



PAT FRANK
Clerk of the Circuit Court
13th Judicial Circuit

COUNTY AUDIT

HILLSBOROUGH COUNTY, FLORIDA

CAPITAL IMPROVEMENT PROGRAM (CIP) PROCESS

REPORT #228

DECEMBER 22, 2011

December 22, 2011

The Honorable Ken Hagan, Chairman
The Honorable Kevin Beckner
The Honorable Victor Crist
The Honorable Al Higginbotham
The Honorable Lesley "Les" Miller
The Honorable Sandra Murman
The Honorable Mark Sharpe

Dear Chairman Hagan and Commissioners:

We have performed an audit of the Capital Improvement Program (CIP) Process, Audit Report #228, dated December 22, 2011. Responses to our recommendations were received from the County Administrator's Executive Team and have been included in the report after each finding and recommendation.

We appreciate the cooperation and professional courtesies extended to our auditor by the management and personnel of the administrator's organization during this audit.

Sincerely,

Daniel A. Pohto, CPA, CIA
Director, County Audit

cc: Mike Merrill, Interim County Administrator
Helene Marks, Chief Administrative Officer
Bonnie Wise, Chief Financial Administrator
Lucia Garsys, Deputy County Administrator
Sharon Subadan, Deputy County Administrator
Bruce Dangremond, Manager, Performance Mgmt, Business and Support Services

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EXECUTIVE SUMMARY

BACKGROUND INFORMATION:

The Capital Improvement Program (CIP) is the Board of County Commissioners (BOCC) approved financial plan of capital projects. It includes proposed infrastructure, facilities, and equipment needs, their costs, funding and timing over a six-year period in the first year of the biennial budget, and over a five-year period in the second year of the biennial budget.

The CIP process provides a framework for careful development of reliable capital expenditure and revenue estimates and the timely scheduling of short-and long-term debt issues. The list of potential projects for inclusion in the CIP comes from a variety of sources, including department requests, plans for facility construction and renovations, long-term capital replacement programs, citizen's requests, neighborhood plans, and projects for which grant funds are available. The CIP is reviewed and updated annually.

Capital project financing is derived from various funding sources including, but not limited to, bonds, short term loans and notes, fuel taxes, federal and State grants, community investment tax, enterprise revenue, impact fees and the levy of ad Valorem taxes and non-ad Valorem assessments as determined by the BOCC.

OBJECTIVE:

The primary objective of the audit was to review the process of planning, organizing, and carrying out the Capital Improvement Program. Specifically, we wanted to evaluate and report on the efficiency, effectiveness, economy of operations, indication of redundancy/duplication of tasks, and adherence to common policies/standards throughout the CIP process.

SCOPE:

The audit was performed in accordance with The Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing*. We evaluated the CIP process from the period of January 2010 through March 2011. We interviewed staff from several departments to get a better understanding of parts of the process. In addition, we compared the process to the recommended practices issued by the Government Financial Officers Association (GFOA)¹ and the 2007 Transportation Task Force.

OVERALL EVALUATION:

We found that the CIP of Hillsborough County is extensive. Most of the departments of County government have a role in the CIP process. While we found adherence to common

¹ Hillsborough County received a GFOA Distinguished Budget Presentation Award, Special Capital Recognition, for the biennium beginning October 1, 2009.

policies/standards throughout the CIP process, we did not find any instances of laws or rules being violated. We noted several areas that we believe need improvement to make the process more effective and efficient. Those areas are the following:

FINDING	DESCRIPTION	PAGE REFERENCE
1	Establish a project prioritization system to augment the process.	See page 3 of this report.
2	Indicate the project's phase on project reports.	See page 5 of this report.
3	Report changes to a project's cost and schedule on project reports.	See page 6 of this report.
4	Increase the visibility of allocated/master projects.	See page 7 of this report.
5	Charge allowable internal costs to capital asset projects.	See page 8 of this report.
6	Coordination and communication between departments needs improvement.	See page 9 of this report.
7	Develop a capital project guideline and administration procedure/directive.	See page 10 of this report.
8	Project reporting and monitoring needs improvement.	See page 11 of this report.
9	Capital asset condition assessment needs improvement.	See page 12 of this report.
10	Incorporate disaster resiliency into the CIP process.	See page 14 of this report.
11	Executive management oversight needs improvement.	See page 16 of this report.
OBSERVATION	The County should consider implementing a grantsmanship process.	See page 17 of this report.

