



**Hillsborough**  
**County** Florida

**Board of County Commissioners  
County Internal Auditor's Office**

**Residential Street Lighting Program**

**Report #2023-06**

**June 22, 2023**



**Hillsborough  
County Florida**

**County Internal Auditor**

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**TO:** Board of County Commissioners  
**FROM:** Peggy Caskey, County Internal Auditor  
**DATE:** June 22, 2023  
**SUBJECT:** Residential Street Lighting Program, Report #2023-06

Pursuant to the 2023 Annual Audit Plan, the County Internal Auditor's Office conducted an audit engagement of the Residential Street Lighting Program. The Audit Team's objective was to determine the maturity of the Program's management activities.

The purpose of this Report is to provide management independent, objective analysis, recommendations, counsel, and information concerning the activities reviewed. As such, this Report is not an appraisal or rating of management.

Although the Audit Team exercised due professional care in the performance of this engagement, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud and/or employee abuse is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud or abuse will be detected.

I appreciate the cooperation and professional courtesies extended to the Audit Team. The County Administrator gave the Audit Team full, free, and unrestricted access to all applicable activities, records, property, and personnel necessary to accomplish the stated objective of this engagement. Personnel also provided necessary assistance for the Audit Team to effectively perform the engagement in an efficient manner.

Sincerely,

Peggy Caskey, CIA, CISA, CFE

County Internal Auditor

**CC:** Christine Beck, County Attorney  
Josh Bellotti, Engineering & Operations Director  
Kimberly Byer, Assistant County Administrator  
Greg Horwedel, Deputy County Administrator  
Bonnie M. Wise, County Administrator

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## EXECUTIVE SUMMARY

Pursuant to the 2023 Annual Audit Plan, the County Internal Auditor's Office conducted an audit engagement of the Residential Street Lighting Program (the Program). The Audit Team's objective was to determine the maturity of the Program's management activities in three key areas. Overall, when written guidance and controls were well established, program management activities were performed efficiently and effectively. In the areas where these were not well-established, the risks were not sufficiently mitigated which resulted in negative financial impacts to the Program.

1. District Establishment and Modifications - Collectively, the Division's Standard Operating Procedures (SOPs), control design, and activities performed provide a reasonable level of assurance that the fiduciary breaches / guideline violations risk is mitigated. Mitigating this risk enables the Division to efficiently and effectively create/establish, upgrade, consolidate/annex, and dissolve street lighting districts.
2. Special Assessment Rates and Operating Reserve - Collectively, the Division's SOPs, control design, and activities performed do not provide a reasonable level of assurance that the improper or incorrect valuation risk is mitigated. Unsuccessfully mitigating this risk hampers the Division's ability to efficiently and effectively establish special assessment rates that ensure the Program recovers the full cost associated with street lighting districts; maintains the operating reserve minimum balance; and develops a financial plan to reimburse the operating reserve if it falls below \$1 million.
3. Management of Program Funds - Collectively, the Division's SOPs, control design, and activities performed do not provide a reasonable level of assurance that the transaction processing misallocation risk is mitigated. Unsuccessfully mitigating this risk hampers the Division's ability to efficiently and effectively ensure program funds are adequately managed and used only for the purposes for which they were assessed.

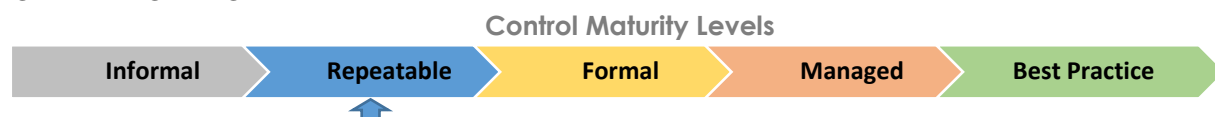
The Audit Team evaluated the impact control deficiencies had on ensuring the achievement of business/quality objectives. The evaluation results are included in this Report. Recommendations were made to build upon the control environment already in place. The Audit Team served in an advisory capacity to management in the development of efficient and effective:

- Five-year projection model tool that projects Program revenues and expenditures to reduce costs and optimize resources; and monitors the operating reserve.
- Personnel cost tracking tool that tracks support personnel costs for allocation to the Program.

Other minor concerns, that may have been identified and not included in this Report, were communicated to management and/or corrected during fieldwork.

The exit conference was held on March 20, 2023.

## OVERALL OPINION



It is the County Internal Auditor's overall opinion that the Program is at the repeatable control maturity level. Although process documentation exists, controls are fragmented and reactive. Policies and procedures lack detailed guidance on the Program's management activities. There is some clarity on roles, responsibilities, authorities, and accountability. Increased discipline and guidelines support repeatability. High reliance on existing personnel and independent audits creates exposure to change, a higher potential for errors, and higher costs due to inefficiencies.

The recommendations in this Report are designed to further strengthen and mature the control structure already in place.

