

# **Stormwater Fees Audit July 2019**

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City Auditor's Office

July 26, 2019

Honorable Mayor and Members of the City Council:

The City Auditor's Office has completed the Stormwater Fees Audit. The purpose of the audit was to review expenditures made from the Stormwater Utility Fund to assess compliance with Ordinance 07-053 related to the use of Stormwater Fees.

Management's response to our audit findings and recommendations, as well as target implementation dates and responsibility is included following the report.

We would like to thank staff from the Public Works and Transportation Department and the Finance Department for their full cooperation and assistance during the audit.

*Lori Brooks Jaquess*

Lori Brooks Jaquess, CPA, CIA, CGAP, CRMA  
City Auditor

Attachment

c: Trey Yelverton, City Manager  
Jim Parajon, Deputy City Manager  
Gilbert Perales, Deputy City Manager  
Jennifer Wichmann, Assistant City Manager  
Mike Finley, Chief Financial Officer  
Mindy Carmichael, Director Public Works and Transportation  
Amy Cannon, Assistant Director Public Works and Transportation, Stormwater

# Stormwater Fees Audit

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## *Executive Summary*

The City Auditor's Office has completed the Stormwater Fees Audit. The performance audit was conducted 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 objective. The audit objective was to review expenditures made from the Stormwater Utility Fund to assess compliance with Ordinance 07-053 related to the use of Stormwater Fees.

The City Auditor's Office noted strengths in the Public Works and Transportation Department's Stormwater Division related to the following:

- Establishment of a review process to ensure that funds are spent on drainage related items
- Obtaining advice from the City Attorney's Office when legal questions arise regarding the use of stormwater funds

We noted potential opportunities for improvement in the following areas:

- Accuracy of calculations related to stormwater repayments to the general fund
- Communication with the Finance Department related to budget issues
- Timeliness of the unencumbering of funds after a contract is closed out

Details of audit findings, conclusions and recommendations are included in the following report.

## ***Audit Scope and Methodology***

The audit was conducted in accordance with generally accepted government auditing standards. The City Auditor's Office reviewed a sample of expenditures for the period of October 1, 2017 through December 31, 2018. The following methodology was used in completing the audit.

- Interviewed Stormwater employees
- Identified relevant laws, ordinances, policies, and procedures
- Examined budget documentation, general ledger reports, and expenditure documentation
- Reviewed Public Works and Transportation project files

## ***Background***

The City of Arlington established a municipal drainage utility system in August 1990. This utility system further evolved in July 2007 with the passage of Ordinance 07-053 into the current Stormwater Utility System. The City maintains a Stormwater Utility Fund, consisting of fees collected from residential and commercial property owners, to offset the cost of maintaining and operating the drainage system. The infrastructure currently consists of:

- 18,612 inlets,
- 318,751 linear feet of pipe,
- 255,608 linear feet of channels (both concrete and earth), and
- 141 miles of creeks

The Stormwater Division of the Public Works and Transportation Department manages the Stormwater infrastructure for the city. The Stormwater Division is comprised of four components:

- Stormwater Administration which mainly handles the administrative and engineering duties of the division.
- Stormwater Management handles the field operations duties of the division.
- Environmental Compliance manages the compliance work related to the City's Municipal Separate Storm Sewer System (MS4) permit.
- Environmental Education works with schools and outreach to the community and organizes the "Turn Around Don't Drown" art contest.

The Stormwater division currently has thirty-one full-time employees and three part-time employees.

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## ***Audit Results***

The focus of the audit was to review expenditures made from the Stormwater Utility Fund (SWUF) to ensure they were in compliance with the laws governing the Stormwater Utility. Internal Audit tested a sample of transactions for appropriateness and reviewed contract closeouts to assure unused funds were properly returned to the SWUF.

### **Transaction Review**

Internal Audit looked at a random sample of 170 transactions from the three accounts that make up the SWUF. Examples of transactions reviewed included expenditures for contractors, consultants, title searches, easement rights, office supplies, payments to cornerstone staffing, travel/training, fleet charges, and membership dues. Internal Audit noted that all expenditures reviewed were in compliance with the governing laws of the SWUF.

