailed reports.
3. Utility billing staff did not thoroughly resolve the issue of uncollectible governmental stormwater receivables with the City Attorney’s Office.

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.

Recommendation 6

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 to pursue uncollectible accounts 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 Comment

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.

Recommendation 7

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 Comment

Management concurs with this recommendation. Recognizing the crucial importance of procuring a modern, robust and functional Utility Billing System, the Treasury Division of the Finance Department, in conjunction with the Procurement, Public Works and Information Technology Departments, have devoted enormous time and resources to the due diligence required to select a replacement Utility Billing System for the City. 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.

Recommendation 8

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 Comment

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.

OBJECTIVE 3

To determine if expenses booked to the Stormwater Enterprise Fund are reasonable, accurate and allowable.

Conclusion

In general, we found that the P-Card purchases and contractor draws tested were appropriately documented and represented allowable stormwater costs/expenses. We tested 109 P-Card purchases made by stormwater maintenance crews and reviewed 4 contractor construction draws to verify that the payments were reasonable, accurate and allowable per section 28-200, paragraph 1-6 of the City of Fort Lauderdale municipal code and applicable Florida Statutes. We also conducted a field visit to observe stormwater maintenance and swale crews and we verified that assigned stormwater staff were properly charged to the Stormwater Enterprise Fund and the associated payroll expenses represent allowable stormwater expenses.

FINDING 3.1

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.

The accuracy of the allocation rates determines whether the appropriate amount of overhead costs is properly charged to the using departments. Under Florida Statutes user fees are intended to recover the cost of operating the system only.

Recommendation 9

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 Comment

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 a 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 includes Fund 470 in the indirect overhead for City Wide services, along with all the Other Funds. The Finance Department's actual costs are reduced by the total cost of FIN040201 the operations for the "Pool Cost".

The basis of the calculations was review with Maximus' representative in May 2006 and no inappropriate charges identified. In addition, revenue received by Fund 450 from

Stormwater Fund 470 using 4306 (Intradepartmental Charges) is based upon actual water sales J276 and Sewer Service Charges J280. Public Works, Financial Administrator prepares Revenue Estimate forms to collect these funds from Fund 409 and 470. This spreads the cost to the other funds within the Public Works Department. 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.

OBJECTIVE 4

To determine that the stormwater system operations are in compliance with all major regulatory requirements.

Conclusion

We noted that the City satisfied the annual reporting requirements and the audited Stormwater Management Program (SWMP) elements specified in the Year 3 of the permit term.

The City Auditor reviewed the:

1. Annual Report Form for Individual NPDES Permits for Municipal Separate Storm Sewer Systems, Year 3
2. DEP audit of the above Year 3 Permit dated 1/23/07.

The FDEP advised the City of 8 needed improvements for recordkeeping and reporting. These improvements do not place the City out of compliance. We obtained an action plan and status report from the Assistant Utilities Director to address each of these minor improvements.