### AUDITED BY

Peggy Caskey, CIA, CISA, CFE, County Internal Auditor

Melinda Jenzarli, CIA, CISA, CFE, CPA, MBA, Lead Internal Auditor

Jeremy Miller, CIA, MBA, Senior Internal Auditor

### BACKGROUND INFORMATION

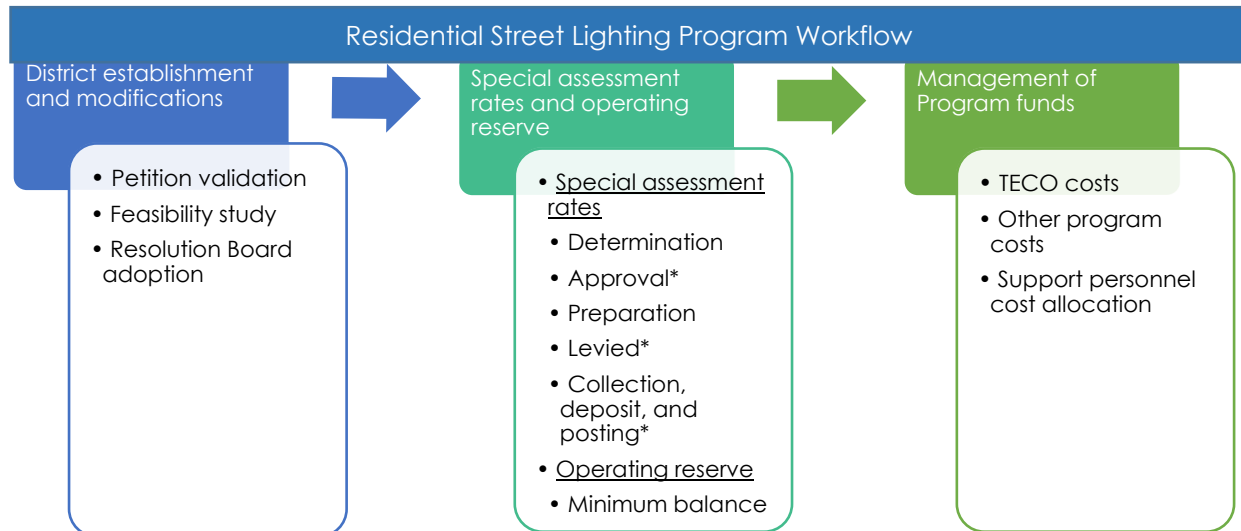
The Transportation Maintenance Division's (the "Division") primary business objective is to provide professional, technical, and operational services for all signing, marking, traffic signals, school safety, bicycle/pedestrian programs, traffic calming, roadway lighting, and street lighting district activities.

This engagement focused on the performance of management activities for the Residential Street Lighting Program (the "Program"), which has existed since 1962. Per Ordinance No. 17-17, the Program's objective is to provide for the creation, installation, maintenance, and financing of street lighting in unincorporated areas of Hillsborough County, where street lighting could not otherwise conveniently be made available. The Program's infrastructure primarily consists of fixtures and lights, poles, wiring, and other equipment and appurtenances necessary to provide service within the nearly 800 lighting districts with over 34,000 lights, collectively known as the Hillsborough County Consolidated Street Lighting Special Purpose District (the "HCCSLSPD"). Approximately \$12 million flows through the Program annually. There were 127,536 property parcels in the Program during FY2022.

The Division has three core categories of Program management responsibilities:

1. District establishment and modifications.
2. Proposing special assessment rates and maintaining operating reserves.
3. Management of Program funds.

The workflow below includes the Division's Program management responsibilities within each core category. Responsibilities performed outside the Division are noted with an asterisk symbol.



\*Special assessments are approved by the Board; levied, collected, and deposited by the Tax Collector; and posted by the Clerk of the Circuit Court's County Finance Department. The Property Appraiser provides parcel data. Public Works Fiscal assists the Division with the Program's accounting related activities.

## **ENGAGEMENT OBJECTIVE**

The Audit Team's objective was to determine the maturity of the Program's management activities.

## **APPROACH**

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that the County Internal Auditor's Office plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the audit comments and conclusions based on the audit objectives. The County Internal Auditor believes that the evidence obtained provides this reasonable basis.

## **SCOPE**

The Audit Team:

- Performed interviews, made observations, and performed data analytics and testing on the control environment and the performance of Program management activities.
- Determined whether the following principal business objectives support the achievement of the primary business objective to provide professional, technical, and operational services for all street lighting district activities.
  - Street lighting districts are created/established, upgraded, consolidated/annexed, and dissolved.
  - Special assessment rates are established annually to ensure the Program recovers the full cost associated with street lighting districts and maintains the operating reserve minimum balance of \$1 million.
  - Program funds are adequately managed and used only for the purposes for which they were assessed.

The scope of work related to financial and management activities was primarily from October 1, 2021, to February 28, 2023. The scope of work related to performing data analytics was primarily from FYE 2013 to FYE 2022.

## **POSITIVE ATTRIBUTE**

In 2022 Public Works, the business unit over the Engineering and Operating Department and the Transportation Maintenance Division, earned reaccreditation from the American Public Works Association (APWA). The APWA evaluation process included the review of 285 policies, procedures, practices, and standards for compliance. Accreditation is granted only to agencies who demonstrate a consistent dedication to quality in all functions, programs, and delivery of service. The evaluation is based on meeting or exceeding international best management standards. The comprehensive, five-step accreditation process promotes excellence in the operation and management of a public works agency, its programs, and employees. Accreditation also assists the agency in continuous improvement of operations and management and provides a valid and objective evaluation of agency programs.

