

Audit

Follow-Up

As of March 31, 2013



T. Bert Fletcher, CPA
City Auditor

Audit of Selected Stormwater Activity

(Report #1302 issued December 12, 2012)

Report #1321

July 12, 2013

Summary

Applicable City departments have completed 16 of the 21 action plan steps established to address issues identified in audit report #1302, Audit of Selected Stormwater Activity. Actions have been initiated and are in progress to complete the remaining five steps. We will address the status of those remaining steps in our subsequent follow-up engagement.

In audit report #1302, we reported the financial aspects of the City's stormwater function were, overall, 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.

Twenty-one action plan steps were developed to address the identified risks. Each of those 21 steps was due for completion as of March 31, 2013. This initial follow-up engagement showed that applicable City departments have completed 16 of those 21 action plan steps. Actions were initiated and are in progress to address the five remaining steps.

Actions completed during the period covered by this follow-up review (or during the initial audit) included:

- Made appropriate adjustments to ensure salary costs of applicable staff are charged to the most appropriate funding sources (one action plan step).
- Prepared updated analyses and processes to ensure certain transfers of stormwater funds are equitable and appropriate (two action plan steps).
- Returned unused maintenance project funds to the initial funding sources in amounts proportional to those sources' initial contributions (one action plan step).
- Made system corrections and developed processes and additional controls to ensure applicable City customers are properly billed stormwater fees (five action plan steps).
- Modified standard agreements to ensure real property interests acquired by the City in connection with easements include improvements (buildings and structures) (one action plan step).

- Revised procedures such that all quasi real estate transactions are subject to appropriate approvals (one action plan step).
- Modified standard language in bid solicitation documents and contracts for construction services to provide for withholding of retainage in accordance with state statutes; notified City departments and offices of those changes and requirements (two action plan steps).
- Returned unused monies to the appropriate fund and made appropriate adjustments to provide correct and updated accountings of fund balances for the Stormwater Grant and Redevelopment Funds (three action plan steps).

We appreciate the cooperation and assistance provided by applicable City departments during this follow-up engagement.

Scope, Objectives, and Methodology

We conducted this audit follow-up 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 follow-up 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 follow-up objectives.

Report #1302

The scope of report #1302 included selected financial activity within the Stormwater Operating Fund, Stormwater Construction Fund, Stormwater Grant Fund, and Stormwater Redevelopment Fund. The main focus was financial activity during the three and one-half year period Fiscal Year (FY) 2009 through mid-FY 2012. Activity within several City departments was addressed in our review.

The objectives were to determine:

- Whether operating costs were proper, allowable, reasonable, and adequately accounted for and supported.
- 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.
- 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.
- The reasons for significant available undesignated funds within the Stormwater Construction Fund.
- The status and/or appropriate disposition of fund balances within the Stormwater Grant Fund and Stormwater Redevelopment Fund.

Various audit procedures were conducted to meet the stated audit objectives.

Report #1321

This is our first follow-up on action plan steps identified in audit report #1302. The purpose of this follow-up is to report on the progress and status of efforts to complete action plan steps due for completion as of March 31, 2013. To determine the status of the action plan steps, we interviewed staff, made observations, and reviewed relevant documentation.

Background

Organization and primary services. The City's stormwater utility was created in the late 1980s to provide stormwater management services within the City's incorporated limits. Some of the more critical stormwater management services 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 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. The primary stormwater services are performed by three separate City units:

- Public Works Operations Division - Drainage Unit.
- Public Works Operations Division - Street Sweeping Unit.
- Underground Utilities Water Resources Engineering (WRE) Division – Stormwater Unit.

Other City departments providing key assistance in regard to the stormwater function include:

- Utility Business and Customer Services (UBCS) department that bills City residential and nonresidential customers applicable stormwater fees as part of the monthly utility billing process.
- Property Management Division that assists in acquisition of property (e.g., easements) needed for stormwater capital projects.
- Department of Management and Administration (DMA) that (1) oversees establishment of operating and capital budgets (including stormwater programs and activities) and (2) accounts for stormwater financial activities.

