



Stormwater Fee Audit - #823

Executive Summary

Why CAO Did This Review

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Municipal Code, we conducted an audit of the City's annual assessment for stormwater services (stormwater fee). This area was chosen based on the periodic City-wide risk assessment performed by our office.

The stormwater fee was established by Chapter 754 of the City's Municipal Code, Stormwater Management Utility Code, to be charged to all developed property within the City that generates stormwater runoff. Revenues are deposited into a specific fund from which expenditures related to the Stormwater Management Utility (Utility) are to be paid. Expenditures related to the Utility are for the cost of routine maintenance of and capital improvement projects for the City's stormwater system infrastructure. Chapter 754 designates the Director of Public Works as the Director of the Utility.

The stormwater fees are currently assessed using the uniform method for the levy, collection, and enforcement of non-ad valorem assessments provided by Section 197.3632 of the Florida Statutes. Accordingly, the Public Works Department prepares a non-ad valorem assessment roll each year and the Tax Collector includes those fees on the respective tax bills.

What CAO Found

While we found that the user fees were accurately assessed and collected, we identified several internal control weaknesses, findings and opportunities for improvement related to the calculation of the fee (including gross amounts, reductions, adjustments, credits, and discounts) that need to be addressed.

- Fees were not always calculated consistently across similar properties.
- Much of the fee calculation process was manual and we noted errors as a result.
- Public Works lacked written standard operating procedures for the annual billing process.
- Some approved fee exemptions and credits were not supported by a completed application.
- Some approved fee exemptions were not timely removed after the property was sold to a non-eligible owner.
- Some pond credits approved were based on construction permits instead of operating permits.
- Rate studies required to ensure equity of service charges were not conducted periodically.

What CAO Recommends

Based on what we found, the Public Works Department should:

- Automate the fee calculation process as much as possible.
- Develop written standard operating procedures for the annual billing process.
- Adhere to the established laws, rules and regulations related to granting fee exemptions and credits, or seek changes where needed.
- Develop and implement procedures to ensure compliance with Municipal Code requirements related to the rate study.



Council Auditor's Office

Stormwater Fee Audit

June 21, 2018

Report #823

Released on: April 9, 2019

EXECUTIVE SUMMARY

AUDIT REPORT #823

INTRODUCTION - 1 -

STATEMENT OF OBJECTIVE - 2 -

STATEMENT OF SCOPE AND METHODOLOGY - 2 -

REPORT FORMAT..... - 4 -

SUGGESTED ADDITIONAL AUDIT WORK..... - 4 -

STATEMENT OF AUDITING STANDARDS - 4 -

AUDITEE RESPONSES - 4 -

AUDIT CONCLUSION - 4 -

AUDIT OBJECTIVE..... - 5 -

SUPPLEMENTARY ITEM..... - 30 -

CLOSING COMMENT - 31 -

OFFICE OF THE COUNCIL AUDITOR
Suite 200, St. James Building



June 21, 2018

Report #823

Honorable Members of the City Council
City of Jacksonville

INTRODUCTION

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Municipal Code, we conducted an audit of the City's annual service assessment for stormwater services (stormwater fee). The stormwater fee was established by Chapter 754 of the City's Municipal Code (Stormwater Management Utility Code) to be charged to all developed property within the City that generates stormwater runoff (excluding Urban Services Districts 2, 3, 4 and 5). Revenues are deposited into a specific subfund from which all expenditures related to the Stormwater Management Utility (Utility) are to be paid. Expenditures related to the Utility are for the cost of routine maintenance and capital improvement projects related to the City's stormwater system infrastructure. Chapter 754 designates the Director of Public Works as the Director of the Utility.

The City contracted with a consultant on September 17, 2007 to assist in the implementation of the stormwater fee. The contracted services included the development of a fee structure, among other items, and continued throughout the 2008, 2009 and 2010 annual fee assessment processes. It should be noted that the consultant services also simultaneously implemented the City's residential solid waste fee, which falls outside of the scope of this audit. Payments to the consultant for these two services totaled \$1.7 million.

The stormwater fee structure developed by the consultant and adopted by the City is based on a standard rate of \$5 per month for every 3,100 square feet of impervious area, and is charged to the property owner. Impervious area is defined as a surface which has been compacted or covered with a layer of material so that it is resistant to infiltration of water. For residential properties, the total square footage of impervious area is estimated based on the type(s) of dwelling units contained within (e.g., small, average or large single family detached, mobile homes or multi-family). For non-residential properties the impervious area is specifically calculated.

The stormwater fees are currently assessed using the uniform method for the levy, collection, and enforcement of non-ad valorem assessments provided by Section 197.3632 of the Florida Statutes. Accordingly, the Public Works Department prepares a non-ad valorem assessment roll each year and the Tax Collector includes those fees on the respective tax bills that are due and payable on November 1st and considered delinquent on April 1st of the following year. Under the uniform method, the early payment discounts are applied to the stormwater fees in the same manner as ad valorem property taxes.

The FY 2018/19 budget included gross stormwater fee revenue totaling \$34.1 million and late fees of \$0.2 million less user fee reductions totaling \$3.0 million, early payment discounts totaling \$1 million, and an allowance for doubtful accounts totaling \$0.1 million for a net fee revenue total of \$30.2 million. The user fee reductions include two types of exemptions, a variety of fee credits, and corrective fee adjustments that are available to eligible property owners who submit applications in accordance with the City's Adjustment and Credit Manual that was adopted pursuant to Chapter 754 and is available on the City's website. The lost revenue due to the two types of exemptions are subsidized by the City General Fund/GSD. The subsidy totaled \$1.6 million in the FY 2018/19 budget and was included in the \$34.1 million of gross fees mentioned above.

STATEMENT OF OBJECTIVE

To determine whether or not stormwater fees were accurately calculated (including gross amounts, reductions, adjustments, credits, and discounts), assessed and collected.

STATEMENT OF SCOPE AND METHODOLOGY

To gain an understanding of how the Utility functions we completed a preliminary survey that included interviewing personnel, performing observations, analyzing risk factors, and applying various procedures to assess internal controls. We also reviewed the relevant written policies and procedures and applicable laws, rules and regulations. Based on our understanding, we determined our audit objective and further designed tests that would allow us to meet that objective.

The time period selected for audit was FY 2016/17. Our overall population was comprised of real estate parcels in the City (excluding Urban Services Districts 2, 3, 4 and 5) that were included on the City's ad valorem property tax roll for 2016 and 2017. Since our time period was FY 2016/17, this meant our testing focused on collection activity related to non-ad valorem stormwater fees on the 2016 tax roll which are collected in FY 2016/17 and on the stormwater fee calculations and assessments for the 2017 tax roll. We obtained data from the Property Appraiser's assessment system, the Public Works Department City User Fees System (CUFS), the Tax Collector's cash receipts system, and the City's General Ledger as necessary. We also obtained supporting documentation from Public Works and other City divisions as necessary.

2016 Tax Roll (Collections):

We reconciled the net stormwater fee dollars in the Public Works Department's 2016 billing file from CUFS to the Tax Collector's Certified Tax Roll Recap report to verify completeness of the Tax Collector's records. We further reconciled the recap report to the revenues that were recorded in the City's General Ledger to determine whether or not the funds that the Tax Collector claimed had been sent to the City had actually been received.

2017 Tax Roll (Calculations and Assessment):

We reconciled the real estate numbers that were included in the Property Appraiser's data file for the 2017 Tax Roll to the 2017 billing file from CUFS (CUFS 2017 Billing File) and reviewed the

differences to determine whether or not any omitted parcels should have been included. Given that the CUFS 2017 Billing File was limited to only three fields (real estate number, net stormwater fee and net solid waste fee), we requested and obtained a separate CUFS report from the City's Information Technologies Division (ITD) to provide additional details that would assist us in selecting samples for testing purposes (CUFS Detail File). We then reconciled that file to the CUFS 2017 Billing File in order to gain assurance that it was reliable.

After completing the reconciliations we used the file from the Property Appraiser's Office to automatically recalculate stormwater fees for each real estate parcel using formulas that were based on our understanding of the fee schedule prescribed by Section 754.106(b) of the City's Municipal Code. We then selected a sample of 253 out of 34,507 real estate parcels that had differences between our automated recalculation and the actual gross fee from the City's records. The samples were broken down by property type and we tested the differences to determine if they had resulted from an issue with the automated formula or represented a legitimate discrepancy.