OPINION:

The process of planning, organizing, and carrying out the Capital Improvement Program needs improvement. We believe that our recommendations, if implemented, will enhance the efficiency and effectiveness of the CIP process.

The exit conference was conducted on November 7, 2011.

AUDIT BY:

Daniel A. Pohto, Director, County Audit
Peter McGregor, Audit Manager, County Audit

FINDINGS & RECOMMENDATIONS

Control Activities: Listed below are findings that represent opportunities for the County to strengthen their internal controls over the CIP. For each finding, a recommendation has been included.

FINDING 1

Establish a project prioritization system to augment the process.

Hillsborough County is continually faced with extensive capital needs and limited financial resources. Limited resources dictate making a choice among requested capital projects. It is important that project-funding decisions be made with clearly defined reasoning. Information on how capital projects are evaluated and prioritized is critical. Projects competing for the same funding should be judged by the same standards.

It is BOCC policy (03.02.02.06) that prioritization of capital projects reflect established community standards and that the County maintains its existing infrastructure investments. Projects are prioritized based on standards established for each program (Fire Services, Government Facilities, Libraries, Parks Facilities, Solid Waste, Stormwater, Transportation, and Water Services). In addition, it is BOCC policy (03.02.02.00) that the following strategic criteria be used to establish priority for making decisions related to the funding of capital projects:

- Projects which are necessary to conform to state or federal laws or court rulings.
- Projects eligible for restricted revenues such as state and federal grants.
- Projects necessary in carrying out Hillsborough County's Comprehensive Plan for unincorporated Hillsborough County.
- Major repair and replacement capital projects.
- Projects which reduce future operating costs or improve effectiveness of operation of county services.
- Projects which are essential to the health, safety and welfare of the community.
- Projects which stimulate private investment or otherwise effect measurable neighborhood and economic improvement.
- Projects which involve inter-agency cooperation.
- Projects which will improve the cultural and recreational activities of the community.
- Projects which provide measurable environmental benefit.
- Projects which improve accessibility to County facilities to all citizens.

RECOMMENDATION:

We recommend establishing a project prioritization system to measure both the overall need for a project and the relative urgency of a project. The prioritization system is not a substitute for the decision-making process to be undertaken by management and the BOCC. However, the prioritization system is an attempt to use evaluation criteria that can be applied against competing requests and become one of many factors in the overall

decision-making process. To help management do this, we further recommend that management use the BOCC strategic criteria (see above), and any analytical information deemed helpful (this can include any cost/benefit comparisons, and related capital projects), to know how to prioritize projects.

CLIENT RESPONSE:

Concur

CORRECTIVE ACTION PLAN:

To most effectively address a majority of the findings in this audit, County Administration will appoint a CIP workgroup. That workgroup will be comprised of appropriate representatives from departments involved in the various components of the CIP process(es). Current county-wide and individual department policies will be reviewed, amended and coordinated against individual audit findings. An overall goal of the workgroup is to synchronize, better control and streamline the CIP process(es) of Hillsborough County. Some items will be completed prior to the target completion date below. Alternatively, certain corrective actions are dependent upon the implementation of the ERP (Enterprise Resource Planning) system, and may require an interim solution until that time.

Specific to this finding, the workgroup will review current prioritization policies and procedures, and collaborate on the development and implementation of improvements to strengthen those systems. More than one prioritization system may emerge from this analysis, due to differences in funding sources, authorities governing those sources and professional best practices associated with a department. Appropriate recommendations will be made to the Executive Team to establish or enhance county-wide policies

TARGET COMPLETION DATE:

January 31, 2013

FINDING 2

Indicate the project's phase on project reports.

The County's Project Information Management System (PIMS) provides for project activity by defined phases, which include:

- project development, known as Project Development and Environment,
- design and site permitting,
- land acquisition,
- procurement for both design and construction,
- construction, and
- administrative closeout.

Currently, project reports do not reflect the actual phase of a project. PIMS details how long it takes projects to move through the various phases. The status of all CIP projects should be clear and accurate when project information is presented to a reader.