Revenues. The primary stormwater function is funded primarily from stormwater fees charged to and collected from City utility customers whose premises are within the City limits. As shown in **Table 1** and noted in the initial audit report, over 98% of operating revenues come from those stormwater fees. Most of the remaining 2% of revenues comes from the State of Florida and Leon County for stormwater services performed by City crews on State and City owned streets.

<u>Category</u>	<u>Amount</u>	<u>Percentage</u>
Residential Fees	\$21,818,286	45%
Nonresidential Fees	\$25,522,501	53%
Maintenance State and County Streets	\$739,205	1.5%
Interest and Miscellaneous	\$209,484	0.5%
TOTAL	\$48,289,476	100%

In addition to the noted operating revenues, the City receives funds from other governmental entities for stormwater capital improvements. Examples reported in the initial audit included (1) transfers from Blueprint 2000, (2) transfers from FAMU (to address drainage issues resulting from stormwater runoff coming from the FAMU campus), and (3) Federal grants.

Disbursements. In regard to the primary stormwater function, uses (disbursements) of stormwater operating and capital funds are accounted for through two City funds: (1) Stormwater Operating Fund and (2) Stormwater Construction Fund.

As shown in the initial audit report and again in **Table 2** that follows, the Stormwater Operating Fund is used to pay salary and payroll costs, operating expenses, and related administrative costs pertaining to the primary stormwater function. Annual operating excesses (operating revenues in excess of operating disbursements) are transferred to the Stormwater Construction Fund as one of the funding sources for stormwater capital projects.

TABLE 2 STORMWATER OPERATING FUND EXPENDITURES AND TRANSFERS FY 2009 through FY 2011 (3 years)		
<u>Category</u>	<u>Amount</u>	<u>Percentage</u>
Salary and payroll costs	\$14,737,195	31%
Operating expenses	\$2,211,740	4%
Allocated charges	\$9,224,814	19%
Transfers to the Stormwater Construction Fund	\$20,137,927	42%
Other transfers	\$1,977,181	4%
TOTAL	\$48,288,857	100%

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	

The Stormwater Construction Fund accounts for monies used to finance stormwater capital projects. The sources of monies deposited into that fund are (1) transfers from the Stormwater Operating Fund as described in **Table 2** above and (2) funds received from other governmental entities as noted in the paragraph following **Table 1**. Activity within the Stormwater Construction Fund was described in the initial audit and again below in the following paragraphs and tables.

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 FY 2012 (3 years and 10½ months); that represented an annual average of \$7.64 million.

In the initial audit we reported that, as of June 30, 2012, there were 53 active capital projects. As indicated in the initial audit and shown again in **Table 4** that follows, funds appropriated for those 53 active projects totaled \$78.8 million, with \$40.7 million of that amount expended or encumbered (committed/contracted) as of June 30, 2012. The remaining \$38.1 million was to be expended 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.

We also reported that, as of June 30, 2012, available funds within the Stormwater Construction Fund totaled \$58 million. As reported in the initial audit, of that amount:

- \$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).

Other Stormwater Activities. In addition to the primary stormwater function relating to repairing and maintaining existing stormwater facilities and developing and completing capital projects to enhance the City’s stormwater facilities and infrastructure, we also reviewed certain financial matters relating to other stormwater activities in the initial audit engagement. Those other activities pertained to (1) the Stormwater Grant Fund that was used to account for federal grants for disaster assistance (e.g., used to address

drainage issues resulting from significant storms) and (2) the Stormwater Redevelopment Fund, which accounts for fees 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.

Previous Conditions and Current Status

In audit report #1302, we noted that, overall, financial aspects of the City’s stormwater function were being properly and adequately administered and managed. Operating costs were generally proper, allowable, and reasonable. For the most part, operating revenues were properly received and accounted for by the City. Capital project activities and expenditures were generally proper and reasonable.

