City Auditor's Office

Public Works – Stormwater Credits Audit

Report Issued: August 18, 2023

Audit Report No. 23-03

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TO: Mayor Gunter and Council Members

FROM: Andrea R. Russell, City Auditor

DATE: August 18, 2023

SUBJECT: Public Works – Stormwater Credits Audit

The City Auditor's Office has completed the audit of the Public Works – Stormwater Credits. 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 the Public Works and Finance Departments 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, Interim City Manager
Connie Barron, Assistant City Manager
Aleksandr Boksner, City Attorney
Brian Bartos, Deputy City Attorney
Kimberly Bruns, City Clerk
Persides Zambrano, Interim Public Works Director
Audit Committee

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EXECUTIVE SUMMARY

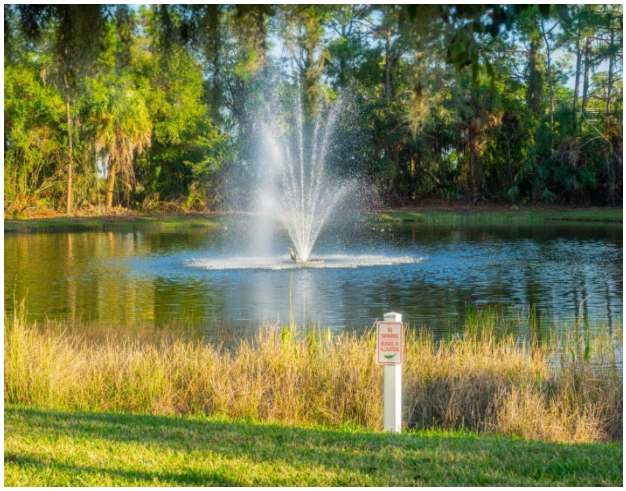
The City Auditor's Office conducted a performance audit of the Public Works – Stormwater Credits process. This audit is included in the City Auditor's FY23 approved Audit Plan.

Based on the test work performed and the audit recommendations noted below, we concluded policies and procedures for the program need improvement and clearer roles and responsibilities should be established to administer the program more effectively and in accordance with the City ordinance.

For further details on these findings and recommendations, see the Findings and Recommendations section. While we noted controls over the process need improvement, no material control deficiencies were noted.

BACKGROUND

The Public Works (PW) Stormwater Division is responsible for maintaining the City's drainage system, including swales, pipes, manholes, retention, and detention ponds. The stormwater system serves to protect property and reduce the impacts of runoff into the City's extensive canal system. The stormwater assessment and credits are governed by City Ordinance Chapter 22, enacted April 30, 1990, and revised June 26, 2002. Stormwater fees are billed annually as a non-ad-valorem tax on the Lee County Tax bill. Funds collected from stormwater assessments are used to improve the City's drainage system and perform canal dredging and maintenance. Based on data generated from the City's billing software, total annual revenues from the stormwater fee for FY21 and FY22 were approximately $22 and $23 million, respectively.



Development projects (Development), as defined by City Ordinance Chapter 22, can apply for a stormwater credit if they have a fully functioning stormwater management system on their property. A credit of up to 60% may be granted. Developments must submit engineer reports two times per year, one for dry and one for wet season. Engineer reports should include how the Development maintains the stormwater system, assess the current condition of the stormwater system, and provide supporting photos for the assessments. Based on credit tracking information provided by PW, there were 50 Developments that applied for a stormwater credit during our audit scope. The savings in total for the Developments receiving the credit totals approximately $648,000 and $665,000 for FY21 and FY22, respectively.

AUDIT OBJECTIVE

To determine if controls are in place to accurately assess stormwater fee credits for development projects.

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.

FINDINGS AND RECOMMENDATIONS

FINDING 2023-01: Develop Stormwater Credit Policies and Procedures
Rank: High

Condition:
The Stormwater division of PW is primarily responsible for the review of these engineering reports. PW communicates information regarding the credit to Customer Billing Services

(CBS), who in turn communicates the credit to the Development and the Lee County Tax Assessor.

