



AUDIT REPORT



DATE October 23, 2019

NO. 2019-012

**CHARLOTTE COUNTY UTILITIES - CAPITAL IMPROVEMENT
PROGRAM**

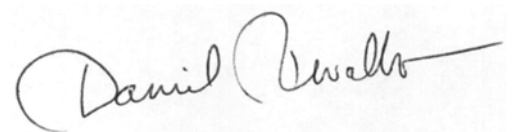
INTERNAL AUDIT DIVISION
ROGER D. EATON
CLERK OF THE CIRCUIT COURT AND COUNTY COMPTROLLER
CHARLOTTE COUNTY FLORIDA

Honorable Roger D. Eaton
Charlotte County Clerk of the Circuit Court and Comptroller
350 East Marion Avenue
Punta Gorda, Florida 33950

We have completed an audit of the Charlotte County Utilities – Capital Improvement Program. The purpose of this audit was to verify that adequate controls exist and are operating effectively over the capital improvement program.

The report details the current control environment and includes our comments and recommendations. Management responses have been included and immediately follow the audit report.

Respectfully submitted,

A handwritten signature in black ink that reads "Daniel Revallo". The signature is written in a cursive style with a long horizontal stroke at the end.

Daniel Revallo
Internal Audit Director

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EXECUTIVE SUMMARY

Internal Audit has completed the review of Charlotte County Capital Improvements Program (CIP) for Charlotte County Utilities Department (CCU).

Procedures performed during the audit determined the following:

1. In general, projects comply with definitions, goals, and objectives of the County's Capital Improvement Program, applicable Florida Statutes, Administrative Rules, and local law.
2. It appears that contracts are awarded, administered, funded, and expended in compliance with the Charlotte County Procurement Code, Purchasing Manual, and applicable Florida Statutes and County Regulations.
3. Disbursements/payments associated with the projects were properly reviewed and approved by authorized personnel, within budgeted amounts, and in agreement with the terms of the contracts.
4. Change orders were properly reviewed and approved and none of them included tasks that were already contained in the scope of the original contract.
5. Projects' documentation appears to be proper with funding and expenses documented and posted to the general ledger.
6. Projects' cost and completion timeframes are reasonable and in compliance with contracts, as well as with supporting and approved documentation.

The following is a summary of our audit recommendations:

1. **We recommend** CCU evaluate processes for its construction projects for the purpose of developing and implementing written standard operating procedures in alignment with key current processes.
2. **We recommend** CCU follows Purchasing Manual and bid documents requirements relating to the evaluation of successful bidder's performance.
3. **We recommend** the County update/amend current CIP policy in order to:
 - Differentiate between enterprise and other funded project prioritization.
 - Document the process used for reviewing and prioritizing CCU projects.
 - Document the Board's responsibilities as "the *de facto* review committee" for CCU.
4. **We recommend** CCU establish criteria for determining those meetings that need to be documented and implement procedures for documenting them with the generation of minutes.

Further details of these comments and recommendations are included in the following pages of this report.

BACKGROUND

CCU is a separate government-owned enterprise that is fully funded by customer rates, fees and charges. CCU is accounted for in an internal service fund and all policies and rates are established and reviewed by the Charlotte County Board of County Commissioners.

CCU provides water supply/distribution, wastewater treatment/collection, and reclaimed water storage/distribution services to approximately 62,000 customers including residential, nonresidential, and wholesale accounts.

CCU also provides services to developers. Among these services are system locates, water and wastewater service availability, and development plan reviews. The existing utility infrastructure was acquired in 1991 from General Development Utilities (GDU) at a cost of \$110 million. The County financed the acquisition through the issuance of the Charlotte County, Florida, Utility System Revenue Bonds. Since then CCU has acquired several other smaller private utilities.

CCU is divided into 3 divisions: Business Services, Engineering, and Operations. The Business Services Division is comprised of Customer Service, Billing and Collection, and Meter Services. The Engineering Services Division provides engineering and construction observation services to residential and commercial utility customers. The Operations Division is responsible for the operation and maintenance of all County-owned and operated water, wastewater, and reclaimed water facilities.

The Fiscal Services Division of the Charlotte County Budget & Administrative Services Department supports CCU by providing financial services.