Additionally, included in the expenditure review were reimbursements to the General Fund for expenditures that the Street Bond Fund made on behalf of the SWUF for drainage projects. There were two separate repayment plans in the period under review. The first repayment was from FY13-FY18 for Downtown Drainage Improvements and a phase of the Cousins/Sanford project. A second repayment plan began in FY19 for another phase of the Cousins/Sanford project. Issues were noted regarding these repayments and are discussed further in the detailed findings section.

Additionally, communication issues between Public Works and Transportation and the Finance Department related to the newest repayment plan were noted during the course of reviewing the repayments. Further details are provided in the detailed findings section.

### **Closeouts**

The process of closing out contracts and unencumbering funds associated with those contracts was reviewed to determine if the funds were unencumbered in a timely manner. Internal Audit reviewed all twelve contracts closed out during the period under review. To determine the timeliness of the closeouts, Internal Audit reviewed the date of the last invoice recorded against the contract, and then compared that date to the date the contract was closed out and the funds associated were released in e-Builder. Based on this review, it was noted that three contracts were closed out within ninety days of the final invoice, four were closed out between ninety and one hundred eighty days, and five were closed out more than one hundred eighty days after the final invoice was paid.

## ***Detailed Audit Findings***

### **Reimbursements to General Fund**

The Stormwater Utility Fund has been required, over the last eight fiscal years, to reimburse the General Fund for drainage related projects paid for by the Street Bond Fund. From FY13 - FY18 the SWUF repaid a total of \$2,778,333 for two projects, Downtown Drainage Improvements (\$1,488,223) and Street/Drainage-Cousins/Sanford (\$1,290,110). For FY19 and FY20, the SWUF is budgeted to repay the general fund \$1,080,433 for one project, Street/Drainage-Cousins/Sanford.

The following was noted related to the reimbursements:

- The SWUF reimbursed the General Fund \$1,488,223 for Phase 3 of the Downtown Drainage Improvements project (DR97-02A). Based on a review of records, it appears that Street Bond Funds only paid \$778,136 for drainage related work on this project. Thus, the SWUF reimbursed the General Fund \$710,087 in excess of the expenditures for the drainage related work initially paid for by Street Bond Funds.
- The SWUF reimbursed the General Fund \$1,290,110 for a Street/Drainage-Cousins/Sanford project. However, the Finance Department could not provide support for the amount required to be reimbursed. Without this information, Internal Audit was unable to validate the accuracy of the amount reimbursed.
- The amount scheduled for reimbursement in FY19 and FY20 is \$1,080,433 for a Street/Drainage-Cousins/Sanford project (DR97-29). Based on a review of expenditure documentation, it appears that only \$231,043 of the \$1,080,433 was for drainage related items; the remainder was for street related work. Additionally, according to the Department of Public Works and Transportation, the department has already reimbursed the General Fund for the Cousins/Sanford project.

Based on the instances noted above, it appears that the reimbursements to the General Fund are more than the funds expended by the Street Bond Fund for drainage expenses. Additionally, it was noted that the Finance Department did not research the Street Bond expenditures to assure that only drainage related expenditures were included for reimbursement. It appears that the entire amount charged to the drainage project account was included for reimbursement. State law requires that only drainage related expenses be paid by the SWUF.

### ***Recommendations:***

- 1. The City Auditor's Office recommends that the Director of Public Works and Transportation and the Assistant Director of Public Works and Transportation, Stormwater consult with the Chief Financial Officer to determine the correct amount that should be repaid from the Stormwater Utility Fund to the General Fund to cover the drainage related items charged to the Street Bond Fund for projects DR97-29 and DR97-02A.***

2. *The City Auditor's Office recommends that the Chief Financial Officer, in collaboration with the Director of Public Works and Transportation, identify a future methodology for determining Stormwater repayments to the General Fund to assure accuracy.*

### **Communication**

The Stormwater Utility Fund's budget included a two-year reimbursement, beginning in FY19, to the General Fund of \$1,290,110 for a Stormwater/Drainage project that was partially paid for with Street Bond Fund proceeds. Finance mistakenly omitted this reimbursement on the SWUF page of the FY19 budget book. Thus, it was only when the Stormwater Utility Fund Administrator noticed a transfer to the general fund in October 2018 that the department became aware of the budgeted reimbursement. As a result of the lack of a notification of the required reimbursement, Stormwater created their project plan without taking the reimbursement into account. Therefore, the FY19 plan had to be revised by \$540,000.

