

Audit of Selected Stormwater Activity



Report #1302
December 12, 2012

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HIGHLIGHTS

Highlights of City Auditor Report #1302, a report to the City Commission and City management

WHY THIS AUDIT WAS CONDUCTED

This purpose of this audit was to review selected financial activity and related operations within the City's stormwater function and determine whether that activity and those operations were appropriate, authorized, and properly documented. The five areas covered by this audit included: (1) operating costs (focus on salaries and transfers), (2) operating revenues, (3) capital project activities and expenditures, (4) reasons for the significant available undesignated fund balance within the Stormwater Construction Fund, and (5) status and appropriate dispositions of fund balances within the Stormwater Grant Fund and Stormwater Redevelopment Fund.

The audit focused on financial activity during the three and one-half year period fiscal year (FY) 2009 through mid-year FY 2012. Activity prior to that period was considered when applicable. Operations and activities within various City departments was addressed, including the (1) Underground Utilities Water Resources Engineering (WRE) Stormwater Unit, (2) Public Works Drainage and Street Sweeping Units, (3) Utility Business and Customer Services (UBCS), and (4) Department of Management and Administration (DMA) Office of Budget and Policy and Accounting Services Section.

WHAT WE RECOMMENDED

Several enhancements were recommended to improve management of stormwater financial activities. The more significant recommendations involved (1) charging salaries to the most appropriate funding sources; (2) capitalizing salaries and related overhead for stormwater capital projects; (3) ensuring transfers of stormwater funds are equitable and appropriate; (4) enhancing existing processes to ensure stormwater fees are charged to all applicable customers; (5) rectifying an inconsistency between the City's stormwater ordinance and language in City bond covenants; (6) enhancing easement acquisition procedures to address physical structures; (7) addressing the significant available undesignated balance (\$16.9 million) within the Stormwater Construction Fund; and (8) transferring \$909,449 from the Stormwater Grant Fund to the City's Deficiencies Fund.

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AUDIT OF SELECTED STORMWATER ACTIVITY

Overall, this audit showed the financial aspects of the City's stormwater function are being properly administered and managed. Areas were identified where enhancements are needed. Those areas related to salaries paid from stormwater funds; transfers of stormwater funds; operating revenues (stormwater fees); capital project administration; and the status of available monies in several stormwater funds. Recommendations were made to address those areas.

WHAT WE CONCLUDED

We found the financial aspects of the City's stormwater function were generally properly and adequately managed and administered. Operating costs were generally proper, allowable, and reasonable. For the most part, operating revenues, including stormwater fees and revenues for contractual services rendered the State and County, were received and properly accounted for by the City. Capital project activities and expenditures were generally proper and reasonable. Areas were identified where improvements and enhancements are needed. Those areas included:

- Charging salaries to appropriate funding sources.
- Capitalizing salaries and overhead costs so as to reflect actual project costs.
- Transferring stormwater funds based on the most appropriate information and methodologies.
- Documenting debt service allocations.
- Assessing stormwater fees on all applicable premises.
- Calculating billing factors for stormwater fees.
- Pledging stormwater fees to pay debt for City bonds.
- Addressing structures located on properties for which easements are acquired.
- Obtaining approvals for settlement agreements.
- Addressing the significant accumulation of undesignated construction funds.
- Addressing the status of balances in the stormwater grant and redevelopment funds.

Recommendations were made and an action plan developed to address each of the identified areas.

We would like to thank staff in the various City departments for their assistance during this audit.

Office of the City Auditor

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City Auditor

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Executive Summary

Improvements in several areas were needed to enhance financial operations pertaining to the stormwater function.

The overall purpose of this audit was to review selected financial activity and related operations within the City's stormwater function.

Five specific audit objectives were identified and addressed.

Four separate City stormwater funds were addressed in this audit.

OVERVIEW: *Overall, this audit showed the financial aspects of the City's stormwater function are being properly and adequately administered and managed. Several areas were identified where improvements and enhancements are needed. Those areas related to salaries paid from stormwater funds; transfers of stormwater funds; operating revenues (stormwater fees); capital project administration; and the status of available monies in the Stormwater Construction Fund, Stormwater Grant Fund, and Stormwater Redevelopment Fund. Recommendations were made to address those areas.*

Objectives and Scope. The overall purpose of this audit was to review selected financial activity and related operations within the City's stormwater function and determine whether that activity and those operations were appropriate, authorized, and properly documented and adequately supported. Our five specific audit objectives included: (1) determine whether operating costs were proper, allowable, reasonable, and adequately accounted for and supported; (2) determine whether the City received the stormwater operating revenues to which it was entitled and whether those revenues were properly accounted for and used by the City; (3) determine whether stormwater capital project activities and expenditures were proper and appropriate, recorded and supported, and in accordance with controlling laws, rules, policies, and good business practices; (4) determine the reasons for the significant available undesignated funds within the Stormwater Construction Fund; and (5) determine the status and/or appropriate disposition of fund balances within the Stormwater Grant Fund and Stormwater Redevelopment Fund.

The scope of this audit included selected financial activity within the Stormwater Operating Fund, Stormwater Construction Fund, Stormwater Grant Fund, and Stormwater Redevelopment Fund. The main focus was on financial activity during the three and one half year period FY 2009 through mid-FY 2012. Activity within several City departments was addressed, including the Underground Utilities Water Resources

The audit focused on activity from FY 2009 through mid-FY 2012.

Engineering (WRE) Stormwater Unit, Public Works Drainage and Street Sweeping Units, Utility Business and Customer Services (UBCS), Property Management Division (PMD), and Department of Management and Administration (DMA) Office of Budget and Policy and Accounting Services Section.

Activity within various City departments was reviewed.

A summary of the results of this audit is presented, by specific objective, in the following paragraphs.

Salaries and transfers represented the most significant operating costs.

Objective #1 - Operating Costs. The most significant operating costs paid from stormwater funds were salaries and transfers to other City funds. For the three-year period FY 2009 through FY 2011 those costs totaled \$36.8 million, representing 77 percent of total operating costs for that period. For the most part, the audit showed those costs were proper, reasonable, and adequately accounted for and documented. Areas were identified where improvements and enhancements were needed. Those areas are described below:

Salary costs for a few employees were not charged to the most appropriate funding sources.

- Of the \$36.8 million noted above, \$14.7 million was for salaries. Of that \$14.7 million, \$5.7 million was to fund a portion of salary costs for the Underground Utilities WRE Division, which includes the Stormwater Unit. Three of the 20 employee positions to whom those costs pertained were organizationally assigned to work on division-wide activities benefiting water, sewer, and stormwater functions. However, their salaries were funded entirely from stormwater funds. A more equitable method would be to pay appropriate shares of their salary costs from the City's Water and Sewer Funds. Based on the time spent by these three employees on non-stormwater (i.e., water and sewer) activities, our analysis for the 19-month period (October 1, 2010 through April 2012), showed the Stormwater Operating Fund was overcharged \$200,575 as a result of these circumstances.
- The salary costs of one program engineer working in the WRE Division stormwater unit, hired in mid-August 2011 to work on stormwater capital projects, was incorrectly paid from the City's Sewer Fund. That circumstance resulted in the Stormwater Operating Fund being undercharged \$78,282 during the 8 ½ -month period mid-August 2011 through early May 2012.

Salary and overhead costs pertaining to stormwater projects should be capitalized.

- Salary and related overhead costs pertaining to stormwater projects were not being capitalized. Based on our audit analysis, this resulted in an understatement of the costs of stormwater capital projects in FY 2011 by approximately \$555,500, or 5 percent of total project costs of \$11 million.
- During the three-year period FY 2009 through FY 2011, transfers of stormwater funds to other City funds totaled \$22.1 million. Those transfers were made for several authorized and appropriate purposes. For the most part, amounts transferred were found to be appropriate and correct. As explained in the following, transfer methodologies and support could be enhanced by:

Some transfer processes and methodologies could be enhanced.

- Making annual yearend adjustments for differences between proposed and actual costs and activity when periodic (monthly) transfers are based on proposed costs and activity. *(Audit analysis for a selected year showed an impact on annual transfers of stormwater funds in the amount of \$16,000.)*
- Using current and updated information in determining amounts to transfer to the City General Fund. *(An annual transfer of \$319,000 was determined to be based on outdated information.)*
- Using a more equitable process to return (transfer) unused maintenance funds to applicable funding sources. *(Audit analysis showed a more equitable process would have returned \$8,000 to the Stormwater Operating Fund.)*
- Maintaining and retaining adequate records and documentation substantiating amounts transferred to pay debt service costs. *(Audit review showed transfers from the Stormwater Operating Fund of \$32,540 (FY 2010), \$32,485 (FY 2011), and \$45,428 (FY 2012) for debt service costs could not be substantiated as appropriate.)*

Recommendations were made to address identified issues.

Because of these issues recommendations were made to (1) develop a process for equitably allocating salary costs of certain employees to the most appropriate funding sources, including stormwater funds; (2) capitalize salary and related overhead costs so as to reflect the most accurate costs for stormwater capital projects; (3) implement a yearend

Operating revenues included stormwater fees and revenues received from the State and County for street sweeping and other services.

Instances were identified where premises located within the City's incorporated limits were incorrectly not assessed stormwater fees.

Adjustments are needed to the calculation of the billing factor used for nonresidential premises.

Pledging of stormwater fees to pay debt on certain City bonds is inconsistent with the City's stormwater ordinance.

Recommendations were made to address identified issues.

adjustment process to ensure equitable and appropriate transfers of stormwater monies to the City's Water, Sewer, and General Funds, as reimbursement for benefitting services rendered by operations funded by those other City funds; (4) return unused maintenance funds proportionately to the appropriate funding sources; and (5) justify the correctness of amounts transferred to pay the stormwater function's share of applicable debt service costs.

Objective #2 - Operating Revenues. Overall, the City is properly charging and collecting stormwater fees from residential and nonresidential customers. Revenues due from the State and County for contractual services rendered by City staff to State and County-owned streets were received and generally properly accounted for by the City. Areas were identified for which improvements were recommended. Specifically,

- Sixty-one instances were identified where the City's stormwater fee was incorrectly not assessed on residential premises; and five instances were identified where the City's stormwater fee was incorrectly not assessed on nonresidential premises. While lost revenues were not significant (i.e., \$5,800 annually for the 61 residential premises and \$1,000 for the five nonresidential premises), it is important for the City to assess those fees to each customer to whom that fee is applicable.
- Although the impact was not significant, the billing factor used in determining stormwater fees billed to nonresidential premises was technically not calculated in accordance with the controlling City ordinance.
- Based on the City's general bond resolution and several individual bond covenants, collected stormwater fees are pledged to pay debt on bonds issued for the benefit of the water and sewer utilities, but not for the benefit of the stormwater utility. That pledge is inconsistent with the City's stormwater ordinance which prohibits use of stormwater fees for non-stormwater programs.

Based on these issues recommended improvements were made to: (1) develop enhanced processes to ensure all applicable residential and nonresidential premises are properly charged monthly stormwater fees; (2) calculate and bill nonresidential fees in accordance with the

controlling City ordinance; and (3) address an inconsistency between the City’s stormwater ordinance and language in applicable City bond covenants/resolutions.

Objective #3 – Capital Project Activities and Expenditures. Overall, for the areas addressed by this audit, we determined stormwater capital project activities and expenditures were:

- In accordance with the projects’ purposes and objectives.
- Authorized, timely paid, and correctly accounted for in the City’s records.
- Supported by invoices, employee time records, evidence of deliverables, executed contract documents, authorized change orders, performance bonds, and project inspections.

For the most part, competitive procurement procedures were used when applicable. Applicable acquisitions were also in accordance with City Real Estate Policy 136 (e.g., property easements). Areas where enhancements are needed included:

- For one easement acquisition, the City did not obtain clear ownership of and/or rights to remove a structure partially located within the easement due to anticipated use (redevelopment) of the property by the current property owner. Had such ownership and/or rights been obtained, the City may not have had to execute a settlement agreement providing for payment of \$39,008 to a new property owner that purchased the property after the easement acquisition.
- A settlement agreement executed in connection with an easement acquisition was not approved by the City’s real estate committee or the City Manager’s Office. *(See preceding item.)*
- Amounts withheld as retainage on progress payments to certain contractors was not in accordance with applicable State statutes.

Recommendations were made to (1) revise procedures to adequately address structures located on parcels for which easements are acquired for capital projects; (2) obtain appropriate levels of approval for settlement agreements executed by PMD; and (3) ensure retainage withheld on construction contracts is in accordance with controlling State statutes.

For the areas addressed by this audit, capital project activities and expenditures were generally proper and appropriate.

Procedures for acquiring easements should be revised to address applicable structures.

Settlement agreements should be approved at the appropriate levels.

Amounts withheld as retainage were not always in accordance with State statutes.

Recommendations were made to address identified issues.

Accumulated undesignated construction funds totaled \$16.9 million as of June 30, 2012.

The accumulated funds resulted from (1) a stormwater fee increase phased in during the five-year period FY 2005 through FY 2009 and (2) a \$25 million appropriation of BluePrint 2000 sales tax proceeds.

Appropriate direction should be obtained to address the City's significant accumulation of undesignated construction funds

Subsequent to audit review, funds totaling \$909,449 were returned to the City's Deficiencies Fund.

Subsequent to audit review, the accountings for the City's "fee in lieu of" programs were corrected.