Areas were identified where improvements and enhancements were needed. Those areas pertained to:

- 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.

Twenty-one action plan steps were developed to address the identified issues. Each of those 21 steps was due for completion no later than March 31, 2013. As shown below in **Table 5**, as of the end of our follow-up fieldwork, 16 of those 21

steps have been completed or resolved. In regard to the remaining five action plan steps, actions have been initiated but not completed.

The specific actions taken and remaining to be taken are described in further detail in **Table 5** that follows.

**Table 5
Action Plan Steps from Audit Report #1302
Due as of March 31, 2013, and Current Status**

Action Plan Steps Due as of March 31, 2013	Current Status
Ensure proper treatment and accounting of salary and related costs.	
<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> ✓ As part of the FY 2014 budget process, Underground Utilities reviewed the work assignments of applicable staff (including WRE and other applicable divisions/units) and made revisions as appropriate to ensure they will be paid from the appropriate funding sources. Based on the actions taken and planned (i.e., applying the revised methodology in FY 2014), this step is considered resolved.
<ul style="list-style-type: none"> • Salary and overhead costs pertaining to stormwater capital projects will be capitalized. 	<ul style="list-style-type: none"> ➤ Capitalization of applicable salaries and overhead is necessary to correctly and accurately account for project costs. During this follow-up engagement we found the Water Resources Engineering (WRE) Stormwater Unit completed an analysis/methodology to determine the amount of that unit’s salaries and related overhead costs that should be capitalized. That analysis/methodology was provided by the WRE Stormwater unit to the appropriate Underground Utilities administrative staff in November 2012. Underground Utilities administrative staff will apply that methodology at fiscal yearend (September 30, 2013). We will follow up on that planned application in our subsequent follow-up engagement.
Ensure proper transfers of stormwater funds.	
<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> ✓ Underground Utilities applied a yearend true-up process to determine if accounting adjustments were needed for FY 2012 in regard to amounts transferred from the Stormwater Fund to other City funds (e.g., Water and Sewer) for that year. That process showed the differences between transfers based on budgeted activity/costs and actual activity/costs were not material. Accordingly, no adjustments were deemed necessary. Our audit calculations confirmed those circumstances. This step is considered resolved.

<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> ✓ In response to the audit recommendation, Public Works completed an updated analysis to determine the amount that should be transferred to the City’s General Fund from the Stormwater Fund for work done by the Public Works technical and administrative staff for the benefit of the stormwater function. That updated analysis showed an annual transfer of \$306,000 would be appropriate and reasonable. Accordingly, the transfer for FY 2013 was adjusted to that amount (i.e., from \$319,300 previously budgeted based on outdated information to \$306,000). Public Works staff is also using the updated amount of \$306,000 in preparation of the FY 2014 proposed budget. Furthermore, Public Works plans to prepare updated analyses on an annual basis to use for future budgets and transfer determinations. Based on the actions taken and planned, this step is considered resolved.
<ul style="list-style-type: none"> • Unused maintenance project funds will be returned to the initial funding sources in amounts proportional to their respective initial contributions. 	<ul style="list-style-type: none"> ✓ For maintenance projects closed since the initial audit, remaining unused funds were returned to the initial funding sources in amounts proportional to their respective initial contributions. Accordingly, this action plan step has been completed.
<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> ➤ The City’s Capital Series 2004 Bonds were issued to provide funds for various purposes, one of which included improvements to various City buildings. The City’s WRE Stormwater Unit is housed in one of those buildings; therefore it is appropriate that the City’s Stormwater Fund share in those bond payments. The amount paid by the Stormwater Fund should be in proportion to the benefits received. In the initial audit we reported adequate and complete records were not available to substantiate the logic or basis for the determination of the amounts paid by the Stormwater and other City funds. <p>During this follow-up engagement we noted the Treasurer-Clerk’s Office is currently researching available records and information to identify and determine the support for the allocation among various City funds (including the Stormwater Fund) of debt service payments on those bonds. As of the end of our follow-up fieldwork, that research had not been completed. Accordingly, we will follow up on this matter in our subsequent follow-up engagement.</p>
<p>Ensure proper operating revenues are received.</p>	
<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> ✓ UBCS management indicated the importance of properly and correctly coding premises in the system has been addressed with staff. Furthermore, UBCS management stated the proper and correct

