

Office of Capital Improvements – Utilities Extension Project Construction Audit

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Report Issued

August 5, 2024

Audit Report No. 24-06



City of Cape Coral
City Auditor's Office

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TO: Mayor Gunter and Council Members

FROM: Andrea R. Russell, City Auditor *ARR*

DATE: August 5, 2024

SUBJECT: Office of Capital Improvements (OCI) – Utilities Extension Project (UEP)
Construction Audit

The City Auditor's Office conducted a performance audit of the OCI UEP construction process. This audit is included in the City Auditor's approved FY24 Audit Plan. The audit was conducted in conformance with Generally Accepted Government Auditing Standards by the authority granted through City Ordinances 28-02 and 79-10.

We would like to express our sincere appreciation to OCI management and staff for the courtesy, cooperation, and proactive attitude extended to the team members during the audit. If you have any questions or comments regarding this audit, please contact Andrea Russell at 242-3380.

C: Michael Ilczyszyn, City Manager
Connie Barron, Assistant City Manager
Aleksandr Boksner, City Attorney
Kimberly Bruns, City Clerk
David Hyyti, Interim Director of Capital Improvements
William Corbett, Design and Construction Manager
Elizabeth Ellis, Senior Project Manager
Jeff Pearson, Utilities Director
Rand Edelstein, Utilities Deputy Director
Thomas Mclean, Principal Engineer
Audit Committee

OFFICE OF CAPITAL
IMPROVEMENTS – UTILITIES
EXTENSION PROGRAM
CONSTRUCTION AUDIT

Issued August 5, 2024

Objectives

To determine if payment applications were accurate and billed in accordance with contract provisions.

To determine if resident concerns and complaints about construction were addressed in a timely and effective manner.

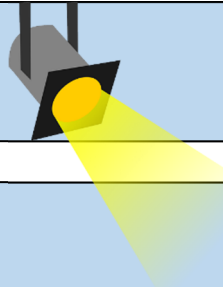
To evaluate the necessity for, and pricing of, change orders.

To determine if the construction inspection process is sufficient to ensure adherence to contract terms and policy and procedures.

To determine if planned Utilities Extension Projects support the goals and objectives of the City's Strategic Plan and Utilities Master Plan.

Background

The City was developed as a low-density, rural community with properties utilizing septic tanks and shallow groundwater wells. Septic failure can contaminate groundwater and canals which can also lead to environmental concerns. Shallow wells may add to the depletion of the upper groundwater aquifers and result in a lack of potable (drinking) water. The City's continued growth highlights the need for extending City water, sewer, and irrigation systems to unserved areas of the City as an important and integral part of the development and growth of Cape Coral.



REPORT HIGHLIGHTS

WHY THIS MATTERS

According to the City's UEP website, Cape Coral has grown to the third largest city by land mass, and eighth largest by population in Florida, with a population of over 200,000 people. This growth has spurred an increased demand for all City services including transportation, public safety, and especially the extension of water and sewer systems. The UEP aims to provide citizens with quality drinking water, fire protection, water conservation, environment protection, enhanced property values, and economic growth.

WHAT WE FOUND

The City Auditor's Office (CAO) conducted a performance audit of the OCI UEP construction process. This audit is included in the City Auditor's approved FY24 Audit Plan.

UEP management has made significant improvements in controls and processes for the project since our last audit performed in 2020. These include increased oversight of construction activities by adding more staff and improving how the City and the third-party Construction Engineering and Inspection (CEI) firm assist with construction inspection and address issues and complaints in the UEP area. We noted through our audit that since the project now utilizes a third party to assist in these areas, streamlining and strengthening oversight will result in continued improvements to the process. These opportunities for improvement are discussed in further detail in the Findings and Recommendations section of this report.

Although we noted areas of opportunity for improvement, no material control deficiencies were noted.



TABLE OF CONTENTS

BACKGROUND	1
FINDINGS AND RECOMMENDATIONS	4
METHODOLOGY.....	9
SCOPE.....	9
STATEMENT OF AUDITING STANDARDS	9
APPENDIX A.....	11

BACKGROUND

The City of Cape Coral (City) was developed as a low-density, rural community with properties utilizing septic tanks and shallow groundwater wells. If these septic tanks fail, sewage can contaminate groundwater and canals which can also lead to environmental concerns. Shallow wells may add to the depletion of the upper groundwater aquifers. When considering the City's continued growth, extending City water, sewer, and irrigation systems to unserved areas is an important and integral part of the development and growth of the City.



