



**CITY OF COLORADO SPRINGS
OFFICE OF THE CITY AUDITOR**

**09-05 – DRAINAGE BASIN FEE PROGRAM –
INTERIM REPORT**

PUBLIC REPORT

FEBRUARY 25, 2009

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Office of the City Auditor

Public Report

Date: February 25, 2009

To: Honorable Mayor and Members of City Council

Re: 09-05 – Colorado Springs Drainage Basin Fee Program – Interim Report

We began an audit of the Drainage Basin Fee Program, which is administered by the Development Review Enterprise of the City of Colorado Springs. Because of circumstances surrounding source documentation required for this audit, we have found we may not be able to accomplish all of the objectives of the audit and are issuing this Interim Report related to issues that were identified. The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, a part of the Professional Practices Framework promulgated by the Institute of Internal Auditors.

The planned purpose of this audit was to examine the Drainage Basin Fee Program. We attempted to determine whether the balances shown in the current system were accurate and reliable. We also planned to identify areas for improvement.

The Drainage Basin Fee Program has been in existence since the mid-1960's. The concept of the program involves equitably distributing the cost of drainage system improvements to developers within the drainage basins. As property is developed, there is an impact on storm water runoff that must be mitigated. Historically, Developers and the City have used the Drainage Basin Fee Program to distribute these costs. In 2008, a consultant was hired to help design a new Drainage Fee Basin Program and, on a separate track, we began our audit of the existing program.

Because of the lack of internal controls related to this program and multiple changes in the data presented to us, we were not able to determine whether values presented were accurate and reliable. During the course of our audit, we identified areas where internal controls were not adequate. We have presented those findings and our recommendations in the following report. We plan to continue working with representatives of the Drainage Basin Fee Program to identify additional areas where improvements to the program would be beneficial.

CITY AUDITOR JEFF LITCHFIELD, CPA CIA CFE CGAP

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As always, feel free to contact me if you have any questions.

Sincerely,



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City Auditor

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Introduction

09-05 – Drainage Basin Fee Program – Interim Report

PUBLIC REPORT

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Introduction

Abbreviations and Acronyms used in this Report

DBPS	Drainage Board Planning Study
DRE	Development Review Enterprise
SWENT	Storm Water Enterprise

Introduction

AUTHORIZATION

We performed an audit of the Drainage Basin Fee Program. We conducted this audit under the authority of Chapter 1, Article 2, Part 7 of the City Code, and more specifically parts 703, 705, and 706, and Part 709 (B) and (C) of the Code, which state:

1.2.703: ENSURE PUBLIC ACCOUNTABILITY:

The City Auditor shall ensure that administrative officials are held publicly accountable for their use of public funds and the other resources at their disposal. The City Auditor shall investigate whether or not laws are being administered in the public interest, determine if there have been abuses of discretion, arbitrary actions or errors of judgment, and shall encourage diligence on the part of administrative officials.

1.2.705: DETERMINE EFFECTIVENESS AND EFFICIENCY OF PROGRAMS:

The City Auditor shall determine the extent to which legislative policies are being efficiently and effectively implemented by administrative officials. The City Auditor shall determine whether City programs are achieving desired objectives. The City Auditor shall review the administrative control systems established by the enterprises, department or group managers and by the City Manager, Utilities Executive Director and Memorial Hospital Executive Director and determine whether these control systems are adequate and effective in accomplishing their objectives.

1.2.706: EXAMINE BOOKS, RECORDS:

The City Auditor shall examine and inspect all books, records, files, papers, documents and information stored on computer records or in other files or records relating to all financial affairs of every office, department, group, enterprise, political subdivision and organization which receives funds from the City or under the direct or indirect control of the City Council. The Auditor may require any person to appear at any time upon proper notice and to produce any accounts, books, records, files and other papers pertaining to the receipt or expenditure of City funds, whether general or special. If that person fails to produce the papers, then the Auditor may request Council approval to search for and take any book, paper or record in the custody of that person or public official.

