



PAT FRANK
Clerk of the Circuit Court
13th Judicial Circuit

COUNTY AUDIT

HILLSBOROUGH COUNTY, FLORIDA

CAPITAL IMPROVEMENT PROGRAM FOLLOW-UP

REPORT # 253

NOVEMBER 21, 2013

November 21, 2013

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

Dear Chairman Sharp and Commissioners:

The Audit Team performed a follow-up of the Capital Improvement Program (CIP) Process, Audit Report #228, dated December 22, 2011. Based on the Audit Team's follow-up audit work and discussions with the responsible managers, the Audit Team is closing four of the original audit concerns. The Audit Team's follow-up audit indicated that these original concerns have been addressed and corrective changes have been implemented, while seven audit comments and one observation remain open. The report on the follow-up audit is enclosed.

The Audit Team appreciates the cooperation and professional courtesies extended to the auditors during this audit.

Sincerely,

Peggy Caskey, CIA, CISA, CFE
Director, County Audit

c: Mike Merrill, County Administrator
Lucia Garsys, Deputy County Administrator
Bonnie Wise, Chief Financial Administrator
Mitch Ramos, Director, Fiscal and Support Services-IDS
Bruce Dangremond, Manager, Performance Mgmt, Business and Support Services

TABLE OF CONTENTS

EXECUTIVE SUMMARY

Background Information	1
Objective	1
Scope	1
Overall Evaluation	1
Audited By	1

STATUS OF ORIGINAL AUDIT CONCERNS 2

This chart summarizes the status of all original audit concerns at the completion of the follow-up audit.

FOLLOW-UP COMMENTS ON OPEN CONCERNS WITH CLIENT RESPONSES 3

This section details the open concerns at the completion of the follow-up audit.

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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 provides a framework for the 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, citizens' 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 objective of this follow-up audit was to address management's corrective action in response to audit discussion points and recommendations reported by the Audit Team in the Capital Improvement Program Process Audit Report #228 issued December 22, 2011.

SCOPE:

Testing was limited to current activities and status as of August 2013. The scope of work included a request for and a review of management's action plan status update comments. The Audit Team addressed whether or not management's response to the discussion points and recommendations alleviated the original audit concerns.

OVERALL EVALUATION:

The Audit Team found that several corrective actions were implemented or are in process to address the original audit concerns. The CIP process could be strengthened by continuation of these corrective measures.

AUDITED BY:

Peggy Caskey, Director, County Audit
Mark Kolman, Audit Manager
Heidi Pinner, Senior Auditor

STATUS CHART OF ORIGINAL AUDIT CONCERNS

This chart provides the status of the original report concerns at the completion of the follow-up audit.

For reference purposes, the entire original audit report #228 (issued Fiscal Year 2012, 12/22/2011) can be viewed on the Clerk's web site at <http://www.hillsclerk.com> under Clerk Services, County Audit – Recent Reports.

AUDIT COMMENT	DESCRIPTION	STATUS	COMMENTS
1	Establish a project prioritization system to augment the process.	OPEN	See page 3
2	Indicate the project's phase on project reports.	CLOSED	Project reports now include the project phase.
3	Report changes to a project's cost and schedule on project reports.	CLOSED	Project reports now include information about changes in cost or schedule.
4	Increase the visibility of allocated/master projects.	OPEN	See page 5
5	Charge allowable internal costs to capital asset projects.	OPEN	See page 6
6	Coordination and communication between departments needs improvement.	OPEN	See page 7
7	Develop a capital project guideline and administration procedure/directive.	OPEN	See page 8
8	Project reporting and monitoring needs improvement.	CLOSED	Changes have been made to the project reporting which enhance management's ability to monitor existing capital projects.
9	Capital asset condition assessment needs improvement.	OPEN	See page 9
10	Incorporate disaster resiliency into the CIP process.	CLOSED	CIP Initiation forms now prompt staff to consider disaster resiliency and mitigation in the planning process. The CIP prioritization criteria also address the elements of disaster resiliency.
11	Executive Management Oversight	OPEN	See page 11
Observation 1	The County should consider a grantmanship process.	OPEN	See page 12

NOTE: An *Open Audit Comment* is defined as a control weakness for which management has not yet implemented corrective action that will alleviate the original audit concern, and a *Closed Audit Comment* is a control weakness for which management's corrective action has alleviated the original concern.