Additionally, we performed testing of the following areas:

1. *Low-Income Exemptions* – We tested a sample of 87 exemptions that were randomly selected from a total population of 687 exemptions that had been granted at the time our sample was selected (note that the application deadline extended past the date we selected our sample). During this testing we reviewed the applications for completeness and eligibility, and we reviewed the CUFS records to verify that the low-income exemptions had been properly approved.
2. *Exemptions for 501(c)(3) organization* – We tested all 39 exemptions on the 2017 tax roll that were not also included on the 2016 tax roll (i.e., new). During this testing we reviewed the applications for completeness and eligibility, and reviewed the CUFS records to verify that 501(c)(3) exemptions had been properly approved.
3. *User Fee Credits* – We tested all 46 credits included on the 2017 tax roll that were not included on the 2016 tax roll (i.e., new). During this testing we reviewed the applications for completeness and eligibility, reviewed the CUFS records to verify that the credits had been properly approved, and recalculated the credit to verify that it was for the correct amount. We also completed a separate procedure to verify that none of the credits in the 2017 tax roll exceeded the maximum percentage that was allowed.
4. *Fee Assessments* – We tested a statistical sample of 93 parcels that were randomly selected from the population of 301,822 records included in the 2017 billing file. During this testing we confirmed that the fees were properly included in the respective tax bills and verified that any applicable payments were for the correct amount, including early payment discounts or late fees.
5. *Fee Assessment Notices* – We identified all parcels that were new to the 2017 tax roll and compared them to the Public Works Department's mailing list to verify completeness.

We also applied various analytical procedures that included reviewing fees (including any 2017 updates to the fees) for reasonableness and verifying that 1) the City provided the required notice to property owners that were assessed a fee for a new real estate parcel, and 2) the City had not granted 501(c)(3) exemptions to any organizations that were listed on the Internal Revenue Service (IRS) listing for suspended and revoked organizations.

REPORT FORMAT

Our report is structured to identify Internal Control Weaknesses, Audit Findings, and Opportunities for Improvement as they relate to our audit objective. Internal control is a process implemented by management to provide reasonable assurance that they achieve their objectives in relation to the effectiveness and efficiency of operations and compliance with applicable laws and regulations. An Internal Control Weakness is therefore defined as either a defect in the design or operation of the internal controls or is an area in which there are currently no internal controls in place to ensure that objectives are met. An Audit Finding is an instance where management has established internal controls and procedures, but responsible parties are not operating in compliance with the established controls and procedures. An Opportunity for Improvement is a suggestion that we believe could enhance operations.

SUGGESTED ADDITIONAL AUDIT WORK

In limiting the scope of this audit, we did not pursue the following areas, and as such they should be considered for future audit work:

- Residential solid waste fees.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

AUDITEE RESPONSES

Responses from the auditee have been inserted after the respective finding and recommendation. We received these responses from the Public Works Department, via John Pappas, Public Works Director in a memorandum received April 1, 2019.

AUDIT CONCLUSION

While we found that the user fees were accurately assessed and collected, we identified several internal control weaknesses, findings and opportunities for improvement related to the calculation of the fee (including gross amounts, reductions, adjustments, credits, and discounts) that need to be addressed.

AUDIT OBJECTIVE

To determine whether or not stormwater fees were accurately calculated (including gross amounts, reductions, adjustments, credits, and discounts), assessed and collected.

Finding 1 *Inaccurate Fees for Non-Residential Parcels*

We obtained publicly available information from the Property Appraiser's Office related to the 2017 tax roll, which included details about the various real estate parcels such as a description of the property use and the square footage measurements for the various pieces of the buildings on the property along with any associated "extra features" on record (e.g., pavement). We set up an automated process that used relevant details from that data to recalculate the stormwater fees for 301,822 parcels that were designated by Public Works as billable. Of the 301,822 parcels, Public Works had categorized 278,556 as residential (92%), 17,618 as non-residential (6%), and 5,648 as a "special case" (2%). We compared our recalculated fees to the gross fees from the Public Works City User Fees System (CUFS) on a parcel-by-parcel basis to identify potential discrepancies.

For the non-residential category, this original comparison identified differences in the fees for 17,591 of the 17,618 parcels (99.8%, or all but 27). Based on an understanding previously obtained through staff interviews, our expectation was that there would be a significant error rate due to impervious area that was not included in the Property Appraiser's records. Specifically, areas of compacted dirt and gravel are not reported by the Property Appraiser but qualify as impervious area, which is the base measurement of the non-residential stormwater fee (\$5 for every 3,100 square feet). For a true comparison we needed to further incorporate these omitted areas into our recalculation, and therefore selected a sample for this purpose.

To select the sample we stratified the non-residential parcels based on the difference of the fee charged compared to the automated recalculation of the fee. We noted that 17,523 (or 99.5%) were within \$5,000 (group 1), while 64 others were greater than \$5,000 but within \$10,000 (group 2) and the remaining 31 had a difference that exceeded \$10,000 (group 3). Based on these results we randomly selected 50 parcels from group 1 (or 0.3%) and 32 from group 2 (or 50%), and then added the remaining 31 parcels from group 3 (100%). In other words, our sample was weighted to include a greater share of the larger differences. In total, the sample included 113 of the 17,618 fees for non-residential parcels that had a difference (or 0.6%).

Current practice for Public Works was to measure the impervious area for non-residential parcels by drawing around the qualifying areas with a measuring tool feature from the City's Geographical Information System (GIS), which displayed the total square footage upon completion. We proceeded to complete a manual recalculation of the fees for the parcels in our sample utilizing the GIS measuring tool. It should be noted that we established a 10% allotment threshold for the purposes of this test to account for the subjectivity of the GIS measuring tool (i.e., if the difference between our GIS-based recalculation and the Public Works fee was less than 10% then we did not count the sample item as a discrepancy).

Our test results included the following:

1. For 3 of the 113 parcels (or 3%), we were unable to complete the test because the real estate number had been deleted subsequent to the tax roll, and the City's GIS only displayed a view of parcels that existed at the time of testing. As a result we could not manually recalculate the fees using GIS to obtain the true comparison or otherwise draw conclusions regarding the accuracy of our original recalculation that was based on Property Appraiser data (because we could not see whether or not the parcel had contained compacted dirt or gravel).
2. For 65 of the 110 parcels that we were able to test (59%), the original differences from our automatic recalculation were resolved when we completed the manual recalculation using the GIS measuring tool to incorporate impervious areas that were not included in the Property Appraiser's records, such as compacted dirt.
3. The remaining 45 parcels that we were able to test had a fee that was either too high or too low (41%). These results included 18 of the 50 from group 1 (36%), 11 of 31 that we were able to test from group 2 (35%), and 16 of 29 that we were able to test from group 3 (55%). With respect to the dollar value of these discrepancies, 28 were too low by a total of around \$175,000 and 17 were too high by a total of around \$53,000. Additional details are below.
 - a. It should be noted that 27 of the 45 fees (or 60%) that were either too high or too low were based on measurements that had been most recently determined by the City's consultant in 2008, 2009, or 2010. These differences were likely due to the fee not being updated to account for changes in the parcel over time or differences between the City's methodology and the one originally used by the consultant as further explained in Finding 4.
 - b. The remaining 18 fees were based on measurements that were input by Public Works staff, after the consultant's contract had expired. Of these:
 - i. 13 were based on measurements that were entered into CUFS prior to when the City added the measurement tool to GIS in 2016 (they were not recalculated using the new tool after it was implemented).
 - ii. 3 were based on measurements from 2016 or 2017 that excluded certain areas within the parcel that looked impervious to us based on the aerial view from GIS. These differences are most likely due to the subjective nature of determining impervious area based on the aerial view.
 - iii. 1 was the result of a manual error whereby Public Works staff inadvertently added a measurement to this parcel's record in CUFS that actually was for a different parcel.
 - iv. 1 was based on an allocation of common area that was measured using the GIS measurement tool, which distributed a share of the common area to each owner-specific parcel associated with it, including our sample item; however, Public Works failed to also account for the impervious area within the sample parcel (non-common area), which should also have been included in the measurement that was allocated. For example, the owner of parcel 'A' was charged a proportional share of the common area ('D'), but nothing was billed for the impervious area of parcel 'A' itself.

Example of Non-Residential Condo

A	B	C
D (Common Area)		

Recommendation to Finding 1

We recommend that Public Works enhance their efforts to ensure that the Stormwater fees are based on updated measurements that more accurately reflect the current state of each owner’s parcel. For example, this might include automatically recalculating the fees each year and/or, for areas that cannot be automatically recalculated (e.g., compacted dirt) increasing the frequency for which those areas are re-measured (e.g. at least every three years). Public Works should also consider having a third party recalculate the fees periodically (e.g. every 3 years) or potentially on an annual basis.

Finally, written standard operating procedures should be developed in an effort to ensure that common area allocations are properly and consistently completed.

Auditee Response to Finding 1

Agree Disagree Partially Agree

Public Works agrees to enhance efforts to ensure that stormwater fees are based on the most accurate data and current information available for each billable property. Public Works agrees to research to find a system that accurately and automatically recalculates the Non-Residential fees annually for parcels that meet an ‘automated calculation’ criterion (i.e. no compacted dirt). Public Works will begin this search immediately. Public Works agrees a systematic approach to review all remaining Non-Residential parcels (i.e. with compacted dirt) manually is needed. This systematic approach would cover the entire Stormwater Utility service area every five years (or sooner). Public Works will implement this systematic approach during the review of the 2020 Tax Roll billing. To enhance Public Works efforts, when budget dollars permit, Public Works agrees it would be beneficial to engage a third-party to recalculate non-residential parcel impervious area coverage. Public Works will request these funds for the FY 2019/20 Stormwater Utility budget. Historically, impervious area coverage has been updated based on the most current Duval Aerial Fly Over found in JaxGIS Duval Maps and Property Appraiser’s data available for billing on the tax roll. Public Works will request funds for the Duval Aerial Fly Over found in JaxGIS Duval Maps in the FY 2019/20 Stormwater Utility budget.