1.2.709: MAKE PERIODIC REPORTS TO COUNCIL:

- B. Information of proposals deemed expedient in support of the City's credit, and recommendations for lessening expenditures, for promoting frugality and economy in City affairs and for an improved level of fiscal management;
- C. Matters concerning the effectiveness and efficiency of the programs and operation of the City;

Introduction

ORGANIZATIONAL PLACEMENT

The Office of the City Auditor is structured in a manner to provide organizational independence from the entities it audits. This independence is accomplished by the City Auditor being appointed by and reporting directly to the City Council. The focus of this review was the Drainage Basin Fee Program administered by the Development Review Enterprise (DRE) in coordination with Subdivision Engineering Review. The DRE is an enterprise of the City of Colorado Springs. Both the DRE and Subdivision Engineering Review are under the purview of the City Manager, who is also appointed by City Council.

SCOPE AND METHODOLOGY

The objective of this review was to examine the current reimbursement system used to equitably distribute the cost of infrastructure improvements within drainage basins as specified in the Drainage Basin Planning Studies (DBPS). We planned to determine whether the balances shown in the current system were accurate and reliable. We also attempted to identify areas for improvement.

We conducted our audit in accordance with the *International Standards for the Professional Practice of Internal Auditing*, a part of the Professional Practices Framework promulgated by the Institute of Internal Auditors. Our audit included such tests of records and other supporting documentation, as we deemed necessary in the circumstances. Sufficient competent evidential matter was gathered to support our conclusions.

BACKGROUND

Over the last few years, the Drainage Basin Fee Program has been characterized by the development community as being a broken system. In response, City Engineering has engaged an external consultant to facilitate the development of a new system. The City Engineer also asked that the City Auditor review the current program to verify that account balances are accurate and reliable in preparation for the implementation of a new system. The City Engineer asked for this review in late 2006. However, we were not able to work it into our audit plan until 2008.

The Drainage Basin Fee Program has been in existence since the mid-1960's. As property is developed, there is an impact on storm water runoff that requires mitigation. The concept of the program involves equitably distributing the cost of drainage system improvements to the developers within the basin. The City is separated into different drainage basins based on geographic characteristics and each basin has its own unique fee (with the exception of "closed" basins which have no fee and a few basins that carry a "miscellaneous" fee which is not unique). The fees are calculated by dividing the total estimated cost of drainage improvements needed in the basin by the number of developable acres in a basin. Developers pay these fees on a per acre basis and the fees are adjusted annually for inflation and approved by City Council. Since properties within a drainage basin are usually developed over several years, early Developers often front the cost of improvements that support not only their development,

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but also the development of others. In these situations, the Developer would be eligible for reimbursement from fees paid by other Developers. City Engineering reviews the costs submitted by Developers for reimbursement and recommends an amount to the Drainage Board for approval. The Drainage Board then formally approves the reimbursement. The Drainage Board is an oversight board installed by City Council, which advises the County Engineer and the City Engineer as they carry out the provisions of the City Subdivision Code and the County Subdivision Regulations relating to drainage and control of flood and surface waters within the City and County. It should be noted that the County administers its basins separately using separate basin fund accounts and a different fee schedule.

At the risk of over simplifying a very complex operation, we offer the following description of typical transactions within a Drainage Basin.