The UEP provides the infrastructure for water, sewer, and irrigation services to previously unserved areas. As part of the UEP, new wastewater and irrigation pump stations help to accommodate for growth and expansion. City roads and stormwater drainage systems are updated and improved as part of the UEP.

According to the North 1 West Informational Packet, benefits to extending City water, sewer, and irrigation services include:

- Quality potable water - Provides a dependable, high-quality supply of clean drinking water.
- Fire protection - The water distribution system will be designed to facilitate fire flow protection to the service area and hydrants will be placed in accordance with the City standards.



- Water conservation for irrigation - In many areas, the City operates an irrigation water system that includes a separate source of treated, reclaimed water for irrigation. This decreases the use of potable (drinking) and freshwater canal water for irrigation.
- Environmental protection - Failing septic systems are the third leading cause of pollution according to the U.S. Environmental Protection

Agency. Overflows from a septic system can discharge in close proximity to adjacent groundwater wells and homes. Expanding sewer systems reduces the number of septic tanks, which is not ideal in urbanized areas.

- Enhanced property values - In some surrounding areas, properties that have been connected to a centralized water and sewer system have shown to increase in value over those properties that remain on well and septic systems.

- Economic growth - Economic development will be more likely with the new utility and fire protection services in place.
- Municipal water - The extension of municipal water will also eliminate the frequency of wells running dry and saltwater intrusion.

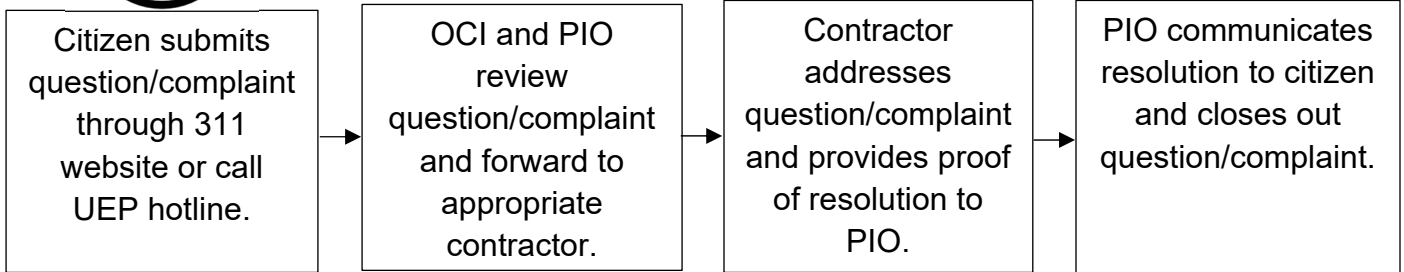
These projects are typically funded by using State Revolving Funds or municipal bonds, with repayment terms over 20 to 30 years. Also, commercial paper or short-term financing can be utilized to accommodate cash flow requirements. Property owners pay assessments which are used to repay the bonds and loans.

Contractors submit payment applications (pay apps) that detail work performed each billing cycle. OCI carefully reviews the pay apps to ensure invoices are accurate and approves them for payment. For FY23 and FY24 the City processed approximately \$50 million in payments to four contractors.



The North 1 UEP is included in the 2022 Comprehensive Utilities Master Plan Update. Due to prior concerns that the UEP projects were too large, City Council approved splitting the project into two phases, North 1 West and North 1 East. North 1 West is made up of six contract areas and is located in the area North of Pine Island Road and West of Del Prado Boulevard. There are four contractors performing work for North 1 West that began in Summer of 2023. The six contracts were awarded to pre-qualified contractors who submitted the lowest bid. Each contractor is responsible for providing quality workmanship and keeping the project on schedule. The City also utilizes a Construction Engineering and Inspection (CEI) consultant to assist City staff with OCI and Public Works with inspections, material testing, public involvement, and species management, such as burrowing owls and gopher tortoises, during the construction process.

The City also works in conjunction with an external Public Information Officer (PIO) to assist with resident communications. Prior to the start of construction, the City distributes a UEP Information Packet developed by the PIO to all property owners along with assessment notices. The PIO also coordinates and attends contract neighborhood meetings, where property owners and tenants are invited to an open meeting to ask questions and learn more about the project. The PIO also handles the citizen questions and complaints received through the UEP call hotline and website 'Contact Us' portal. Citizens may also report issues by the City's 311 call center.



As part of the construction process, the City provides construction inspector services in conjunction with CEI inspectors to ensure work is completed properly by the construction contractors. Both the City and CEI inspectors record activity from the construction sites on Daily Field Reports (DFR). These DFRs are utilized to support monthly billings.