Objective #4 – Available Undesignated Capital Project Funds. Of the \$58 million available balance in the Stormwater Construction Fund as of June 30, 2012, we noted \$16.9 million had not been designated or appropriated for specific capital projects. Maintenance of undesignated funds in such a large amount (i.e., 29 percent of total available capital) is a violation of City Commission Policy 224, which provides the amount of undesignated funds should not exceed three percent of total available capital. Based on our analyses, this balance of undesignated capital funds resulted from (1) the increase in the City's stormwater fee during the five-year period, FY 2005 through FY 2009, implemented to fund the City's Stormwater Pollution Reduction Program (SPRP) and (2) an appropriation of BluePrint 2000 sales tax proceeds to address water quality issues (approximately \$10 million of \$25 million appropriation received to date). WRE Stormwater management attributed the large balance of undesignated funds to (1) lack of adequate staffing to plan, administer, and manage projects on a scale to keep pace with the increased revenue streams attributable to the fee increase and BluePrint water quality appropriation and (2) lack of finalization of Federal requirements and regulations that will significantly impact the City's prioritization of SPRP projects. In view of the significant accumulation of undesignated funds and that it represents a violation of City financial policy, we recommend this matter be brought to the attention of the City's Financial Viability Target Issue Committee for discussion and direction.

Objective #5 – Stormwater Grant and Redevelopment Fund Balances. We reviewed the status of funds within the Stormwater Grant Fund and Stormwater Redevelopment Fund. Based on that review we determined:

- Funds of \$909,449 within the Stormwater Grant Fund should be transferred to the City's Deficiencies Fund.
- Within the Stormwater Redevelopment fund, correcting entries were needed to provide accurate accountings for funds reserved for the City's various "fee in lieu of" programs.

Corrective actions were taken by DMA to address those two recommendations.

We would like to thank staff in the various City departments for their assistance during this audit.

Audit of Selected Stormwater Activity



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Objectives

The overall purpose of this audit was to review selected financial activity and related operations within the City's stormwater function.

Five specific audit objectives were identified and addressed.

The overall objective of this audit was to review selected financial activity and related operations within the City's stormwater function, and determine whether that activity and those operations were appropriate, authorized, and properly and adequately documented. Our specific objectives included:

- Determine whether costs (salaries and transfers) of the Stormwater Operating Fund were proper, allowable, reasonable, and adequately accounted for and documented. *(Specific Objective No.1)*
- Determine whether the City received operating revenues (stormwater utility fees and contractual revenues from the State and Leon County) to which it was entitled and whether those revenues were properly accounted for within the Stormwater Operating Fund and used by the City. *(Specific Objective No.2)*
- Determine whether stormwater capital project activities and expenditures, accounted for within the Stormwater Construction Fund, were: *(Specific Objective No.3)*
 - Proper and appropriate.
 - In compliance with controlling laws, rules, policies, and good business practices.
 - Properly recorded and supported.
- Determine the reasons and circumstances for the significant amount of available undesignated funds within the Stormwater Construction Fund. *(Specific Objective No.4)*
- Determine the status and/or appropriate disposition of available balances within other funds, specifically the Stormwater Grant Fund and Stormwater Redevelopment Fund. *(Specific Objective No.5)*

Scope

Four City stormwater funds were addressed by this audit.

This audit focused primarily on activity occurring from FY 2009 through mid-FY 2012.

Activity within several City departments was reviewed in connection with this audit.

Based on the stated audit objectives, the scope of this engagement included selected financial activity within several City funds, including the:

- Stormwater Operating Fund.
- Stormwater Construction Fund.
- Stormwater Grant Fund.
- Stormwater Redevelopment Fund.

Related operations were also addressed by this audit to the extent those operations impacted the selected financial activity. Our audit focused primarily on activity during the three and one-half year period covering fiscal year (FY) 2009 through mid-FY 2012.

As indicated by the stated audit objectives on page 7, we analyzed and reviewed selected operating expenses and revenues within the Stormwater Operating Fund, capital project expenditures and activity within the Stormwater Construction Fund, and the status of available funds within the Stormwater Grant Fund and Stormwater Redevelopment Fund. We also reviewed the reasons for the significant amount of available undesignated funds within the Stormwater Construction Fund.

As explained in the background section of this report, both the City's Underground Utilities and Public Works departments administer and perform Stormwater functions. Accordingly, applicable activity within both of those departments was reviewed in connection with this audit. Also, selected activity within the Utility Business and Customer Services department (UBCS) was reviewed as that City department administers the billing of stormwater fees to City residential and nonresidential customers. Activity of the Property Management Division (PMD) was reviewed to the extent it pertained to the acquisition of property and easements needed for stormwater capital projects. Lastly, applicable activity of the Department of Management and Administration (DMA) was addressed in connection with the recording of various stormwater financial activities and the status of available funds accounted for in the different stormwater funds.

Methodology

Our procedures included interviewing knowledgeable staff and analyzing various records and reports.

We identified and reviewed selected financial activity in regard to stormwater functions.

We determined if City customers were properly billed stormwater fees.

We reviewed the status of funds with the Stormwater Construction, Grant, and Redevelopment Funds.

Various audit procedures were conducted to meet the stated audit objectives. Those procedures included conducting interviews of knowledgeable personnel and inspecting and analyzing various records and reports. Specific procedures included:

- Identifying different stormwater activities and operations, as well as the departments and staff that performed those activities/operations.
- Identifying and analyzing activity within the different City funds that account for the various stormwater activities.
- Identifying, reviewing, and testing selected financial activity (expenditures, transfers, revenues, etc.) in regard to the City stormwater function.
- Analyzing and reviewing circumstances in the City's utility customer billing system (PeopleSoft Customer Information System) to determine if applicable customers were properly billed stormwater fees.
- Reviewing City contracts with the State and Leon County for maintenance (e.g., street sweeping) of State and County-owned streets to ascertain if revenues due the City were received and properly accounted for by the City.
- With the assistance of the Offices of the City Attorney and City Treasurer-Clerk, determining the appropriateness of pledging City stormwater revenues for the payment of debt associated with bonds issued for the benefit of City utilities.
- Identifying capital projects funded from the Stormwater Construction Fund and analyzing, reviewing, and testing activity (including disbursements) within selected projects.
- Determining the reasons for the accumulation of available undesignated funds within the Stormwater Construction Fund.
- With the assistance of DMA, determining the source of available (unused) funds remaining in the City's Stormwater Grant Fund and the proper disposition of those funds; also, with the assistance of

DMA, determining the appropriate status of available funds with the Stormwater Redevelopment Fund.

We conducted this audit in accordance with the International Standards for the Professional Practice of Internal Auditing and Generally Accepted Government Auditing Standards. Those standards require 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Critical stormwater services include repair and maintenance of existing facilities and capital improvement projects to further enhance facilities and runoff control.

Repair and maintenance services are performed by the Public Works Drainage and Street Sweeping Units.

PRIMARY CITY STORMWATER FUNCTION

Overview. The City's stormwater utility was created in the late 1980s to provide stormwater management services within the City's incorporated limits. Stormwater management plays a critical role in controlling flooding, enhancing safety, protecting the environment, ensuring good water quality, and complying with governing Federal environmental regulations.

Some of the more critical stormwater management services performed include, but are not limited to, repair and maintenance of existing stormwater facilities and development and completion of capital projects to further enhance stormwater facilities and runoff control. Stormwater facilities include, for example, stormwater ponds, drains and drainage pipes, filters, and ditches. Curbs and gutters on City streets are also considered part of the City's stormwater infrastructure. Controlling stormwater runoff through these services and facilities not only mitigates flooding but, also mitigates the inappropriate dispersal of pollutants thereby enhancing water quality.

City Organizational Units. From an organization perspective, the previously described stormwater services are performed by three separate City units. Specifically:

- Repair and maintenance of stormwater infrastructure and completion of smaller capital improvements are performed by the Public Works Operations Division Drainage Unit.

Larger capital project enhancements are performed and supervised by the Underground Utilities WRE Stormwater Unit.

- Sweeping of City streets (and State and County streets pursuant to contractual provisions) is performed by the Public Works Operations Division Street Sweeping Unit. (NOTE: Street sweeping is considered a stormwater service as it removes material containing pollutants from City streets that otherwise would be picked up by stormwater runoff and carried to water bodies [lakes, ponds, etc.] within applicable City drainage basins.)
- Design and construction of larger capital enhancements and improvements is performed under the supervision and direction of the Underground Utilities Water Resources Engineering (WRE) Division - Stormwater Unit. Generally, Stormwater Unit staff establishes and prioritizes capital projects and oversees and directs the design and construction of those projects, with much of the work performed by contracted consultants (design) and construction companies.

Other City departments and divisions playing a role in the stormwater function include UBCS, PMD, and DMA.

In addition to these City departments/divisions/units providing the described stormwater services, the Utility Business and Customer Services (UBCS) department administers and manages the City's utility business system, the PeopleSoft Customer Information System (CIS). UBCS staff is responsible for billing City customers (residential and non-residential) applicable stormwater utility fees as part of the monthly utility billing process. Also, the Property Management Division (PMD) assists in the acquisitions of property (easements) needed for stormwater capital projects. Furthermore, the Department of Management and Administration (DMA) - Office of Budget and Policy is responsible for overseeing the establishment of the City's operating and capital budgets (includes stormwater programs and activities) and, in conjunction with City departments, managing those established budgets. The DMA Accounting Services Section maintains the City's general ledger that tracks and accounts for stormwater financial activities.

The basic stormwater function is funded primarily from stormwater fees charged City utility customers.

Funding of Services. The basic stormwater function is funded primarily from stormwater fees charged to and collected from City utility customers whose premises are within the City limits. Those fees are assessed to both residential and nonresidential customers such as commercial, nonprofits, and government entities. Of the operating revenues received in the Stormwater Operating Fund, 98 percent are from utility fees. An

additional 1.5 percent of those operating revenues are received by the City from the State and Leon County for maintenance services (street sweeping) performed by City crews on State and County-owned streets. The remaining one half of one percent comes from miscellaneous sources; for example, interest earnings on temporarily invested cash balances. **Table 1** below shows those revenues for the three-year period FY 2009 through FY 2011.

TABLE 1 – STORMWATER OPERATING REVENUES			
FY 2009 through FY 2011 (3 years)			
	<u>Category</u>	<u>Amount</u>	<u>Percentage</u>
1.	Residential Fees	\$21,818,286	45%
2.	Nonresidential Fees (Note 1)	\$25,522,501	53%
3.	Maintenance State and County Streets	\$739,205	1.5%
4.	Interest and Miscellaneous	\$209,484	0.5%
	TOTAL	\$48,289,476	100%
Note 1: Includes applicable late fees charged nonresidential customers.			

In addition to operating revenues, the City receives transfers and grants from other governmental entities for stormwater capital projects.

In addition to the operating revenues noted above, the City receives some funds from other governmental entities for stormwater capital improvements. Recent examples include (1) transfers from BluePrint 2000 for the Frenchtown Drainage System Improvement Project (large stormwater capital project), (2) transfer from FAMU pursuant to an intergovernmental agreement for capital improvements to drainage areas impacted by stormwater runoff coming from the FAMU campus, and (3) Federal grants for various stormwater capital projects. Funds received from these other governmental entities during the three-year period FY 2009 through FY 2011 totaled \$12,631,392.

Accounting of Financial Activity. Two different City funds are used to account for operating (repair and maintenance) and construction (larger capital project) activities. These two funds are described in the following paragraphs.

Stormwater Operating Fund (Fund 605). This fund is used to account for the receipt and disbursement of operating revenues described in **Table 1**

The Stormwater Operating Fund accounts for the receipt and disbursement of operating revenues, which totaled approximately \$48 million over the last three fiscal years.

on page 12. Salaries paid to staff within the Public Works Drainage and Street Sweeping Units and the Underground Utilities WRE Stormwater Unit, and related operating and administrative costs, are paid from this fund. Pursuant to City Commission Policy 224, Financing the Government, annual operating excesses (revenues in excess of disbursements) are transferred each year from this fund to the Stormwater Construction Fund (description follows below). **Table 2** that follows shows disbursements (expenditures and transfers) from the Stormwater Operating Fund during the past 3 years. *(Selected activity within this fund was addressed by this audit.)*

TABLE 2 –STORMWATER OPERATING FUND EXPENDITURES AND TRANSFERS FY 2009 through FY 2011 (3 years)			
	<u>Category</u>	<u>Amount</u>	<u>Percentage</u>
1.	Salary and payroll costs	\$14,737,195	31%
2.	Operating expenses	\$2,211,740	4%
3.	Allocated Charges (Note 1)	\$9,224,814	19%
4.	Transfers to the Stormwater Construction Fund	\$20,137,927	42%
5.	Other transfers	\$1,977,181	4%
	TOTAL (Note 2)	\$48,288,857	100%
Note 1: Expenses incurred by certain City departments (such as Accounting Services, Information Systems Services, Human Resources, Purchasing, etc.) are allocated to benefitting City departments; this amount represents Stormwater’s share of those expenses. Those costs were not addressed by this audit.			
Note 2: Salary and payroll costs and all transfers total \$36,852,303; representing 77% of total costs.			

The Stormwater Construction Fund accounts for monies received and used for capital improvement projects.

Stormwater Construction Fund (Fund 606). This fund accounts for monies used to finance capital projects that build and/or enhance stormwater facilities and/or enhance runoff control. The sources of monies deposited into this fund are (1) transfers from the Stormwater Operating Fund (see item 4 in **Table 2** above) and (2) intergovernmental transfers pursuant to grants, intergovernmental agreements, and awards (see paragraph following **Table 1** on page 12). Recent financial activity

During the period FY 2009 through mid-August 2012, the City spent \$29.6 million through 68 stormwater capital projects.

within this fund is described in the following paragraphs. *(Selected activity within this fund was addressed by this audit.)*

As shown in **Table 3** that follows, the City spent \$29.6 million through 68 individual stormwater capital projects during the period FY 2009 through mid-August of FY 2012 (3 years and 10½ months); representing an annual average of \$7.64 million.

TABLE 3 – STORMWATER CAPITAL PROJECT EXPENDITURES FY 2009 through mid-August FY 2012 (3 years 10 ½ months)	
<u>Year</u>	<u>Amount</u>
FY 2009	\$5,891,162
FY 2010	\$5,919,662
FY 2011	\$11,210,979
FY 2012 as of mid-August	\$6,572,583
TOTAL	\$29,594,386
Represents an annual average of \$7,637,261 million	

There were 53 active stormwater capital projects as of June 30, 2012.