Additionally, Public Works has created a written standard operating procedure for the allocation of common area on non-residential parcels. The procedure will be incorporated in the Comprehensive SOPs recommended in ICW 3.

Finding 2 *Inaccurate Fees for Residential Parcels*

As described above in Finding 1, we set up a formula to automatically recalculate the fees charged to parcels designated as residential or special case by Public Works based on the information provided by the Property Appraiser's Office. Unlike the non-residential fees, the residential fees were calculated based on how much total impervious area the City's consultant estimated the residential development contained based on the size of the building (if a single family residence), the number of dwelling units (if multi-family), or whether or not it was a mobile home or mobile home park. The special case category is generally for parcels that contain more than one type of development, such as a duplex and a mobile home or a single family home and a storefront.

For the residential category, the comparison of our automatically recalculated fees to the Public Works fees identified differences for 13,427 of the 278,556 parcels (or 5%). We randomly selected 105 of the 13,427 parcels that were billed as residential and had differences. For the special case category, our comparison identified differences in the fees for 3,489 of the 5,648 parcels (or 62%). We randomly selected 35 of the 3,489 parcels that were billed as a special case and had differences. We tested the 140 residential and special case sample items together because the testing was similar.

Our test results disclosed that for 128 of the 140 sample items (or 91%), the Public Works fees were either too high or too low (91%). Note that this does not mean that there were more issues with the residential parcel calculations than non-residential parcel calculations since we were only testing those with a fee assessed different from the automated recalculation. The fact that more of the residential parcels remained exceptions was consistent with our expectation that an automated recalculation would work more effectively for residential parcels, given that the fee basis was limited to building type, size, or the number of units and did not require additional information that was separate from the data provided by the Property Appraiser's Office.

Regarding the dollar value of the 128 discrepancies, the fees were too low by a total of \$12,876 and the fees were too high by a total of \$13,013. We noted the following potential causes:

1. Overall, it is not uncommon for real estate parcel characteristics to change over the years as property owners make changes. The City's methodology does not involve recalculating the fees for each real estate parcel every year and, as a result, the fees became outdated because the building count, type, size, or number of dwelling units in the CUFS record was incorrect.
2. Public Works had mis-categorized parcels that qualified as a special case by assigning them to one of the residential categories instead. CUFS was originally designed to apply a single rate based on the parcel's assignment; however, in 2010 the City enhanced the system, which allowed users to calculate the fee based on a combination of the rates that were appropriate and specific to each type of development on the parcel.
3. The incorrect number of dwelling units was intentionally input into CUFS. The CUFS system was originally set up to apply a separate solid waste fee based on the same "dwelling units" field that was used to quantify the stormwater charges. However, the number of solid waste fee charges should sometimes be different from the number of stormwater fee charges. In these circumstances the City's consultant would force CUFS to account for the correct number of solid waste fees even if it left the stormwater fee

inaccurate. In 2010 Public Works initiated updates to CUFS to include a separate field for the solid waste fee, which resolved the problem going forward, although the existing inaccuracies remained uncorrected.

4. Mobile homes that met certain specifications outlined in the Adjustments and Credits Manual were billed at a rate that was lower than the rate that was based on the consultant's analysis and displayed in the fee schedule.
5. Garage apartments were not always billed as single family residences.
6. Given the manual nature of the City's stormwater fee calculation process it is likely that some inaccuracies resulted from typographical errors.

Recommendation to Finding 2

We recommend that Public Works automate the fee calculation process for residential properties, along with any special case parcels that do not include non-residential billing features, and perform the calculation annually.

For Special Case parcels that include non-residential billing features we recommend that the Public Works Department work towards making the calculation as automated as possible and put in place procedures to ensure that the Stormwater fees are based on the current state of each parcel. For example, this might include automatically recalculating the fees each year based on the information that is available from the Property Appraiser, and then for any areas that cannot be automatically recalculated (e.g., compacted dirt) increasing the frequency for which those areas are re-measured (e.g. at least every three years).

Regarding the mobile homes and garage apartments with fees that deviated from the fee schedule, we recommend that Public Works comply with the adopted fee schedule, take the appropriate steps towards the City's adoption of a revision, or work within their authority to handle the mobile homes or garage apartment fees through the establishment of an adjustment or credit.

Auditee Response to Finding 2

Agree Disagree Partially Agree

Public Works agrees to research a system that accurately and automatically recalculates the residential parcel fees on parcels that meet an 'automated calculation' criterion (i.e. non 'Special Case' parcels) that can be performed annually . Public Works will begin this search immediately. Until this 'system' is in place, Public Works will make every effort to create a systematic approach to manually review the more than 270,000 residential parcels. This approach would cover the entire service area every five years (or sooner), until an automated calculation is reliably functional. Public Works will implement this systematic approach during the review of the 2020 Tax Roll billing. As mentioned in Finding 1, Public Works agrees it would be beneficial to engage a third party to review the residential parcels, when budget dollars permit. Public Works will request these funds for the FY 2019/20 Stormwater Utility budget. Regarding the mobile homes and garage apartments, Public Works will comply with the adopted fee schedule.

Finding 3 *Existing Fees Were Not Updated to Account For Methodology Changes*

At different times since the initial stormwater fee calculation in 2008 the City has changed its methodology on how to handle certain situations. Given that the fees for each parcel are not recalculated each year and that the City did not go back and recalculate the fee for parcels impacted by the change in methodology, these changes have resulted in a situation where, on any given tax roll, some fees were based on the old methodology and some fees were based on the newer methodology. This is inconsistent with Chapter 754 of the Ordinance Code § 754.101 (c), which states that the City’s stormwater service charges shall be fair and reasonable, and bear a substantial relationship to the cost of providing service and facilities, in that similar properties shall pay similar stormwater service charges.

In addition to the examples noted in Finding 1 and 2, we found that the City originally exempted fees for “Right of Way” parcels based on the perception that they were all government owned. However, it became apparent in time to Public Works that some did not meet the exemption criteria due to being privately owned. Although Public Works began to bill any new “Right of Way” parcels that were privately owned going forward, the old “Right of Way” parcels were not reviewed to see if corrections were needed. Therefore the City missed out on revenue for multiple years. Based on our review of the data we found 56 right of way parcels that were billable but were excluded from the roll due to this decision to not go back and identify and recalculate the fee for parcels impacted by the change. We estimate the total under billings for these 56 parcels to be \$12,000 per year. Upon inquiry as to why the existing fees were not updated for methodology changes, staff indicated that there were limited resources.

Recommendation to Finding 3

We recommend that Public Works identify and correct any fees that are based on outdated methodologies. Public Works should also implement procedures to ensure that any future changes in methodology are applied to the fees for existing parcels as well as the calculations for any new parcels. (Note: Automating the fee calculation as much as possible as recommended above would reduce future inconsistencies.)

Auditee Response to Finding 3

Agree Disagree Partially Agree

Public Works agrees with the recommendation of Finding 3 and will identify and correct any fees that are based on outdated methodologies. The identified changes will be in place prior to the release of the 2020 Tax Roll billing. Public Works will also implement procedures to ensure that any future changes in methodology are applied to the fees for existing parcels as well as the calculations for any new parcels. The procedure will be incorporated in the Comprehensive SOPs recommended in ICW 3.