The CAO previously issued a UEP audit¹ that focused on the design and engineering phase of the UEP. OCI has implemented many process updates to provide increased oversight of the UEP.



¹ 20-04 UEP Audit can be found on the CAO website.



FINDINGS AND RECOMMENDATIONS

FINDING 2024-01: Citizen Complaint Policies and Procedures Need Improvement **Rank: Medium**

Condition:

During our prior UEP Audit (#20-04), the CAO recommended improvements to policies and procedures for addressing citizen concerns. As a result of this recommendation, a resident correspondence workflow for addressing complaints was created in March of 2023. The CAO followed up on this recommendation during Audit #24-01, Prior Audit Recommendations Follow Up and determined, as a result of the audit, new PIO mail procedures were created in December of 2023. These procedures detail a timeline for response and roles and responsibilities for addressing citizen concerns. As part of the 24-01 audit additional improvements were made to the process. We used the December 2023 “PIO mail procedures” to perform the testing.

External PIO issue handling process

The PIO is an external third-party contractor that acts as an intermediary between the citizens and the contractors in the UEP area. When a complaint is received via the UEP call hotline or website portal, the PIO sends an email within the Project Management Information System (PMIS) to the responsible contractor. If a complaint is received through the 311 hotline, OCI forwards the complaint to the PIO, who then triages to the appropriate contractor. Once the contractor has addressed the complaint, they inform the PIO who closes the issue in the PMIS.

PMIS reported issues

When complaints are entered into the PMIS they are classified as “issue notification” or “general correspondence”. According to “PIO mail procedures”, the contractor must respond to all issue notifications within a certain time frame depending on the type of complaint. Items are classified as urgent, minor damage, conditions, and property/vehicle damage, each with a separate set of defined requirements. Of the 15 PMIS complaints, 12 were classified as issue notification and three as general correspondence. Of these 12 issue notifications, one (8%) did not fall into one of these categories (species²). For six (50%) issue notifications the contractor did not respond in accordance with the established time standard documented in the PIO mail procedures. Five of the six (83%) indicated no response from the contractor.

After further discussion with OCI, we determined there were several factors to explain why there was no response from the contractor. These included:

- Some issue complaints were information only communications to the contractors and should’ve been classified as general correspondence.

² The call was regarding burrowing owls.

- Other issues were communicated outside of the PMIS software during monthly meetings or general correspondence.

Although there was no evidence of a contractor response, it is important to note that all complaints tested were resolved and properly closed with an explanation by the PIO. The PIO mail procedures only include a timeframe for a response from the contractor and do not establish a timeframe for resolution since each situation can differ greatly. For our testing to determine if complaints are addressed timely, we used the timeframe for the response from the contractor as a metric for complaints resolution³. Of the 12 issue notifications, three (25%) were not resolved timely.

Issues reported through 311 system

The original workflow created in March 2023 stated there were “no calls accepted through 311 Call Center. All 311 calls will be rerouted to the hotline or email address.” Unfortunately, it is impossible to prohibit citizens from calling 311 for UEP concerns; therefore, some calls were recorded in 311 and not with the external PIO. Since the policy states there are no 311 calls to be accepted, there is no timeline established for calls received from 311, or a process to enter data into the PMIS to the PIO; therefore, the CAO used five business days as the timeline from when a call is received to when it should be entered into the PMIS. During our testing, we noted two of eight⁴ complaints were not entered into the PMIS within the five-day timeline.

Criteria:

- Resident Correspondence Workflow
- City approved PIO mail procedures
- 20-04 Public Works Utilities Extension Program Management Audit
 - Finding 2020-02: Improve management of citizens’ concerns

Cause:

- Conflicting policies and procedures
- Lack of detailed policies and procedures
- Noncompliance with PIO mail procedures

Effect:

- Potential for citizen complaints to not be addressed
- Increased workload for PIO

³ The CAO utilized the time standard of same day, three-day, 30 days for responses according to the type of situation reported.

⁴ Two out of the ten 311 calls were not entered into the system. One call was during the beginning of construction and citizen was informed about Right of Way usage. The other call was a repeat call. When OCI is inundated with a repeat issue, they will call the resident and let them know it is already being addressed.

Recommendation:

2024-01:

Update the existing “Resident Correspondence Workflow” and “City Approved PIO mail procedures” to ensure conformity for reporting issues and compliance to policies and procedures.