As of June 30, 2012, there were 53 active capital projects. Most of those projects were opened in recent years, while a relatively few were opened several years ago. As shown in **Table 4**, funds appropriated (budgeted) for those projects totaled \$78.8 million, with \$40.7 million of that amount expended or encumbered as of June 30, 2012. The remaining \$38.1 million is expected to be spent over the remaining lives of those projects.

TABLE 4 – ALL ACTIVE STORMWATER CAPITAL PROJECTS As of June 30, 2012	
Total Active Projects	53
Total Appropriated (budgeted and designated)	\$78,774,486
Total Amount Expended (Note 1)	\$37,655,534
Total Amount Encumbered (Note 1)	\$2,999,820
Appropriated Balance (Represents Amounts Not Yet Expended or Encumbered on Active Projects)	\$38,119,132
Note 1:	Total expended and encumbered is \$40,655,354. Encumbrances represent commitments related to goods and services not yet received.

As of June 30, 2012, available funds within the Stormwater Construction Fund totaled \$58 million. As shown in **Table 5**, of that amount:

As of June 30, 2012, available undesignated funds totaled \$16.9 million.

- \$38.1 million was designated (appropriated) for active projects (see **Table 4** above).
- \$3 million was encumbered (committed/contracted) for active projects (see **Table 4** above).
- \$16.9 million was undesignated (available funds not yet designated/budgeted for specific capital projects).

TABLE 5 – STORMWATER CONSTRUCTION FUND FUND BALANCE STATUS As of June 30, 2012	
Total Available Funds	\$57,999,598
Less Funds Reserved for Encumbrances for active projects (See line 4 in Table 4)	(\$2,999,820)
Less Funds Appropriated for active projects but not yet Expended or Encumbered (See line 5 in Table 4)	(\$38,119,132)
Available funds not yet Designated or Budgeted for specific capital projects	\$16,880,646

Stormwater capital projects are funded from transfers of operating revenues and intergovernmental transfers.

Based on our analysis, the source of capital project funding since March 2004 was (1) transfers from the Stormwater Operating Fund (\$32.8 million) and (2) intergovernmental transfers (\$19.1 million). *(NOTE: This pertains to 76 capital projects, some of which were subsequently completed and closed. Also, the noted amounts include a relatively small amount appropriated prior to March 2004 for a few projects.)*

OTHER CITY STORMWATER ACTIVITIES

The City accounts for disaster assistance grants received to address stormwater issues in a separate City fund.

In addition to repairing and maintaining existing stormwater facilities and developing and completing capital projects to enhance the City's stormwater infrastructure and control runoff, the City administers other stormwater programs and activities. Those other programs and activities are described in the following paragraphs.

Grants for Disaster Assistance. The City received Federal and State disaster assistance grants in prior years to help defray the costs incurred from storm damage (e.g., FEMA grants). Grant proceeds used to address drainage issues resulting from significant storms (e.g., flooding and debris due to hurricanes and tropical storms) have been accounted for in the City's Stormwater Grant Fund. While DMA administered those grants, the related drainage projects were administered by the Public Works department. There has been no activity in this fund since FY 2008. However, the fund had a balance of \$909,449 as of the time of this audit. *(While there was no recent activity in this fund, the available fund balance was reviewed in connection with this audit.)*

The Stormwater Redevelopment Program is a "fee in lieu of" program administered by the City's Growth Management department.

Stormwater Redevelopment Program. Under this program, fees are collected from developers that elect to pay a fee in lieu of meeting certain environmental development requirements in regard to green space, slope retention, and stormwater ponds. Fees collected under this program must be used for purposes that help control stormwater runoff in designated areas. For example, these funds may be used for planting or preservation and maintenance of trees in certain downtown areas. This program is managed by the City's Growth Management department with some assistance from the Public Works department and the WRE Stormwater Unit. Revenues and expenditures in FY 2011 totaled \$232,515 and \$97,371 respectively. *(Activity of this program was not included in the*

scope of this audit; however, the reported status of available funds was addressed by this audit.)

Stormwater Loan/Grant Program. This program was established in FY 2003 to provide assistance, in the form of loans or grants, to City residents for purposes of making site improvements that prevent or reduce flooding on their properties. Funding for the program in the amount of \$400,000 was provided through transfers of stormwater utility fee revenues collected in FY 2003 and FY 2006. To date, there have been five loans totaling \$77,703 and eight grants totaling \$158,324. This program is administered by the WRE Stormwater Unit. *(Activity and balances of this program were not included in the scope of this audit.)*

The Stormwater Loan/Grant Program provides assistance to help residents reduce flooding on their properties.

Other Activities. In addition to administering some of the previously described programs and activities, the WRE Stormwater Unit also provides other stormwater services, including, for example, operating certain City-owned facilities (Lake Ella); monitoring water quality in surrounding lakes; meeting with citizens regarding complaints and/or drainage concerns; and administering the Stormwater Pollution Reduction Program and the City's Community Rating Services Program. That activity, for the most part, is accounted for in the Stormwater Operating Fund. *(As previously noted, selected financial activity within the Stormwater Operating Fund was addressed by this audit.)*

STORMWATER UTILITY FEES

Overview. Pursuant to Section 21-577, Tallahassee Code of Ordinances, the City charges stormwater fees for each developed residential and nonresidential parcel located within the City's incorporated limits. The party responsible for payment of those fees may be the parcel owner, owner's property manager, a lessee, renter, occupant, or other individual depending on the circumstances. The fee is billed monthly as part of the City's consolidated utility bill.

Residential customers are charged a standard monthly fee of \$7.95, regardless of the amount of impervious area on their property.

Residential units are billed a standard rate, regardless of the amount of impervious area on the applicable parcel. (Impervious area represents the area for which water does not drain into the ground, but instead "runs off" onto surrounding area based on slope or, if no slope, pools and collects. Examples of impervious areas are buildings, paved driveways, etc.) The standard billing rate for residential units is one "equivalent residential

unit,” or ERU. One ERU is equal to the impervious area associated with an average residential unit. An ERU has been determined to be 1,990 square feet. The current monthly billing rate for one ERU is \$7.95. Accordingly, each residential parcel should be billed \$7.95 monthly.

The monthly fee for nonresidential customers is based on the amount of impervious area on the customer’s property.

Nonresidential parcels, on the other hand, are billed based on the actual amount of impervious area on the respective parcels. The amount of actual impervious area for a nonresidential parcel is converted to the number of ERUs. As provided by the ordinance, that calculated amount is to be rounded to the “nearest 0.1 ERU.” The calculated ERU factor is then multiplied times the standard billing rate per ERU of \$7.95 to determine the applicable monthly fee for the nonresidential parcel. See the following example that demonstrates this process.

Example – The impervious area for a newly developed nonresidential parcel is determined to be 20,000 square feet. That square footage is divided by 1,990 (square feet for one ERU) to derive a factor of 10.05. That factor is rounded to 10.1, which is the nearest tenth as provided by the City ordinance. That factor is then multiplied by \$7.95 (rate for one ERU) to derive a monthly billing fee of \$80.30 for that nonresidential parcel.

Impervious area determinations for nonresidential properties are made by UBCS staff.

For each applicable nonresidential parcel, the amount of impervious area was determined based on studies conducted by a consultant hired by the City during the implementation of the stormwater fee in the 1980s. On an ongoing basis as new premises are established or modifications are made UBCS staff determine the amount of impervious area based on measurements obtained from on-site visits and/or engineering/developer drawings. For the most part, UBCS identifies new or altered parcels through review of permitting activity within the City’s Growth Management department. Information provided by other City departments (e.g., Energy Services) also assists UBCS in identifying revisions to existing parcels.

Recent Rate Increases. As noted above, the current billing rate is \$7.95 per ERU. That rate is the result of a rate increase phased in over a five-year period pursuant to City Resolution 05-R-06, passed by the City Commission March 5, 2005. The resolution provided for an annual increase of \$0.34 in the billing rate for five years starting in FY 2005. The purpose of the rate increase was to fund the Stormwater Pollution Reduction Program (SPRP). The initial and resulting rates are reflected in the following table.

Stormwater billing rates were recently increased to fund the SPRP.

TABLE 6 STORMWATER RATE INCREASE FOR SPRP (As applied to Initial Rate of \$6.25 per ERU)		
<u>Fiscal Year Increase Applied</u>	<u>Annual Increase</u>	<u>Resulting Rate</u>
FY 2005	\$0.34	\$6.59
FY 2006	\$0.34	\$6.93
FY 2007	\$0.34	\$7.27
FY 2008	\$0.34	\$7.61
FY 2009 and subsequent years	\$0.34	\$7.95

The SPRP was established by the City to address water quality problems (e.g., pollution) associated with stormwater runoff.

Overall Summary

Overall, the financial aspects of the stormwater function were properly managed and administered.

Areas for which improvements and enhancements are needed were identified.

Overall, we found the financial aspects of the City’s stormwater function were properly and adequately managed and administered. Operating costs were generally proper, allowable and reasonable. For the most part, operating revenues, including stormwater fees and revenues for contractual services rendered the State and County, were received and properly accounted for by City staff. Capital project activities and expenditures were generally proper and reasonable.

Areas were identified where improvements and enhancements are needed. Those areas included (1) charging salaries to appropriate funding sources; (2) capitalizing costs; (3) transferring funds based on the most appropriate information and methodologies; (4) documenting debt service payment allocations; (5) assessing stormwater fees on applicable premises; (6) calculating billing factors for stormwater fees; (7) pledging stormwater revenues to pay debt; (8) addressing structures located on properties for which easements are acquired; (9) obtaining approvals for settlement agreements; (10) addressing the significant accumulation of undesignated construction funds; and (11) addressing the status of balances in specific stormwater funds. Recommendations were made to address those areas.

Significant Operating Costs (Specific Objective No. 1)

Our audit addressed the most significant operating costs – salaries and transfers.

We selected a sample of 15 employees paid from stormwater funds and determined if they actually worked on stormwater programs and activities.

Overview. Our first specific audit objective was to determine whether costs of the Stormwater Operating Fund were proper, allowable, reasonable, and adequately documented. As shown in **Table 2** on page 13, salaries and transfers totaled \$36.8 million for the three-year period FY 2009 through FY 2011 and comprised 77 percent of total operating costs during that period. Accordingly, this audit focused on expenditures and disbursements within those two categories. *(NOTE: Allocated costs represented an additional 19% of total costs during that period; however, those costs were not included in the scope of this audit as they are determined primarily by circumstances and factors not limited to the Stormwater Utility. See Note 1 in Table 2 on page 13 of this report.)*

SALARY COSTS

As reflected in **Table 2** on page 13 of this report, salary and benefit (payroll) costs paid from the Stormwater Operating Fund during the three-year period FY 2009 through FY 2011 totaled \$14.7 million. Of that total, \$5.7 million pertained to the WRE Division and \$9 million pertained to the Public Works Drainage and Street Sweeping Units.

Based on prior audits conducted by the Office of the City Auditor and the annual audits of the City's financial statements by the City's contracted external audit firm, salaries and related benefits paid to or on behalf of City employees have generally been found to be authorized and in appropriate amounts. Accordingly, for purposes of this audit we focused on determining the existence of the employees to whom salaries were paid and whether those employees actually worked on stormwater programs and activities. If the sampled employees worked on programs in addition to stormwater, we also determined if the employees' salary and benefit costs were equitably allocated to the different benefitting programs.

During the period October 1, 2010 through May 3, 2012 (a 19-month period), we determined the salaries and related benefits for 104 different employees were charged to and paid from the Stormwater Operating Fund. Those 104 employees worked in the following City departments/divisions/units:

- Underground Utilities WRE Division – 25 employees
- Public Works Drainage Unit – 71 employees

- Public Works Street Sweeping Unit – 8 employees.

We selected a sample of 15 of those 104 employees to verify the existence of the individuals and to ascertain the nature of the individuals' work, and whether that work justified charging their salaries and benefit costs to the Stormwater Operating Fund (which is funded primarily from stormwater utility fees). The sample of 15 employees was selected from each of the three divisions/units noted above. Because of the relative complexities as to the various types of work performed by the WRE Division a proportionately higher sample was selected from that division. Specifically, for that division we selected not only a sample of employees working in the division's Stormwater Unit but also the employees assigned to another City department and to division-wide activities.

For the most part sampled employees worked solely on stormwater programs and activities.

Our review showed salaries and related benefit costs were generally proper as the sampled individuals existed and, for the most part, worked solely on stormwater functions, programs, and activities. However, issues as to equitable and proper funding of salaries were noted as explained in the following paragraphs.

Salary and related benefit costs for certain WRE Division employees should be equitably allocated to the most appropriate funding sources. Of the 15 employees sampled, seven worked in the Public Works Drainage and Street Sweeping Units and eight worked in the WRE Division. Of those eight WRE Division employees, four were assigned to the Stormwater Unit, one was assigned to the City's Environmental Policy and Energy Resources (EPER) department, and three were assigned to WRE division-wide activities.

We determined all seven of the sampled Public Works employees, the four sampled WRE Division Stormwater Unit employees, and the one employee assigned to the EPER department worked solely on stormwater activities and functions, thereby justifying that their salaries and benefit costs were funded entirely from the Stormwater Operating Fund. However, we found the three WRE Division employees assigned to division-wide activities worked on both stormwater and non-stormwater (e.g., water and sewer) programs and activities. These employees included two administrative staff (one a temporary position and the other a permanent position) and the WRE Director. Based on interviews of

Three sampled employees paid entirely from stormwater funds worked partially on non-stormwater programs and activities.

these individuals and management, those three employees spent from 20% to 80% of their time and efforts on non-stormwater activities and programs. Based on our analysis, these circumstances resulted in the Stormwater Operating Fund being overcharged \$200,575 for the 19-month period reviewed.

