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Designated Fee Usage Audit

April 21, 2017



**City of Fort Worth
Department of Internal Audit**

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The Designated Fee Usage Audit was conducted as part of the Department of Internal Audit's Fiscal Year 2017 Annual Audit Plan.

Audit Objective

The objective of this audit was to determine whether designated fees (assessed and collected for stormwater and environmental protection) are being used for the purposes intended.

Audit Scope

Our audit included a review of activity for the period October 1, 2015 through December 31, 2016.

Executive Summary

As part of our FY2017 Annual Audit Plan, the Department of Internal Audit conducted a Designated Fee Usage Audit. The audit included a review of fees designated within the City of Fort Worth's Stormwater Utility Fund (administered by the Transportation and Public Works Department) and the Environmental Protection Fund (administered by the Code Compliance Department).

The Department of Internal Audit reviewed and analyzed the following information when testing expenditures and capital outlays of both funds.

- FY2016 and FY2017 Annual Budgets
- Capital Improvement Plans
- Operating Expenditures, such as payroll and other administrative costs
- Transfers to fund capital projects and reimbursements

Designated fees were recorded in the Stormwater Utility and Environmental Protection Funds. Transactions were then executed to transfer designated usage fee revenue to provide funding for operating expenses (e.g., salaries, cost of services allocated for customer billing, debt payment services, etc.) and capital projects outlined in the Stormwater Utility and Environmental Protection Capital Improvement Programs (CIP). Based on our review, the transfers were proper, as the monies were used to fund projects that were listed within the CIP.

Our review of employee payroll records and related transactions indicated that fees designated for stormwater and environmental protection were expended to fund the salaries and benefits of employees working on authorized stormwater and environmental protection projects.

Based on our audit testing, the Department of Internal Audit concluded that Stormwater Utility and Environmental Protection fees were used for their intended purposes.



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Background

Each month, the City of Fort Worth (CFW) assesses fees that are designated to fund specific improvements related to stormwater runoff and environmental protection.

Stormwater Runoff - The Stormwater Division defines the stormwater utility fee as a monthly user fee that pays for maintenance and improvements to the stormwater drainage system and other stormwater program activities. Stormwater utility fees are calculated based on the amount of hard/impervious surface area on CFW residential and commercial property. The hard/impervious surface area is then used as the measure of each property's contribution to stormwater runoff. An impervious surface, which is a surface that cannot be penetrated (e.g., parking lot and sidewalk), is quantified into an Equivalent Residential Unit (ERU). As of January 1, 2012, the CFW's current "per ERU rate" is \$5.40. When determining the amount billed by the CFW, the hard/impervious surface area is first divided by the standard ERU of 2,600 square feet to determine the number of billing units on each property. The number of billing units is then multiplied by the standard ERU rate of \$5.40.

The Stormwater Division of the Transportation and Public Works Department is responsible for administering the Stormwater Management Program (SWMP). The SWMP's mission is to protect the public health by operating and maintaining publicly-owned property to prevent harmful stormwater runoff. SWMP tasks include operating, maintaining and improving the City's drainage system; regulating development in the Federal Emergency Management Agency floodplain; reviewing private development for compliance with City drainage standards; and educating the public regarding flood protection and water quality practices. The SWMP provides services to approximately 215,000 residential, commercial, and industrial customers. Over 900 miles of underground pipe, approximately 300 miles of engineered drainage channel, over 30,000 drainage inlets and numerous other drainage facilities such as detention ponds, bridge culverts, and bar ditches are included in the CFW's drainage system.

The Five-Year (ending in FY2020) Stormwater Utility Capital Improvement Plan indicates that Fort Worth's SWMP is a very capital intensive enterprise, which requires continuous investment in extensive above- and below-ground infrastructure. The Five-Year Capital Improvement Plan funds capital improvements required to mitigate flood risk, ensure system reliability by replacing aging infrastructure and facilities, support the City's bond programs for street rehabilitation, meet corporate priorities, and facilitate economic revitalization in areas where development is hampered by chronic flooding.

Fees assessed for stormwater runoff are accounted for within the Stormwater Utility Fund. The SWMP, therefore, operates within this fund. The Stormwater Utility Fund was established in FY2006 and was designed to be self-sustaining by meeting expenses through revenues received from the stormwater utility fee, interest and miscellaneous income. According to the City of Fort Worth's FY2016 Annual Budget, operations are completely financed through fees for services, which are assessed via monthly water billings. Major capital projects are funded by long-term debt and pay-as-you-go cash funding.



Environmental Protection - On November 28, 1995, environmental efforts were supported by the adoption of the environmental protection fee. By ordinance, the environmental protection fee is intended to cover costs for disposal services, environmental programs and/or environmental services. Since FY1996, monthly environmental protection fees have been as follows:

- Apartment Complexes: \$0.50 (per unit)
- Residential: \$0.50
- Multi-residential: \$1
- Commercial: \$10
- Multi-commercial: \$20
- Industrial: \$35
- Municipal: \$0.75
- Non-profit: \$0.75

The Environmental Management Division of the Code Compliance Department is charged with reducing the threat of environmental contamination and supporting sustainability through programs that meet and exceed regulatory standards, while fostering air, land, and water quality and environmental compliance within the community. The City's Environmental Management Division operates through the Environmental Protection Fund. The Environmental Protection Fund is designed to be self-sustaining by meeting expenses through revenues received from the environmental protection fee. These dedicated funds assist the City in paying expenses related to federal and state environmental mandates, such as cleaning up abandoned property, asbestos abatement, underground storage tank compliance, stormwater management, spill response clean-up and the operation of a household hazardous waste collection facility.

Objective

The objective of this audit was to determine whether designated fees (assessed and collected for stormwater and environmental protection) are being used for the purposes intended.

Scope

The scope of this audit included a review of activity for the period October 1, 2015 through December 31, 2016.

While the Department of Internal Audit's review covered the proper use of designated fees, our testing did not include a review of the accuracy of stormwater or environmental protection fee billings.

Methodology

To achieve the audit objective, the Department of Internal Audit performed the following:

- interviewed CFW personnel within the Stormwater Management Division of Transportation and Public Works, the Environmental Management Division of the Code Compliance, and the Performance and Budget Department;
- reviewed FY2016 and FY2017 budgets for the Stormwater Utility and Environmental Protection Funds;
- reviewed Five-Year Capital Improvement Plans for the Stormwater Utility and Environmental Protection Funds;
- reviewed applicable local, state and federal laws, regulations and policies;
- tested transactions related to personnel and operating expenses, transfers to capital projects, and reimbursements to other departments for services provided; and,
- reviewed general ledger postings related to transactions conducted by the Stormwater Utility and Environmental Protection Funds.

We conducted this audit in accordance with generally accepted government auditing standards, except for peer review¹. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

¹ Government auditing standards require audit organizations to undergo an external peer review every three years. A peer review is planned in 2017 for the three-year period ending December 31, 2016.



Acknowledgements

The Department of Internal Audit would like to thank the Stormwater Management Division of the Transportation and Public Works Department, the Environmental Management Division of the Code Compliance Department and the Performance and Budget Department staff for their cooperation and assistance during this audit.