	<p>coding will be reinforced with staff twice a year during staff meetings. Accordingly, this step is completed.</p>
<ul style="list-style-type: none"> • 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. 	<p>✓ UBCS staff made appropriate corrections within the PeopleSoft CIS that has resulted in the proper billing of stormwater and/or fire services fees for the identified items (61 residential premises and five nonresidential premises). This step is completed.</p> <p>Audit Comment: During our follow-up audit fieldwork we noted that, due to staff error, stormwater fees still were not being billed on two of the 61 residential premises. Subsequent to our follow-up inquiry UBCS staff made the appropriate corrections to start billing stormwater fees on those two premises. UBCS management indicated additional controls were being implemented to detect similar instances occurring due to staff error. We recommend those controls be implemented.</p>
<ul style="list-style-type: none"> • 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. 	<p>✓ UBCS staff developed a system query that identifies newly established premises (residential and nonresidential) with electric services for which stormwater (and fires services) are either not coded or are coded as not applicable to the premises. Those results are sent to designated UBCS staff to investigate and determine if existing codes and/or explanations are correct and adequate and, if incorrect and inadequate, what codes and explanation should be revised and/or added to the system. Appropriate actions are taken as a result (e.g., proper codes and explanations added and/or stormwater or fire services fees initiated for the new premises if not already done when such fees are appropriate). This new query was first run and the results investigated in May 2013. Our review showed the query to be logical and reasonable and the resulting investigation/determinations correct and appropriate. We recommend UBCS continue to use this query to ensure proper billing of stormwater (and fire services) fees for newly created premises. Based on the actions taken and planned, this step is considered resolved.</p>
<ul style="list-style-type: none"> • 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. 	<p>✓ UBCS staff developed and ran a system query in August 2012 to identify premises within the City’s incorporated limits that are currently not billed stormwater fees and for which there is no justification within the system for not charging such fees. A total of 3,892 premises meeting those criteria were identified. As of June 3, 2013, UBCS staff had reviewed 1,117 of the 3,892 items (approximately 29%). Those reviews show the vast majority of those items are appropriately not being billed stormwater (and fire services) fees. Those</p>

	<p>items were properly coded as a result of the review to justify not assessing stormwater (and/or fire services) fees. For the few instances where stormwater fees were determined to be applicable (3 such instances identified to date), appropriate changes were made so the fees will now be properly charged. As indicated in the action plan step, UBCS staff is continuing to review the remaining items on an ongoing basis. Accordingly, this step is considered completed.</p>
<ul style="list-style-type: none"> • The ERU billing factor for nonresidential premises will be revised to comply with City ordinances (rounded to the nearest tenth). 	<ul style="list-style-type: none"> ✓ System adjustments were made such that the ERU billing factor applied to nonresidential premises is now calculated in accordance with applicable City ordinances. Specifically, the calculation, rounded to the nearest tenth as provided by Sections 21-557 and 21-558(2), Tallahassee Code of Ordinances, is applied in the determination of monthly fees for nonresidential customers. Accordingly, this step is completed.
<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> ➤ Public Works staff determined the appropriate (equitable) amount of contractual revenues, received from the County for work on the St. Marks Trail, which should be recorded in (credited to) the City’s Stormwater Fund. However, for the last two contractual payments received in November 2012 and May 2013, actions were not taken to credit the Stormwater Fund for the appropriate amounts. In response to our inquiry on this matter during our follow-up engagement, Public Works transferred the appropriate amounts (total of \$1,040) from those last two contractual payments to the Stormwater Fund. Furthermore, Public Works identified actions that would be taken such that the appropriate share of future payments is automatically credited to the Stormwater Fund. We will follow up on those efforts in our subsequent follow-up engagement.
<p>Ensure proper use of stormwater revenues.</p>	
<ul style="list-style-type: none"> • Appropriate action will be taken to eliminate the inconsistency between applicable bond resolutions/covenants and the City’s stormwater ordinance. 	<ul style="list-style-type: none"> ➤ As explained in the initial audit, bond resolution and covenant language that provides for pledging of stormwater fees to meet debt obligations on City water and sewer bonds is not consistent with Section 21.556 of the City’s Code of Ordinances, which provides that stormwater fees cannot be used for purposes other than the stormwater program. Applicable City staff have met and discussed possible solutions to address the inconsistency. Based on those discussions, a determination was made that a use of stormwater fees to meet debt obligations for water or sewer bonds should be considered a “loan” that would necessitate repayment to the stormwater fund (by the water or sewer fund as applicable). Such loans would not