1. A Drainage Basin Planning Study (DBPS) is performed to determine the infrastructure needed to support development within a Drainage Basin. Based on the data in that DBPS, a Drainage Basin Fee is calculated by dividing the total estimated cost of drainage improvements needed in the basin by the number of developable acres in a basin.
2. A Developer wants to develop property within a Drainage Basin. The Developer works with City Engineering to determine the drainage improvements necessary to support their development. Often the needed improvements support more than the initial development. After working with City Engineering, the Developer receives approval to make the improvements to the Drainage Basin. This step also includes an estimated cost of the improvements needed to support other developments. Because this is a simplified description, we are assuming the improvements are made and the actual cost is known.
3. The Drainage Basin Fee for which the Developer would be responsible is calculated based on the number of acres being developed multiplied by the fee per acre from #1 above.
4. The actual cost of the improvements (as determined in item #2 above) is compared to the Drainage Basin Fee (as calculated in item #3, also above). This calculation is analyzed to determine if the cost exceeds the fee and is disposed of as follows:
 - a. If the fee exceeds the cost of the improvement, then the Developer makes the improvements and pays the difference between the fee and the cost of the improvements into the Drainage Basin Fund.
 - b. If the cost of the improvements exceeds the fee, then the Developer makes the improvements and is due to be reimbursed for the difference between the cost of the improvements and the Drainage Basin Fee. The amount the Developer is due as a reimbursement is sometimes referred to as a credit.
5. If the Developer is due a reimbursement, the amount of the reimbursement, or credit, is maintained on a list. As funds are available, i.e. future fees are paid, the Developer is eligible for reimbursement on a First In First Out basis. The Developer can also use the credit to offset future fees for the same basin.

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Again, this is a very simplified description and does not include a discussion on very important subjects, such as:

- The timing of updating the Drainage Basin Fees via a DBPS,
- When the actual cost of improvements exceeds the estimated cost of the improvements, as specified in the adopted DBPS, and,
- The secondary market of buying and selling of credits among Developers.

In theory, once a Drainage Basin is completely developed, the improvements in the Basin would have been funded by those who developed within the Basin. One of the concerns of the City is there are several Drainage Basins where it appears that when the Basin is fully developed, there will be a large amount due to the Developers who developed the Basin. Also of concern is that programmed improvements may remain uncompleted in some basins after full development.

ADDITIONAL INFORMATION

The City Drainage Board was originally created in the early 1960's when the Drainage Code and fees were first created. Later, the City/County Drainage Board was established in November 1983 by agreement between the City of Colorado Springs and El Paso County (codified in Section 15-3-910 of the City Code). The Board consists of seven members who act as an advisory board to City Council and the Board of County Commissioners regarding (1) subdivision codes and regulations relating to the drainage and control of flood and surface waters and (2) administration of the Subdivision Storm Drainage Funds. The Board also works closely with the City Engineer and the County Engineer.

In December 2000, the City Council approved the creation of the Development Review Enterprise (DRE). The mission of the DRE is to ensure compliance with City land use regulations by conducting a review of all required building permits. The premise of the DRE is that all cost associated with building review would be paid by those using the service. In 2004, the administration of the Drainage Basin Fee Program was moved to the DRE. The program was designed to equitably distribute the cost of new drainage infrastructure within each Basin to ensure that there is controlled storm water runoff for all new developments. The DRE administers the collection of the Drainage Basin Fees that fund the new infrastructure and the reimbursement of the construction costs Developers incur to build the infrastructure. The DRE is a financially self-sufficient organization supported by the fees it collects.

In contrast to the DRE, the Storm Water Enterprise (SWENT), a City-owned enterprise, was established in 2007 to fund operations and maintenance functions on *existing* stormwater infrastructure. SWENT also administers the City's Federally-Mandated Municipal Permit, engineering and technical review staff, and the design and construction of capital improvements.

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OVERALL OPINION

We conclude the internal control structure for the Drainage Basin Fee Program was insufficient to cause equitable distribution of the costs of infrastructure improvements within the Drainage Basins. As a result, we are unable to make an opinion on the accuracy and reliability of the balances derived from the existing system. Because of the seriousness of this conclusion, we are providing a summary of facts we considered in reaching our opinion.

We began this audit in March 2008 when we requested information on the Drainage Basin Fee Reimbursement balance.