## **AUDIT COMMENTS & RECOMMENDATIONS**

## **PRINCIPAL BUSINESS OBJECTIVE DISTRICT ESTABLISHMENT AND MODIFICATIONS**

### **AUDIT COMMENT 1**

Collectively, SOP §12.2.1, control design, and activities performed provide a reasonable level of assurance that the fiduciary breaches / guideline violations risk is mitigated during the following district establishment and modifications workflow steps:

- Petition validation.
- Feasibility study.
- Board's approval of the petition and adoption of a resolution.

Mitigation of the fiduciary breaches / guideline violations risk enables the Division to efficiently and effectively achieve its principal business objective to create/establish, upgrade, consolidate/annex, and dissolve street lighting districts in conformance with Ordinance 17-17 §5(d, e, h), §6(c), and §7(d).



## 1.1 PETITION VALIDATION

### DISCUSSION

Ordinance 17-17 §5(d) and §6(c) include procedures for creating/establishing, upgrading, consolidating/annexing, and dissolving street lighting districts. Establishing or upgrading a district requires a petition process initiated by a parcel owner within that district. The petition must be signed by greater than 50% of the parcel owners to establish a district and greater than 70% to upgrade a district. The Division's Program management responsibilities include verifying petition signatures and determining the percentage of district parcel owners who signed the petition.

### AUDIT PROCEDURES

The Audit Team determined if policies and procedures align with written guiding principles; and if the control design is efficient and effective to support management in achieving the petition validation workflow step and mitigating the fiduciary breaches / guideline violations risk.

To determine if the activities performed align with written guiding principles and the control design, the Audit Team selected the FY2022 full population of one upgraded district (Estuary District) for testing. The Audit Team validated that the Division:

- Compared the names and addresses submitted with the petition against a list obtained from the Property Appraiser.
- Verified that more than 70 percent of the parcel owners signed the petition.

During FY2022, there were no petitions for new lighting districts. Therefore, the Audit Team was not able to test these Program management activities.

<b>FIGURE 1 – PETITION VALIDATION</b>				
<b>PRINCIPAL BUSINESS OBJECTIVE</b> - Street lighting districts are created/established, upgraded, consolidated/annexed, and dissolved.				
<b>RISK: Fiduciary - Guideline Violations</b> – Written guiding principle violations.				
<b>CONTROL: Reconciliations/Comparisons/Edits</b> - There are traditional control techniques that are relevant to the achievement of the objective.				
Written Guiding Principle	Procedure Reviewed	Policies and Procedures Align with Written Guiding Principle	Control Design is Adequate	Activities Performed Align with Written Guiding Principle and Control Design
Ordinance 17-17 §6(c) Division's SOP §12.2.1	The Division verifies petition signatures and validates the percent of the district's parcel owners who signed the petition.	Yes	Yes	Yes
<b>Ordinance 17-17 §6(c) Procedures for District Upgrades, Verification of Petition</b> , states that, "Within 90 days after submission of a copy of said petition to the County ... petitions signed by property owners shall be reviewed by the County. The County shall verify whether more than seventy percent (70%) of the property owners in the proposed district have signed the petition. This verification shall be based upon a comparison of the names and addresses obtained with a list obtained from the Property Appraiser of property owners within the District."				
<b>Standard Operating Procedure §12.2.1 Residential Street Lighting Program</b> , lacks thorough guidance for the petition validation workflow step. However, Ordinance 17-17 provides sufficient instruction to perform this activity.				

### RESULTS

Test results indicate that the petition validation workflow step enables the Division to verify petition signatures and determine the percentage of district parcel owners who signed the petition.

## 1.2 FEASIBILITY STUDY

### DISCUSSION

The Division prepares a feasibility study to establish a proposed district or to annex a street lighting area into the HCCSLSPD. The feasibility study includes:

- The proposed district / street lighting area boundaries.
- An annual street lighting cost estimate.
- Whether all assessed parcels within the proposed district will benefit from the street lighting.
- Recommendations to levy special assessments against the benefited parcel owner.

### AUDIT PROCEDURES

The Audit Team determined if policies and procedures align with written guiding principles; and if the control design is efficient and effective to support management in achieving the feasibility study workflow step and mitigating the fiduciary breaches / guideline violations risk.

To determine if the activities performed align with written guiding principles and the control design, the Audit Team selected the full population of two areas (Crystal Acres Subdivision and Morris Bridge) annexed into the HCCSLSPD during FY2022. The Audit Team validated that the Division performed a feasibility study that included all aspects required per Ordinance 17-17 §5(e).