In addition to the above, we noted that the salary and related benefits for one WRE Stormwater Unit employee, a program engineer hired in mid-August 2011, that worked entirely on stormwater capital projects was incorrectly charged entirely (100%) to the City's Sewer Operating Fund. In this instance the applicable employee position was previously transferred from the Sewer Utility to the WRE Stormwater Unit; however, the funding source was not revised from the Sewer Operating Fund to the Stormwater Operating Fund. This resulted in the Stormwater Operating Fund being undercharged by the engineer's salary costs. That undercharge for the applicable 8½ month period (mid-August 2011 through early May 2012) was calculated as \$78,282.

The salary of a program engineer working on stormwater capital projects was incorrectly paid from the Sewer Operating Fund.

A process should be developed and implemented to ensure salary costs are charged to the most appropriate funding sources.

Underground Utilities has a cost allocation process to reimburse the Water and Sewer Funds from stormwater funds for activities performed by Underground Utilities water and sewer divisions and units that benefit the WRE Stormwater Unit (see Purpose 3 on page 24 of this report). The above instances are indicative of the need for enhancements to that cost allocation process such that the Stormwater Operating Fund is similarly reimbursed from appropriate funds (e.g., Water and Sewer Funds) for work done by WRE Division employees (paid from stormwater funds) that benefit non-stormwater (water and sewer) functions. Accordingly, we recommend Underground Utilities review the work assignments and efforts of applicable WRE Division employees and make appropriate revisions to ensure their respective salary and benefit costs are charged to the most appropriate funding sources.

Salary and overhead costs pertaining to stormwater projects should be capitalized.

Salary and related overhead costs pertaining to stormwater capital projects should be capitalized. Capitalization of wages and related overhead represents the assignment of applicable costs to projects that benefit directly from the incurrence of those costs. For example, if a specific City employee devotes all of his/her time on a certain project, then 100 percent of that employee's salary (wages) should be assigned to

that project. The capitalized cost of that project for accounting purposes will therefore include those salary costs, as well as direct costs such as payments to contracted engineers and construction companies that design and build the applicable infrastructure. Similarly, capitalization of related overhead represents assigning miscellaneous costs to a project for items such as office materials, supplies, equipment, etc. Salaries and related overhead are capitalized for projects in other City utilities (electric, water, sewer, gas) and the Public Works department. However, we found salary and related overhead costs incurred by the WRE Stormwater Unit for stormwater capital projects are not capitalized.

During FY 2011, City records show project costs of \$11 million within the WRE Stormwater Unit. Because applicable wages and associated miscellaneous (overhead) costs were not capitalized, our analysis indicates stormwater capital project costs were understated by approximately \$555,500 (or 5 percent). After our discussions on this matter, WRE management acknowledged capitalization of applicable wages and overhead would be appropriate for stormwater projects. To enhance project accountability, we recommend a process be implemented to provide for proper capitalization of applicable WRE Stormwater Unit wages and overhead for City stormwater capital projects.

TRANSFERS

A “transfer” represents the movement of resources between City funds and/or accounts. Transfers are made for various reasons and purposes. One purpose would be to move excess resources available in one City fund to another City fund for the purpose of helping defray costs of (or provide a funding source for) activities accounted for in that other fund. Another purpose would be to move resources from one City fund to a second City fund as reimbursement for activities accounted for in that second fund that benefited the operations/activities accounted for in the first fund. In regard to the Stormwater Operating Fund, transfers were made for the following specific purposes:

- Purpose 1 - At the end of each fiscal year, excess operating funds (revenues in excess of expenditures) were transferred to the Stormwater Construction Fund. Those transfers were made pursuant to City Commission Policy 224, Financing the Government. The

*Transfers of monies
between City funds are
made for various legitimate
reasons.*

intent of those transfers is to provide a funding source for stormwater capital projects. *(After being transferred, those funds may be appropriated and budgeted for specific capital projects.)*

Stormwater monies are transferred to several different City funds to help finance costs accounted for in those other funds and as reimbursement for services provided by those other funds.

- Purpose 2 - During each fiscal year, transfers of available funds in the Stormwater Operating Fund were made, pursuant to specific budgeted authorizations, to provide funding for specifically designated stormwater projects. *(Unlike the previous purpose, these transfers are appropriated and budgeted for specific capital projects before being transferred to the Stormwater Construction Fund; whereas transfers described in the previous purpose are appropriated and budgeted for specific projects after being transferred.)*
- Purpose 3 - Transfers were made to the Water and Sewer Operating Funds as reimbursement for work done by Underground Utility divisions and units (i.e., other than the WRE Stormwater Unit) that benefited the WRE Stormwater Unit. Specifically,
 - Costs are incurred in the Underground Utilities Water Administration Division that directly benefit the stormwater function. The costs incurred by the Water Administration Division are paid from the City’s Water Operating Fund. Accordingly, transfers are made from the Stormwater Operating Fund as reimbursement for those administrative services benefitting the stormwater function.
 - The Underground Utilities Water Quality Unit performs some services that benefit the stormwater function (e.g., monitoring water quality for impacts of stormwater pollution). The costs incurred by the Water Quality Unit are paid from the City’s Sewer Operating Fund. Accordingly, transfers are made from the Stormwater Operating Fund as reimbursement for those water quality services benefitting the stormwater function.
- Purpose 4 - Similar to the previous purpose, transfers are made to the City’s General Fund as reimbursement for administrative and technical work done in Public Works administrative units that benefit the Public Works Drainage and Street Sweeping Units. Costs incurred by the Public Works administrative units are paid from the City’s General Fund. Accordingly, the transfers from the Stormwater

Transfers from the Stormwater Operating Fund during the three-year period FY 2009 through FY 2011 totaled \$22 million.

Operating Fund serve to reimburse the General Fund for the applicable administrative services.

- Purpose 5 - Other transfers were made to reimburse applicable City funds for miscellaneous “usage” costs. This includes, for example, transfers (or “payment”) to City funds that account for maintenance and upkeep costs for the building in which the WRE Stormwater Unit resides, and associated debt service costs for that building.

Table 7 that follows shows the annual transfers for the described purposes during the three-year period FY 2009 through FY 2012.

TABLE 7 – STORMWATER OPERATING FUND TRANSFERS			
FY 2009 through FY 2011 (3 years)			
	<u>Purpose (See narrative above)</u>	<u>Amount</u>	<u>Percentage</u>
1.	Transfers to the Stormwater Construction Fund (Purposes 1 and 2)	\$20,137,927	91%
2.	Transfers to Water and Sewer Funds (Purpose 3)	\$620,967	3%
3.	Transfers to General Fund (Purpose 4)	\$957,300	4%
4.	Other transfers (Purpose 5)	\$398,914	2%
	TOTAL	\$22,115,108	100%

Overall, our audit showed transfers were proper, allowable, reasonable, adequately supported and documented, and for appropriate and authorized purposes. No issues were identified pertaining to transfers to the Stormwater Construction Fund, which is the largest category of transfers (91 percent of all transfers). In regard to the other transfers, we did identify areas where enhancements and improvements are needed. Those areas are addressed in the following paragraphs.

Our review showed transfers were proper, allowable, reasonable, and supported.

Consideration should be given to implementing a yearend adjustment process to ensure equitable and appropriate transfers to the Water and Sewer Operating Funds. As noted in “Purpose 3” on page 24 of this report, funds are transferred from the Stormwater Operating Fund to the City’s Water and Sewer Funds as reimbursement for work activities performed by the Water Administration Division and Water Quality Unit

for the benefit of the stormwater function. We found the allocation methodology used to determine the transfer amounts was logical and appropriate. Specifically, the applicable allocable costs were properly identified and allocated based on proportional shares of staff efforts. No errors were identified in the determination of allocation parameters used to determine the transfer amounts or the actual transfers. Adequate documentation was on hand to substantiate those determinations and transfers. However, an enhancement is recommended, as explained in the following paragraph.

A yearend process should be implemented to determine if adjustments to transfers are needed for differences between budgeted and actual costs and activity.

We determined the transferred amounts were based on proposed costs and activity (i.e., budgeted costs and projected staff efforts). Establishing and making transfers based on such proposed costs and activity is an appropriate and logical practice. However, when that practice is applied, it is also appropriate to make yearend adjustments to previously transferred (allocated) amounts based on actual costs and activity. Making such yearend adjustments based on actual costs and activity is commonly referred to as a “true-up” process. We determined that yearend true-ups were not done for the described transfers.

Our review shows the yearend adjustments for selected years would not be significant. For example, for FY 2010 transfers for water administration would be reduced by approximately \$16,000 based on a true-up process. Notwithstanding that the differences are not always significant, we recommend Underground Utilities administrative staff consider implementing a yearend true-up process for the noted transfers. Such a process, if implemented, would ensure appropriate adjustments are made when there are significant differences between proposed and actual costs and activity.

Transfers made to reimburse the City’s General Fund for administrative and technical work benefitting the stormwater function should be based on current and updated information.

Except for the Drainage and Street Sweeping Units (which are funded from the Stormwater Operating Fund), all activities within the Public Works department are funded primarily from the City’s General Fund, including department administrative and technical functions. Because some of the administrative and technical functions within the Public

Works department benefit the Drainage and Street Sweeping Units, it is appropriate for the Stormwater Operating Fund to pay for an equitable portion of those activities (see “Purpose 4” on page 24 of this report). Accordingly, for FY 2009 staff (within the DMA Office of Budget and Policy and Public Works) developed a reasonable and logical process for determining an appropriate amount to transfer from the Stormwater Operating Fund to the General Fund as reimbursement for work performed by Public Works administrative and technical staff that benefitted the Drainage and Street Sweeping Units. The amount was determined based on staff efforts and associated costs (salaries, operating expenses, etc.) applicable to that period. The transfer for FY 2009 was \$319,000. We found this process to be reasonable and appropriate.

For each subsequent fiscal year (i.e., FYs 2010, 2011 and 2012 to date), we found there have been annual changes in staffing, related assignments, and associated costs. Accordingly, annual updated determinations were appropriate and should have been made. However, we noted that there have been no subsequent determinations of the appropriate amount to transfer for those subsequent fiscal years (i.e., based on efforts and costs applicable to each subsequent fiscal year). Notwithstanding the lack of updated determinations, the City continued to transfer the same approximate amount for subsequent years (FY 2010, FY 2011, and FY 2012 to date) as was transferred in FY 2009 (i.e., \$319,000). Accordingly, the Public Works department has not ensured transfers for fiscal years subsequent to FY 2009 were made in the most appropriate and equitable amounts.

Transfers to the General Fund for administrative and technical work benefitting the stormwater function should be based on current and updated information.

To address this issue, we recommend Public Works, in conjunction with the DMA Office of Budget and Policy and the WRE Stormwater Unit, start preparing annual determinations of appropriate amounts to transfer from the Stormwater Operating Fund to the General Fund for work performed by Public Works administrative and technical staff for the benefit of the Drainage and Street Sweeping Units. Those annual determinations should be based on staff efforts and costs pertaining to the fiscal year addressed (i.e., based on current information). If those annual determinations are based on budgeted and projected efforts and costs, consideration should also be given to making annual yearend adjustments

based on actual (opposed to budgeted/projected) efforts and costs for the fiscal year addressed.

The DMA Office of Budget and Policy should consider returning unused project (maintenance) funds to the applicable funding sources in amounts proportional to the amounts initially provided. The WRE Stormwater Unit is physically housed in the City's Gemini Building. In accordance with good budgetary and accounting practices, procedures are in place for the Stormwater Operating Fund to pay a proportional share of the maintenance costs incurred for that building (see "Purpose 5" on page 25). Each participating office pays a share determined based on the relative square footage used by the office (e.g., a department, office, division, or unit). The WRE Stormwater Unit's share based on the square feet it occupies was determined to be 15.13 percent for FYs 2010 through 2012 and 14.37 percent for FY 2009. Annual estimated maintenance costs of the building for the last four fiscal years have ranged from \$313,000 to \$321,080. Accordingly, Stormwater's estimated share has ranged from \$45,153 to \$48,589. Our review showed that stormwater funds in those amounts have been properly transferred to the building's maintenance budget (established as a unique project with the City's accounting system).

Unused maintenance funds should be returned to respective funding sources in amounts proportional to the amounts initially provided.

While this process is reasonable and appropriate, we found that unused maintenance funds were not proportionately returned to the applicable funding sources when the related maintenance project was closed. Specifically, as of the time of our fieldwork in June 2012, the maintenance project for FY 2009 had been closed (the projects for FY 2010 and FY 2011 were still open pending completion of maintenance activity initiated under those projects). The unused balance of funds for the FY 2009 maintenance project totaled \$52,895. Instead of returning that amount proportionately to each City department (and related fund) that participated in the initial funding (i.e., UBCS, WRE Stormwater Unit, Water Utility, Sewer Utility, Safety Office, Energy Services, and Capital Regional Transportation Planning Agency {CRTPA}), the unused balance was returned to only two of those sources; specifically UBCS (\$50,455) and the CRTPA (\$2,440). DMA Office of Budget and Policy staff indicated their practice was to return unused funds to the source that contributed the most funds (i.e., UBCS contributed 51.4 percent, the

largest contributor) and to any entity considered legally separate from the City (i.e., the CRTPA is a related but separate legal entity, so it was returned an amount approximating its proportional share).

A more equitable process would be to return each funding source its proportional share of unused project funds. Had such an equitable process been applied, the City's Stormwater Operating Fund would have been reimbursed \$8,000. We acknowledge the amounts in question are not significant to the respective funding sources. Notwithstanding, to ensure fair and equitable uses of taxpayer's funds, we recommend the DMA Office of Budget and Policy consider revising its current practice such that unused funds in maintenance projects are returned to the respective funding sources in amounts proportional to the amounts initially transferred.