	<p>violate the intent of the noted City ordinance as the water and sewer funds would ultimately pay the water and sewer debt. Accordingly, applicable changes have been proposed to City Commission Policy 224, Financing the Government, to remedy the noted inconsistency through incorporation of appropriate language. City management plans to submit those proposed changes to the City Commission in conjunction with other proposed policy changes in early fall 2013. We will continue to follow up on this issue in our subsequent follow-up engagement.</p>
<p>Ensure proper administration of stormwater capital projects.</p>	
<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> ✓ Standard contractual agreements for easement and other real estate transactions were modified such that real property interests acquired by the City in the applicable properties include improvements (e.g., buildings and structures). The applicable language was reviewed and approved by the City Attorney’s Office. This step is completed.
<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> ✓ Procedures within the Property Management Division were revised such that all quasi real estate transactions (e.g., settlement agreements and other unique acquisitions/payments) are subject to the same approval thresholds and approval authorities established in Real Estate Policy 136 for “normal” real estate transactions. Examples were provided where these revised procedures have been followed. This step is completed.
<ul style="list-style-type: none"> • Retainage on construction contracts will be withheld in amounts prescribed by applicable State statutes. 	<ul style="list-style-type: none"> ✓ Underground Utilities staff modified standard language in bid solicitation documents and contracts for construction services to provide for withholding of retainage in accordance with applicable state statutes. Additionally, provisions have been made to ensure the revised language is discussed with contractors prior to the start of the contracted construction services. This step is completed.
<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> ✓ Procurement Services submitted an e-mail to applicable City staff making them aware of the statutory language regarding retainage for construction contracts. Appropriate excerpts of the statutory language were included in the e-mail, along with a supplemental explanation and an online link to the statutes. Appropriate language, written to comply with the statutory retainage provisions, was also provided to purchasing agents within Procurement Services to be placed in applicable solicitation documents (e.g., request for bids). This step is completed.