Management Response and Corrective Action Plan:

2024-01 Select one of these boxes:

Agree **Partially agree*** **Disagree***

***For partially agree or disagree a reason must be provided as part of your response.**

2024-01 Staff has reviewed the findings of 2024-01 and is working to rectify the issues related to conflicting policies and procedures, lack of detailed policies and procedures, and noncompliance with PIO mail procedures. The following actions are in progress to address the findings:

- Update the ‘*Resident Correspondence Workflow*’ to include any correspondence received through the 311-call center.
- Update the ‘*PIO Mail Procedures*’ to indicate missing updates/acknowledgements by the contractor and more accurate timeframes pertinent to PIO responses, contractor responses and issue closure.

Once these items have been drafted a meeting with the City Auditor’s Office will be conducted to ensure all findings are addressed and the new procedures are implemented correctly.

2024-01 **Management Action Plan Coordinator:**
Director of Capital Improvements

2024-01 **Anticipated Completion Date:** 9/6/2024



FINDING 2024-02: Documentation of City review of CEI Inspection Reports Needs Improvement.

Rank: Medium

Condition:

As a result of our prior UEP Audit (#20-04), the CAO recommended formalizing and documenting the City's monitoring of the construction and engineering firm's DFRs. We followed up on this recommendation as part of Audit #24-01, Prior Audit Recommendations Follow-Up Audit, and as a result of the recommendation OCI developed two DFR workflows, one for City Inspectors and another for CEI Inspectors. These workflows detail the chain of review and establish time standards for these reviews to be completed. This workflow demonstrates improvement in the DFR process from the previous audit.

According to the CEI workflow⁵, once a CEI Inspector submits their DFR, it is reviewed by the CEI Lead Engineer. If no revisions are needed, it is sent to the City Project Manager for review. If no revisions are needed, it is sent back to the CEI Lead Engineer who gives final approval and closes the DFR. During our testing of DFRs, we selected 25 workdays to review, which resulted in a total of 50 DFRs, 25 City Inspectors and 25 CEI Inspectors. DFRs were created each day and construction activities agreed between City Inspector DFRs and CEI Inspector DFRs; however, we noted that 100% of the CEI DFRs were closed by the same inspector who performed the inspection.

Part of the DFR workflow indicates the City Engineer reviews the DFR, then it is routed back to the CEI Lead Engineer for closure; however, due to system limitations of the PMIS, we are not able to view who reviews the DFR, only who opens and closes it. We requested documentation to support City Project Manager review of CEI DFRs created after the implementation of the DFR workflow from our sample. For the selected sample, there was no support available because the City Engineer sends an email when additional information or modification is needed for accuracy.

Criteria:

- DFR workflow
- 20-04 Public Works Utilities Extension Program Management Audit
 - Finding: 2020-01: Improvements to daily field inspection reporting and review process

Cause:

- Potential insufficient oversight of CEI inspections
- Insufficient documentation of City monitoring
- Nonadherence to DFR workflow

⁵ The workflow used in testing was not finalized until February 2024, which although in the scope of the audit, caused us to adjust testing attributes for those DFRs generated prior to February 2024. The workflow was not applied to DFRs generated before February 2024.

Effect:

- Uncertainty of DFRs closed without proper review
- Potentially inaccurate pay app

Recommendation:

2024-02:

Monitor CEI Lead Inspector approval of DFRs to ensure adherence to workflow.

Management Response and Corrective Action Plan:

2024-02 Select one of these boxes:

Agree **Partially agree*** **Disagree***

***For partially agree or disagree a reason must be provided as part of your response.**

2024-02 Staff has reviewed the findings of 2024-02 and is working finalize the changes related to potential insufficient oversight of CEI inspections, insufficient documentation of City monitoring, and nonadherence to DFR workflow. The following actions are already in progress to address the findings:

- The CEI Lead Engineer has revised their process to adhere to the workflow, conducting a final review and approving the DFR in the PMIS.

This process appears to have rectified this issue. A meeting with the City Auditor's Office will be conducted to ensure this process adequately addresses the findings.

2024-02 Management Action Plan Coordinator:

Director of Capital Improvements

2024-02 Anticipated Completion Date: August 5, 2024

(NOTE: Because this process is currently in place, we have made the anticipated completion date the date of report issuance.)

SCOPE

Based on the work performed during planning and the assessment of risk phase, the audit covered the UEP North 1 West project for the period of FY22, FY23, and FY24 through April 30, 2024. To evaluate the UEP management operations, we reviewed policies and procedures, applicable laws, regulations, and associated processes. We completed walkthroughs of the processes, visited construction sites, and reviewed available documentation to gain an understanding of the UEP construction project management practices.