The Treasurer-Clerk's Office, with assistance from DMA Accounting Services, should justify the validity and correctness of amounts transferred to pay respective shares of debt service costs on the City's

Capital Series 2004 Bonds. For the last several years, funds in the Stormwater Operating Fund have been transferred to pay a portion of the debt service (principal and interest payments) on the City's Capital Series 2004 Bonds. Those bonds were issued to provide funds for various purposes, one of which included improvements to various City buildings. The WRE Stormwater Unit is physically housed in one of those buildings (i.e., the Gemini building). Accordingly, the transfer of stormwater funds to pay the Stormwater Program's share of debt service payments on those bonds is reasonable and appropriate (see "Purpose 5" on page 25). The amounts of stormwater funds transferred (or being transferred) for debt service on those bonds totaled \$32,540 in FY 2010, \$32,485 in FY 2011, and \$45,428 in FY 2012. Those transferred amounts represented a relatively small portion (little more than one half of one percent) of the total debt service payments for each of those years (i.e., the total debt service payment was \$4.74 million for FY 2010; \$4.73 million for FY 2011, and \$6.62 million for FY 2012).

Some records were provided that showed the Stormwater Program's (and other City programs and funds) share of the total annual debt service payments. However, records were not provided that substantiated the

Justification should be established to validate amounts transferred to pay certain debt service cost.

logic or basis for the determination of those respective shares (i.e., there was inadequate support for how the allocations were determined). We acknowledge that key employees within DMA Accounting Services and the Treasurer-Clerk's Office involved in the allocation process in prior years are no longer employed by the City. Notwithstanding those circumstances, it is important for the City to demonstrate that amounts transferred by respective City programs and funds to make required debt service payments are based on an equitable and appropriate allocation process. We recommend the Treasurer Clerk's Office, with assistance from Accounting Services, determine and document an appropriate basis for allocation of the debt service for the City's Capital Series 2004 Bonds. To the extent practicable, efforts should also be made to document that allocations of prior year debt service payments for that bond were equitable and reasonable.

CONCLUSION - Specific Audit objective No.1

Overall, salaries and transfers were proper, allowable, reasonable, accounted for, and documented; however; recommendations for improvements and enhancements were made.

Overall, the most significant costs (salaries and transfers) charged to and paid from the Stormwater Operating Fund were proper, allowable, reasonable, and adequately accounted for and documented. At the same time, areas were identified where improvements and enhancements are warranted. To address those areas recommendations were made to (1) ensure the equitable allocation of salary costs of certain employees to the most appropriate funding sources (including stormwater funds); (2) capitalize applicable salary and overhead costs for stormwater projects; (3) implement an annual yearend adjustment process to ensure equitable and appropriate transfers of stormwater funds to the Water and Sewer Operating Funds; (4) ensure transfers of stormwater funds to the City's General Fund are based on current and updated information; (5) return unused maintenance funds to the most appropriate funding sources; and(6) justify the correctness of amounts transferred for applicable debt service costs.

Operating Revenues
(Specific Objective No. 2)

Overview. Our second specific audit objective was to determine whether the City received stormwater operating revenues to which it was entitled and whether those revenues were properly accounted for and used by the City. Operating revenues addressed by this audit included collection of stormwater utility fees assessed residential and nonresidential customers and contractual revenues for stormwater services (street sweeping) performed on behalf of the State and County. For the three-year period FY 2009 through FY 2011, those revenues totaled \$48 million. (See **Table 1** on page 12 of this report.)

STORMWATER UTILITY FEES - RESIDENTIAL

As described in the background section of this report, stormwater fees are assessed applicable entities as part of the City’s monthly utility bill submitted for electric, water, gas, and other services. The stormwater fee is assessed for premises (developed parcels) located within the City’s incorporated limits. As explained, regardless of the amount of impervious area located on the premises, residential customers are billed a standard rate of one ERU (equivalent residential unit). The current monthly billing rate is \$7.95 per ERU. As of late March 2012, there were 78,075 residential premises for which this fee was assessed. For the three-year period FY 2009 through FY 2011, residential stormwater fees collected by the City totaled \$21.8 million; an average of \$7.27 million annually.

Stormwater fees collected from residential customers averaged \$7.27 million annually.

Our review showed the standard residential fee was, for the most part, properly assessed to applicable City utility customers. However, our analysis disclosed instances where that fee was not properly assessed, as described in the following paragraphs.

Existing controls within UBCS should be enhanced to ensure all applicable residential utility customers are billed stormwater fees.

One of our audit analyses included using available software to identify residential customers (located within the City limits) with City electric service that were not billed the residential stormwater fee. The results identified 431 residential premises within the City limits that had electric service but were not billed the stormwater fee. For 370 of those instances, we determined there were legitimate reasons for not billing the

Residential stormwater fees were generally properly assessed and collected by the City.

stormwater fee. Those reasons included, for example: (1) more than one premises was created for the same parcel and the primary premises for that parcel was properly billed the stormwater fee (e.g., one premises for the primary residence and another premises for a shed or pool) and (2) the premises were apartments and the stormwater fees were accumulated and billed on the owner's account.

However, for the remaining 61 premises, stormwater fees were applicable and should have been charged. *(In addition, it was determined that 47 of those 61 premises also were incorrectly not being billed the City's fire services fee pursuant to Section 8-66, Tallahassee Code of Ordinances.)* Those 61 instances were attributed to incorrect coding of the applicable premises within the City utility billing system (PeopleSoft CIS). UBCS staff indicated those premises likely had been miscoded in the former City utility billing system and brought forward into the PeopleSoft CIS with those incorrect codes.

Not billing the monthly stormwater fee to those 61 customers resulted in lost revenues of \$5,800 annually. While those lost revenues are not material compared to annual collected revenues of \$7.27 million, those instances should be immediately corrected to ensure an equitable assessment of stormwater *(and fire services)* fees to City utility customers. (UBCS provided evidence this recommended action has been initiated.) Furthermore, we recommend:

Audit analyses identified 61 instances where residential stormwater fees were not assessed to applicable customers.

- UBCS management emphasize to applicable staff the importance of ensuring premises are properly coded as to the applicability of stormwater *(and fire services)* fees.
- UBCS staff establish and generate periodic system queries that identify newly established residential premises within the City's incorporated limits that are billed basic City utilities (electric, water, and/or gas) but for which stormwater *(and/or fire services)* are coded "not applicable." Circumstances of those residential premises should be reviewed to verify the applicability or non-applicability of the stormwater fee *(and/or fire services fee)*. Corrective action should be taken if those reviews show the fee is applicable.

UBCS management and staff were receptive to these recommendations.

STORMWATER UTILITY FEES - NONRESIDENTIAL

Monthly stormwater fees are also assessed to nonresidential utility customers for premises located within the incorporated City limits. Nonresidential customers include commercial, nonprofit, and governmental entities. As of late August 2012, there were 7,173 nonresidential premises for which this fee was assessed. For the three-year period FY 2009 through FY 2011, residential stormwater fees collected by the City totaled \$25.5 million; an average of \$8.5 million annually.

Stormwater fees collected from nonresidential customers averaged \$8.5 million annually.

Unlike residential customers, nonresidential customers are charged based on the amount of impervious area on the respective parcels. As explained in the background section of this report, the amount of impervious area on a premises is determined and measured by the number of ERUs, rounded to the nearest tenth. (One ERU equals 1,990 square feet.) That ERU factor is then multiplied by \$7.95 to determine the monthly stormwater fee.

Based on discussions with knowledgeable UBCS managerial staff, impervious area determinations for nonresidential premises were initially made with the assistance of a consultant when the City's current stormwater fee structure was implemented in the 1980s. For subsequent developments and revisions to existing parcels (premises), impervious area determinations are made by designated UBCS staff through reviews of engineering drawings and/or observations and measurements obtained during site visits. The designated UBCS staff uses information provided by the Growth Management, Energy Services, and other City departments to identify new developments and revisions to existing premises.

Nonresidential stormwater fees were generally properly assessed and collected by the City.

We found commercial stormwater fees were, for the most part, properly assessed and collected from applicable nonresidential City utility customers. Additionally, we found the UBCS process to identify and determine impervious area for new developments and revisions to existing parcels appropriate and adequate. However, a few instances were identified where nonresidential fees were not properly assessed. In addition, the determination of the ERU billing factor should be revised to

comply with the applicable City ordinance. Those issues are addressed in the following paragraphs.

Consideration should be given to beginning an evaluation of nonresidential premises currently not billed a stormwater fee for purposes of verifying those fees are not applicable and/or correcting any instances where they are applicable.

Similar to our audit procedures performed for residential customers, we identified 5,433 nonresidential premises in the City's utility billing system that were billed for electric service but not billed stormwater fees. We selected and reviewed a sample of 155 of those 5,433 instances. (*Our sample consisted of the first 102 items in the population {sorted by address number} and then every one-hundredth item thereafter for a total of 155 items.*) We found the majority of the 155 sampled premises were correctly not billed as there was no impervious area or the stormwater fees were correctly billed on another utility account. For example, some of the PeopleSoft CIS premises represented area/security lights attached to apartment buildings for which the stormwater fees were billed on the landlord's master account or billed on the individual tenants' residential accounts. Other items represented instances where individual commercial tenants pay for their own respective basic utility services (electric, water, and/or gas) but the landlord is assessed and pays the stormwater fees for those commercial premises (e.g., strip malls).

A few instances were identified where nonresidential stormwater fees were not charged applicable customers.

However, with the assistance of UBCS staff, we determined that nonresidential fees should have been charged in five of those 155 instances (three percent). Specifically:

- One commercial premises on Tharpe Street was incorrectly not being assessed a stormwater fee. UBCS staff indicated the parcel on which this premises was located (as well as an additional adjacent parcel and premises) may have been incorrectly identified and classified during the initial stormwater study completed by the consultant in the 1980s. Alternatively, UBCS staff indicated uses of the premises may have changed (e.g., residential to commercial) since that initial study without applicable UBCS staff being made aware those changes occurred.

- One commercial premises located in one side of a duplex within the Mid-Town area was not billed stormwater fees. The entity in the other side of the duplex was properly billed stormwater fees. UBCS staff indicated the initial study completed by the consultant in the 1980s may not have determined that there were two separate billable premises within this duplex. Alternatively, UBCS staff indicated uses of the premises may have changed (e.g., one business to multiple businesses) since that initial study without applicable UBCS staff being made aware those changes occurred.
- Three City-owned premises (community center, water pump site, and abandoned water well site) were not billed the proper stormwater fees because additions to existing impervious areas were not identified by UBCS staff and/or because the applicable impervious areas may not have been correctly identified by the consultant in the 1980s.

UBCS should emphasize to staff the importance of identifying changes in impervious areas on City-owned properties and adjusting stormwater fees when uses of existing premises change.

In an additional instance, we found a customer was incorrectly being billed residential stormwater rates after the use of the premises changed from residential to non-residential.

In each of the above instances the City was not collecting stormwater fees due from the applicable City utility customers. (Annual fees incorrectly not collected for the noted instances totaled approximately \$1,000.) In response to our inquiry on this matter, UBCS made the appropriate adjustments (started the billing process or corrected impervious areas within the billing system) so that proper stormwater fees are now being billed to customers at those premises. In addition to those corrective actions, we recommend City management consider an evaluation of those non-residential premises not being billed stormwater fees, for the purpose of verifying stormwater fees are not applicable and/or correcting any instances where those fees are applicable. Furthermore, we recommend UBCS emphasize to staff the importance of (1) identifying changes to impervious areas on City-owned properties and (2) properly determining applicability of stormwater fees when uses of existing premises change (e.g., from residential to non-residential or vice versa). Lastly, we recommend UBCS consider establishing and generating periodic system queries that identify newly established nonresidential premises within the City's incorporated limits that are billed basic City utilities (electric,

water, and/or gas) but for which stormwater are coded “not applicable.” Circumstances of those nonresidential premises should be reviewed to verify the applicability or non-applicability of the stormwater fee. Corrective action should be taken if those reviews show the fee is applicable.

UBCS should revise the process for calculating the ERU billing factor for nonresidential premises to comply with controlling City ordinances.

As previously explained within this report, nonresidential utility customers located within the City’s incorporated City limits are billed stormwater fees based on the amount of impervious area located on their respective premises. Specifically, Section 21-557 and 21-558(2), Tallahassee Code of Ordinances, provide for use of a standard billing unit for impervious area which is referred to as the ERU (equivalent residential unit). One ERU is defined as an average residential dwelling, which is currently 1,990 square feet. For each nonresidential premises, the ERU is to be computed by taking the total impervious area on the premises (measured in square feet) and dividing that total by one ERU (or 1,990 square feet). The resulting factor (a calculated multiple of ERUs) is then multiplied by the City’s base rate per ERU (currently \$7.95 per month) to determine that customer’s monthly stormwater fee. As provided by ordinance, the calculation of the ERU multiple for each nonresidential premises is to be computed to the nearest 0.1 (i.e., rounded to the nearest tenth).

UBCS should adjust billing factors for nonresidential customers to comply with controlling City ordinances.

Example: The measured impervious area for a premises of a nonresidential customer is 14,500 square feet. Dividing that total by one ERU, or 1,990, results in a multiple of 7.2864. As provided by City ordinance, that multiple should be rounded to 7.3 (nearest tenth). Each month, the applicable customer should be billed an amount of \$58.04, calculated by multiplying the factor (multiple) of 7.3 times the base rate of \$7.95.

During our review, we found the ERU factor used to bill nonresidential stormwater accounts was often rounded to the nearest thousandth instead of to the nearest tenth as provided by City ordinances. The overall impact is not significant, but the current rounding process does result in slight under or overbillings to applicable nonresidential customers. For

example, our review of seven recently established commercial (nonresidential) accounts where ERU calculations were applicable, showed the ERU factor was rounded to the nearest thousandth for six of the related premises (and the nearest hundredth for the other premises). Based on a strict interpretation of the ordinance, those applicable accounts were over or under-billed amounts ranging from 3 cents to 37 cents each month. To address this issue, UBCS should either revise its process to adjust ERU factors to the nearest tenth or revise the ordinance. UBCS indicated it elected to revise the process such that subsequent utility bills will be based on the existing ordinances. We recommend UBCS follow through with this planned corrective action.