FIGURE 2 – FEASIBILITY STUDY				
<b>PRINCIPAL BUSINESS OBJECTIVE</b> - Street lighting districts are created/established, upgraded, consolidated/annexed, and dissolved.				
<b>RISK: Fiduciary - Guideline Violations</b> – Written guiding principle violations.				
<b>CONTROL: Other Planning &amp; Risk Assessment Processes</b> - There are processes or activities that relate to establishment of plans to achieve business/quality objectives.				
Written Guiding Principle	Procedure Reviewed	Policies and Procedures Align with Written Guiding Principle	Control Design is Adequate	Activities Performed Align with Written Guiding Principle and Control Design
Ordinance 17-17, § 5 (e)	The Division performs a feasibility study to validate the proposed district boundaries, estimate the annual street lighting cost, opine as to the benefit of the street lighting, and recommend the basis of levying special assessments.	Yes	Yes	Yes
<b>Ordinance 17-17 §5(e) Feasibility Study</b> , The County performs a feasibility study to validate the proposed district boundaries, estimate the cost of street lighting to be installed, opine as to the benefit of the street lighting, and recommend the basis of levying special assessments.				
<b>SOP §12.2.1 Residential Street Lighting Program</b> , SOP §12.2.1 does not provide thorough guidance for the feasibility study workflow step. However, Ordinance 17-17 provides sufficient instruction to perform this activity.				

### RESULTS

Test results indicate that the feasibility study workflow step enables the Division to prepare a feasibility study containing all required information on the proposed District prior to the public hearing.

### 1.3 Resolution Board Adoption

#### DISCUSSION

A public hearing is held where the Board of County Commissioners (the "Board") reviews the feasibility study and considers any testimony, materials, or objections. The Board may establish a proposed district or annex new street lighting service areas into the HCCSLSPD. There are similar, but generally less intensive, procedures to consolidate or dissolve a district.

#### AUDIT PROCEDURES

The Audit Team determined if policies and procedures align with written guiding principles; and if the control design is efficient and effective to support management in achieving the resolution Board adoption workflow step and mitigating the fiduciary breaches / guideline violations risk.

To determine if the activities performed align with written guiding principles and the control design, the Audit Team tested the full population of two areas (Crystal Acres Subdivision and Morris Bridge) annexed during FY2022. The Audit Team validated that the Board adopted Resolution R21-118 to annex these two street lighting service areas into the HCCSLSPD.

**FIGURE 3 – RESOLUTION BOARD ADOPTION**

**PRINCIPAL BUSINESS OBJECTIVE** - Street lighting districts are created/established, upgraded, consolidated/annexed, and dissolved.

**RISK: Fiduciary - Guideline Violations** – Written guiding principle violations.

**CONTROL: Officer/Board Level Review** - Senior management and/or the board of directors ask for information and reports on specific business/quality objectives and/or the adequacy of the systems and processes that support the achievement of those objectives.

Written Guiding Principle	Procedure Reviewed	Policies and Procedures Align with Written Guiding Principle	Control Design is Adequate	Activities Performed Align with Written Guiding Principle and Control Design
Ordinance 17-17 §5(h) and §7(d)	The Board approves a resolution to annex new street lighting service areas into the HCCSLSPD.	Yes	Yes	Yes

**Ordinance 17-17 §5(h) Procedures For the Creation and Establishment of Districts**, states that, "Should the Board approve the petition, either with or without modification, it shall adopt a resolution summarizing the proceedings and providing for the creation and establishment of the District. The resolution shall also set forth the following:

1. The name of the designation by which the District shall be known.
2. The boundaries of the District.
3. The number of properties in the District.
4. A description of street lighting to be included in the District for which the costs to be assessed are based."

**Ordinance 17-17 §7(d) Procedures For Consolidating Street Lighting Districts and For Annexing New Street Lighting Service Areas**, states that, "The Board may annex new street lighting service areas to a District or consolidated district by resolution."

**SOP §12.2.1 Residential Street Lighting Program**, lacks thorough guidance for the resolution Board adoption workflow step. However, Ordinance 17-17 provides sufficient instruction to perform this activity.

#### RESULTS

Test results indicate that the resolution Board adoption workflow step enables the Division to ensure the Board approves the petition and adopts a resolution.

## **PRINCIPAL BUSINESS OBJECTIVE SPECIAL ASSESSMENT RATES AND OPERATING RESERVES**

### **AUDIT COMMENT 2**

Collectively, SOP §12.2.1, control design, and activities performed do not provide a reasonable level of assurance that the improper or incorrect valuation risk is mitigated during the following special assessment rates and operating reserves workflow steps:

- Special assessment rates determination.
- Special assessment rates approval.
- Special assessment preparation.
- Special assessment levied.
- Special assessment collection, deposit, and posting.
- Operating reserve minimum balance.

Unsuccessfully mitigating the improper or incorrect valuation risk hampers the Division's ability to efficiently and effectively achieve its principal business objective to establish special assessment rates annually to ensure the Program recovers the full cost associated with street lighting districts and maintains the operating reserve minimum balance of \$1 million in conformance with Ordinance 17-17 §12, §10, §16 and Florida Statutes §193.0235 and §197.3632. Recommendations were made to build upon the control environment already in place.

The Audit Team served in an advisory capacity to management in the development of an efficient and effective five-year projection model tool that projects Program revenues and expenditures to reduce costs and optimize resources; and monitors the operating reserve.

## 2.1 SPECIAL ASSESSMENT RATES DETERMINATION

### DISCUSSION

The Division monitors the activities of the Florida Public Service Commission (FPSC) to be aware of any proposed tariff increase or regulation changes. Annually, the Division considers adjusting the assessment rates. The Division recommends an assessment rate adjustment only when the TECO rates have materially changed. After a material change, the Division utilizes an external consultant to perform a rate study and provide recommended assessment rates.