The Engineering Division develops water, wastewater, and reclaimed water systems infrastructure and expansion projects that are included in the CIP. Utility fees and bonds/loans generally fund these projects. Projects are scored and ranked using seven ranking factors, which are linked to County capital project priorities and strategic focus areas.

[Summary taken from the Capital Improvement Plan](#)

The Capital Improvement Program (CIP) and the Capital Needs Assessment (CNA) – collectively referred to as the **Capital Improvement Plan** – represent a statement of Charlotte County’s policy regarding long-range physical development for the next five-year and twenty-year periods, respectively. The Capital Improvement Plan serves as a planning and implementation tool for the development, acquisition, construction, maintenance and renovation of public facilities, infrastructure, and capital equipment.

The initial five-year period of the program is called the **Capital Improvement Program (CIP)**. The CIP forecasts spending for all anticipated capital projects and is considered a link between the County’s Comprehensive Plan and its fiscal planning process. The plan is based on the “physical needs” of the County as identified in the Comprehensive Plan and as prioritized by the CIP Review Committee in alignment with the Board’s strategic goals.

The following 15-year period of the Capital Improvement Plan (i.e. years six through 20) is called the Capital Needs Assessment (CNA) which helps identify County capital needs beyond the initial five-year horizon. This assessment plan shall be updated every two years as part of the County’s planning process and helps form the basis for the five-year CIP as projects are brought forward. Projects included in the CNA are not balanced to revenues, but are viewed as potential projects in the planning stage.

In developing the Capital Improvement Program, the County adheres to financial and debt management policies established by the Board. These policies are in place to help preserve the County’s credit rating and establish a framework for the County’s overall fiscal planning and management. Projects are carefully evaluated and prioritized to optimize the use of limited capital funds and meet operational and community needs.

Financial Analysis

***2018 Capital Improvement Budget and Expenditures**

Infrastructure Sector	Budget	Expenditures
Water	\$1,994,000	\$ 1,356,000
Wastewater	\$22,193,000	\$18,196,000
Reclaimed Water	\$ 200,000	\$ 6,167,000

*Information taken from the Charlotte County Utilities Department – 2018 Annual Report issued in March 2019. Annual Report prepared by Jones Edmunds & Associates, Inc.

****2017 Capital Improvement Budget and Expenditures**

Infrastructure Sector	Budget	Expenditures
Water	\$13,910,000	\$ 5,530,000
Wastewater	\$58,363,000	\$20,155,000
Reclaimed Water	\$ 9,704,000	\$ 3,507,000

**Information taken from the Charlotte County Utilities Department – 2017 Annual Report issued in April 2018. Annual Report prepared by Jones Edmunds & Associates, Inc.

AUDIT OBJECTIVES

1. Ensure that there are effective and adequate policy and control procedures in place over water, sewer, and reclaimed water projects included in the Capital Improvement Plan.
2. Determine if planned, active, and completed water, sewer, and reclaimed water capital improvement projects comply with goals and objectives of the County's Capital Improvement Plan.
3. Determine if contracts for capital projects comply with Charlotte County Procurement Code and Purchasing Manual.
4. Ensure that management properly monitors contractor/vendor performance, expenditures for in-house CIP are supported and approved, and payments to vendors and change orders are in accordance with contractual terms and conditions.
5. Determine if projects are properly planned, approved, funded, completed in time, and within budget.
6. Ensure that projects' financial information is properly documented/posted to the general ledger and that these accounts are properly maintained.

SCOPE AND METHODOLOGY

We reviewed data for the audit period October 1, 2015 through December 31, 2018; however, transactions and processes reviewed were not limited by the audit period. The data included the population of CCU capital projects contained in the CIP for that period. From the population we filtered out line extension projects and judgmentally selected a random sample of 14 capital projects for review.

We reviewed project documentation maintained by both the County's Purchasing Division and CCU, contracts and contract documentation, bid documents, purchase orders, contractors' pay requests and associated invoices, contract amendments, and contractors' change orders. We also reviewed financial documentation provided by the Fiscal Division, and accounting information posted to the Clerk's financial software EDEN.