CONTRACTUAL REVENUES FOR MAINTENANCE OF STATE & COUNTY-OWNED ROADS

The City executed contractual agreements with the Florida Department of Transportation (State) and Leon County (County) for the City's Public Works department to maintain designated State and County-owned roads and facilities. Three separate contracts were executed. Those three contracts and the related services provided and revenues received by the City for the three-year period FY 2009 through FY 2011 are shown in **Table 8** on the following page.

**TABLE 8 – CONTRACTUAL MAINTENANCE
STATE & COUNTY OWNED ROADS AND FACILITIES
FY 2009 through FY 2011 (3 years)**

	<u>Services provided</u>	<u>Total Revenues</u>	<u>Stormwater Operating Fund share</u> <i>(Note 1)</i>	<u>General Fund share</u> <i>(Note 1)</i>
1.	Street sweeping and right-of-way maintenance at designated frequencies for State-owned streets located within the City’s incorporated limits. <i>(Services include mowing, litter removal, mechanical sweeping, and edging and sweeping curbs and sidewalks.)</i>	\$2,220,041	\$533,881	\$1,686,160
2.	Street sweeping (1) all curbed street sections under the County’s administrative jurisdiction within the City’s incorporated limits on a monthly basis and (2) the parking lot and roadway at the County’s transfer station on Gum Road on a weekly basis. <i>(Services include mechanical sweeping.)</i>	\$205,324	\$205,324	None
3.	Street sweeping and right-of-way maintenance at designated frequencies for portions of the St. Marks Trail located within the county but outside the City’s incorporated limits. <i>(Services include mowing and litter removal, mechanical sweeping, weeding and mulching, irrigating, and irrigation system inspection and repairs.)</i>	\$6,597	<i>(Note 2)</i> \$1,099	\$5,497
	TOTAL	\$2,431,962	\$740,304	\$1,691,657

NOTE 1: As recorded in the City’s General ledger.

NOTE 2: This amount was actually recorded in FY 2012 but represents the Stormwater fund’s share from FY 2011. This is the reason the total in this table exceeds the total of \$739,205 in line 3 of Table 1 on page 12 of this report.

For the last three complete fiscal years, the City received \$2.4 million for maintenance of State and County-owned roads.

We found funds due the City from the State and the County for the contracted maintenance services were received and, for the most part, properly and correctly accounted for by the City. Revenues from the State contract were properly allocated between the Stormwater Operating Fund and the General Fund. Those allocations were appropriate, as the mechanical sweeping was performed by the Public Works Street Sweeping Unit (funded from the Stormwater Operating Fund) while the other maintenance services pursuant to that contract were performed by Public Works units funded from the City’s General Fund (e.g., the Right-

of-Way Unit). However, as described in the following, we found no allocation basis has been established to equitably allocate the revenues collected for maintenance services performed for the St. Marks Trail.

An appropriate and equitable basis should be established for allocating revenues received from the County for City maintenance of applicable County-owned portions of the St Marks Trail.

Contractual services rendered by the City for the County-owned portions of the St. Marks Trail include both mechanical street sweeping (funded from the Stormwater Operating Fund) and other services (mowing, litter removal, irrigation, etc.) funded by the City's General Fund. Accordingly, the resulting contractual revenues should be equitably allocated to each of those two City funds. The amounts to allocate to each of the two funds should be based on a determination by Public Works management as to the portion of total work efforts performed by the Street Sweeping Unit and portion performed by other Public Works units (funded by the City's General Fund). Contrary to that concept, revenues received to date have been recorded in the City's General Fund upon receipt. We recommend Public Works management make appropriate allocation determinations and apply the allocations to collected revenues (*NOTE: Pursuant to DMA instructions, revenues of \$1,099 collected for the semiannual period ended March 31, 2011 that had been deposited into the City's General Fund, were transferred to the City's Stormwater Operating Fund immediately after the FY 2011 yearend. Discussions with DMA staff disclosed the reason for that transfer was because those revenues had been incorrectly recorded as "street sweeping revenues" in the City's general ledger (should have been recorded as "contractual revenues"). Accordingly, as "street sweeping" is funded by the Stormwater Operating Fund, DMA assumed those miscoded revenues should have been recorded in that fund. Thus, the described transfer was made. Accordingly, we also recommend that, upon receipt, those contractual revenues be recorded using the appropriate accounting code. This inadvertent transfer should be taken into account by DMA in the event retroactive adjustments are made for previous collected revenues using an appropriate allocation methodology as recommended above.*)

Revenues received for maintenance of the St. Marks Trail should be equitably allocated between the Stormwater and General Funds.

PLEDGING COLLECTED STORMWATER REVENUES (FEES) FOR DEBT ISSUED FOR THE BENEFIT OF OTHER CITY UTILITIES

Our review showed the City has issued no bonds (long-term debt) to finance stormwater capital projects or other City stormwater functions. However, during our review we identified the following contradiction regarding language in the City's stormwater ordinance and City bond covenants.

Recent revisions to Section 21.556, Tallahassee Code of Ordinances resulted in language that is inconsistent with language in current bond resolutions and covenants.

Section 21.556 of the City's Code of General Ordinances provides the authority for the City's stormwater management system, including the associated stormwater fees and use of those fees. In October 26, 2011, language of that ordinance was modified to provide that stormwater fees charged and collected by the City shall be utilized only to fund stormwater program services and facilities necessary to address the collective off-site adverse impacts which result from land development (changes are denoted by the underlined wording). The stated intent of that modification was to clarify the limited use of stormwater utility fees collected by the City.

Notwithstanding that City ordinance, the City has pledged stormwater fees along with certain other City utility revenues (water and sewer fees) to pay debt for bonds issued for the benefit of the water and sewer utilities, but not for the benefit of the stormwater utility. This pledge of stormwater fees to pay that water and sewer utility debt was based on both the individual bond covenants and the City's general bond resolution. As of the end of FY 2011, stormwater fees were pledged to pay debt on five different bond issuances, each with outstanding balances as of that date. It is important to note that, although stormwater fees are pledged to pay debt on those bonds, those stormwater fees would only be used in the event the primary revenue sources (water and sewer fees) designated for the individual bond issuances were not sufficient to meet the full debt obligations. It is also important to note that, to date, no stormwater fees have been used to pay any debt obligations for bonds issued for the benefit of other City utilities (water and sewer). Furthermore, because of

Controlling City ordinances preclude use of collected stormwater fees for non-stormwater functions and activities.

Language in current bond covenants pledging stormwater fees to pay debt on water and sewer bonds is inconsistent with language in the recently revised stormwater ordinance.

the sound fiscal status of the water and sewer utilities, it is unlikely that stormwater fees would need to be used to meet the debt obligations on those bonds. Notwithstanding those circumstances, based on the individual bond covenants and City's general bond resolution, stormwater fees may be used to pay debt on those bonds if other designated revenues are insufficient.

The Offices of the City Treasurer-Clerk and City Attorney indicated this issue will be addressed and remediated.

The pledging of stormwater fees to meet debt obligations on water and sewer utility bonds is not consistent with Section 21.556 of the City's Code of General Ordinances, which, as stated previously, provides stormwater fees cannot be used for purposes other than the stormwater program. This inconsistency has been discussed with the Offices of the City Treasurer-Clerk and City Attorney. Those offices indicated the pledging of stormwater fees in the bond covenants and general bond resolution likely does not contradict with applicable State statutes, but acknowledged that pledging those fees for debt issued for the benefit of the water and sewer utilities is inconsistent with the noted City ordinance. Those offices indicated that appropriate modifications to the City's ordinance may be made to address and remediate that inconsistency. We will address the status of this matter in our follow up on this audit engagement.

CONCLUSION - Specific Audit objective No.2

Overall, we determined the City is properly charging and collecting stormwater fees from residential and nonresidential customers located within the City's incorporated limits. We found the City collected all revenues due from the State and County for contracted maintenance services rendered by City staff. For the most part those contractual revenues were properly and correctly accounted for by the City. Recommendations were made to address the areas where improvements and enhancements are needed. Those recommendations were made to (1) help ensure each applicable residential and nonresidential premises located within the City's incorporated limits is properly billed stormwater fees; (2) nonresidential stormwater fees are calculated as prescribed by City ordinance; and (3) contractual revenues for maintenance of certain County facilities are equitably allocated between City funds.

Overall, operating revenues due the City for stormwater functions were properly received and accounted for; certain enhancements were recommended.

Additionally, we determined it appropriate for the Offices of the City Attorney and City Treasurer-Clerk to address an inconsistency between the City's stormwater ordinance and language in resolutions/covenants for City bonds.

Capital Projects *(Specific Objective No. 3)*

We selected and tested 76 expenditures pertaining to three stormwater capital projects; tested expenditures totaled \$8.1 million.

Overview. In the background section of this report we indicated the City spent \$29.6 million through 68 individual stormwater capital projects during the period FY 2009 through mid-August 2012 (almost a 4 year-period). As also noted, there were 53 active (ongoing) capital projects as of June 30, 2012. A total of \$78.8 million was appropriated and budgeted for those 53 projects. Of that appropriated amount, \$40.7 million had been expended over those projects' lifetimes as of June 30, 2012.

Our third specific audit objective was to determine whether stormwater capital project activities and expenditures were (1) proper and appropriate; (2) in compliance with controlling laws, rules, policies, and good business practices; and (3) properly recorded and supported. To meet this audit objective, we selected three capital projects for review. For each of those three projects, we determined the funding sources and whether those sources were authorized and allowed based on controlling laws, rules, regulations, agreements, and/or grant provisions. We also identified disbursements (expenditures) incurred to date and selected samples for testing. In total, we selected and tested 76 expenditures, including activity relating to those expenditures. Those 76 tested expenditures total \$8.12 million. **Table 9** that follows provides additional information regarding those reviewed projects.

TABLE 9 – STORMWATER CAPITAL PROJECTS SELECTED FOR REVIEW				
	<u>Project Description</u>	<u>Appropriated/ Budgeted Funds</u>	<u>Total Expended as of Mid- August 2012</u>	<u>Expenditures Sampled & Tested</u>
1.	<u>Frenchtown Drainage System Improvement</u> – Improve drainage and reduce chronic flooding in multiple areas within the 840-acre Frenchtown watershed.	\$11,645,367	\$6,689,169	32 expenditures totaling \$1,359,805
2.	<u>Emory Court and Dupont Drive Area Flood Relief</u> – Improvements to the East Branch Drainage Canal so as to reduce flooding in the area of Wahnish Way south of Orange Avenue	\$10,100,000	\$6,909,153	31 expenditures totaling \$5,780,400
3.	<u>Small Projects Initiative</u> – Provides funding to address relatively smaller stormwater problems in a timely manner and on an ongoing basis.	\$6,750,000	\$4,778,669	13 expenditures totaling \$983,055
	TOTAL	\$28,495,367	\$18,376,991	76 expenditures totaling \$8,123,260

Our testing and review showed funding sources were authorized and appropriate and project expenditures were, for the most part:

- In accordance with the project’s purpose and objectives.
- Authorized, timely paid, and correctly accounted for in the City’s records.
- Supported by invoices, employee time records, evidence of deliverables, executed contract documents, authorized change orders, performance bonds, and project inspections.

For areas addressed by this audit, our review showed the capital project function was generally properly and adequately administered.

For the most part, competitive procurement procedures were used when applicable. Applicable acquisitions were also in accordance with City Real Estate Policy 136 (e.g., property easements).

Areas were identified by this audit for which recommendations were made to improve and enhance administration of the stormwater capital project function. Those areas and recommendations are addressed below.

(NOTE: The scope of this audit did not address compliance by applicable construction project contractors with the City Minority Business Enterprise (MBE) Program. A separate audit was conducted by the City Auditor's Office that showed some of the construction contractors for City capital projects (including some stormwater projects) were in violation of the MBE policy. Information regarding that MBE noncompliance is reported in City Auditor report #1202, issued February 6, 2012.)

ACQUISITION OF PROPERTY EASEMENTS

In those instances where structures are located on properties for which the City obtains easements for capital projects, and removal of those structures will be required for the City to complete the applicable capital projects, the City should obtain clear ownership of and or rights to remove such structures as part of the initial easement and related settlement.

One of our sampled disbursements represented a partial payment (of \$26,429) in July 2012 to a property owner in connection with a settlement agreement executed between the City and that property owner. The settlement agreement provided for total payments of \$39,008 to the property owner for the removal of a structure (residential house) partially located on an easement previously acquired by the City in April 2008. That easement was acquired in connection with the Sandhurst Drive Outfall Bypass Project (an approved stormwater capital project funded under the "Small Projects Initiative"). The settlement agreement also included amounts for loss of rental income and holding (mortgage) costs of the property owner (part of the \$39,008). The property owner to which the settlement is being paid is not the same property owner from whom the City acquired the initial easement, as the property was sold between the date the easement was acquired (2008) and the date the City determined it was appropriate to commence project construction on the easement (2012).

The City executed a settlement agreement to pay a property owner \$39,008 for removal of a house on an easement previously acquired by the City.

At the date the initial easement was acquired in April 2008, it was the understanding of the City's Property Management Division (PMD) that the property owner at that time had no plans for the structure, as the property owner's plans included redevelopment of the property (i.e., the structure was likely to be demolished either by the City during project construction or by the property owner when the property was

redeveloped). Two separate and independent appraisals of the easement were obtained; one performed on behalf of the City and the second on behalf of the property owner. Although both appraisers acknowledged the existence of the structure, neither the City's nor the property owner's appraiser accorded any value to the structure located partially within the easement, as both appraisers concluded the highest and best use of the property was redevelopment. As a result, the easement obtained by the City and related agreement (1) did not specifically address whether part of the compensation paid the property owner for the easement was for the structure and (2) did not extinguish the property owner's rights to occupy or utilize the structure.

The settlement agreement was necessary when ownership of the underlying property changed hands after the easement was acquired.