RECOMMENDATION:

Implement reporting of a project's phase on project reports. Project phases could be coded in PIMS as project development, procurement for design, design and permitting, land acquisition, procurement for construction, construction, and administrative closeout. These phases should be available to readers of CIP information.

CLIENT RESPONSE:

Concur

CORRECTIVE ACTION PLAN:

All projects are currently phased in the PIMS tracking and reporting system. The CIP workgroup described in Finding 1 will review current capabilities and anticipated capabilities gained with the planned Enterprise Resource Planning (ERP) system and subsequently, develop and implement improved project phase reporting. That analysis will consider how to best define "phasing" reports and to improve the current CIP Quarterly Report.

TARGET COMPLETION DATE:

January 31, 2013

FINDING 3

Report changes to a project's cost and schedule on project reports.

It is BOCC policy (03.02.02.00) that changes in the cost of a current year capital project, advancing projects into the current year, or delaying them from the current year to a future year are handled pursuant to the budget amendment process. BOCC policy also specifies that the list of projects included in the adopted CIP may only be revised through formal BOCC resolution.

Explanations of changes to capital projects are not reflected on capital project reports. Changes to a project can occur at any time, i.e., scope modifications, contractor delays, funding reductions, etc. The BOCC, management, and the public would not necessarily know that a capital project's current cost and schedule is not always the same as the project's original cost and schedule.

RECOMMENDATION:

When reporting on CIP projects, we recommend that changes to project costs and schedules be explained on financial reports. We further recommend that the column entitled "FY11 CIP BOOK COST" on the CIP Quarterly financial reports be changed to "FY11 BUDGET."

CLIENT RESPONSE:

Concur

CORRECTIVE ACTION PLAN:

The CIP workgroup described in Finding 1 will review current capabilities and anticipated capabilities gained with the implementation of the planned Enterprise Resource Planning (ERP) system. Specific attention will be directed at enhancing the current Variance Report, as part of the CIP Quarterly Financial Report.

As part of this implementation, the column entitled "FY11 CIP BOOK COST" on the CIP quarterly financial reports will be changed to "FY11 BUDGET."

TARGET COMPLETION DATE:

January 31, 2013

FINDING 4

Increase the visibility of allocated/master projects.

Per BOCC policy (03.02.02.00), a capital project is a set of activities, with related expenditures and schedule, designed to improve, renovate, replace, or repair an existing asset. Capital projects are different from programs adopted in the operating budget. They often represent very large financial obligations. Therefore, it is important that they be properly planned, budgeted, and tracked.

The CIP contains several capital projects that are considered "allocated/master" projects. These projects are used to fund several different but related capital projects. For example, one of the more costly (\$53.6 million) allocated/master capital projects is the Wastewater Pump Stations Refurbish project (#10138). This capital project is used to fund several capital projects, but this project rarely has an actual construction project and related activity phases directly tied to it.

RECOMMENDATION:

We recommend management more clearly identify some of the allocated/master projects. We also recommend limited use of allocated/master projects. If they are deemed necessary, we recommend management submit the project lists and funding amounts to the BOCC as soon as projects have been identified to use allocated/master project dollars.

CLIENT RESPONSE:

Concur

CORRECTIVE ACTION PLAN:

Master projects are an important tool in delivering results more quickly. The CIP workgroup described in Finding 1 will explore the appropriateness of limiting the use of master projects. Specific attention will be directed at enhancing project accountability and transparency, while not diminishing the flexibility gained. Recommendations to more clearly identify and report allocated/master projects will be included in the analysis, as well as the use of sub-index coding. Department and county-wide procedures will be amended as appropriate.

TARGET COMPLETION DATE:

January 31, 2013

FINDING 5

Charge allowable internal costs to capital projects.

The County's practices related to capital project costing are not consistent with generally accepted accounting principles. While the cost of outside contractual staff is routinely charged to capital projects, not all eligible internal project costs are charged to capital projects. There are internal costs incurred by departments that relate directly to a capital project that are not charged to a capital project. Project support staff from Real Estate, County Attorney, and Procurement Services also falls into this category.

The 2007 Transportation Task Force Management Report addressed project costs and charges to projects.