In June 2022, Raffetis Financial Consultants, Inc. (Raffetis) performed a rate study to review the Program's assessment rates. Raffetis proposed assessment rates for FY2023 through FY2027.

### AUDIT PROCEDURES

The Audit Team determined if policies and procedures align with written guiding principles; and if the control design is efficient and effective to support management in achieving the special assessment rates determination workflow step and mitigating the improper or incorrect valuation risk.

To determine if the activities performed align with written guiding principles and the control design, the Audit Team validated that the Division determined special assessment rates during 2022.

**FIGURE 4 – SPECIAL ASSESSMENT RATES DETERMINATION**

**PRINCIPAL BUSINESS OBJECTIVE** – Establish special assessment rates annually to ensure the Program recovers the full cost associated with street lighting districts and maintains the operating reserve minimum balance of \$1 million.

**RISK: Improper or Incorrect Valuation** - The transaction or balance is incorrectly valued or incorrectly allocated.

**CONTROL: Budgeting/Forecasting Processing** - The budget and forecasting process link the achievement of objectives to specific business units and/or individuals.

**CONTROL: Specialist Reviews & Audits** - The organization engages specialists from time to time to examine and report on the way the organization is managing specific issues or areas of business activity.

Written Guiding Principle	Procedure Reviewed	Policies and Procedures Align with Written Guiding Principle	Control Design is Adequate	Activities Performed Align with Written Guiding Principle and Control Design
Ordinance 17-17 §12 Transportation Maintenance Division Lighting SOP, §12.2.1	The Division monitors the activities of the Florida Public Service Commission (FPSC) to be aware of any proposed tariff increase or regulation changes. Annually, the Division considers adjusting the assessment rates. The Division recommends an assessment rate adjustment only when the TECO rates have materially changed. After a material change, the Division utilizes an external consultant to perform a rate study and provide recommended assessment rates.	Yes	No	Yes

**Ordinance 17-17 §12 Establishment of a Maximum Assessment Rate For Each Street Lighting Classification**, states that, "There shall be an assessment rate, calculated annually by service type, for each street lighting District based on the street lighting poles, wires, conduits, fixtures and lights, electrical current, and all appurtenances necessary to provide street lighting service by District, equipment classification, or other basis consistent with the rates charged for street lighting service."

**SOP §12.2.1 Residential Street Lighting Program**, states that, "...the county will pro-actively monitor activities of the FPSC to be aware of any proposed tariff increase or changes to specific regulations... TECO will endeavor to provide the county with early estimates of projected annual rate increases to enable the county to recover the proper lighting and FMC charges for the residential lighting program.

## **RESULTS**

Test results indicate that although the special assessment rates determination workflow step enables the Division to establish special assessment rates annually, the control design is inefficient because it could prompt rate studies and rate increases to be performed unnecessarily. It was also found to be ineffective because it is reactive rather than proactive.

## **RECOMMENDATION**

Consideration should be given to using a model to project revenues and expenditures and when the Program's operating reserve will decline below the minimum. A model would assist management in predicting the frequency of rate studies and assessment rate increases which would reduce costs and optimize resources. The model would also assist in budgeting for the Program. The Audit Team provided management with a five-year projection model tool that could be used as guidance to implement this recommendation.

## **MANAGEMENT RESPONSE: CONCUR**

The RSLP team has developed the SOP manual that provides guidance on day-to-day operations associated with the program.

The below SOP's have been developed to address Audit Comment 2.1.

SOP 21 - Program Budgeting & Operating Reserve Forecasting applies to managing the RSLP budget and forecasting future operating reserve. This process has been developed to assist staff in completing the tasks associated with this function timely and in accordance with ordinances, policies and/or standards.

SOP 22 - TECO Invoice Reconciliation applies to monthly invoices for TECO accounts that are within the RSLP. This process has been developed to assist staff in completing the tasks associated with this function timely and in accordance with ordinances, policies and/or standards.

SOP 23 - Program Revenue & Expenditure Reconciliation applies to program revenues and expenditures within the RSLP. This process has been developed to assist staff in completing the steps performed to fulfill the responsibility, including but not limited to its detailed process of reviewing, approving, and reconciling Program expenditures to ensure monies are used solely for the Program.

The above SOP's provide guidance to assist with tracking and validating the Program's revenues and expenditures. Additionally, the SOP's provide management guidance on the use of a forecasting model that optimizes the Program's resources, predicts rate increases and studies. This is critical to the Program's solvency and to meet Statutes and Ordinance requirements.

**TARGET COMPLETION DATE: JUNE 01, 2023**

## 2.2 SPECIAL ASSESSMENT RATES APPROVAL

### DISCUSSION

Annually, the Division recommends special assessment rates based on changes to TECO rates. The Board determines (approves) the amount required from each parcel owner within a district to cover the cost of receiving street lighting service for the following fiscal year.

### AUDIT PROCEDURES

The Audit Team determined if policies and procedures align with written guiding principles; and if the control design is efficient and effective to support management in achieving the special assessment rates approval workflow step and mitigating the improper or incorrect valuation risk.

To determine if the activities performed align with written guiding principles and the control design, the Audit Team verified that on July 20, 2022, the Board approved the FY2023 special assessment rates proposed by Raffetis, an increase of 20.5%.