On September 9, 2008, we received a spreadsheet showing 91 Developers were owed \$17,275,303 as of June 30, 2008. Many of these 91 Developers had completed multiple development projects. We selected a sample and began requesting documentation to support the balances associated with the sampled accounts. We received a revised spreadsheet on October 9, 2008, which showed the June 30, 2008 total balance had changed to \$15,557,802. We continued asking for supporting documentation for the sample accounts. In January 2009, we were provided information that reduced the total balance to less than \$11,000,000. Almost all of the new information was in the form of spreadsheets, rather than source documentation. We continued to express our need to have source documentation to verify the accuracy of the entries in the spreadsheet.

On January 20, 2009, we met with the Subdivision Engineering Review Manager and the Engineering Specialist. The individuals in those positions have been associated with the Drainage Basin Program for many years. During the meeting, there were several items discussed that led us to conclude we could not form an opinion on the accuracy and reliability of the balances. We learned the balances on the Drainage Basin Fee Reimbursement List have not been updated in a timely manner. We were told some of the changes, which reduced the June 30, 2008 balance from over \$17 million to less than \$11 million, were the result of transactions that occurred prior to June 30, 2008. It was explained the balances are not kept current during times of heavy activity, but rather, they wait to update the balances when times are slow.

Since they were having difficulty providing us source documents to support the balances in our sample, we inquired further and found control over source documents was not sufficient to ensure all documents were considered when balances were updated. The control weaknesses included:

- Lack of control over access to the room(s) where source documents were stored,
- Lack of control over the re-filing of source documents,
- Lack of control over how source documents were microfilmed, and
- Lack of control when source documents were provided to others.

These weaknesses have occurred over the life of the program. While controls may have improved in some of these areas in recent years, these weaknesses prevent us from being able to form an opinion on the balances stated on the Drainage Basin Fee Reimbursement List.

Introduction

Overarching Comments from City Management

After review of the initial draft prepared by the City Auditor, City staff is in general agreement with the findings and recommendations. To fully address the current deficiencies, however, it is necessary to understand the history of the program, the context in which past decisions have been made and the costs and benefits of future changes.

As has been noted, the Drainage Basin fee program has been in effect for approximately 45 years. The program began as a simple tracking structure for developer improvements and reimbursement, but in response to developer needs and business practices, it has evolved into a very complex system well beyond the original scope. In many respects, the program was developed around uncertain foundations. The original records for many drainage basins consisted only of paper ledgers, handwritten notes and files systems that, over the years, have been shuffled between offices, departments and even buildings. Although processes have improved greatly in recent years, dependency on these early records means counting on documents that may have been misplaced or are unsubstantiated.

Since at least the early 1990's City staffers have been raising concerns regarding the accuracy of basin fee acreage and the dollar values and fee amounts associated with these basins. As is too often the case, however, competing priorities and limited resources delegated this program to secondary status and solutions were never addressed.

The obligation to pay fees under the current Drainage Basin Fee program, City Code Chapter 7, Article 7, Part 9, is an obligation of private entities, therefore, these fees and the associated reimbursements have never been considered public funds. A recent legal opinion by Edward Razor confirmed that basin credits are not a public obligation. The management of this program never merited oversight by departments such as Finance who would ordinarily play a greater role if these were public funds or public debt. Staff feels that this is why the program has never been audited at any time during its history; the funds and debt are not public.

In more recent years, it has become increasingly apparent that continued inaction would only create larger problems as we move forward. In late 2006, City Engineering requested this audit as a means of identifying the Drainage Basin Fee program deficiencies. The idea was that this audit could serve as a template to guide the changes that would ultimately fix some longstanding problems. This could not be accommodated in the City Auditor's 2007 work plan, but it was included in the 2008 work plan. Also in 2008 the Finance Department was given the task of overseeing financial responsibility. Through a coordinated effort between Finance, Subdivision Engineering and the DRE it will be possible to resolve the most glaring deficiencies within the timeframes presented. In the opinion of staff, however, this is still not a complete answer. A truly sustainable solution will require the appropriate staff resources to manage the program and the development of a fee structure that is adequate to support the necessary staffing. The creation of the Stormwater Enterprise (SWENT) should provide the basis and resources for a long-term sustainable solution. A part of the City Ordinance that created SWENT directs the new enterprise to address and solve the Drainage Basin Fee Program's problems. A task force is working in that direction now, and the Auditor's recommendations will lend assistance to that effort.