RECOMMENDATION:

Charge all allowable internal costs to capital projects. The County budget should clearly show the "net" budgets of the affected departments. It would be preferable that this be accomplished by direct payroll and overhead charges for actual costs. However, the County can also do this through a review of the time staff spends on capital projects and the establishment of a rate for these capital charges that would apply to the capital program as a whole.

CLIENT RESPONSE:

Concur

CORRECTIVE ACTION PLAN:

The CIP workgroup described in Finding 1 will develop a feasible and standardized "chargeback" process and recommend procedures for a more consistent application across all programs. Until the CIP component of the Enterprise Resource Planning (ERP) system is implemented in December of 2013, the current system of "chargebacks" will be used to account for the costs defined by the workgroup.

TARGET COMPLETION DATE:

January 31, 2013

FINDING 6

Coordination and communication between departments needs improvement.

The successful delivery of capital projects requires the involvement of a number of County departments. A capital project requires effective communication and coordination from all departments involved. Many departments have a key role in the delivery of a capital project. All departments have differing reporting structures within the County. Project staff report to different managers, directors, and administrators. Additionally, their priorities for workload are impacted not just by the CIP, but the priorities of other departments.

The 2007 Transportation Task Force Management report addressed project coordination and organization.

RECOMMENDATION:

Improve coordination and communication between departments involved in a project by designating staff from the responsible department(s) as part of the project implementation team. The implementation team should establish quarterly and annual goals to support communication and coordination. This will produce more open communication between departments in order to avoid "surprise" needs, improve management of workflow, and set the tone for increased and effective interdepartmental communication.

CLIENT RESPONSE:

Concur

CORRECTIVE ACTION PLAN:

Inter-department communication regarding CIP projects has significantly improved as a result of reorganization efforts in recent months. Further improvements are achievable.

The CIP workgroup described in Finding 1 will develop and implement improved methods of coordination and communication among the various departments involved in the capital improvement process. Implementation teams will include staff from responsible departments. Periodic project goals will be established, measured and reported.

TARGET COMPLETION DATE:

January 31, 2013

FINDING 7

Develop a capital project guideline and administration procedure/directive.

Throughout the CIP process, many CIP-related forms, guidelines, and internal procedures are common to all departments, but have not been formalized. For example, the guidelines used to determine an asset's "level of service", as per the Capital Improvement Element of the Hillsborough County Comprehensive Plan are not formalized, and the guidelines used to determine an asset's "condition" is not formalized. Also, the internal process and forms used to approve a payment to a contractor is common to most projects and is very time consuming. The approval process relies on the physical movement of documents through many steps.

RECOMMENDATION:

To increase effectiveness, efficiency, and consistency countywide, design a capital project guideline and administration procedure/directive that addresses the internal processes, forms, and guidelines of the CIP process. Commonly used forms and internal processes should be centralized and included on COIN for use by project management. Determine if the physical movement of documents can be automated.

CLIENT RESPONSE:

Concur

CORRECTIVE ACTION PLAN:

The CIP workgroup described in Finding 1 will review the currently established Hillsborough-specific CIP guidelines and project management training program, and recommend and consolidate department procedures where feasible. They will also recommend and implement, if approved, county-wide administrative directives, policies, guidelines, and procedures to increase the effectiveness, efficiency and consistency of capital improvement activities. Findings cited in this audit will be specifically addressed in the amended policy and guidance documents, to include a recurring training process for project management.

TARGET COMPLETION DATE:

January 31, 2013

FINDING 8**Project reporting and monitoring needs improvement.**

A key monitoring control is reporting capital project progress to appropriate levels of management, the BOCC, and citizens. Producing project status reports will help responsible officials make informed decisions regarding scheduling and cost. Meaningful reports should provide straightforward project information. Regular, periodic reporting of capital spending and project status will increase transparency and provide timely, actionable information on capital projects. Executive management, BOCC, and citizens should all have the ability to review the status and expected completion of approved capital projects.

The Government Finance Officers Association (GFOA)² has recommended practices that are concentrated on the development, implementation, reporting, and monitoring of capital projects. Their recommended practice focuses on the presentation of the major capital projects.