### **Recommendation:**

3. *The City Auditor's Office recommends that the CMO and/or the Chief Financial Officer assure that departments are informed of all non-departmental initiated budgetary decisions prior to the beginning of the fiscal year.*

### **Contract Closeouts**

The Stormwater Division of Public Works and Transportation does not always unencumber funds in a timely manner. This is the result of workload and often, Stormwater waits until funds are needed to unencumber funds. Also, funds are unencumbered at least annually when the Finance Department requests that Stormwater review encumbered funds at the end of the fiscal year and release as appropriate. Leading business practices dictate that unexpended funds attached to a contract should be unencumbered upon contract close-out. Unencumbering funds in a timely manner, makes the funds available for reallocation to new projects and reduces the risk that funds might be spent inappropriately.

### **Recommendation:**

4. *The City Auditor's Office recommends that the Stormwater Division revise their Standard Operating Procedures to assure that contracts are closed out and the associated funds have been unencumbered in a timely manner.*



**CITY OF ARLINGTON  
STORMWATER FEES AUDIT  
AUDIT RECOMMENDATIONS AND RESPONSE**

<b>RECOMMENDATION</b>	<b>CONCUR/ DO NOT CONCUR</b>	<b>MANAGEMENT RESPONSE</b>	<b>RESPONSIBLE PARTY</b>	<b>DUE DATE</b>
<p><b>1. <i>The City Auditor's Office recommends that the Director of Public Works and Transportation and the Assistant Director of Public Works and Transportation, Stormwater consult with the Chief Financial Officer to determine the correct amount that should be repaid from the Stormwater Utility Fund to the General Fund to cover the drainage related items charged to the Street Bond Fund for projects DR97-29 and DR97-02A.</i></b></p>	Concur	These projects have been paid in full and no further funds (subsequent to FY2020) shall be transferred to the General Fund from Stormwater Utility Fund for these specific projects.	Mindy Carmichael, Director Public Works and Transportation	Complete
	Concur	Finance concurs with the recommendation. These projects will be reconciled and included as necessary in an updated practice that ensures the SWUF fully recovers its costs. Finance would like to note that the information available was reviewed in Lawson, the City's financial system, while Audit and DPW utilized hard copy information, which has detail at a more granular level than is practical in the financial system.	Mike Finley, CFO	12/31/19

RECOMMENDATION	CONCUR/ DO NOT CONCUR	MANAGEMENT RESPONSE	RESPONSIBLE PARTY	DUE DATE
<p><i>2. The City Auditor's Office recommends that the Chief Financial Officer, in collaboration with the Director of Public Works and Transportation, identify a future methodology for determining Stormwater repayments to the General Fund to assure accuracy.</i></p>	Concur	Finance concurs with the recommendation. Given the complexity of reviewing transactions as noted above, the methodology will probably be changed to proposing a franchise fee and/or payment in lieu of taxes, consistent with the Water Utility. City Council will have final authority.	Mike Finley, CFO	8/6/19
	Concur	Anytime a methodology change to the reimbursement from the Stormwater Utility Fund to the General Fund is identified by Finance, the Department of Public Works and Transportation needs to be informed prior to presenting the annual budget to CC in order to verify appropriate amounts.	Mindy Carmichael, Director Public Works and Transportation	Ongoing
<p><i>3. The City Auditor's Office recommends that the CMO and/or the Chief Financial Officer assure that departments are informed of all non-departmental initiated budgetary decisions prior to the beginning of the fiscal year.</i></p>	Concur	Finance concurs with the recommendation. Finance would like to note departments are notified of budget decisions, through the budget system, specific memorandums prior to proposal, and by the document itself. The instance noted is a rare omission.	Mike Finley, CFO	8/6/19
<p><i>4. The City Auditor's Office recommends that the Stormwater Division revise their Standard Operating Procedures to assure that contracts are closed out and the associated funds have been unencumbered in a timely manner.</i></p>	Concur	Capital Project Procedures will be revised to include provisions to unencumber funds in eBuilder within 30 days of final payment.	Amy Cannon, Assistant Director PWT, Stormwater	9/1/2019