Ensure proper accounting and disposition of fund balances.	
<ul style="list-style-type: none"> ● 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. 	<ul style="list-style-type: none"> ➤ City staff from the Department of Management and Administration (DMA), City Attorney’s Office, WRE Stormwater Unit, and City Auditor’s Office have met since the issuance of the initial audit to discuss this issue and action plan step. Discussions held to date included (1) what actions may be appropriate in regard to addressing the accumulation of funds and (2) whether revisions to City Commission Policy 224, Financing the Government, should be proposed to accommodate the accumulation of funds or an exception to the existing policy be requested. Further discussions by City staff are anticipated before this matter is brought to the City’s Financial Viability Target Issue Committee. Accordingly, we will continue to follow up and report on this action plan step in our subsequent follow-up engagement. <p>NOTE: City management is recommending an exception (exemption) to City Commission Policy 224 as part of the proposed FY 2014 City budget. If granted, that exception would authorize the accumulation of funds in excess of amounts established by policy during FY 2014. As noted above, we will continue to follow up on matter in our subsequent follow up engagement.</p>
<ul style="list-style-type: none"> ● The \$909,449 balance in the Stormwater Grant Fund will be returned to the Deficiencies Fund. 	<ul style="list-style-type: none"> ✓ The return of the \$909,449 to the Deficiencies Fund was verified as complete during the initial audit. This step is completed.
<ul style="list-style-type: none"> ● Appropriate adjusting entries will be made to provide correct and updated accountings for the various “fee in lieu of” stormwater redevelopment programs. 	<ul style="list-style-type: none"> ✓ Correcting journal entries were prepared and recorded as verified during the initial audit. This step is completed.
<ul style="list-style-type: none"> ● Staff will be reminded of the importance of tracking and accounting for resources available for the City’s Deficiencies Fund and Redevelopment Fund. 	<ul style="list-style-type: none"> ✓ Accounting Services management indicated that staff has been reminded of the importance of tracking and accounting for resources and activities of the City’s Deficiencies Fund and Redevelopment Fund. This step is completed.

Table Legend:

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|----------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> ● Issue to be addressed from the original audit. | <ul style="list-style-type: none"> ✓ Issue addressed and completed or otherwise resolved. ➤ Action in progress but not completed. |
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Conclusion

Table 5 above shows 16 of the 21 action plan steps established to address issues identified in our initial audit have been completed and/or resolved. As also shown in Table 5, efforts are in progress to complete the remaining five action plan steps. Those five steps relate to (efforts to date are noted in italics):

- Capitalization of salary and overhead costs pertaining to stormwater capital projects. (*A process for determining amounts to capitalize has been completed and will be implemented at fiscal yearend.*)
- Documenting the appropriate basis for allocation of certain bond payments to applicable City funds. (*Staff is still in the process of researching available records to determine and document the appropriate basis.*)
- Crediting the Stormwater Operating Fund for an appropriate share of contractual revenues received from the County. (*Staff has determined the appropriate share and identified actions to be taken to ensure the Stormwater Operating Fund is properly credited in the future.*)
- Addressing the inconsistency between City bond resolutions/covenants and the City's stormwater ordinance. (*Staff has determined appropriate policy changes to address the inconsistency and plans to present those proposed changes to the City Commission in the fall of 2013.*)
- Addressing the accumulation of undesignated construction funds. (*Staff from different City departments is discussing potential actions and policy revisions and/or exceptions; a policy exception has been recommended by City management as part of the FY 2014 proposed budget.*)

We will follow up and report on those remaining five action steps in our subsequent follow-up engagement.

We appreciate the assistance and cooperation from the various City departments during this audit follow-up.

Appointed Officials' Response

City Manager:

I wish to thank the City Auditor's Office for their analysis of Management's actions taken in follow up to the December 2012 Audit of Selected Stormwater Activity. I am pleased that we were able to complete the majority of action steps identified in the initial audit and that we are making substantial progress on the five remaining steps. I would also like to extend my sincere thanks to all the departments for their full cooperation with the Audit Office on this review.

City Attorney:

We appreciate the thoroughness and professionalism exhibited throughout this audit process. The City Attorney's Office will continue to work with the City's Treasurer-Clerk on revisions to the City's financial policies to resolve the noted contradiction between bond resolutions/covenants and the City's stormwater regulations. The City Attorney's Office has worked with staff in the Property Management Division to draft and implement procedures to ensure that easements obtained by the City will include 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:

We appreciate the efforts of the City Auditor to work with the affected City departments to develop appropriate responses to many of the action items identified; moreover, we look forward to final resolution of the remaining items during the next follow-up period.

Copies of this audit follow-up #1321 or audit report #1302 may be obtained from the City Auditor's website (<http://talgov.com/auditing/index.cfm>) or via request by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (Office of the City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail (auditors@talgov.com).

Audit follow-up conducted by:
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