FOLLOW-UP COMMENTS ON OPEN CONCERNS WITH CLIENT RESPONSES

AUDIT COMMENT 1 FOLLOW-UP COMMENT

Establish a project prioritization system to augment the process.

Original Audit Comment

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.

Original 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.

Follow-up Comment

A scoring system was used to establish a prioritized list of Community Investment Tax (CIT) funded Capital Projects for the fiscal year 2012 budget preparation. This process has not been repeated so the prioritized list has not been updated to include all current CIT funded Capital Projects. Management is considering whether or not to continue the 2012 process on a routine basis.

CLIENT RESPONSE:

Concur

CORRECTIVE ACTION PLAN:

Individual programs already have a prioritization process. Programs that have restrictive funding sources are prioritized within that program.

The Infrastructure & Development Services (IDS) Team draft CIP FY 14 Action Plan includes criteria for evaluation and hierarchy of prioritization of all projects comprising the CIP Portfolio. Once prioritized, the IDS Team shall submit the recommended Portfolio to Business & Support Services Department.

As recommended by the County Auditor, the BOCC strategic criteria are featured in the Action Plan. Further to the Follow-up comment above, not only shall CIT funded projects be prioritized, we have included a criteria for grouping projects according to a range from the most restrictive (i.e., impact fees) to the least restrictive funding sources where relevant. [Action Plan, Section II]

TARGET COMPLETION DATE:

September 30, 2014

AUDIT COMMENT 4
FOLLOW-UP COMMENT

Increase the visibility of Allocated / Master Projects

Original Audit Comment

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.

Original 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.

Follow-up Comment

Per management corrective actions for this item will be addressed upon the implementation of the ERP system and through system changes in the Project Information Management System (PIMS) for utilities.

CLIENT RESPONSE:

Concur

CORRECTIVE ACTION PLAN:

The IDS Team draft CIP FY 14 Action Plan requires that Program Project Lists be sorted to include a comprehensive allocated/master projects list. [Action Plan, Section III, subsection 3]. During FY 13, the IDS Fiscal and Support Services Department provided the allocated/master project list to Business and Support Services Department for uploading in the ERP system.

TARGET COMPLETION DATE:

September 30, 2014

AUDIT COMMENT 5
FOLLOW-UP COMMENT

Charge allowable internal costs to capital projects.

Original Audit Comment

It was noted in the original audit report that 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 fall into this category.

Original 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 spend on capital projects and the establishment of a rate for these capital charges that would apply to the capital program as a whole.

Follow-up Comment

The corrective action planned for this Audit Comment is dependent on the implementation of the Payroll module of the Enterprise Resource Planning (ERP) system, which is anticipated to go live in January 2014.

CLIENT RESPONSE:

Concur

CORRECTIVE ACTION PLAN:

The Fiscal and Support Services Department for Infrastructure and Development Services (IDS) and the Business and Support Services Department (BSS) shall establish reasonable overhead rates and the FY 14 CIP Action Plan shall require Project Managers to charge projects accordingly. [Action Plan, Section XIII]

TARGET COMPLETION DATE:

September 30, 2014

AUDIT COMMENT 6
FOLLOW-UP COMMENT

Coordination and communication between departments needs improvement.

Original Audit Comment

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.

Original 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.

Follow-up Comment

Inquiries made during follow-up testing determined that while the capital projects workgroup has been established and cross functional meetings are occurring, the workgroup has not yet addressed the specific items relative to this audit comment.