Finding 4 *Unintended Inconsistencies in Methodology*

The City relied on a consultant to complete an analysis that would determine what the appropriate stormwater fee rates should be for the various types of properties, and the same consultant was used to calculate the stormwater fees for the 2008, 2009 and 2010 years. After the consultant's contract ended, City staff began calculating the fees based on their understanding of the consultant's methodologies. However, based on information provided to us by Public Works, it does not appear that the City obtained a copy of the consultant's analysis, a written description of the methodologies used or conclusions related to those analyses. Further, as noted in Internal Control Weakness 3, written SOPs were not established at that time to document their understanding. As a result there were inconsistencies between how Public Works calculated the fee and the way that the consultant had done it that were possibly unintended. In addition to item 3.b.iv in Finding 1 related to common area allocations, examples that we noted during our audit procedures are described below:

1. We encountered a parcel that had numerous rows of parked cars that appeared to be stored for recycling on top of what seemed to be dirt, according to the aerial image. We asked Public Works whether or not the area with the vehicles should be included in the measurement. Their response was that they would measure only the high traffic travel ways in between the stored cars as impervious area (i.e., compacted dirt). However, the CUFS billing notes that were left by the consultant indicated that the vehicles were intentionally included in their measurement for this parcel because the ground was determined through a site visit to be crushed rock or gravel and therefore impervious. As a result, the fees for parcels used to store vehicles that were assessed after 2010 could be relatively less than the fees for similar parcels measured in 2010 or prior.
2. In our test of residential parcels, one sample item was a retail condominium (i.e., non-residential unit) with a fee that had been updated by Public Works in 2011 from what appeared to be a non-residential fee to a residential fee. Upon inquiry, Public Works staff explained that they had changed the consultant's original fee to charge the property owner based on the rate for residential condominiums in order to ensure a fair representation of impervious area among all property owners in the condominium building, and that they did not know how the consultant had calculated the original fee. We reviewed the consultant's fees for all parcels in the condominium building together and determined that the consultant used a combination of residential and non-residential methodologies. Specifically, each of the 100 residential units was charged the flat per-unit rate outlined as residential in the municipal code, and the fees for the eight (8) retail units was allocated based on 1,409 square feet of impervious area and each unit's ratio of square footage to the sum of square footage for those 8 units. We do not know how the consultant determined that the appropriate impervious area for the non-residential calculation was 1,409 square feet and Public Works could not explain it either. There could be other similar circumstances that exist due to the fees not being recalculated periodically.
3. Our sample included mobile home park properties that included other residential building types on the parcel in addition to the mobile home pads that were used as the billing units for mobile home buildings. For instance, one parcel had 67 mobile home pads, 5 small single family residences and 1 quadraplex. The actual fee for 2017 was based on the number of mobile home pads multiplied by the 0.81 SFU rate that was established for mobile homes, and thereby excluded any charges for the other types of buildings.

However, Ordinance 2010-445 provides that the fee should be based on the number of dwelling units, which would include the other buildings. Upon further review of historical records, it appears that the city’s consultant calculated the original fee for our sample item and included the other buildings. When City staff updated the parcel in 2011, their fee calculation included only the mobile home pads. As a result it appears that the fees for mobile home parks that include other buildings and were measured after 2010 could be understated.

Subsequent to testing, we obtained and reviewed the consultant’s contract and noted a provision which required the consultant to develop and provide the City with a policy and procedures manual. The provision specified that certain “major items” were required to be addressed in the manual, including 1) the computation of fees and billing, 2) guidance for developing policies and procedures for handling multiple parcels/utility accounts, and 3) guideline recommendations for developing policies and procedures for other special cases. We requested a copy of this deliverable and Public Works indicated that they could not find it. If the manual had been provided, retained, and utilized, it might have prevented the inconsistencies noted above.

Recommendation to Finding 4

We recommend that Public Works determine which of the methodologies are correct and then identify and apply corrective action for any fees that are based on the incorrect methodology. We further recommend that if Public Works uses a consultant to determine stormwater fee rates in the future, they should require the consultant to provide (and also retain) a documented description of the methodology and conclusions for each survey or service so that the measurements and subsequent calculations can continue to be applied consistently in the event that the consultant’s contract is terminated.

Auditee Response to Finding 4

Agree Disagree Partially Agree

Public Works agrees with the recommendation of Finding 4 and going forward will determine which of the methodologies are correct and identify and apply corrective action for any fees that are based on the incorrect methodology. The identified changes will be in place prior to the release of the 2020 Tax Roll billing. Also, Public Works shall require any future third party consultant of Stormwater fees to provide and retain documented description of the methodologies and conclusions for each fee, survey or service so that the measurements and subsequent calculations can continue to be applied consistently in the event that the consultant’s contract is terminated.

Finding 5 *Other Inconsistencies*

We identified one parcel that contained five (5) apartment buildings with more than nine single family units, 29 apartment buildings with between five and nine single family units, and 14 quadrplexes (i.e., four single family units). In other words, the parcel contained 48 buildings

and 320 single family units in total. The City’s fee schedule provides the following rates to be applied to the established stormwater charge of \$5 per month per single family unit (SFU):

- 0.44 for multi-family dwelling units with more than 9 units (or \$2.20 per month)
- 0.32 for multi-family dwelling units with 5-9 units (or \$1.60 per month)
- 0.49 for quad-plex (or \$2.45 per month)

As noted above, CUFS was updated in 2010 to allow for various rates to be included in the calculation of the total stormwater fee for a given parcel. However, Public Works stated that proper treatment of this parcel would include entering the 0.44 rate in CUFS to be applied consistently to each of the 320 single family units (totaling \$8,448) instead of a combination such as 0.44 for 80 units, 0.32 for 184 units, and 0.49 for 56 units (totaling \$7,291). Upon inquiry, the explanation provided was that the Property Appraiser had assigned the parcel a property use code (PUSE) of “0300 – Multi-Family Units 10 or More”, it had a community pool and tennis courts, the advertised name of the property included the word “apartments”, and due to its commercial address. However, these details do not appear in the Municipal Code or fee schedule as criteria for categorizing parcels for stormwater fee purposes.

We performed a limited review to determine whether or not similar properties were treated consistently. This procedure disclosed three (3) parcels that contained a combination of residential building types and were treated by entering multiple rates in CUFS to be applied to the respective number of units for each building type. This represents inconsistent treatment. Historical records indicated that the inputs for one parcel had been entered by the City’s consultant in 2010, while inputs for the other two had been entered by City staff in 2011 and 2013, respectively. Further, one of the parcels that was handled by City staff had a PUSE of “0300 – Multi-Family Units 10 or More” and a pool, similar to the parcel that we originally questioned.

Recommendation to Finding 5

We recommend that Public Works determine which of the methodologies are correct and then identify and apply corrective action for any fees that are based on the incorrect methodology. We further recommend that Public Works document the basis of this determination in written standard operating procedures in a way that illustrates how it complies with the appropriate laws, rules and regulations.

Auditee Response to Finding 5

Agree Disagree Partially Agree

Public Works agrees with the recommendation of Finding 5 and going forward will determine which of the methodologies are correct and then identify and apply corrective action for any fees that are based on the incorrect methodology. The identified changes will be in place prior to the release of the 2020 Tax Roll billing. Public Works will document the basis of this determination in standard operating procedures that link how each procedure complies with the appropriate laws, rules and regulations. The procedures will be incorporated in the Comprehensive SOPs recommended in ICW 3.

Finding 6 *Undetected Errors during Review Process*

In order to prepare the annual roll for stormwater fees, Public Works staff compares CUFS data from the prior year to current PAO data to identify parcels that experienced certain changes in billing features (e.g., a change in property use code which could indicate that a residential parcel had become non-residential). The changes indicate that the parcel's record may need to be updated in CUFS, which could result in a fee change. As these updates are identified, staff types the changes into a series of spreadsheets. As the spreadsheets become finalized, staff uploads them individually into CUFS, which results in the updated record and any fee changes. When prompted, CUFS uses the details in each parcel's record to generate the billing file that is certified to the Tax Collector to be added in to the City's ad valorem tax roll.

We reconciled the PAO data to the CUFS billing file and found thirteen (13) parcels that had been billed in the prior year but were inadvertently marked as either inactive or non-billable and therefore were erroneously omitted from the 2017 tax roll. We also found eight (8) parcels that should have been charged a Stormwater fee for the first time but were not. It appears that the first set of discrepancies resulted from typographical errors that were input into the spreadsheets and thereby incorrectly uploaded to CUFS (i.e., each of the 13 real estate numbers actually entered should have been a different real estate number). The other 8 parcels were not detected as billable during the annual review process.

We completed analytical procedures on the Master Upload File, including comparing the update records to a file that showed what was actually billed. This disclosed three more discrepancies. Specifically, the updates for two parcels included typographical errors, which resulted in an inaccurate bill, and the third update did not actually become effective because of a system error.

Another analytical procedure that we performed was specific to non-residential parcels and disclosed that 430 fees that translated to an amount of impervious area that exceeded the entire size of the respective parcels. Upon inquiry, Public Works overall attributed the discrepancies to human error. Public Works was able to provide documentation for why the error occurred for one parcel, which was a measurement prepared by the Engineering Division in 2012, and noted that the excess impervious area belonged to several adjoining parcels. We reviewed the fees for the adjoining parcels to confirm that they had also been charged for the same impervious area. The administrative staff responsible for the stormwater fees could not explain the Engineering Division's methodology.

Section 754.109(a)(4) allows for user fee credits up to 50 percent of the fee, with a provision that increases the maximum to 75% for "exceptional circumstances" only. The Adjustments and Credits Manual establishes a bonus credit application that citizens can submit to demonstrate the "exceptional circumstances"; however, there have not been any approved bonus credits to date. Therefore, we compared the actual credits against the 50 percent maximum and identified seven (7) parcels with credits that exceeded the threshold. In total the excess for all 7 amounted to \$53,237, which represents lost revenue for the City.

We separately identified two mobile home park parcels that had two rows of mobile homes in the Property Appraiser records; however, they were only billed for one of the rows. The adjustment

history in CUFS indicates that at one time both rows had been included in the record for each parcel; however, during one of the annual review updates the second rows dropped off for unknown reasons in 2011 and 2016, respectively. Annual lost revenue from these two parcels totaled \$10,449 and \$5,346, respectively.