As noted above, the property exchanged hands (in December 2010) before the City commenced project construction. Unlike the former property owner that had plans for redevelopment, the subsequent property owner was renting the structure on an interim basis with plans to relocate the structure on another portion of the applicable parcel not within the easement. In May 2012 as the City was making efforts to commence project construction, the subsequent property owner requested reimbursement for relocation of the structure and related costs (i.e., lost rental income and related holding costs). Because the City did not obtain the clear rights to that structure in the initial easement, the City's contracted legal counsel advised the PMD that a settlement paying those costs was appropriate.

Changes to the easement acquisition process were recommended to preclude future similar circumstances.

We acknowledge this circumstance occurred because the property exchanged hands between the date the easement was obtained and project construction was to commence. Based on the contracted legal counsel's explanation we do not question the appropriateness of the settlement agreement and associated payments. However, had the City obtained applicable clear rights to the structure as part of the initial easement (likely at no additional costs to the City), the settlement agreement would not have been necessary and the City would not have had to pay the subsequent property owner \$39,008. To preclude future similar circumstances, we recommend revisions to processes and procedures for obtaining property easements necessary for capital projects. Specifically, in those instances where removal of a structure would likely be required in order for the City to complete a capital project, the City should obtain

clear ownership of and/or rights to remove such structures (located entirely or partially on the applicable parcels) as part of the initial easement and related settlement. PMD management indicated their agreement with that recommendation. The City Attorney's Office agrees that it will provide appropriate assistance in implementing the recommendation.

PMD should obtain appropriate approvals for settlement agreements executed in connection with easement acquisitions.

As noted above, one tested disbursement represented a partial payment (of \$26,429) in July 2012 to a property owner in connection with a settlement agreement executed between the City and that property owner. The settlement agreement provided for a total payment of \$39,008 to the property owner for the removal of a structure (house) partially located on an easement previously acquired by the City in April 2008. The \$39,008 settlement agreement also included reimbursement for lost rental income and the property owner's holding costs. The disbursement and settlement agreement was approved and authorized as necessary by the City's real estate administrator, PMD right-of-way supervisor, Underground Utilities project manager, and the City's contracted real estate attorney. Since this transaction did not involve direct acquisition of real estate, it technically was not considered by City staff as a real estate transaction and therefore did not require approval by the City Manager's Office (i.e., pursuant to City Commission Real Estate Policy 136). In addition, as the settlement agreement was technically considered not an acquisition of goods or services, it did not require approval by an authority higher than the department level (i.e., City procurement policy provides that acquisitions of goods and services in amounts greater than \$25,000 must be approved by an authority higher than the department level; i.e., by the Procurement Services Office at a minimum).

Notwithstanding these technical interpretations by City staff, the transaction directly related to an easement acquired by PMD in connection with an approved capital project. Therefore it was, at a minimum, a quasi-real estate transaction. Also, the settlement agreement exceeded the \$25,000 threshold established for the purchases of goods and services. Accordingly, it is our opinion that approval of the settlement agreement by the City Manager's Office would have been

The settlement agreement to pay a property owner \$39,008 for removal of a house on an easement previously acquired by the City should have been approved by the appropriate City authority.

appropriate. We recommend, in future similar circumstances, to be in compliance with the spirit and intent of the City's real estate and procurement policies, PMD obtain approval from the City Manager's Office for such settlement agreements.

RETAINAGE ON CONSTRUCTION CONTRACTS

Corrective actions were initiated to comply with statutory retainage requirements for City construction contracts. Sections 218.735 and 255.078, Florida Statutes, establish requirements for local governments (including municipalities) regarding withholding retainage from payments to contractors for construction contracts. Specifically, those statutes provide that a municipality may withhold as retainage up to 10 percent from each progress payment made to a contractor until the applicable project is considered 50 percent completed. After a construction project is 50 percent complete (and there are no disputes or claims), the statutes provide the municipality must reduce to 5 percent the amount of retainage withheld on subsequent progress payments. For the two construction contracts reviewed in connection with one selected project (Frenchtown Drainage System Improvement), the Public Works department withheld 10 percent of each progress payment throughout the lives of the two construction projects, contrary to the noted statutory provisions. Payments to those two contractors occurred during the period July 2010 through May 2012. Withholding excess retainage inappropriately restricted funds that should have been made available to those contractors at the date of the progress payments. *(A similar instance occurred on a construction contract for another one of the three projects reviewed; i.e., the Bayshore Drive Stormwater Outfall Improvement Project, which was funded from the "Small Projects Initiative" capital project.)*

Retainage withheld from progress payments to construction contractors was in excess of amounts allowed by State statute.

In response to our inquiry on this matter, the Public Works department, as well as the WRE Stormwater Unit, provided evidence they had recently become aware of this issue in September and October 2011, respectively (through inquiries from two contractors, one of which was the contractor for the Frenchtown Drainage System Improvement Project) and had initiated corrective actions. Specifically, Public Works procedures were revised in November 2011 to provide compliance with the retainage

requirements established by State statutes. Additionally, standard contractual provisions were revised to ensure compliance with those provisions. Furthermore, for a separate construction contract with one of the two contractors, Public Works revised its payment process in October 2011 such that the appropriate retainage of 5 percent was withheld on subsequent progress payments (i.e., progress payments made from November 2011 through May 2012) as the project was more than 50 percent completed. We recommend Public Works continue their efforts to comply with State statutes governing retainage withheld on payments for construction contracts.

Corrective actions were initiated to ensure retainage on future payments are in compliance with State statutes.

Our further review of this issue showed that certain other City departments (e.g., Electric Utility and the WRE Stormwater Unit) had also revised their procedures to comply with the noted statutory requirements. However, recent contracts awarded by the City for sewer construction services continued to provide that 10 percent would be withheld for retainage. Those contracts did not provide for retainage to be reduced to 5 percent after those projects were 50 percent completed. Furthermore, our review showed a construction contract (for sewer infrastructure) where the City continued to withhold retainage of 10 percent after the project was more than 50 percent completed. Accordingly, to ensure citywide compliance with the statutory retainage provisions, we recommend DMA Procurement Services formally notify all City departments and offices of these retainage requirements for construction services. DMA Procurement Services should also make sure subsequent procurement documents (e.g., bid documents as well as standard contractual provisions) are in accordance with those retainage requirements. *(Subsequent to these recommendations, DMA Procurement Services notified each of its procurement agents of these statutory retainage requirements and provided those agents with appropriate language for future construction bids and contracts.)*

OTHER – COMPLIANCE WITH CITY MBE POLICY

The scope of this audit did not address compliance by applicable construction project contractors with the City Minority Business Enterprise (MBE) Program. A separate audit was conducted by the City Auditor's Office that showed some of the construction contractors for City capital projects (including some stormwater projects) were in violation of the MBE policy. Information regarding that MBE noncompliance is reported in City Auditor report #1202, issued February 6, 2012.

CONCLUSION - Specific Audit objective No.3

Overall, we determined stormwater capital project activities and expenditures were in accordance with project purposes and objectives; authorized, timely paid, and correctly accounted for in City records; and supported by invoices, time records, deliverables, contract documents, etc. For the most part, competitive procurement practices were used and applicable acquisitions were in accordance with the City's Real Estate policy. Recommendations were made to address the areas where improvements and enhancements are needed. Those recommendations were made to (1) adequately address structures located on parcels for which easements for capital projects are acquired; (2) obtain appropriate level of approval for settlement agreements executed by PMD; and (3) ensure retainage withheld on construction contracts is in accordance with controlling State statutes.

Available Undesignated Capital Project Funds

(Specific Objective No. 4)

The City has accumulated stormwater fees totaling \$16.9 million that are currently not designated for specific stormwater projects.

Overview. Our fourth specific audit objective was to determine the reasons and circumstances for the significant amount of available funds within the Stormwater Construction Fund that have not been designated for specific capital projects.

AVAILABLE UNDESIGNATED CAPITAL PROJECT FUNDS

Actions should be taken to address the accumulation of funds intended for stormwater capital projects. As noted in **Table 5** in the background section of this report, of the \$58 million available balance in the Stormwater Construction Fund as of June 30, 2012, an amount of \$16.9 million had not been designated or appropriated for specific capital projects. The sources of those available undesignated funds, related policy requirements, and factors and circumstances resulting in their accumulation are addressed in the following paragraphs.

Source of Excess Funds. As explained and shown in **Table 6** in the background section of this report, the City increased the stormwater fee (billed City residential and nonresidential utility customers) starting in FY 2005. The fee increase was phased in over a five-year period, FY 2005 through FY 2009. The purpose of that fee was to fund the City's Stormwater Pollution Reduction Program (SPRP). The SPRP, considered a "water quality" program, was established in response to a 1999 revision to the Tallahassee-Leon County Comprehensive Plan. Specifically, Comprehensive Plan Policy 2.1.7:[C] was revised to provide that local government shall develop a program for retrofitting developed areas which lack adequate facilities for treating stormwater runoff. In developing the SPRP, the City conducted water quality studies and obtained community input as to the public's willingness to fund a SPRP. The result of the public involvement efforts confirmed that stormwater pollution was a concern to a sizeable portion of the community. Our analyses showed the fee increase implemented to fund the SPRP has resulted in additional stormwater fee revenues, since the initial increase in FY 2005, totaling \$16.5 million.

In addition to the fee increase, the City (as well as Leon County) receives funds from BluePrint 2000 sales tax proceeds to address water quality issues. The City's BluePrint 2000 appropriation is \$25 million over the sixteen-year period 2004 through 2020. As of May 2012, the City has received \$10,570,200 of those funds. \$10 million of those funds were appropriated by the City to fund the majority of the Frenchtown Drainage System Improvement project. These BluePrint 2000 funds along with the stormwater fee increase explained in the previous paragraph have contributed to the current undesignated balance of \$16.9 million.

The accumulation of stormwater fees represents a violation of City Commission Policy 224.

Policy Violation. From a technical perspective, the maintenance of that undesignated balance of \$16.9 million represents a violation of provisions of City Commission Policy 224, Financing the Government. Specifically, section 224.05.V of that policy provides the amount of undesignated funds within the Stormwater Construction Fund should not exceed three percent of the collective sources of the respective capital. DMA Office of Budget and Policy staff interpreted this threshold as three percent of all funds available for stormwater capital projects. *(This provision applies to other City utility capital project funds as well.)* As noted, funds available for stormwater capital projects as of June 30, 2012 totaled \$58 million. The undesignated portion of \$16.9 million represents 29 percent of that total, which exceeds the three percent threshold. (Also, see **Tables 4 and 5** within this report.)

Factors and Circumstances. We met with WRE Stormwater management to ascertain the reasons and circumstances for the significant balance of available funds within the Stormwater Construction Fund. Reasons and explanations included the following:

- There is a lack of adequate staffing (e.g., professional engineers) within the Stormwater Unit to plan, administer, and manage projects on a scale to keep pace with the increased revenue streams attributable to the recent SPRP fee increase and the BluePrint 2000 sales tax proceeds. WRE Stormwater management provided documentation asserting the implementation of a SPRP would be a major undertaking by the City in terms of a financial and staffing commitment. Since FY 2005 (year of the initial fee increase), the

only additional staffing within the WRE Stormwater capital projects section was two time-limited engineering positions in mid-year FY 2011. Those positions were added to facilitate development and completion of stormwater capital projects. While considered a positive action, management indicated those two positions are not sufficient to completely resolve the issue. Accordingly, staffing is and has not been adequate to plan, develop, initiate, and complete a significant number of SPRP projects. *(Note: Several stormwater capital projects have been initiated and completed for which the primary focus was water quality and not flood mitigation. Stormwater WRE records indicate \$8.3 million has been expended over the last seven years on those water quality projects. However, the majority of recent and current stormwater capital projects address flood mitigation and not SPRP.)*

WRE Stormwater Unit management attributes the accumulation to (1) lack of adequate staffing for planning and administering capital projects and (2) ongoing unresolved litigation that will likely impact the City's prioritization of applicable capital projects.

- Federal requirements and regulations, which will likely impact the City's decision as to the prioritization of SPRP projects, have not been finalized. WRE Stormwater management provided documentation pertaining to debate, discussions, and litigation regarding Federal regulations addressing water quality, including the "Total Maximum Daily Load" (TMDL) proposal that would limit the maximum daily volume of certain elements (e.g., polluting agents) in stormwater runoff going into specified water bodies. Various parties are involved in these ongoing discussions and litigation, including local governments and their supporting organizations (e.g., Florida League of Cities), the State of Florida, Federal Environmental Protection Agency (EPA), nonprofits, environmental organizations, and individuals. Until the debate and litigation is resolved, Federal requirements and regulations that will significantly impact the City's SPRP will not be finalized. Notwithstanding the pending finalization of governing Federal requirements and regulations, WRE Stormwater management indicated there are additional SPRP projects which could be planned, developed, and initiated as staffing is available (*i.e., certain additional SPRP projects could be done before the finalization of applicable Federal requirements and regulations*).

Regardless of those two factors/circumstances, WRE Stormwater management emphasized that the accumulated undesignated funds are still

very much needed to allow the City to eventually address and improve water quality associated with stormwater runoff.

Conclusion and Recommendation. In FY 2005 the City approved a stormwater fee increase for the purpose of funding capital projects that would improve water quality associated with stormwater runoff (the SPRP). In addition, the City was appropriated \$25 million of BluePrint 2000 sales tax proceeds to address water quality issues. To date, a major portion of the resulting additional revenues collected by the City have not been used or designated for specific projects. The accumulation of those funds represents a violation of City Commission Policy 224.

Direction should be obtained regarding the accumulation of undesignated funds.

We acknowledge that the proper and timely use of the accumulated undesignated funds through initiation and completion of appropriate SPRP projects is contingent, at least in part, on finalization of applicable Federal requirements and regulations. Because of the described circumstances and in that the accumulation of funds represents a violation of City financial policy, we recommend this matter be brought to the City's Financial Viability Target Issue Committee for discussion and direction.