Controls over the stormwater credit review process need improvement to ensure the credits are accurately allocated to eligible Developments. Based on walkthroughs conducted during audit planning, we noted there are no formal policies and procedures in place that clearly define roles, responsibilities, detailed steps for review, and calculation of the credits. The Stormwater Division utilizes five internal documents for the review and tracking processes. These include:

- Stormwater Fee Reduction Program Schedule and Process
- Recommended Maintenance Requirements of Stormwater Features
- Correspondence sent to Developments outlining the ordinance criteria and maintenance requirements
- Inspection/Certification of Proper Maintenance and Operation of Private Stormwater Facility, 1/2018
- Excel spreadsheet for tracking development property report and credit status

PW and CBS share responsibilities in the credit process, which makes clearly defined roles and responsibilities necessary, to efficiently process credits and communicate interdepartmentally as well as externally to Developments. In addition, there is no formal documentation in PW to clearly define:

- The process for review of engineering reports, including required documentation for engineers to submit with wet and dry season reports
- A schedule for PW inspection of Development sites
- Communication of credit eligibility, approval/denial, or deficiencies to Developments
- Monitoring and site checks for Developments

Test Results

We tested 100% of the population based on the spreadsheet managed and updated by PW. We often noted the engineer report packets were missing documents or support, such as photos, needed to assess credit eligibility. These are noted in the table below as incomplete engineer reports. Missing documents may lead to approval of credits for ineligible Developments. For example, the Cape Coral Hospital submitted engineer reports that included several photographs that were duplicated from one report (wet 2020) to the other (dry 2021). It appeared that there was no correspondence between PW and the Development or engineer to obtain new photos and the previous credit amount was granted for the new period. Full test results can be seen in the table below.

	FY21		FY22	
	Wet Season 2020	Dry Season 2021	Wet Season 2021	Dry Season 2022
Number of Engineer Reports Tested	20[1]	21	15	15
Number of Engineer Reports Incomplete	7	6	2	2
Exception Percentage	35%	29%	13%	13%

A policy and procedures manual is an essential management tool and provides management and staff guidelines for day-to-day operations. A manual also ensures business process continuity; identifies specific methods and standards for how work is performed and documented; and provides process consistency. A finalized manual should be periodically reviewed and updated to ensure it remains consistent with current daily operations. Since both PW and CBS are involved in the credit process, it is important that each division is aware of their roles and responsibilities and has an awareness of the other divisions part in the process.

Criteria:

- Formal policy and procedures manual with clearly defined roles and responsibilities
- Stormwater Fee Reduction Program Schedule and Process, 12/30/2021
- Recommended Maintenance Requirements of Stormwater Features, 2/1/2019
- Inspection/Certification of Proper Maintenance and Operation of Private Storm Water Facility, 1/2018
- Excel spreadsheet for tracking development property report and credit status
- City Ordinance 22.5(e)

Cause:

- Lack of a formal policy and procedures manual

Effect:

- Potential inconsistencies in applying stormwater credits
- Potential for a development property to receive a credit in error

RECOMMENDATION:

2023-01: Strengthen controls over the stormwater credit review process by developing a policy and procedures manual that includes clearly defined steps for the review process, roles and responsibilities for Public Works and Customer Billing Services.

Management Response and Corrective Action Plan:

2023-01 Select one of these boxes: ☒ **Agree** ☐ **Partially agree*** ☐ **Disagree***

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

[1] *One Development only submitted a Dry Season report because, according to Public Works, this was the first period they were eligible to submit.

2023-01 Develop a Standard Operation Procedure (SOP) for the administration and analysis of requests for Stormwater Utility Fee adjustments based on Chapter 22 of the Code of Ordinance.