Recommendation to Finding 6

We recommend that Public Works consider automating the annual review process as much as possible, as manual processes are inherently subject to error. We also recommend that Public Works implement analytical procedures and a secondary review of any manual updates in order to detect unintended errors. This should include comparing intended updates to the actual fees in order to verify whether or not the updates were properly applied.

Auditee Response to Finding 6

Agree Disagree Partially Agree

Public Works agrees with the recommendation of Finding 6 and will consider automating the annual review process wherever possible. Public Works will consider and, where possible, implement analytical procedures and a secondary review of any manual updates in order to detect discrepancies. Intended updates to the actual fees will be reviewed to verify whether or not the updates were properly applied. These changes will be in place prior to the release of the 2020 Tax Roll billing.

Finding 7 *Required Stormwater Notices Not Always Provided*

Chapter 715 of the City’s Municipal Code provides procedures and standards for the imposition of service assessments such as the stormwater fee. Section 715.208, Annual Adoption Procedures, in part requires the City to notify certain property owners by first class mail of any assessments on properties that were not included on the prior year roll (i.e., new) or of any increases from the previous assessment that resulted from the Public Works Department’s reclassification of the property. Public Works had implemented procedures to meet this requirement. However, we identified 898 real estate parcels that were new to the 2017 roll and compared them to the set of notices that were prepared by Public Works, which disclosed 15 property owners that should have received a notice but did not.

Recommendation to Finding 7

We recommend that Public Works enhance their efforts to comply with the noticing requirements of Section 715.208. This could include implementing a review of the mailing list by someone other than the staff member who prepared it to ensure completeness.

Auditee Response to Finding 7

Agree Disagree Partially Agree

Public Works agrees with the recommendation of Finding 7 and will enhance efforts to comply with the noticing requirements of Section 715.208. Public Works will attempt to implement a procedure that will identify all property owners that should receive a notice for the 2019 Tax Roll billing.

Finding 8 *Incomplete Low-Income Exemption Applications*

The low-income exemption program provides eligible property owners with a full exemption from the Stormwater fee. In order to receive the exemption, the Adjustments and Credits Manual requires that all individuals named as owners of the property in question demonstrate that the household has a gross income of less than 150% of the billing year's Federal Poverty Level. The application contains a section where the applicants attest to the total gross annual income and the number of adults in the household. The application also requires supporting documentation to be submitted as proof of the income reported on the face of the application, and states that such documentation could include pay stubs, Social Security benefit statements, and current year tax returns. Also, the terms and conditions on the application specifically state that applications for properties with multiple owners must be submitted with income documentation for each owner or record, in addition to any other persons living in the household. Staff in the City's Social Services Division review the applications and electronically approve or deny them in CUFS. Staff from the Public Works Department review the Social Services submissions and provide the final electronic approval or denial in CUFS.

We requested a sample of 87 low income exemption applications from the Social Services Division to review and noted that 4 of them (or 5%) appeared to be incomplete. Specifically:

1. one application could not be provided because it was missing;
2. two applications were missing attestation signatures; and
3. one application was supported by a self-completed form for the Property Appraiser's Total and Permanent Disability exemption that was not completely filled out or notarized.

Further, we recalculated the income levels for four (4) sample items based on the supporting documentation that was submitted with the application. One application had two property owners, but we noted that there was no income documentation for the second owner. Upon inquiry the Social Services Division staff informed us that, contrary to the aforementioned terms and conditions on the application they do not require the applicants to submit income documentation for all property owners or household members. Based on this policy we did not perform further testing since we knew this would be a consistent issue for properties with multiple owners.

In each of these cases, the incomplete application increases the City's risk that the applicant could be approved for the exemption when they do not qualify.

Recommendation to Finding 8

The Public Works Department should implement procedures to monitor compliance with the Adjustments and Credits Manual, such as periodically reviewing a sample of applications and supporting documentation to verify that the application requirements are being properly enforced.

Additionally, we recommend that the inconsistency between policy and practice be addressed. The practice of the Social Service staff should be changed to match policy if the practice is determined to be incorrect or the policy in the Adjustments and Credits Manual should be changed if it is determined to be wrong. If needed, changes to the Municipal Code should be pursued to clarify intent of City Council.

Auditee Response to Finding 8

Agree Disagree Partially Agree

Public Works agrees with the recommendation of Finding 8 and will implement procedures to monitor compliance with the Adjustments and Credits Manual. Public Works will work closely with the Social Services Division and will pursue changes to the Adjustments and Credits Manual as necessary based on feedback from the Social Services Division. The new procedures will be in place prior to the release of the 2020 Low Income application (approximately January 30, 2020).

Finding 9 *Incomplete Pond Credit Applications*

The Permitted Stormwater Pond Credit reduces user fees by 30% and is offered to property owners who are within the service area of a stormwater system separate from the City's system that is permitted by the St. Johns River Water Management District (SJRWMD) or Florida Department of Environmental Protection (FDEP). In most cases, the applications are submitted by a home owners association (HOA) on behalf of the individual property owners. The Adjustments and Credits Manual states that acceptable supporting documentation includes a copy of the permit, a print-out from the list of SJRWMD or FDEP permits, a copy of the completed SJRWMD As-Built Certification Form, or other official correspondence from either agency acknowledging existence of a permit for the area(s) noted on the application. Finally, the application required a list of real estate numbers for parcels that were within the service area and contained an attestation that the pond, identified by the permit number in the application, was built and has since been maintained in accordance with the terms of the permit.

We requested and reviewed the applications and supporting documentation for the 46 pond credits that were newly granted for 2017 and noted issues related to 20 of them (or 43%). Specifically:

1. nine applications could not be provided due to being unable to be located or because it had been verbally submitted (as was the case for one of the items per Public Works);
2. eight of the applications that were provided to us did not include the acceptable supporting documentation; and

3. three other applications that were provided to us did not identify the real estate parcels that were within the service area and therefore eligible for the credit.

It should be noted that CUFS also maintains an electronic record of applications entered by staff, including notes left by staff that sometimes contained the permit number. We reviewed the CUFS notes for the nine (9) applications that could not be provided and found the permit number for seven (7) of them. However, these were entered by staff, not the applicant, and there were still two credits that had been granted without evidence that a permit number had been provided at all.

Staff stated that when pond applications are received by the City, Public Works will conduct research to find the permit for the applicant based on the address provided. If a permit is found, they will further research to identify parcels that fall within the same subdivision and apply credits to those parcels as well, regardless of whether or not they were listed in the application. Our test disclosed six real estate parcels that were tied to an application in our sample but were not listed on the applications. We compared the real estate parcel location to the design plans from the SJRWMD website for the permit and identified four that fell outside of the permit boundaries and therefore should not have been granted a credit through the applications that they were tied to.

As with the previous finding, the incomplete applications increase the City's risk that credits could be granted to property owners who are not eligible.

Recommendation to Finding 9

We recommend that Public Works retain applications using a filing methodology that is suitable for locating the files when needed and require all applicants to submit supporting documentation in accordance with the Adjustments and Credits Manual prior to approving the fee credit. This would include not accepting verbal applications in lieu of an application form and requiring that all information on the application be completed by the applicant.

Auditee Response to Finding 9

Agree Disagree Partially Agree

Public Works agrees with the recommendation of Finding 9 and will retain applications using a filing methodology that is suitable for locating the files when needed. Public Works will require all applicants to submit supporting documentation in accordance with the Adjustments and Credits Manual prior to approving the fee credit.

Finding 10 *Charitable and Faith-based Exemptions Granted without Request*

In our testing of 39 charitable and faith-based organization exemptions that were first granted on the 2017 tax roll, Public Works was unable to provide an application for 35 of them (90%). The Adjustments and Credits Manual states that in order to qualify for the charitable and faith-based organization exemption program, property owners must certify that the property charged a

stormwater fee is owned and operated by a person, persons or organization that is classified as tax exempt under the Internal Revenue Code (IRC) 501(c)(3), and the manual includes an application form established for this purpose (i.e., includes an attestation). In the following circumstances, staff granted this exemption without an application or other request by the property owner.

- If a new parcel was being added to the roll for an organization that had an existing exemption for a different parcel, they would grant the exemption for the new parcel as well without further application.
- If a real estate parcel was under review for some other reason (e.g., property owner change), the property owner name matched the listing of recognized 501(c)(3) organizations on the IRS website, and there was sufficient time to do so prior to the billing file deadline, they would enter a new exemption entry into CUFS as part of the review.
- Staff informed us that since churches are not required to submit an application to the IRS to be classified as a 501(c)(3) organization they do not always appear in the IRS listing. For these cases, staff relied on whether or not the name of the property owner indicated that the parcel was eligible (e.g., included “church” in the name) when processing an exemption without an application.