RECOMMENDATION:

Periodic reports should be issued routinely on all ongoing capital projects to executive management, BOCC, and the public. A greater level of detail and information should be provided for "non-routine" capital projects than for "routine" projects, e.g., a major new wastewater treatment plant or public safety facility will have greater service and cost implications than an ongoing project to resurface roads or maintain water lines. For example, the reports could compare actual expenditures to the original budget, identify level of completion of the project, enumerate any changes in the scope of the project, and alert management to any concerns with completion of the project on time or on schedule.

CLIENT RESPONSE:

Concur

CORRECTIVE ACTION PLAN:

The CIP workgroup described in Finding 1 will review and recommend capital-reporting practices beyond those currently used, such as the CIP Quarterly Report and those generated by PIMS, the Project Information Management System. Reporting and monitoring improvements will be developed and implemented based on current technical capabilities. Further enhancements are likely with the implementation of the planned Enterprise Resource Planning (ERP) system.

TARGET COMPLETION DATE:

January 31, 2013

² GFOA's recommended practice, "Capital Project Monitoring and Reporting (2007)" at www.gfoa.org.

FINDING 9

Capital asset condition assessment needs improvement.

Capital assets include major government facilities, infrastructure, equipment, and networks that enable the delivery of public sector services. The performance and continued use of these capital assets is essential to the health, safety, economic development, and quality of life of those receiving services. To sustain an asset in a condition necessary to provide expected service levels, on-going maintenance and replacement planning is required. As the physical condition of an asset declines, deferring maintenance and/or replacement could increase long-term costs and liabilities.

The Government Finance Officers Association (GFOA)³ recommends that a formal system be established for assessing the condition of capital assets and then appropriately plan and budget for any capital maintenance and replacement needs.

RECOMMENDATION:

We recommend that management consider the guidelines listed below:

1. Developing a policy to require a complete inventory and periodic measurement of the physical condition of all existing capital assets.
2. Establishing condition/functional performance standards to be maintained for each type of capital assets.
3. Evaluating existing assets to determine if they still provide the most appropriate method to deliver services.
4. Allocating sufficient funds in the multi-year capital plan and annual operations budget for condition assessment, preventative maintenance, repair, and replacement of capital assets in order to continue the provision of services that contribute to public health, safety, and quality of life of the public.
5. Monitoring and communicating progress toward stated goals and the overall condition of its capital assets with appropriate controls to ensure the validity and accuracy of the information.
6. At least every one to three years, providing a “plain language” Report on Capital Facilities to elected officials and made available to the general public that describes:
 - a. Condition ratings jurisdiction-wide compared to established policy standards
 - b. Condition ratings by geographical area, asset class, and other relevant factors
 - c. Indirect condition data (e.g., water main breaks, sewer back-up complaints)
 - d. Replacement life cycle(s) by infrastructure type
 - e. Funding sources for assets, including any restrictions that might be imposed on use and/or disposal
 - f. Year-to-year changes in net value of assets

³ GFOA's recommended practice, "Capital Asset Assessment, Maintenance and Replacement Policy (2007 and 2010)" at www.gfoa.org.

g. Actual expenditures and performance data on capital maintenance compared to budgeted expenditures performance data (e.g., budgeted street miles, reconstructed compared to actual).

CLIENT RESPONSE:

Concur

CORRECTIVE ACTION PLAN:

The CIP workgroup described in Finding 1 will review and consider the guidelines provided by GFOA and the auditors. This analysis will include approaches to benefit-cost analysis, and to resource cost and availability, while adhering to Government Accounting Standards Board (GASB) requirements and to desirable outcomes regarding the maintenance and preservation of our assets. Policies will be amended and adopted by the Executive Team and department administration as appropriate.

TARGET COMPLETION DATE:

January 31, 2013

FINDING 10

Incorporate disaster resiliency into the CIP process.

Resiliency emphasizes the capacity of infrastructure, operations, and even social systems to respond to and recover from extreme disaster events. Resilient systems reduce the probabilities of failure, the consequences of failure (such as deaths and injuries, physical damage, and negative economic and social effects), and the time for recovery.