We interviewed personnel involved with water, sewer, and reclaimed water capital projects in CCU, the Fiscal Division, the Purchasing Division, and the Clerk Comptroller's Office. We used original records and copies as evidence and verified through physical examination and observation.

SCOPE LIMITATION

A main objective of the audit assignment was to determine if the County's capital improvement and infrastructure plan covered the repair and replacement needs of Charlotte County and that the process for maintaining the County's infrastructure was sufficient and effective. To achieve these objectives, Internal Audit planned to use CCU's Asset Management System (EAMS) to access the necessary data for projecting maintenance, repairs, and replacement needs. Data such as the age, condition and location of assets, asset size and capacity, original and replacement cost, installation

date and expected life, and maintenance and performance history.

Early in the audit, Internal Audit discussed the issue with CCU's management and management indicated the current system does not have the sufficient data and detailed information needed by Internal Audit to accomplish the objectives. Management also indicated that the County is implementing a new and more robust asset management system countywide, capable of effectively and efficiently providing the data necessary to project maintenance, repairs, and replacement needs. Given this and CCU's new leadership focus, Internal Audit revised the audit objectives to provide management the opportunity of implementing its strategic plans and time for the new asset management system to be up and running.

COMMENTS AND RECOMMENDATIONS

1. CCU Lacks Written Procedures for CIP Construction Projects

CCU has no written instructions for procedures/ activities associated with CCU construction project processes, which include capital projects incorporated in the Capital Improvement Program.

Written procedures provide the guidance necessary to carry out the activities at a required level of quality, ensure consistency in the performance of duties, minimize the occurrence of errors, facilitate cross training and back-up of key staff functions, and ensure that appropriate internal controls have been established.

Internal Audit observed procedures and activities being followed for processes from project initiation to closing, that if written, could benefit CCU by ensuring completeness, consistency, and protection of institutional knowledge. As an example, there are no written standard operating procedures for the Projects Manager - Utilities CIP Analyst's functions, which involve processes and day-to day activities from the planning stages of projects to long after they are completed. These functions are of prime importance because they cut across several departments/divisions. These activities are performed by only one employee who has been working for CCU for over 30 years and who is highly knowledgeable.

Without a complete set of written Standard Operating Procedures (SOPs):

- There is an increased risk that CCU cannot ensure completeness and consistency in its processes.
- There is a potential risk that employee turnover could lead to the loss of institutional knowledge.

We recommend CCU evaluate processes for its construction projects for the purpose of developing and implementing written standard operating procedures in alignment with key current processes.

2. CCU Did Not Evaluate Contractors' Performance.

The sample of projects reviewed in the audit included 2 completed and closed projects. CCU did not evaluate contractors' performance upon project completion as required by the Charlotte County

Purchasing Manual and the Bid documents. Neither CCU nor the Purchasing Division were able to produce "Performance Evaluation Forms".

The "Contract and Contract Administration" section of the Purchasing Manual and the bid documents address performance evaluations. The Instructions to Bidders section of the Bid documents state under IB-11: "Performance Evaluations: At the end of the contract the receiving department will evaluate the successful bidder's performance. This evaluation will become public record."

Past performance is a source of relevant information for future selection process. The Contractor Performance Evaluation is intended to assess contractor responsibility and performance. It provides an official evaluative record of previously granted contracts in support of future awarding of projects to a contractor.

Without evaluating contractors' performance:

- There is potential risk of assigning future contracts to contractors that may not possess the qualifications to complete projects successfully.
- The County lacks an important source of information to assist in making adequate decisions for awarding future contracts.

We recommend CCU follows Purchasing Manual and bid document requirements by evaluating the successful bidder's performance, which will provide relevant information for future award decisions.

3. Current CIP Policy Should Be Updated.

We found that CCU projects do not follow the process laid out in the County's Capital Improvement Plan document because Current CIP Policy does not fully address their prioritization process. County management made the following assertion:

CCU projects are funded by enterprise funds, and do not follow the same prioritization process as laid out in the CIP Policy. CCU projects do not compete against other department's requirements for funding and thus are not brought to the CIP review committee for prioritization. The BCC has instituted quarterly business meetings where CCU projects are discussed and prioritized by the Board. By this logic, the BCC is the de facto review committee fulfilling the policy function (but not the policy process).