Contrary to the aforementioned requirements, each of these circumstances represents an exemption that was not based on the property owner’s certification that the property was owned and operated by a person, person(s) or organization that is classified as tax exempt under the IRC 501(c)(3). In addition, it should be noted that although a property owner listed in the IRS listing as having a recognized 501(c)(3) status may very well be eligible, it does not necessarily mean that the real estate parcel receiving the exemption is operated by the entity for purposes of providing its services to the community, which is part of the requirement.

The Adjustments and Credits Manual states that organizations listed in the IRS Publication 78, Cumulative List of Organizations described in Section 170(c) of the Internal Revenue Code of 1986, were eligible to receive an exemption. It is our understanding that the City granted a blanket exemption on the very first assessment in 2008 to all organizations included in that publication without enforcing the application requirements in order to avoid having to process so many applications all at once. This policy decision appears to have resulted in the current process. In addition, Public Works staff noted that if they waited for the owner to submit an application then the organization would be able to request a refund for any prior years for which they previously paid the stormwater fee. Applying the exemption automatically appeared to be a way to avoid future paperwork related to processing refunds. However, as a result of this practice, the City is unable to prove that each exemption was granted in accordance with the established requirements.

Recommendation to Finding 10

We recommend that the Public Works Department either:

- enforce the Municipal Code and Adjustments and Credits Manual requirement that property owners submit an application for each parcel, including the certification that each real estate parcel included in the application is owned and operated by a person,

persons or organization that is classified or recognized as tax exempt under the IRC Section 501(c)(3); or

- seek a change to the Municipal Code which would be consistent with current practice and subsequently change the Adjustment and Credits manual to match current practice.

Auditee Response to Finding 10

Agree Disagree Partially Agree

Public Works agrees with the recommendation for Finding 10 and will work with the Office of General Counsel to determine the process to grant the 501(c)(3) exemption is stated explicitly or, if needed, recommend changes to the Adjustments and Credits Manual. Going forward Public Works will ensure compliance with Section 754.109 when processing all new 501(c)(3) applications. The approved changes will be in place prior to the release of the 2020 Tax Roll billing.

Finding 11 *501(c)(3) Exemptions Were not Timely Removed*

As mentioned above, the City provides user fee exemptions for property owners who are organized as a IRC 501(c)(3). The Adjustments and Credits Manual allows the exemption to remain on the property without further application as long as the owner maintains the 501(c)(3) designation. Accordingly, the Public Works Department’s policy was to remove this exemption in CUFS if the property had been sold to non-eligible owners. We reviewed the applications and supporting documentation on file for 39 sample items and noted that four (4) parcels were owned by someone other than the original 501(c)(3) applicant. It should be noted that staff had taken steps to effectively remove two of the four exemptions for the 2016 tax roll; however, a coding error in CUFS caused those exemptions to become effective again for the new property owner in 2017. As a result, the City subsidized the fees for non-eligible property owners.

Recommendation to Finding 11

We recommend that Public Works take steps to fix the coding error and take more care in addressing the timely removal of 501(c)(3) exemptions for non-eligible property owners.

Auditee Response to Finding 11

Agree Disagree Partially Agree

Public Works agrees with the recommendation for Finding 11 and has confirmed with ITD the steps to fix the coding error have been taken. Public Works will establish a procedure for the timely removal of 501(c)(3) exemptions for non-eligible property owners. The procedure will be incorporated in the Comprehensive SOPs recommended in ICW 3.

Finding 12 *Credits Applied Before Exemptions for 501(c)(3) Organizations*

Section 754.109(c) of the Municipal Code states that in calculating the fee reduction for IRS 501(c)(3) organizations (i.e., the City’s charitable and faith-based program exemption), the fee reduction (exemption) allowed pursuant to that section shall be calculated first, and any additional credits allowed shall be calculated based on the balance of the fee owed. However, CUFS was designed to apply credits first, prior to calculating the exemption amount. This issue does not impact the organization because they are still exempt from paying the fee, but it does slightly impact the contribution from the General Fund/GSD that covers the exemption amounts. We noted only two (2) instances where the fees for a real estate parcel included both credits and the 501(c)(3) exemption, and both were residential parcels. As a result of applying fee credits for these parcels first, the City’s subsidy was \$41.40 less than it should have been. However, an argument could be made for the credit to actually occur prior to the exemption because the Stormwater Fund would not have received the credit amount regardless of the organization type.

Recommendation to Finding 12

We recommend that Public Works either:

- comply with Section 754.109(c) and calculate the charitable and faith-based exemptions first, before any applicable credits; or
- seek a change to the Municipal Code which would be consistent with current practice and subsequently change the Adjustment and Credits manual to match current practice.

Auditee Response to Finding 12

Agree Disagree Partially Agree

Public Works agrees with the recommendation for Finding 12 and going forward will comply with Section 754.109(c) and work with ITD to correct the system that will calculate the charitable and faith-based exemptions first, before any applicable credits. Public Works intends to work with ITD to correct the error prior to the release of the 2020 Tax Roll billing.

Internal Control Weakness 1 *Equity Rate Review Not Conducted Periodically*

Section 754.101(c) of the Municipal Code states:

The City’s stormwater service charges shall be fair and reasonable, and bear a substantial relationship to the cost of providing service and facilities, in that similar properties shall pay similar stormwater service charges. Rate studies shall be conducted periodically to ensure the equity of service charges.

We inquired of various staff as to whether or not any periodic rate studies had been completed; however, we were not provided with any indication or evidence that a rate study had been performed since the initial one in 2008 to ensure the equity of service charges.

Recommendation to Internal Control Weakness 1

We recommend that Public Works develop and implement procedures to ensure compliance with the Municipal Code requirements related to the periodic rate study.

Auditee Response to Internal Control Weakness 1

Agree Disagree Partially Agree

Public Works agrees with ICW 1 and will develop and implement procedures to ensure compliance with the Municipal Code requirements related to the periodic rate study. The procedures will be incorporated in the Comprehensive SOPs recommended in ICW 3.

Internal Control Weakness 2 * Excessive Access Rights*

CUFS was designed to provide various levels of user access rights, including one for a system administrator. Aside from the system administrator, rights provided by the other levels were limited in such a way that certain actions needed approval from a secondary user before they became effective. This design works to reduce errors and also prevent any one user from making unauthorized changes. We noted 5 of the 7 Public Works Office of the Director staff members that had access to the system had been granted system administrator rights, which allowed each of them to single-handedly approve credit or exemption applications, upload additions and deletions to CUFS records, refresh the individual account records through an interface with the Property Appraiser’s system, and create the annual billing file. Public Works indicated that system administrator rights were preferable because they could avoid delays caused by requiring a secondary approval. However, this circumvented the internal controls established within the system to ensure accuracy, validity and completeness of the stormwater fees and therefore increased the risk for errors.

Recommendation to Internal Control Weakness 2

As with any system, we recommend that the system administrator access rights be limited to as few users as possible and that those access rights be used for technical functions, such as setting up new accounts or updating the access rights for existing users. Accordingly, we also recommend that any system administrators who are also responsible for updating database records be granted a separate user account with restricted access in order to complete those tasks.

Auditee Response to Internal Control Weakness 2

Agree Disagree Partially Agree

Public Works agrees with ICW 2 and has requested ITD strengthen controls for updating database records. System administrators will be granted a separate user account with restricted access in order to complete those tasks.

Internal Control Weakness 3 *Lacking Comprehensive SOP for Annual Billing Process*

We requested the Public Works Department's standard operating procedures (SOP) for the annual billing process and were provided with the Adjustments and Credits Manual and technical system development documents related to CUFS; however, we were told that other procedures related to the overall billing process were currently being written and not yet finished. In addition, our review of the existing SOP disclosed some outdated provisions. For example, the CUFS portal displays directions for administrative users on when to take certain actions related to the billing file, but the actions should actually be taken at different times than what is specified. The Adjustments and Credits Manual states that proof of government assistance is acceptable documentation for the low-income exemption; however, the 2017 application states that proof of assistance is no longer accepted to determine eligibility.