CLIENT RESPONSE:

Concur

CORRECTIVE ACTION PLAN:

The IDS Team draft CIP FY 14 Action Plan requires that Project Managers present a Communication Plan for each project to include all stakeholders. In addition to including internal departments involved in a project, as recommended by the County Auditor, the Action Plan requires that consultants and contractors attend project meetings as part of contractual scope of services. [Action Plan, Section VI]

The Action Plan also requires attendance of all stakeholders at quarterly programmatic meetings set and led by the IDS Team Deputy County Administrator. [Action Plan, Section I]

TARGET COMPLETION DATE:

September 30, 2014

AUDIT COMMENT 7
FOLLOW-UP COMMENT

Develop a capital project guideline and administration procedure/directive.

Original Audit Comment

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.

Original 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.

Follow-up Comment

Corrective action relative to this audit comment is in process. The CIP processes and guidelines are being consolidated.

CLIENT RESPONSE:

Concur

CORRECTIVE ACTION PLAN:

The IDS Team draft CIP FY 14 Action Plan incorporates project management requirements using relevant parts of the PMI Body of Knowledge and the standards set in the different project management manuals published by the IDS Team departments. [Action Plan, Section IV]

TARGET COMPLETION DATE:

September 30, 2014

AUDIT COMMENT 9
FOLLOW-UP COMMENT

Capital asset condition assessment needs improvement.

Original Audit Comment

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) 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.

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

Follow-up Comment

The recent implementation of the Computerized Maintenance Management System (CMMS) is anticipated to improve the condition assessment and maintenance process and is anticipated to be fully implemented by the end of the 2013 calendar year.

CLIENT RESPONSE:

Concur

CORRECTIVE ACTION PLAN:

The IDS Team departments shall compile existing data on each type of Capital asset to create a centralized inventory of infrastructure assets.

The IDS Fiscal and Support Services Department shall draft a recommended policy for the Deputy Administrator's signature to require a comprehensive inventory, a periodic assessment of condition, and codification according to the industry standards pertaining to each type of Capital asset. A monitoring and reporting process shall be put in place [Action Plan, Section IX].

TARGET COMPLETION DATE:

September 30, 2014

AUDIT COMMENT 11
FOLLOW-UP COMMENT

Improve Executive Oversight

Original Audit Comment

The CIP is the County's financial plan for anticipated capital expenditures. Fundamental organization and management principles and practices state 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.

Original 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.

Follow-up Comment

Management is considering methods of expanding senior management oversight for the CIP with a focus on exceptions to schedules and budgets.

CLIENT RESPONSE:

Concur

CORRECTIVE ACTION PLAN:

The Infrastructure & Development Services (IDS) Team Deputy County Administrator shall oversee the Capital Program portfolio prioritization in consultation with the Executive Team, and shall continue to provide master plan guidance for the Capital Program, in consultation with programmatic executive stakeholders. A CIP portfolio meeting shall be held at minimum once per year.

With reference to controlling scope creep and other project overruns, the IDS Team draft CIP FY 14 Action Plan provides various control elements at project manager and program manager (program managers all hold executive positions) levels.

TARGET COMPLETION DATE:

September 30, 2014

OBSERVATION 1
FOLLOW-UP COMMENT

The County should consider a grantmanship process.

Original Audit Comment

The process of grantmanship 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 grantmanship process involves three distinct phases: preliminary planning and research, effective proposal writing, and proposal follow-up.

Original 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.

Follow-up Comment

Corrective actions are in process. A grants management function was created during FY 13 to facilitate optimization in the use of state and federal grants by the County and local partners, and to facilitate centralized procedures for grants reporting and compliance. It is anticipated that a centralized grants policy will be in place by December 31, 2013.

CLIENT RESPONSE:

Concur

CORRECTIVE ACTION PLAN:

Corrective actions are in process. A grants management function was created during FY 13 to facilitate optimization in the use of state and federal grants by the County and local partners, and to facilitate centralized procedures for grants reporting and compliance. It is anticipated that a centralized grants policy will be in place by December 31, 2013.

TARGET COMPLETION DATE:

September 30, 2014