For the findings that follow, we have made no determination as to which findings are more important than others are. Therefore, the findings are not listed in order of importance.

Findings, Recommendations and Responses

1. The system of tracking, recording, and calculating Draining Basin Fee Reimbursement balances lacked the internal controls necessary to determine the accuracy and reliability of the balances.

City Engineering and DRE should be able to produce adequate documentation to validate the amounts included on the reimbursement list. They should also be able to show correct drainage fees were collected from the Developers. Over a ten-month period, City Engineering and DRE were able to provide only limited documentation for our audit sample. Changes were made to the reimbursement list, decreasing the total amount, without a reimbursement being paid to a Developer.

Without the proper documentation we could not validate that correct Drainage Basin Fees were paid, nor that proper amounts were maintained on the reimbursement list.

Auditor's Recommendation

We recommend the following series of events, at a minimum, be considered:

1. The City search for all known source documents that have not been processed and have the reimbursement balances updated as quickly as possible.
2. Once the balances are as accurate as the records allow, each balance be shared with the associated account owner and have each account holder agree, in writing, that to the best of their knowledge, the balance is accurate. If the account holder has information that disputes the balance, that information should be reviewed for validity, and the balance adjusted accordingly.
3. For accounts where the account owner cannot be contacted, a search of property records should be performed to determine who the current owner is, and if the rights associated with the reimbursements are assignable to the current owner.

City's Response:

We agree with the recommendations with additional comments as follows:

- An effort is underway to acquire remaining source documents. It should be recognized that these documents vary in their nature and location. Older documents may be located throughout various offices and on multiple media forms and as such may be difficult to locate. Further clarification of acceptable source documentation will need to be addressed.
- Recommendation number 2 will be facilitated by a standardized letter sent by registered mail to each developer on the reimbursement list. All parties will be asked to verify account balances or provide additional information within a set time frame from receipt of the letter.
- The search for property records for account owners that cannot be contacted or don't respond will need to also address the potential for determining whether items can be classified as "Unclaimed funds" in accordance with City policies.

Findings, Recommendations and Responses

- Concurrent with this audit, an effort to correct deficiencies in the Drainage Basin Fee Program has been in process to address these issues. This effort is being managed by SWENT. A list of credit holders is developed and we are in the process of contacting the owners.

Findings, Recommendations and Responses

2. Documentation for the reimbursement of drainage facilities was not maintained properly by the Development Review Enterprise or City Engineering

Section 5, of the Colorado Municipal Records Retention Schedule states that, “records that serve as the basis for payment of bills by the municipality, including copies of bills paid, copies of checks, invoices, purchase orders and receiving reports, and correspondence with vendors” shall be retained in general for 6 years plus the current year.

Since the Drainage Basin Fee Program was started in the 1960’s, the administration of the program has been shifted around between various City departments to include Planning, Engineering, and now DRE. Since neither City Engineering nor the DRE could produce documentation to support the Drainage Basin Fee balances, we determined adequate documentation was not maintained. For example, invoices could not be located to substantiate the amount requested for reimbursement. Also, documentation of fees that should have been paid could not be located.

Auditor’s Recommendation

We recommend the City maintain all documentation concerning drainage reimbursements, in accordance with the State Retention Schedule. This should include but not be limited to:

- Drainage Basin Fees that are due
- Credits that are used by Developers
- Invoices for cost of drainage facilities or Drainage Reimbursement Requests
- Staff recommendations for reimbursements along with approval of the Drainage Board
- Any partial or full payments made to the Developers

City’s Response:

We agree with the recommendations. Separation of staff, inadequate resources, relocation of various records and files, as well as changes in administration over the past 45 years has led to documentation inadequacies. Documented procedures in accordance with standardized City Policies will address this concern as we move forward. Finance will be instrumental in formulating and monitoring the requirements of a standardized policy.