2023-01 Management Action Plan Coordinator: Interim Public Works Director
2023-01 Anticipated Completion Date: 09/29/2023

FINDING 2023-02: Process Workflow Needs Improvement
Rank: Medium

Condition:
Both PW and CBS have tasks to perform as part of the credit process. There are no clearly defined roles and responsibilities, or a defined workflow for exchange of information between the two divisions. PW is the subject matter expert in determining the allocation of Development credits. Development engineers submit their wet and dry season reports to CBS, PW, or sometimes both departments. Both departments log the reports on separate spreadsheets and CBS forwards reports they receive to PW.

Once PW personnel has reviewed the reports and decided credit eligibility, no formal communication is sent to the Developments or their engineers. PW emails deficiencies noted in dry season reports to the Development for correction. PW also emails CBS the credit percentage for each Development after both the wet and dry reports have been reviewed. CBS sends a credit approval/denial slip (slip) with the original Equivalent Residential Unit (ERU) and the credit ERU to PW for approval. PW reviews the ERU amounts on the slip and approve or deny the credit, then return the slip to CBS. Once PW returns the slip, CBS enters the assessment credit into their system so it can be properly reflected on the property tax notice. There is no formal communication to the Development regarding approval, denial, or credit amount other than the ERU credit on the property tax notice.

We noted several instances where either documentation for review, such as emails; dry season deficiencies; and the slips could not be located for our samples. This is due in part to the lack of documented policies and procedures (see Finding 2023-01), but it is also due to a lack of clear roles and responsibilities in the workflow. The issues caused by the lack of a defined workflow were exacerbated by a lack of documented procedures, recent personnel changes, and disorganized record management.

Criteria:
- Defined workflow

Cause:
- Unclear workflow
- Lack of a formal policy and procedures manual
- Unclear roles and responsibilities
- Personnel changes

Effect:

- Potential inaccurate credit amounts
- Potential unaddressed deficiencies in reports
- Unintentional oversight due to a lack of defined roles and responsibilities

RECOMMENDATIONS:

2023-02a: Define and document a streamlined workflow that clearly describes the flow of the process from Public Works to Customer Billing Services, the Development, and their engineers.

2023-02b: Develop a memo to communicate credit percentage to Customer Billing Services, the Development, and their engineers.

Management Response and Corrective Action Plan:

2023-02a: Select one of these boxes: ☒ **Agree** ☐ **Partially agree*** ☐ **Disagree***
***For partially agree or disagree a reason must be provided as part of your response:**

2023-02a: Staff will develop a Stormwater Credit/Incentive Policy and Procedure Manual

2023-02a: **Management Action Plan Coordinator:** Interim Public Works Director
2023-02a: **Anticipated Completion Date:** 09/29/2023

2023-02b: Select one of these boxes: ☒ **Agree** ☐ **Partially agree*** ☐ **Disagree***
***For partially agree or disagree a reason must be provided as part of your response:**

2023-02b: A flowchart depicting the communication to all parties involved will be part of the Stormwater Credit/Incentive Policy and Procedure Manual

2023-02b: **Management Action Plan Coordinator:** Interim Public Works Director
2023-02b: **Anticipated Completion Date:** 09/29/2023

SCOPE AND METHODOLOGY

Based on the work performed during the planning and the assessment of risk, the audit covers the PW Stormwater Credits process for the period of October 1, 2020, to September 30, 2022. Testing was performed using applicable City Ordinance and PW procedures that were in place during the scope.

Original records as well as copies were used as evidence and verified through physical examination. To gain a better understanding of the review process for PW credits and reports, walkthroughs were conducted with PW Stormwater personnel who review engineer reports and determine for the credit for the Development. Sample size and selection were based on the

CAO Sample Methodology. PW provided a list of 50 developments that received stormwater credits during the scope of our audit. We tested 100% of this population by testing 25 Developments each for FY21 and FY22, to test attributes to support the audit objective and determine if controls are in place to accurately assess stormwater fee credits for development projects.

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 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 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, procedure in place or lack of 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 is one that isn't considered as hindering the accomplishment of a significant goal or objective and isn't causing 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.