CONCLUSION - Specific Audit objective No.4

As noted above, the accumulation of stormwater funds that are not designated for specific capital projects represents a violation of City Commission Policy. This matter should be brought to the City's Financial Viability Target Issue Committee for discussion and direction.

Fund Balance Status & Disposition (Specific Objective No. 5)

Overview. Our fifth specific audit objective was to determine the status and/or appropriate disposition of available funds within other funds, specifically the Stormwater Grant Fund and Stormwater Redevelopment Fund. In regard to those two funds, the following issues were identified for which corrective action has been taken by DMA.

STORMWATER GRANT FUND

Funds of \$909,449 were returned to the City's Deficiencies Fund. The Stormwater Grant Fund (City Fund 608) was established to track and account for Federal and State disaster assistance grant funds received and used by the City to address stormwater drainage issues resulting from

Funds totaling \$909,449 accounted for in the Stormwater Grant Fund were owed to the City's Deficiencies Fund.

designated (specific) storm events. Based on our review of activity since FY 2003, the majority of the moneys received and placed in that fund came from Federal Emergency Management Agency (FEMA) grants awarded to the City by the Federal government or the State of Florida (pass through grants). Moneys from the City's Deficiencies Fund were also transferred into the Stormwater Grant Fund during that period. Based on research by DMA Accounting Services staff upon our audit inquiry, those transfers from the Deficiencies Fund were made because City staff originally anticipated that FEMA grant funds would not be adequate to cover all expenditures incurred to address the resulting stormwater issues.

Our review showed no activity occurred within the Stormwater Grant Fund during the period FY 2009 through FY 2012 to date (i.e., as of the date of our review in March 2012). Currently, there are no open FEMA (or other) grants or City projects relating to those funds. However, the Stormwater Grant Fund has maintained a balance of \$909,449 since FY 2008. We inquired of DMA Accounting Services as to the source of the \$909,449 remaining balance. Accounting Services researched this issue and determined that balance was owed back to the Deficiencies Fund. Specifically, funds in that amount had been previously transferred from the Deficiencies Fund because City staff originally thought expenditures, incurred to address the stormwater drainage issues resulting from the storm events, would exceed the amount of Federal FEMA funds received for that purpose. As it turned out, Federal FEMA funds were sufficient to cover those expenditures, which totaled \$4.1 million. The Deficiencies Fund was not, however, reimbursed by the Stormwater Grant Fund for the \$909,449. To rectify this issue, Accounting Services transferred the balance of \$909,449 to the City's Deficiencies Fund on July 27, 2012. After the transfer, the Deficiencies Fund balance increased from \$17.3 million to \$18.2 million.

In response to this audit, the Deficiencies Fund was reimbursed the \$909,449.

The City's Deficiencies Fund was created pursuant to sound business policies under the authority of City Commission Policy 224, Financing the Government. Its purpose is to ensure adequate City funds are maintained in reserve to address unforeseen events (e.g., emergencies). Accurate and correct representations of available resources in the Deficiencies Fund are critical to City management and the City Commission when establishing annual budgets and making policy and

related funding decisions. Accordingly, we recommend efforts be enhanced to ensure timely accounting entries are made in the future to ensure correct and accurate representations of resources available in the City's Deficiencies Fund.

STORMWATER REDEVELOPMENT FUND

DMA Accounting Services made necessary correcting entries to provide for accurate accountings of funds reserved for the City's "fee in lieu of" programs.

The City's Stormwater Redevelopment Fund accounts for the receipt and use of fees collected by the City for the various "fee in lieu of" programs. Those programs pertain to environmental green space (e.g. "tree bank" programs), off-site slope mitigation, and stormwater ponds. In each of the noted fee in lieu of programs, developers under certain circumstances may elect to pay fees instead of complying with specific development regulations (i.e., environmental green space, slope, and stormwater pond requirements). Fees collected from developers under those programs are generally restricted as to use. Specifically, fees from one of the tree bank programs must be used for landscaping, beautification, and signage projects on public property. Fees for the other tree bank program must be used for projects involving the maintenance and preservation of trees or the planting of new trees in designated areas. Fees for the slope mitigation program must be used solely for projects established to acquire and manage lands that provide environmental benefits associated with grades (i.e., sloped land that helps control stormwater runoff). Fees relating to the stormwater pond program must be used for stormwater projects.

Balances for the different "fee in lieu of" programs were not correctly accounted for in City records.

To ensure proper and correct accounting of those fees within the Stormwater Redevelopment Fund, separate categories (or designations) were established to track the fees under each program. Those designations help ensure that fees collected under one specific program are not used for a different program (for example, fees collected under the tree bank programs are not used to acquire land under the slope mitigation program). However, our review of those designations as of September 30, 2011, as reflected in the City's quarterly fund balance report, were significantly different from the designations reflected in the City's general ledger. For example, funds available for one of the tree bank programs

reflected in the City's general ledger as of that date totaled \$22,614. However, funds available for that same program as reflected on the fund balance report for that date totaled \$281,851.

Corrective actions were taken by DMA to properly account for the different program balances.

In response to our inquiry, DMA Accounting Services researched this matter and determined that project activity (e.g., opening and closing of different projects for the applicable fee in lieu of programs) had not always been accurately and properly recorded in the City's general ledger or properly reflected in the quarterly fund balance reports. This lack of an accurate and appropriate designation of funds available for the different fee in lieu of programs increases the risk that management will make improper decisions regarding the use of the different program fees collected and deposited in that fund, thereby potentially resulting in fees being used for unallowable purposes. Subsequent to our inquiry and discussions, DMA Accounting Services researched this matter and prepared and recorded correcting journal entries in the City's general ledger and made adjustments to the fund balance reports. Our subsequent review as of June 30, 2012, showed the correcting journal entries appear reasonable and the designations within the general ledger now reconcile to the designations on the fund balance report. We recommend DMA Accounting Services ensure the timely and accurate recording of (project) activity for the different fee in lieu of programs in the City's general ledger and fund balance reports.

CONCLUSION - Specific Audit objective No.5

As noted above, corrective actions were taken to return (transfer) funds in the Stormwater Grant Fund to the City's Deficiencies Fund based on this audit. Similarly, corrective actions were taken to properly account for program balances within the City's Stormwater Redevelopment Fund. Those actions resulted in the appropriate status and disposition of applicable City funds.

Overall Conclusion

Overall the City has properly and adequately administered the financial aspects of the City's stormwater function.

Areas were identified for which improvements and enhancements are warranted.

Recommendations were made to address applicable areas.

Overall, we found City staff is properly and adequately managing and administering the financial aspects of the City's stormwater function. Generally, operating costs are proper and reasonable and operating revenues due the City are collected. Capital project activities and expenditures are generally appropriate and in accordance with applicable laws, regulations, policies, and good business practices. All financial activities are, for the most part, adequately documented and supported.

Areas were identified where improvements and enhancements are needed. Those areas included, but were not limited to:

- Charging salaries to appropriate funding sources.
- Capitalizing salary and overhead costs.
- Transferring funds based on the most appropriate methodology and information.
- Documenting the correctness of debt service payment allocations.
- Assessing stormwater fees to City residents and entities on applicable premises.
- Calculating billing factors in accordance with the applicable City ordinance.
- Pledging stormwater revenues to pay debt relating to non-stormwater functions.
- Addressing structures located on properties for which easements are acquired.
- Obtaining appropriate approvals for settlement agreements executed in connection with easement acquisitions.
- Addressing the significant accumulation of undesignated construction funds.
- Accounting for and disposing balances of specific stormwater funds.

Recommendations were made to address those areas.

We would like to thank staff in applicable City departments for their assistance during this audit.

***Appointed
Officials'
Responses*****City Manager:**

I am pleased with the results of the audit confirming that the financial aspects of the City's stormwater function are being properly and adequately administered and managed. I thank the City's Auditors office for conducting such a thorough and detailed audit and to provide recommendations for continued improvement in stormwater financial and program management. The results reflect the organization's commitment to Internal Control and willingness to improve the performance of all programs.

City Attorney:

We appreciate the thoroughness and professionalism exhibited throughout this audit process. The City Attorney's Office will work closely with the City's Treasurer-Clerk to resolve the noted contradiction between bond resolutions/covenants and the City's stormwater regulations on or before March 31, 2013. The City Attorney's Office will work closely with staff in the Property Management Division to immediately ensure that both offices have procedures in place to ensure that easements obtained by the City will ensure clear ownership of structures within the easements and the right to demolish such structures in the event the structures must be demolished.

City Treasurer-Clerk:

The Office of the Treasurer-Clerk will work closely with the City Attorney to resolve the noted contradiction between bond resolutions/covenants and the City's stormwater ordinance. The Office of the Treasurer-Clerk will work closely with Accounting Services to better document the basis for allocation of specified debt service costs to Stormwater. We appreciate the professionalism exhibited throughout this audit process, including the thoughtful manner in which the issues were presented.

Appendix A – Action Plan

Action Steps		Responsible Employee	Target Date
A. Objective:	Ensure proper treatment and accounting of salary and related costs.		
1.	Work assignments of applicable WRE Division staff will be reviewed and a process established to charge their salary costs to the most appropriate funding sources.	Gordon Klein	3-31-2013
2.	Salary and overhead costs pertaining to stormwater capital projects will be capitalized.	Jodie Cahoon	12-31-2012
B. Objective:	Ensure proper transfers of stormwater funds.		
1.	A yearend true-up adjustment process will be implemented to determine if accounting adjustments are needed to amounts transferred to other City funds (Water, Sewer, and General Funds) based on proposed activity and costs. Adjustments will be made for material differences identified by that process.	Gordon Klein	3-31-2013
2.	Transfers to the General Fund for work done by Public Works technical and administrative staff for the benefit of the stormwater function will be based on current and updated information.	Mike Scheiner	Completed** 11-30-2012
3.	Unused maintenance project funds will be returned to the initial funding sources in amounts proportional to their respective initial contributions.	Heath Beach	3-31-2013
4.	The appropriate basis for the allocation of debt service paid on the Capital Series 2004 Bonds will be determined and documented. Verifications will be made that prior year debt service payments for those bonds were equitable and reasonable.	Kent Olson	3-31-2013
C. Objective:	Ensure proper operating revenues are received.		
1.	Management will emphasize to staff the importance of properly coding premises within the PeopleSoft CIS as to the applicability of stormwater and fire services fees.	Matt Matherne	Completed** 10-2-2012
2.	Corrections will be made within the PeopleSoft CIS for the residential and non-residential premises identified by the audit as incorrectly not being assessed stormwater and/or fire services fees.	Carol Crowell Mark Simpson	Completed** 8-16-2012

Action Steps	Responsible Employee	Target Date
3. System queries will be established and run periodically to identify newly established premises within the City’s incorporated limits that are billed basic City utilities (electric, water, sewer, and/or gas) but for which stormwater and fire services fees are coded as not applicable. Applicable staff will review the query results to verify the non-applicability of stormwater and/or fire services fees. Corrective actions will be taken if those reviews show either of those two fees is applicable.	Matt Matherne Mike Beener	1-31-2012
4. Staff will begin an evaluation of nonresidential premises, located within the City’s incorporated limits and not charged stormwater fees, for the purpose of verifying the non-applicability of those fees and correcting any instances where those fees are determined applicable.	Carol Crowell Mark Simpson	12-31-2012
5. The ERU billing factor for nonresidential premises will be revised to comply with City ordinances (rounded to the nearest tenth).	Cindy McAdams	Completed** 10-23-2012
6. A process will be implemented to equitably allocate contractual revenues, received from the County for work on the St. Marks Trail, to the General Fund and Stormwater Operating Fund.	Mike Scheiner (with assistance from WRE Stormwater)	Completed** 11-30-2012
D. Objective:	Ensure proper use of stormwater revenues.	
1. Appropriate action will be taken to eliminate the inconsistency between applicable bond resolutions/covenants and the City’s stormwater ordinance.	Linda Hudson Kent Olson (with assistance from WRE Stormwater)	3-31-2013
E. Objective:	Ensure proper administration of stormwater capital projects.	
1. Standard agreements for obtaining easements for City projects will be modified so that all property owner rights in the applicable real estate, including improvements, are identified and extinguished. Assistance will be obtained from the City Attorney’s Office in this matter.	Judy Donahoe	12-31-2012
2. Appropriate levels of approval will be obtained for settlement agreements that provide for payment of City funds in amounts in excess of applicable real estate and procurement policy thresholds. Each settlement agreement will be handled on a case by case basis and all “quasi” real estate transactions will be subject to approvals as required by Real Estate Policy 136 and applicable procurement policy.	Mark Beaudoin Judy Donahoe	Completed** 11-16-2012

Action Steps	Responsible Employee	Target Date
3. Retainage on construction contracts will be withheld in amounts prescribed by applicable State statutes.	Blas Gomez	3-31-2013
4. Appropriate notification will made to all applicable City departments and offices as to statutory retainage requirements for construction contracts. Appropriate language for use in bid/proposal documents will be provided.	Edwin Rodriguez	Completed*
F. Objective:	Ensure proper accounting and disposition of fund balances.	
1. The accumulation of undesignated construction funds and applicable circumstances will be brought to the City’s Financial Viability Target Issue Committee for discussion and direction.	Gordon Klein	3-31-2013
2. The \$909,449 balance in the Stormwater Grant Fund will be returned to the Deficiencies Fund.	Patrick Twyman	Completed*
3. Appropriate adjusting entries will be made to provide correct and updated accountings for the various “fee in lieu of” stormwater redevelopment programs.	Patrick Twyman	Completed*
4. Staff will be reminded of the importance of tracking and accounting for resources available for the City’s Deficiencies Fund and Redevelopment Fund.	Rick Feldman	3-31-3013

*Action plan step has been completed. Completion was verified during audit.

** Per department, action plan step has been completed as of indicated date. Completion will be verified during the audit follow-up process.