We would like to clarify that invoices supporting drainage reimbursements are not the basis for any payments from the City. The invoices are proof of payments by developers to their contractors. It is not clear that the state retention schedule would technically apply to this program. Again, these are not public funds and bills are not being paid by the City. This is a technicality, though, and the recommendations for better records management are certainly appropriate.

Documented procedures will be developed by the end of 2009 which will address file retention as well.

Auditor’s Response

In response to whether the activity of the program is considered using public funds or not, we believe the City has a custodial responsibility for the program and, as a best practice, documentation retention schedules in place for City records should be applicable to the program.

Findings, Recommendations and Responses

3. The Development Review Enterprise did not have a succession plan in place for the Drainage Basin Fee Program.

Departments should have succession plans in the event that the person administering a program is not available to perform his/her duties. It appeared that within the DRE there was only one person with the knowledge needed to administer the Drainage Basin Fee Program. In the event this person was not available, it would be very difficult for someone to continue the program.

Well-documented, standardized processes can mitigate the lack of a succession plan. However, lack of standardized, documented processes was a weakness also identified during this audit (see Finding #6).

Auditor's Recommendation

We recommend that more than one person have a complete understanding of the Drainage Basin Fee Program and how it is operated.

City's Response:

We agree with the recommendation. A revised process will be developed and documented by the end of 2009. This will include a long range plan for cross-training appropriate staff positions to ensure that staffing levels are adequate to provide the required level of service.

Additional oversight and management by the Finance Department and the Stormwater Enterprise will also provide back-up and coverage for the management of the Basin Fee Program. This will need to be included in the development of the process that addresses "Finding #6" in this report.

A major reason for the problems with this program have been decades of under-resourcing (similar to the entire stormwater drainage system). Fortunately, with the formation of SWENT, resources have been made available and we have been directed by City Council to fix this basin fee program. Until now, administration of the fees and credits has been a one-person operation since the basin fee program was enacted.

Findings, Recommendations and Responses

4. The reimbursement list for the Drainage Basin Fee Program was not updated in a timely manner.

The reimbursement list for the Drainage Basin Fee Program was the only document that listed the total for the amounts owed to the Developers for drainage basin improvements. When this document was not updated with credits that have been used by Developers, it overstated the total amount that was owed to the Developers. This could lead to Developers being reimbursed amounts that are greater than they should receive.

We found the reimbursement list was not updated in a timely manner for transactions that happened prior to June 2008. Twice while we were completing our audit the reimbursement amount decreased with no pay out occurring to Developers included on the spreadsheet.

Auditor's Recommendation

We recommend the reimbursement list for the Drainage Basin Fee Program be updated in a timely manner for all credit usage and reimbursement information. We further recommend the list be provided to the Drainage Review Board on an annual basis, accompanied by a reconciliation of the transactions, which occurred during the period.

City's Response:

We agree with the recommendations. This issue will also be addressed as we develop a revised policies and procedures standardization to be incorporated into the revised Basin Fee Program.

As this is largely a resourcing issue, workload for the person in this position is the primary cause for the delay in updating some records. Support and oversight by the Finance Department will be welcomed.

We will plan on submitting a reconciliation of transactions for 2009 to the Drainage Review Board by the end of January 2010.

Findings, Recommendations and Responses

5. There was no segregation of duties between the roles of record keeping and collecting/depositing money within the Development Review Enterprise.

Within the DRE, there was one person who collected money from Developers for the Drainage Basin Fees. This same person was responsible for maintaining the records of who had paid the Drainage Basin Fees and who was owed money from the Drainage Basin Program. This process lacked oversight to ensure amounts were properly recorded when they were collected and could easily facilitate fraud.