Policies provide guidance, consistency, accountability, efficiency, and clarity on how an organization operates. Having outdated policies or lacking them:

- Diminishes internal control over the prioritization and ranking of CCU projects included in the Capital Improvement Program.
- Potentially reduces consistency in the process, which in turn affects accountability and efficiency.
- After the prior fiscal year, CCU's project priorities switched from (1) a line extension program to (2) renewal and replacement of infrastructure, corrective and preventative maintenance, and the

septic to sewer program. A CCU Capital Improvement Plan could provide for more consistent guidance.

We recommend the County update/amend current CIP policy in order to:

- Differentiate between enterprise and other funded project prioritization.
- Document the process used for reviewing and prioritizing CCU projects.
- Document the Board’s responsibilities as “the *de facto* review committee” for CCU.

4. Meetings could benefit with the generation of minutes.

We found that CCU does not generate minutes to document project meetings. Meetings are an essential part of management and supervision that serve many important purposes at all stages of a construction project. Not only they allow discussing and coordinating upcoming project activities, but they also provide for control and delegation of responsibilities such as monitoring activities, reporting progress, assessing performance, and measuring quality of work.

Some of the meetings held by CCU throughout the life of projects are:

- Inspectors and project Managers discuss projects in the morning before workday starts. There are no minutes generated.
- Project Managers and the Engineering Services Manager meet monthly or as needed to discuss projects, schedules, project activity. There are no minutes generated.
- Monthly Directors' project briefing, in which the Utilities Director is updated on the progress of projects. There are no minutes generated.
- Progress meetings held between contractor and CCU staff. Hired consulting engineers may participate. There are no minutes generated.

As important as meetings are, so is documenting them. Everything that happens during construction meetings should be written down in a manner that allows the parties to track the progress of a discussion that continues over the course of several meetings and throughout the entire project. Meeting minutes highlight action plans and record meeting decisions, which make them a useful review document when it comes time to measure progress. They also act as an accountability tool because they document the delegation of responsibilities.

By not generating minutes:

- There is no manner to determine what project details make it from the inspectors to the Director.
- Tracking progress of project activities may be more difficult.
- Decisions made at meetings may not be documented.

We recommend CCU establish criteria for determining those meetings that need to be documented and implement procedures for documenting them with the generation of minutes.

CONCLUSION

Our review determined adequate internal controls for projects, contracts, disbursements/payments, change orders, documentation and project cost and completion timeframes. We determined opportunities for improvement in documented evaluation of construction projects, standard operating procedures, and update of the CIP policy in relation to CCU projects.

ACKNOWLEDGEMENT

We would like to thank the Charlotte County Utilities Department, Fiscal Services and Purchasing Divisions, and the Clerk Comptroller's Division for their assistance in completing this audit.

Audit completed by:

Orlando Solarte

Senior Internal Auditor


Charlotte County Clerk of Court and Comptroller




MEMORANDUM

Date: 08-26-19

To: Dan Revallo, Director Internal Audit
Orlando Solarte, Senior Internal Auditor

Through: Craig Rudy, Utilities Director 

From: Denise Caruthers, CIP Analyst 

Subject: Response to Utilities CIP Audit Report Recommendations

The Utilities CIP Audit Report was reviewed and discussed at the audit's exit conference on August 16, 2019. Below are CCU's responses to the audit findings and recommendations:

- 1. Recommend developing and implementing written standard operating procedures in alignment with key current processes**
Utilities acknowledges this recommendation. Staff will begin creating written SOPs for construction projects. These shall involve processes and day-to-day activities from the planning stages to completion.
- 2. Contractor Performance Evaluation Form**
Utilities acknowledges this recommendation. The completed form will be submitted when the final invoice pays out for the project. A checklist/reminder to complete the evaluation form will be a part of the pay request project folder.
- 3. Current CIP Policy Update**
Utilities acknowledges this recommendation. Utilities staff will work with County Administration to assist with any updates/amendments to the current CIP policy as needed.
- 4. Project Meeting Minutes**
Utilities acknowledges this recommendation. A draft criterion is in the process of being created identifying when project meeting minutes are essential (i.e., FDEP financed projects.)

cc: Utilities Management Team
Rick Arthur, Fiscal Services Manager