STATEMENT OF AUDITING STANDARDS

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

METHODOLOGY

To achieve the audit objectives and gain a better understanding of the UEP process, we conducted several interviews, walkthroughs, and site visits with UEP staff, City and CEI inspectors, and the external PIO. Sample sizes and selection were based on the CAO Sample Methodology. We used both random and judgmental sampling for our sample selections.

To determine if payments to contractors were paid accurately, we randomly selected pay apps from paid claims for all contracts. We reviewed these pay apps and supporting documentation to verify for proper approval, authorization, and accuracy.

To determine if daily inspections are completed, we randomly selected workdays during the audit scope and then selected DFRs to review the process in place. We reviewed City and CEI DFRs within the PMIS to ensure DFRs were properly supported, complete, and adequately monitored by appropriate staff in accordance with policies, procedures, and workflows.

METHODOLOGY (continued)

We reviewed citizen issues reported to both the UEP hotline and the 311 Call Center. To determine how OCI addresses citizen questions, issues, and complaints reported through the hotline and external PIO, we judgmentally selected seven days with a high volume of reports. From those dates we judgmentally selected individual issues to review. To determine if citizen questions, issues, and complaints are addressed timely and effectively, we reviewed the judgmental sample communication between City staff, PIO, and contractors within the PMIS for proper handling of close out of questions and concerns. We also reviewed the City and PIO's efforts to keep the public informed throughout the duration of the construction process.

For review of issues reported through the 311 Call Center, we judgmentally selected issues classified as 'high' and 'critical' to review proper routing and handling of these issues. To test this, we reviewed the judgmental sample communication between City staff, PIO, and contractors within the PMIS for proper handling of close out of questions and concerns.

There were no change orders processed during the scope of our audit of the North 1 West UEP; therefore, we were unable to perform testing at this time.

To determine if OCI monitors the need for utilities in coordination with resident needs and growth of the City, we conducted interviews with OCI staff and reviewed the Utilities Master Plan.

We also utilized data from the City's financial accounting system, to verify pay app information. The financial accounting system is tested by the external auditors as part of the Annual Comprehensive Financial Report. Based on the results of their procedures, no additional data reliance testing was deemed necessary.

Unless specifically stated otherwise, based on our selection methods, and testing of transactions and records, we believe that it is reasonable to project our results to the population and ultimately draw our conclusions for testing, findings, and recommendations on those results. Additionally, for proper context we have presented information concerning the value and/or size of the items selected for testing compared to the overall population and the value and/or size of the exceptions found in comparison to the items selected for testing.

APPENDIX A

Finding Classification

Findings are grouped into one of three classifications: High, Medium, or Low. Those findings that are categorized as low are not included in the report but rather are communicated separately to management. Classifications prioritize the findings for management to address and also indicate the level of testing required to determine if a finding's Corrective Action Plan is fully implemented in accordance with recommendations and Management's Response.

High: A finding that is ranked as "High" will have a significant impact on the organization. It is one that *prevents* the achievement of a substantial part of significant goals or objectives, or is the result of noncompliance with federal, state, or local laws, regulations, statutes, or ordinances. Any exposure to loss or financial impact for a High finding is considered *material*. Examples include direct violation of City or Department policy, blatant deviation from established policy and procedure, such as actions taken to circumvent controls in place, material non-compliance with federal, state, or local laws, regulations, statutes or ordinances, or an area where significant cost savings could be realized by the Department or the City through more efficient operations.

High findings require immediate management attention and should take management's priority when considering implementation for corrective action.

Medium: A "Medium" finding is one that *hinders* the accomplishment of a significant goal or objective or is the result of non-compliance with federal, state, or local laws, regulations, statutes, or ordinances, but can't be considered as preventing the accomplishment of the goal or objective or compliance with federal, state, or local laws, regulations, statutes, or ordinances. Exposure to loss or potential or actual financial impact is *significant but not material* to the Department or City. Examples include lack of monitoring of certain reports, insufficient policies and procedures, a procedure in place or lack of a procedure that can result in *potential* noncompliance with laws and or regulations.

Medium findings require management attention within a time frame that is agreed upon by the Department and the City Auditor. Priority for implementation of management's corrective action should be considered in light of other High or Low findings.

Low: A "Low" finding is one that warrants communication to management but isn't considered as hindering the accomplishment of a significant goal or objective or isn't noncompliance with federal, state, or local laws, regulations, statutes, or ordinances. Financial impact or risk of loss is minimal to none; however, low findings can *hinder the effectiveness or quality of department operations and thus are communicated to management separately. Low ranked findings are not included in the final audit report.*

The City Auditor's Office will not follow up on the status of Low findings communicated to Management.