**FIGURE 5 - SPECIAL ASSESSMENT RATES APPROVAL**

**PRINCIPAL BUSINESS OBJECTIVE** – Establish special assessment rates annually to ensure the Program recovers the full cost associated with street lighting districts and maintains the operating reserve minimum balance of \$1 million.

**RISK: Improper or Incorrect Valuation** - The transaction or balance is incorrectly valued or incorrectly allocated.

**CONTROL: Officer / Board Level Review** - Senior management and/or the board of directors ask for information and reports on specific business/quality objectives and/or the adequacy of the systems and processes that support the achievement of those objectives.

Written Guiding Principle	Procedure Reviewed	Policies and Procedures Align with Written Guiding Principle	Control Design is Adequate	Activities Performed Align with Written Guiding Principle and Control Design
Ordinance 17-17 §10	The Board approves the amount required for each parcel owner within a district to pay.	Yes	Yes	Yes

**Ordinance 17-17 §10 Special Assessments**, states that, the Board shall determine the amount required for each property owner within a district to pay for the cost of receiving street lighting service for each existing district for the following fiscal year, which may include any additional funds that are available or that will become available for such purposes.

**SOP §12.2.1 Residential Street Lighting Program**, states that, County Ordinance 06-3 empowers the Board to fix and revise rates, fees, and charges for the services provided by the County to the property owners residing within the lighting districts of the Program. Each year the Board determines the amount required in the subsequent fiscal year to pay for the costs of the Program, which is specifically assessed upon real property within the districts. Note: The Audit Team communicated to the Division that the reference to Ordinance 06-3 should be updated to Ordinance 17-17.

### RESULTS

Test results indicate that the special assessment rates approval workflow step enables the Division to ensure the Board approves the amount required for each parcel owner to pay for lighting service.

## 2.3 SPECIAL ASSESSMENT PREPARATION

### DISCUSSION

The Division creates a workbook that includes tax roll details for each parcel in the Program using data from the Property Appraiser and parcel data from the ArcGIS (geographic information system used for mapping and analysis). This information determines the assessment rate for each parcel that is provided to the Tax Collector.

The Division provides the tax roll to the Tax Collector along with the Certificate to Non-Ad Valorem Assessment Roll Form DR-408A certifying that all properties on the tax roll are properly assessed. The Tax Collector may request a corrected tax roll or assessment if errors or omissions are discovered.

### AUDIT PROCEDURES

The Audit Team determined if policies and procedures align with written guiding principles; and if the control design is efficient and effective to support management in achieving the special assessment preparation workflow step and mitigating the improper or incorrect valuation risk.

To determine if the activities performed align with written guiding principles and the control design, the Audit Team tested the full population of 127,536 special assessments. The Audit Team validated that these special assessments calculated by the Division during CY2022, were levied by the Tax Collector to parcel owners, and the amount assessed agreed with the rates approved by the Board.

**FIGURE 6 – SPECIAL ASSESSMENT PREPARATION**

<p><b>PRINCIPAL BUSINESS OBJECTIVE</b> – Establish special assessment rates annually to ensure the Program recovers the full cost associated with street lighting districts and maintains the operating reserve minimum balance of \$1 million.</p> <p><b>RISK: Improper or Incorrect Valuation</b> - The transaction or balance is incorrectly valued or incorrectly allocated.</p> <p><b>CONTROL: Other Direct Control Methods, Procedures, or Things</b> - There are any other methods, procedures or things that have a direct impact on ensuring the achievement of business/quality objectives.</p>				
Written Guiding Principle	Procedure Reviewed	Policies and Procedures Align With Written Guiding Principle	Control Design Is Adequate	Activities Performed Align with Written Guiding Principle and Control Design
Ordinance 17-17 §10 Division's SOP §12.2.1 §193.0235 Florida Statutes §197.3632 Florida Statutes	The tax roll is prepared by the Division using the Board approved assessment rates and delivered to the Tax Collector to levy, collect, and enforce the special assessment.	Partial	Yes	Yes
<p><b>Ordinance 17-17 §10 Special Assessments</b>, states that, "The amount thus determined shall be specially assessed upon all real property within the district, including homesteads; however, no assessments shall be made upon wetlands / drainage parcels, or any real property located within a district that lies outside the areas where street lighting services have been authorized in a manner provided by this Ordinance. A special assessment shall be levied ... pursuant to the uniform method set forth in Section 197.3632, Florida Statutes."</p>				
<p><b>SOP §12.2.1 Residential Street Lighting Program</b>, states that, the Board entered into an agreement with the County Tax Collector. Specific deadlines must be met by the Program related to the Tax Collector's uniform method for levy, collection, and enforcement of non-Ad valorem assessment.</p>				
<p><b>§193.0235 Florida Statutes</b>, The Statute requires the value (front footage) for common element parcels to be prorated and included in the assessment of all parcels within the subdivision.</p>				
<p><b>§197.3632 Florida Statutes</b>, The Statute requires the special assessment to be levied, collected, and enforced pursuant to the uniform method set forth in the Statute.</p>				



## **RESULTS**

Test results indicate that the special assessment preparation workflow step enables the Division to prepare and certify a tax roll, without errors or omissions. The special assessments included in the CY2022 tax roll materially agreed with the Board approved rates. However, SOP §12.2.1 lacks the following guidance:

- How to prepare the special assessment tax roll for the Tax Collector.
- How applicable statutes, rules, and regulations are applied. For example,
  - The criteria for applying Board approved rates to the standard 150 ft parcel rate.
  - The criteria for applying Board approved rates for 150+ front footage.
  - Subdivision common element parcel requirements per Florida Statute §193.0235.
- Validation control, such as certifying the tax roll before it is transferred to the Tax Collector.