Comprehensive, written standard operating procedures promote compliance with applicable laws, rules, and regulations in a way that is consistent and in alignment with management's objectives. Examples of certain processes we became aware of during our audit that were not written include the following:

1. The fee schedule provides ranges for categorizing single family residences (small, average and large) by square foot. However, Public Works actually uses a different set of ranges to categorize the buildings. The ranges in the fee schedule are higher because they are projections that represent an estimate for the total impervious area associated with the single family residence building (e.g., accounts for outside areas such as driveways).
2. CUFS needs to be updated for each new annual roll, and this includes a series of analytical procedures. Although the CUFS manual provides instructions on how to make updates in the system, there is not a written procedure to guide staff through the series of analytical procedures that need to be performed in order to identify the necessary updates.
3. The approval of an adjustment or exemption application could further warrant either a refund of previously paid stormwater fees or forgiveness of outstanding fees from prior years, depending on the circumstances. The process for making these determinations and handling the refunds or forgiveness should be written, including the criteria, identification of the required forms, where to obtain those forms, and who the forms should be submitted to.
4. The fee calculation for certain parcels that share common area with other parcels involves an allocation to account for both the impervious area of the individual parcel and that parcel's share of the common area. The details on how to complete the allocation need to be documented to ensure that it is completed consistently. (See Finding 1, bullet 3b.iv)
5. Compacted dirt or gravel is included in the measurement of impervious area for non-residential parcels; however, it is sometimes difficult to confirm whether or not an area qualifies when using the primary method for measuring the parcels (i.e., City's aerial imaging website). There needs to be a detailed written description for how to distinguish between the compacted dirt or gravel that should be included and other areas that should be excluded. (See Opportunity for Improvement 3)
6. Stacks of inventory, equipment or supplies that appear to be on the ground are sometimes included in the measurement of impervious area for non-residential parcels, but not always. As with compacted dirt, there needs to be written criteria for when to include these areas and when to exclude them. (See Finding 4, bullet 1)

7. Ordinance 2010-445-E established that the CUFS Special Case category is to be used when multiple rates or methodologies are used to calculate the fee for a parcel; however, this category was not described in the Adjustments and Credits Manual or in Chapter 77 of the City’s Municipal Code for the Stormwater Utility, alongside the other categories. (See Finding 2, bullet 2)

In addition, and as noted in some of the findings above or below, the written standard operating procedures should also include details on the following items:

8. How to handle methodology changes, including who should be involved in the decision, what kind of updates need to be made based on the decision, and how the updates should be documented. (See Finding 3)
9. How and when to perform rate studies to ensure equity of service charges, as required by Section 754.101(c) of the Municipal Code. (See Internal Control Weakness 1)
10. How to properly maintain applications and other records in accordance with the City’s Records Retention Schedule. (See Internal Control Weakness 5)

Recommendation to Internal Control Weakness 3

The Division should continue its efforts to develop and maintain comprehensive standard written operating procedures related to the stormwater fee.

Auditee Response to Internal Control Weakness 3

Agree Disagree Partially Agree

Public Works agrees with ICW 3 and will continue efforts to develop and maintain comprehensive standard written operating procedures (SOP) related to the Stormwater fees. A Comprehensive Draft SOP will be complete by October 1, 2019.

Internal Control Weakness 4 *Email Submissions Lacking Proper Forms*

Section 754.102(a) of the Municipal Code defines the Adjustments and Credits Manual as the manual that was created and adopted by the City which contains the procedures and policies to allow the Director to award adjustments and credits to those applicants that have completed the appropriate forms and received approval from the City Engineer. The City’s Adjustments and Credits Manual is available on the City’s website and includes the application forms for each type of reduction (i.e., adjustment, exemption or credit), along with instructions and additional information for how they are intended to be applied. It should be noted that certain applications contain a section for applicants to attest that the information submitted was accurate and that the applicant was truly eligible.

During our interviews, staff informed us that email requests were sometimes accepted in lieu of the application because that was easier and more customer-friendly. Although it seems reasonable that the completed forms could be submitted as an email attachment, accepting requests that are written into the body of a stand-alone email increases the risk that information required for making a proper determination is not included or properly retained and is also not in

compliance with the City’s ordinance code. In addition, standard forms facilitate a more efficient review by limiting details to only what is relevant in an organized fashion, whereas email may be cluttered with additional information and leave the reviewer searching for the relevant pieces. Finally, accepting emails instead of the required form could be perceived as unfairly granting certain applicants more flexibility in the application process and leave the City without a completed attestation to back up the approved reduction.

Recommendation to Internal Control Weakness 4

We recommend that the City require each applicant to submit the appropriate form in accordance with the Adjustments and Credits Manual and Section 754.102(a) of the Ordinance Code. Further, if an electronic application process is desired, it should be established in a uniform manner, be consistent with the manual and ensure all of the required information is included.

Auditee Response to Internal Control Weakness 4

Agree Disagree Partially Agree

Public Works agrees with ICW 4 and will require each request for an adjustment, exemption or credit to be submitted in the appropriate form in accordance with the Adjustments and Credits Manual and Section 754.102(a) of the Ordinance Code.

Internal Control Weakness 5 *Denied Applications are Not Retained*

Public Works discarded applications for adjustments, credits, and exemptions that were submitted by property owners and subsequently denied. Florida has very broad public records laws that require the City to comply with established records retention schedules and disposal processes for public records. Section 119.011, Florida Statutes, defines “Public Records” as all documents, papers, letters, maps, books, tapes, photographs, films, sound recordings, data processing software, or other material, regardless of the physical form, characteristics, or means of transmission, made or received pursuant to law or ordinance or in connection with the transaction of official business by any agency. Discarding the applications without having identified the appropriate retention schedule increases the City’s risk of non-compliance with public records requirements. In addition, without the denied application on file the city may be unable to defend that the denial was warranted and fair.

Recommendation to Internal Control Weakness 5

We recommend that Public Works consult with the City’s Records Management Liaison Officer (RMLO) to assist in determining how to handle the stormwater fee adjustment, credit and exemption applications with respect to the City’s records retention schedule. We also recommend that the Division retain denied applications and note the reason it was denied.

Auditee Response to Internal Control Weakness 5

Agree Disagree Partially Agree

Public Works agrees with ICW 5 and will consult with the City's Records Management Liaison Officer (RMLO) and determine how to handle the stormwater fee adjustment, credit and exemption applications with respect to the City's records retention schedule. Going forward with the advice of RMLO, Public Works will retain denied applications and note on the record the reason denied. Public Works will attempt to have this records retention procedure in place by October 1, 2019.

Internal Control Weakness 6 *Incomplete Documentation for CUFS System Development*

We requested technical documentation related to CUFS from the City's Information Technologies Division (ITD) in order to understand how the system had been designed to function. Although staff was able to provide the project charter and some system requirements specification documents dated through September of 2010, staff indicated that there had been subsequent developments that they could not provide documentation for due to staff turnover.

Subsequent to our inquiry, audit procedures disclosed that certain development updates that occurred in 2014 had resulted in an unintended error in the way CUFS applied the maximum limitation for user fee credits (See Finding 6). ITD confirmed that this was an example of development for which there was no available documentation (e.g., what had been requested by Public Works and implemented by ITD). If the documentation had been available ITD could have relied on it to more efficiently determine how exactly the error had occurred and how it could be fixed.

Recommendation to Internal Control Weakness 6

We recommend that, going forward, the City's ITD maintain a complete record of how the CUFS system has been developed in a manner that safeguards against the loss of such information by employee turnover.

Auditee Response to Internal Control Weakness 6

Agree Disagree Partially Agree

Public Works - DEFER TO ITD - Starting in 2016, ITD reinstated the requirement for a formal systems requirement specifications document for system enhancements. If the appropriate resource is not available to conduct the requirements gathering, the project is put on hold until a resource becomes available. Preparation of the SRS, in accordance with ITD's System Development Standards, serves to document customer requirements as well as the specific methods used to implement enhancements and fixes, thus providing an efficient means to identify and resolve any potential future defects.

Opportunity for Improvement 1 *Pond Credits based on Construction Permits*

The Public Works Department's process for reviewing pond credit applications was to research the permit number or project name on the respective SJRWMD or FDEP websites to verify that a permit had been issued and then compare the real estate numbers to the design plan drawings to verify that the parcel receiving the credit was within the service area. We re-performed this procedure for a sample of 44 approved pond credits and noted the following:

1. The complete permit number includes a suffix of two digits (sequence) that is unique to one of the various projects that fall under the main permit number, and the sequence numbers are not in order of project. For example, Project A could include sequence 02, 07, 18 and 54.
2. Each sequence has its own folder on the SJRWMD website that contains the various types of documents that are applicable to that step for its project.
3. Although most of the sample items we tested that had identifiable permits included between one and ten sequences, there were six that had 12, 14, 24, or 72 sequences (two had 12, and two others had 24).
4. The design plan drawings can be found in the folder of the sequence number that is for the issuance of a permit; however, identifying that particular sequence number was time consuming.
5. One of the first few sequence numbers for a project is usually for the issuance of the construction permit, while there is a separate and subsequent sequence number for the issuance of an operating permit.

During our testing of the 44 approved pond credits selected for our sample, we found that 28 were based on a construction permit instead of an operating permit. A comparison of construction and operating permits disclosed that while the construction permits indicate that the design plans for the pond had been approved, the operating permits state that the pond had been determined by the issuing authority to have been constructed in accordance with the plans and the terms of the construction permit. Further, the operating permits appear to initiate a biennial inspection process that allowed SJRWMD to detect instances where a pond had become non-functional and post a notice to the operating permit's folder.

Limiting the review of pond credit applications to a single operating permit number would allow staff to more efficiently and effectively verify that the pond has in fact been constructed and maintained in accordance with the permit, consistent with the requirements in the Adjustments and Credits Manual.

Recommendation to Opportunity For Improvement 1

We recommend that Public Works require applicants to specify the full permit number, including sequence, for the operating permit on their pond credit applications. This would include denying any applications that are submitted under a construction permit until the applicant can provide the appropriate reference for the operating permit.

