



AUDIT REPORT



To preserve the public trust as guardians of the people's records and assets

DATE November 18, 2022

NO. 2022-006

FOLLOW-UP CHARLOTTE COUNTY UTILITIES - CAPITAL IMPROVEMENT PROGRAM
(ORIGINAL REPORT NO. 2019-012 ISSUED OCTOBER 23, 2019)

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



ROGER D. EATON
Clerk of the Circuit Court and County Comptroller

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To: The Honorable Roger D. Eaton, Charlotte County Clerk of the Circuit Court and County Comptroller

From: Dan Revallo, Internal Audit Director

Date: November 18, 2022

Subject: Charlotte County Utilities – Capital Improvement Program Follow-Up Audit

Honorable Clerk Eaton,

The Internal Audit Division has completed a follow-up audit of the Charlotte County Utilities Capital Improvement Program. Misti Payette Internal Auditor II conducted this review.

The audit client's response is attached to this report. We would like to thank client management and staff for their cooperation and assistance in the completion of this audit.

The report will be posted to the Clerk of Courts website, charlotteclerk.com, under Internal Audit, Audit Reports. A link to this report has been sent to the appropriate parties.

Should you have any questions, please do not hesitate to contact me.

Sincerely,

Dan Revallo, CIA, CFE
Internal Audit Director
Charlotte County Clerk of the Circuit Court and County Comptroller

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EXECUTIVE SUMMARY

The Internal Audit Division performed a follow-up audit of the Charlotte County Utilities (CCU) Capital Improvement Program. Follow-up audits are limited to the comments and recommendations made in the Charlotte County Utilities Capital Improvement Program (CIP) Audit Report dated October 23, 2019. This follow-up considers the responses documented and any subsequent, corrective actions taken or delegated.

This follow-up audit report will conclude the original audit, as it pertains to the CCU Capital Improvement Program.

The status of any corrective actions will be assigned as follows:

OPEN – Corrective action has not been taken to adequately address the original audit comment.

OPEN/PARTIALLY COMPLETED – Corrective action has started but has not adequately addressed the original audit comment.

CLOSED – Corrective action has been taken to adequately address the original audit comment.

Original Audit Comments and Status of Corrective Actions

OPEN/PARTIALLY COMPLETED

- CCU lacks written procedures for CIP construction projects.
- Meetings could benefit with the generation of minutes.

CLOSED

- CCU did not evaluate contractors' performance.
- Current CIP policy should be updated.

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 and distribution, wastewater treatment and collection, and reclaimed water storage and 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 and 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

The purpose of the follow-up audit was to determine if the proposed corrective actions documented in response to the four (4) comments and/or recommendations reported, within the Charlotte County Utilities Capital Improvement Program Audit Report No. 2019-012, were adequately and timely implemented and/or resolved.

SCOPE AND METHODOLOGY

The follow-up audit included inquiry of key personnel as well as review of any standard operating procedures (SOPs) created since last audited, sampled contractor/vendor evaluation forms completed, and project meeting minutes, as determined appropriate and necessary to meet objectives.

COMMENTS AND RECOMMENDATIONS AND FOLLOW-UP AUDIT RESULTS

- 1. CCU lacks written procedures for CIP construction projects.**

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

Original Response:

“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.”

Status of Corrective Action: OPEN/PARTIALLY COMPLETED

Auditor Comments: Corrective action has started but has not adequately addressed the original audit comment. The department has started but not yet completed the stated corrective action. The SOPs implemented to date include the Subsurface Utility Engineering (“SUE”) Activity Guideline and SUE Workflow documents, the Locates Activity Guideline, and an Internal Design Checklist. The Engineering Draft Activities and Engineering Processes documents are in progress but not yet complete. It is also expected that some updates and/or new SOP documents will result from the Charlotte County Utilities Business Process and Manpower Audit performed by Blue Cypress Consulting, LLC.

2. CCU did not evaluate contractors’ performance.

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

Original Response:

“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.”

Status of Corrective Action: CLOSED

3. Current CIP policy should be updated.

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.

Original Response:

“Utilities acknowledges this recommendation. Utilities staff will work with County Administration to assist with any updates/amendments to the current CIP policy as needed.”

Status of Corrective Action: CLOSED

4. Meetings could benefit with the generation of minutes.

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

Original Response:

“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).”

Status of Corrective Action: OPEN/PARTIALLY COMPLETED

Auditor Comments: Corrective action has started but has not adequately addressed the original audit comment. An email directive was presented to staff on July 5, 2022 that provides general instruction on when meeting minutes should be documented and the desired distribution method and timeline. Meeting minutes are currently not prepared when project managers meet with inspectors, at the monthly Director project briefings, or at some progress meetings held between the contractor and CCU staff (depends on the size/scope of the project).

ACKNOWLEDGEMENT

We would like to thank Charlotte County Utilities, Fiscal Services and Purchasing Divisions, as well as the Comptroller’s Division for their time and assistance in the completion of this follow-up audit.

Audit performed by:

Misti Payette, CIA, CGAP

Internal Auditor II

Charlotte County Clerk of Circuit Court and County Comptroller



MEMORANDUM

Date: 10-26-2022

To: Dan Revallo, Director Internal Audit, Charlotte County Clerk of Court and Comptroller
Misti Payette, Internal Auditor II, Charlotte County Clerk of Court and Comptroller

Through: Dave Watson, Utilities Director *DW*

From: Denise Caruthers, CIP Analyst *Denise*

Subject: Response to Utilities CIP Follow-up Audit Report Recommendations

Below are CCU's responses to the follow-up audit of Utilities' CIP Program:

- 1. CCU lacks written procedures for CIP construction projects**
Utilities acknowledges the Status of Corrective Action as Open/Partially Completed. Staff will continue to update and create new SOP documents to address this audit finding and reach a closed status by the next follow-up audit.
- 2. Contractor Performance Evaluation Form**
Utilities acknowledges the Status of Corrective Action as closed. CCU will continue to complete the form and submit to Purchasing when capital projects are completed.
- 3. Current CIP Policy Update**
Utilities acknowledges the Status of Corrective Action as closed. The County CIP Policy was updated and approved by the Board.
- 4. Project Meeting Minutes**
Utilities acknowledges the Status of Corrective Action as Open/Partially Completed. Meeting minutes are being documented for various meetings at the Utility and saved on the P-drive but is not consistent. A draft criterion was partially created but never completed or implemented. CCU will work to create a document or process to address this audit finding and reach a closed status by the next follow-up audit.

cc: Utilities Management Team



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