## **RECOMMENDATION**

Policies and procedures are an essential part of any organization. Together, policies and procedures provide a roadmap for day-to-day operations. They ensure compliance with higher level written guiding principles, give guidance for decision-making, and streamline internal processes. Therefore, consideration should be given to building upon the foundation already in place by enhancing SOP §12.2.1 to include additional guidance.

## **MANAGEMENT RESPONSE: CONCUR**

The RSLP team has developed the SOP manual that provides guidance on day-to-day operations associated with the program. This ensures that any change or absence of staff will not impact the program's day to day operations.

Specifically, SOP 19 - Tax Roll Preparation & Validation is designed to prepare the annual tax roll and validate the assessments with the Tax Collector and County Finance to ensure assessments are collected and deposited to fund 10302. Also, notification letters are required to be mailed for all new properties added to the tax roll and/or when there is an increase in assessment.

**TARGET COMPLETION DATE: JUNE 01, 2023**

## 2.4 SPECIAL ASSESSMENT LEVIED

### DISCUSSION

The Tax Collector levies assessments on each parcel based on the certified tax roll prepared by the Division. Per management, there is an undocumented reconciliations/comparisons/edits control design:

- Annually in November, the Division checks a sample of parcels to validate that the assessment matches the spreadsheet transferred from the Division to the Tax Collector.
- To perform the validation, the Division selects a sample of approximately 100 parcels and compares the amount assessed to the rates approved by the Board.
- The Division expands sample testing when errors are identified.
- The Division retains evidence of sample testing only when errors are identified.

### AUDIT PROCEDURES

The Audit Team determined if policies and procedures align with written guiding principles; and if the control design is efficient and effective to support management in achieving the special assessment levied workflow step and mitigating the improper or incorrect valuation risk.

To determine if the activities performed align with written guiding principles and the control design, the Audit Team interviewed management.

FIGURE 7 – SPECIAL ASSESSMENT LEVIED				
<b>PRINCIPAL BUSINESS OBJECTIVE</b> – Establish special assessment rates annually to ensure the Program recovers the full cost associated with street lighting districts and maintains the operating reserve minimum balance of \$1 million.				
<b>RISK: Improper or Incorrect Valuation</b> - The transaction or balance is incorrectly valued or incorrectly allocated.				
<b>CONTROL: Reconciliations/Comparisons/Edits</b> - states that there are traditional control techniques ... that are relevant to the achievement of the objective.				
Written Guiding Principle	Procedure Reviewed	Policies and Procedures Align With Written Guiding Principle	Control Design Is Adequate	Activities Performed Align with Written Guiding Principle and Control Design
Ordinance 17-17 §10 Division's SOP §12.2.1	The Division validates special assessments levied by the Tax Collector for accuracy.	No	No	Could not determine due to a lack of supporting documentation.
<b>Ordinance 17-17 § 10, Special Assessments</b> - states that, "A special assessment shall be levied, collected, and enforced pursuant to the uniform method set forth in Section 197.3632, Florida Statutes."				
<b>SOP §12.2.1 Residential Street Lighting Program</b> - Does not provide guidance on how the Division validates accuracy of special assessments levied by the Tax Collector.				

### RESULTS

Test results indicate that the special assessment levied workflow step does not enable the Division to ensure special assessments are accurately levied by the Tax Collector. For example,

- SOP §12.2.1 does not require or provide guidance on how the Division is to perform validation to ensure the Tax Collector levied the correct amount.

- The control design is undocumented.
- The activities performed are undocumented. The Division was unable to provide any evidence that validation testing was performed during the past two years. Therefore, the Audit Team was unable to perform audit tests to determine if the activities performed align with written guiding principles and the control design.

### **RECOMMENDATION**

Policies, procedures, and control design are an essential part of any organization. Together, they provide a roadmap for day-to-day operations. They ensure compliance with higher level written guiding principles, give guidance for decision-making, and streamline internal processes. Therefore, consideration should be given to building upon the foundation already in place by:

- Enhancing SOP §12.2.1 to include additional guidance.
- Documenting the control design.
- Retaining evidence of the Division's validation testing.
- Using the VLOOKUP function in Excel to compare the amount levied by the Tax Collector to the full population of parcels in the tax roll folio data provided by the Division. The Audit Team used a similar approach in its testing and has discussed it with management.

Once the control deficiencies are mitigated, consideration should be given to aligning the activities performed to the SOPs and the documented control design.

### **MANAGEMENT RESPONSE: CONCUR**

The RSLP team has developed the SOP manual that provides guidance on day-to-day operations associated with the program. This ensures that any change or absence of staff will not impact the program's day to day operations.

The below SOP's have been developed to address Audit Comment 2.4.