Auditee Response to Opportunity For Improvement 1

Agree Disagree Partially Agree

Public Works partially agrees with OFI 1. Going forward Public Works will require Pond Credit applicants to submit accurate applications that can sufficiently show the parcel(s) can be identified as part of a stormwater pond/system that has been permitted by the St. Johns River Water Management District or the Florida Department of Environmental Protection. This would include denying any applications that are submitted under a construction permit until the applicant can provide the appropriate reference for the operating permit.

Opportunity for Improvement 2 *More Specific Income Documentation Requirements for Low Income Exemptions*

During our test of low income exemptions we noted that occasionally, the income documentation provided by the applicant appeared outdated for the 2017 low-income exemption applications. Specifically, we noted that 2016 pay stubs had been provided although the date-stamp indicated that 2017 pay stubs would have been available. Likewise, we noted that 2016 Social Security projections had been submitted although the date-stamp indicated that the actual 2016 Social Security Statement would have been available. In a few cases we noted income documentation that represented income earned in 2015 or prior. Lastly, the application lacked a designated area for applicants to date their attestations.

Recommendation to Opportunity For Improvement 2

We recommend Public Works update the application to include more specific details related to the eligible time frames for various types of supporting documentation as well as update the application form to include a field where applicants can date their attestations.

Auditee Response to Opportunity For Improvement 2

Agree Disagree Partially Agree

Public Works agrees with OFI 2 and will work with the Social Services Division to update the Low Income application to include more specific details related to the eligible time frames for various types of supporting documentation. The new procedures will be in place prior to the release of the 2020 Low Income application (approximately January 30, 2020). Public Works has updated the application form to include a field where applicants can date their attestations.

Opportunity For Improvement 3 *Variable Indicator of Impervious Area*

Per Section 754.106 (b) of the Municipal Code, the stormwater fee for all non-residential properties shall be calculated based on the number of billing units (square footage of impervious area divided by 3,100) x \$5 per month. Public Works has used JaxGIS as a way to measure the impervious area of non-residential properties.

Based on discussions with Public Works we found that tire tracks are used as an indicator for compacted dirt when measuring impervious area in JaxGIS. As would be expected, we found that the JaxGIS pictures look different across the years and show the parcel in various conditions which could even be related to weather conditions that existed when the different pictures were taken.

Recommendation to Opportunity For Improvement 3

We recommend updating the specifications for how to measure compacted dirt using JaxGIS to include written detailed visual clues that are fairly consistent over time and weather conditions. If this is not possible we recommend that the City find another way to account for compacted dirt in a reliable and consistent manner (e.g., utilize a consultant or perform site visits on a periodic basis).

Auditee Response to Opportunity For Improvement 3

Agree Disagree Partially Agree

Public Works agrees with OFI 3 and will attempt to determine and then establish a methodology to account for compacted dirt in a reliable and consistent manner. The established methodology will be incorporated in the Comprehensive SOPs recommended in ICW 3.

Opportunity for Improvement 4 *Establish Consistent Measuring Standards*

We inquired as to what resources Public Works used in order to measure impervious area for the various types of non-residential parcels. Based on their response, the most recent basemap available on the City's JaxGIS website was the primary source, although reviewing the base maps from prior years could provide additional information. Accordingly, we used JaxGIS for our test of non-residential fees to measure the impervious area of parcels included in the sample. Occasionally, when all or part of a parcel was covered by trees or the impervious area is unclear in JaxGIS for other reasons, Public Works stated that they incorporated details from the Property Appraiser website or the aerial imagery from a different publicly-available website that was not owned and operated by the City and included a view from a different angle (i.e., street view). Staff further noted that they would sometimes request data from the Solid Waste Division or ask a City engineer for expertise if there was a question about whether or not an area qualified as impervious. Although we attempted to obtain a complete list of resources, Public Works indicated that there was not a complete list and that they will use any resources available to them to make a determination. This appears to be due to the fact that there is no perfect data source available to the City, and their attempt to measure impervious area with imperfect data such as JaxGIS sometimes resulted in circumstances where additional details were needed before a determination could be made. However, by using resources that were not fully understood or vetted as appropriate for the Public Works Department's intended purpose (measurement of impervious area), inconsistencies or errors can arise. For example, our audit procedures disclosed a parcel with a stormwater fee amount which indicated that it was being charged for a total impervious area that exceeded the size of the parcel. As support, the City provided a document

created by the Engineering Division which indicated that the measurement of impervious area was not limited to the parcel in question, but included impervious area from several adjoining parcels, which were being billed separately. Upon inquiry the administrative staff responsible for calculating the stormwater fee stated that they could not explain why Engineering included the adjoining parcels.

Finally, in the course of documenting our JaxGIS measurements, we experimented with changing our zoom percentage in order to fit the entire parcel on our computer monitors. By doing so, we realized that the measurement results for impervious area varied slightly based on which zoom percentage had been selected. Although the variations that we noticed were slight, establishing standard settings would eliminate unnecessary inconsistencies to ensure that each parcel is treated as fairly as possible.

Recommendation to Opportunity For Improvement 4

We recommend that Public Works establish a process for reviewing any resources that are proposed to be used for measuring impervious area for adequacy and, if approved, document specifications for how to use those resources in a way that is consistent and will result in consistent and fair conclusions.

Auditee Response to Opportunity For Improvement 4

Agree Disagree Partially Agree

Public Works agrees with OFI 4 and will attempt to establish a process for reviewing and approving resources that can adequately be used for measuring impervious area. Public Works will document specifications as to how to use those resources that result in consistent and fair conclusions. The established process will be incorporated in the Comprehensive SOPs recommended in ICW 3.

SUPPLEMENTARY ITEM

Supplementary Finding 1 *EQD Maintenance Requests not Relayed*

The Environmental Quality Division (EQD) of the City's Neighborhoods Department performs inspections related to the City's overall stormwater management program, and the inspections can disclose that corrective action is required to be performed (i.e, maintenance request). However, maintenance requests that had been submitted by EQD staff during these inspections were not effectively communicated to the City Division that was responsible for addressing them. For example, during our preliminary survey we selected an inspection report that was completed by an EQD employee for a wet detention system (stormwater pond). The report indicated that the system needed to be treated for algae overgrowth by the Public Works Department. In our attempts to determine whether or not the maintenance had been resolved, we found out that although the information system EQD relied on for inspection purposes was

designed to relay the maintenance request to the area that was responsible for completing the maintenance, it had stopped working when City ITD enhanced the firewall. Based on our understanding, the firewall blocked the interface between the EQD's website and the City's CARE system which notified the appropriate area of the issue. This prevented the maintenance requests from being delivered to the responsible parties. Although EQD was aware that the firewall blocked the maintenance requests from being delivered by the system, a workaround procedure did not appear to have been set up to ensure that the division responsible for the issue received notice in some other way.

Recommendation to Supplementary Finding 1

We recommend that the City address this issue to ensure that maintenance requests input by EQD are sent to the appropriate area to ensure responsible parties are completing their part of the process and doing so in a timely manner.

Auditee Response to Supplementary Finding 1

Agree Disagree Partially Agree

The City agrees with Recommendation to Supplementary Finding 1 and the need to ensure that stormwater maintenance requests are handled in a timely manner. After the firewall issue was detected, the Environmental Quality Division and the Right of Way and Stormwater Maintenance Division began meeting on a regular basis to discuss maintenance issues. In July of 2018, a guidance document was developed to dictate how the responsible divisions would coordinate efforts to maintain the City's Stormwater Management system, with roles and responsibilities defined for each.

CLOSING COMMENT

During the course of our audit we noted an overall lack of management oversight of the stormwater fee calculation process within the Public Works Department which may have contributed to or exasperated many of the issues noted in the report. Specifically, one person was primarily responsible for measuring the impervious area and other inputs that CUFS relied on to calculate the fee, upload those entries into CUFS, generate the billing file and submit the billing file to the Property Appraiser for inclusion in the City's Tax Roll without any secondary review. The staff member also was responsible for granting access to CUFS and was the primary contact to work with the City's Information Technology Division (ITD) on updates to CUFS. In addition, the staff member was responsible for providing refunds. The staff member also had other non-stormwater fee responsibilities until April of 2017, upon moving into a part-time position in order to focus completely on the stormwater fee responsibilities.

Due to the widely varying nature of real estate parcels across the City, it was inevitable that complex circumstances would arise that required subjective interpretation for how the measurement criteria and categorization should be applied and could lead to inconsistencies in

how parcels are assessed. This is why the development of a more automated process and detailed standard operating procedures is so important going forward.

We appreciate the assistance and cooperation we received from the Public Works Department throughout the course of this audit.

Respectfully submitted,

Kyle S. Billy

Kyle S. Billy, CPA
Council Auditor

Audit Performed By:

Brian Parks, CPA, CIA, CGAP
Megan Evans
Jeff Rodda