Building resiliency into the capital planning process includes setting appropriate parameters for new construction and the continued maintenance of key assets and infrastructure in order to strengthen a community's ability to withstand and respond to a disaster. Examples of resiliency in capital projects may include: engineering a new fire station to withstand a category 5 hurricane, designing a community center that could also serve as a critical emergency workforce shelter in the event of a disaster, retrofitting existing infrastructure such as drainage pump stations to sustain high winds or an earthquake, establishing engineering standards for new construction, developing maintenance schedules for critical infrastructure, and instituting redundancy plans for critical services. Establishing a resilient capital program aids local jurisdictions by identifying costs associated with building, rebuilding, or retrofitting infrastructure prior to disasters, and emphasizes the constant need for continued maintenance and improvement. A resiliency based capital program helps local jurisdictions identify critical assets, prioritize infrastructure risk, build in the appropriate and necessary costs, and establish a system that reduces the impact of disasters and the time required for a community to recover and get critical services back up and running.

The Government Finance Officers Association (GFOA)⁴ recognizes the importance of disaster preparedness and management, and recommends that local jurisdictions incorporate resiliency into the CIP process to produce a sustainable community and mitigate the effects of disasters.

At the following website, there is an example of a jurisdiction that incorporates resiliency in their capital projects.

www.miamidade.gov/OEM/library/lms/Part_2_Projects.pdf

RECOMMENDATION:

We recommend that management consider and use the GFOA practices as a guide.

CLIENT RESPONSE:

Concur

⁴ GFOA's recommended practice, "Building Resiliency into Capital Planning (2008)" at www.gfoa.org.

CORRECTIVE ACTION PLAN:

The CIP workgroup described in Finding 1 will consider the GFOA best practice for Building Resiliency into Capital Planning with the objective of enhancing the visibility and role of resiliency in the County's Capital Improvement Program. Resiliency will be considered using risk assessment, cost-benefit analysis and return on investment.

TARGET COMPLETION DATE:

January 31, 2013

FINDING 11

Executive management oversight needs improvement.

The CIP is the County's financial plan for anticipated capital expenditures. Fundamental organization and management principles and practices states that the success or failure of a financial plan varies inversely with the involvement of executive level management. CIP organizational reporting and monitoring crosses several executive managers, departments, and agencies. CIP is not centralized at an appropriate executive level. Executive management oversight needs improvement.

The 2007 Transportation Task Force Management report recognized the need for greater involvement of senior executive management.

RECOMMENDATION:

Create an executive management CIP oversight committee aimed at controlling project overruns and unforeseen expansion of project scopes, schedules and budgets; and providing timely and accurate capital project reporting. The committee should have a key role in public input, including project recommendations, and capital project prioritization.

CLIENT RESPONSE:

Concur

CORRECTIVE ACTION PLAN:

County Administration will explore the appropriate level and scope of a CIP oversight committee. To be effective, such a committee would focus on exceptions to schedules and budgets. Directors are responsible for the delivery of projects.

TARGET COMPLETION DATE:

January 31, 2013

OBSERVATION

Listed below is an item we observed during the audit which we felt were either outside the scope of our audit or not directly within the control of any one department but worthy of being brought to the attention of management.

OBSERVATION

The County should consider implementing a grantsmanship process.

The process of grantsmanship covers a broad scope of activities including preliminary planning and research, proposal development, and proposal follow-up. Through this process, two questions are commonly asked by grantseekers, "Where is the money available?" and "How do I get it?"

The two primary sources of grant money are public and private funds. Public funds are obtained from governmental units, such as federal, state, and local agencies. Private funds, on the other hand, come from organizations involved in charitable giving, such as foundations, direct giving programs, voluntary agencies, and community groups. Federal grant funds are usually the source of the largest grants. Two websites for grant information are grants.gov and grantfundingsource.com.

Regardless of the type of funding desired, the grantsmanship process involves three distinct phases: preliminary planning and research, effective proposal writing, and proposal follow-up.

RECOMMENDATION:

The County should review the current process of obtaining grant funds. As part of the review, consideration should be given to a grantmanship process.

CLIENT RESPONSE:

Concur

CORRECTIVE ACTION PLAN:

As part of their analysis, the CIP workgroup described in Finding 1 will review various approaches to a grantsmanship program and submit recommendations to the Executive Team for their consideration.

TARGET COMPLETION DATE:

January 31, 2013

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