Auditor's Recommendation

We recommend the DRE segregate the duties of record keeping and collecting/depositing money for Drainage Basin Fees.

City's Response:

We agree with the recommendation. At this time, it is proposed that the Stormwater Enterprise will take control of collection and depositing fees, the fees will become revenue to the City as "Stormwater Impact Fees," and Finance will handle the money much like they now do for the on-going SWENT fees paid by property owners. This proposal is still under review by the Drainage Basin Fee Program Working Group.

The segregation of duties between all roles of the revised policies and procedures will be detailed under the guidance of the Finance Department and City Engineering and further incorporated within the revised Basin Fee Program.

Findings, Recommendations and Responses

6. A standard, documented process for collecting Drainage Basin Fees and submitting reimbursements to the Drainage Board for approval did not exist.

Policies and procedures should be in place for the Drainage Basin Fee Program. Written procedures should be in place to ensure each reimbursement approved by the Drainage Board is handled in a uniform manner. Roles and responsibilities of individuals should be specified in the written documentation of the Drainage Basin Fee Program.

During our review, we determined that processes were not documented nor consistently administered. Reporting requirements for Developers varied, responsibilities for retaining documents were not clear, cash handling and record keeping responsibilities were not clearly defined or segregated, transaction support requirements were not defined, there were no policies in place to ensure periodic review of the process, etc.

Auditor's Recommendation

We recommend the DRE develop and document standardized policies and procedures that outline:

- Roles and responsibilities
- Segregation of duties
- Document retention requirements
- Transaction support requirements
- Oversight and periodic reviews

City's Response:

We agree with the recommendation. A revised process will be developed and documented.

These revised and documented policies will be included within the revised Drainage Basin Fee Program. A Policies and Procedures Manual will also include a flowchart of the process to further assist in succession planning and segregation of duties.

The procedure for a developer to submit their reimbursement request is spelled out pretty well in the current Drainage Criteria Manual, but also needs to be updated. A detailed procedure for the overall program is needed, and will be developed after the completion of the parallel Basin Fee Working Group process. This will be accomplished by the end of the year

Findings, Recommendations and Responses

7. Additional work, either by our office or other Auditors, should be done before any reliance can be placed on the results of the program.

The opinion expressed in this report is specific to the internal control structure and its impact on the reliability of the balance of reimbursements and fee collections for the Drainage Basin Fee Program.

We also have concerns about other aspects of the program, including:

1. The assumption that every acre of a Drainage Basin will be developed.
2. Since some of reimbursement balances might not be paid for years, the time value of money is not being considered, i.e., interest is not accruing on unpaid balances.
3. When a developer is reimbursed for costs greater than the estimate in the DBPS, the additional costs should be made up via an adjustment to the Basin's per acre fee. Logically, the amount of the overage should be divided by the remaining un-platted and developable acres. However, the current method of calculating the updated per acre fee uses developable acres as reported in the last DBPS, not the remaining acres to be developed. Since additional fees are not assessed on those acres that have been developed, this process, by design, creates a shortfall that cannot be recouped by new developments.

Please understand these are just examples and this list is not intended to be all-inclusive.

Auditor's Recommendation:

Going forward, we recommend the following audits/reviews be performed.

1. This review should continue, shifting focus to the general reasons several of the individual Drainage Basins do not appear to be self-sufficient.
2. The final product of the Working Group established to provide guidelines for a new Drainage Basin Fee Program needs to be analyzed to ensure the items identified in #1 above, are adequately addressed.
3. The new internal controls established as a result of this audit, need to be reviewed for reasonableness and completeness.

City's Response:

We agree with the recommendation. We will submit the revised documented policies and procedures to the City Auditor's Office for review by the end of the year.

These recommendations need to be performed in conjunction with the Working Groups development of the revised Drainage Basin Fee Program.