SOP 19 - Tax Roll Preparation & Validation procedure is designed to prepare the annual tax roll and validate the assessments with the Tax Collector and County Finance to ensure assessments are collected and deposited to fund 10302. Also, notification letters are required to be mailed for all new properties added to the tax roll and/or when there is an increase in assessment.

SOP 23 -Program Revenue & Expenditure Reconciliation applies to program revenues and expenditures within the RSLP. This process has been developed to assist staff in completing the steps performed to fulfill the responsibility, including but not limited to its detailed process of reviewing, approving, and reconciling Program expenditures to ensure monies are used solely for the Program.

**TARGET COMPLETION DATE: JUNE 01, 2023**

## 2.5 SPECIAL ASSESSMENT COLLECTION, DEPOSIT, AND POSTING

### DISCUSSION

Special assessments are collected and deposited by the Tax Collector and posted to Program fund 10302 by the Clerk of the Circuit Court's County Finance Department (County Finance).

### AUDIT PROCEDURES

The Audit Team determined if policies and procedures align with written guiding principles; and if the control design is efficient and effective to support management in achieving the special assessment collection, deposit, and posting workflow step and mitigating the improper or incorrect valuation risk.

To determine if the activities performed align with written guiding principles and the control design, the Audit Team interviewed management.

FIGURE 8 – SPECIAL ASSESSMENT COLLECTION, DEPOSIT, AND POSTING				
<b>PRINCIPAL BUSINESS OBJECTIVE</b> – Establish special assessment rates annually to ensure the Program recovers the full cost associated with street lighting districts and maintains the operating reserve minimum balance of \$1 million.				
<b>RISK: Improper or Incorrect Valuation</b> - The transaction or balance is incorrectly valued or incorrectly allocated.				
<b>CONTROL: Reconciliations/Comparisons/Edits</b> - states that there are traditional control techniques ... that are relevant to the achievement of the objective.				
Written Guiding Principle	Procedure Reviewed	Policies and Procedures Align With Written Guiding Principle	Control Design Is Adequate	Activities Performed Align with Written Guiding Principle and Control Design
Ordinance 17-17 §10 Division's SOP §12.2.1, §197.3632 Florida Statutes	Special assessments are collected and deposited by the Tax Collector and posted to Program fund 10302 by County Finance.	No	No	Could not test control design as it does not exist.
<b>Ordinance 17-17 §10 Special Assessments</b> , states that, "A special assessment shall be levied, collected, and enforced pursuant to the uniform method set forth in Section 197.3632 Florida Statutes...Once collected, the special assessments shall be deposited in a fund designated by the Board..."				
<b>SOP §12.2.1 Residential Street Lighting Program</b> , lacks guidance on how or if the Division validates special assessments collected and deposited by the Tax Collector were accurately posted to the Program fund 10302.				
<b>Florida Statutes §197.3632</b> , the Statutes requires the special assessment to be levied, collected, and enforced pursuant to the uniform method set forth in the Statutes.				

### RESULTS

Test results indicate that the special assessment collection, deposit, and posting workflow step does not enable the Division to ensure special assessments collected and deposited by the Tax Collector are accurately posted to the Program fund 10302 by County Finance. For example,

- The Division lacks an SOP that requires or provides guidance on how the Division should validate posting accuracy.
- The Division lacks a detective control design that validates special assessment collections are accurately posted.
- The Program lacks control activities. There are no procedures performed by Public Works Fiscal or the Division to validate that financial transactions are accurately posted.

## **IMPACT**

Due to a lack of a detective control to identify errors or omissions in posting special assessment collections the Audit Team evaluated the impact of the control deficiencies. The Audit Team compared the total special assessments collected and deposited by the Tax Collector (\$11,268,046.53) between November 2022 and March 2023 to the amount County Finance posted (\$9,951,658.12). As of March 9, 2023, County Finance was resolving appropriation issues due to insufficient funds budgeted for Tax Collector commissions, which prevented the remaining \$1,316,388.41 from being posted to the Program Fund. On April 5, 2023, the Board approved a budget amendment to increase the budget for Tax Collector commissions by \$45,200.

Based on test results, it appears that the lack of traditional control techniques such as written guiding principles, control design, and control activities, did not have a material impact on the posting of financial transactions to Program fund 10302.

## **RECOMMENDATION**

Policies, procedures, and control design are an essential part of any organization. Together, they provide a roadmap for day-to-day operations. They ensure compliance with higher level written guiding principles, give guidance for decision-making, and streamline internal processes. Therefore, consideration should be given to building upon the foundation already in place by:

- Enhancing SOP §12.2.1 to include additional guidance.
- Implementing an efficient and effective control design that encompasses:
  - Monthly validation of the special assessments levied, collected, and deposited by the Tax Collector to ensure they agree with the amount posted to Program fund 10302 by County Finance.
  - Retaining evidence of the Division's validation testing.

Once the control deficiencies are mitigated, consideration should be given to aligning the activities performed to the SOPs and the documented control design.

## **MANAGEMENT RESPONSE: CONCUR**

The RSLP team has developed a Standard Operating Procedure Manual to address Audit Comment 2.5. The SOP manual provides guidance on day-to-day operations associated with the program.

The below SOP's have been developed to address Audit Comment 2.5.

SOP 19 - Tax Roll Preparation & Validation Tax Roll Preparation & Validation procedure is designed to prepare the annual tax roll and validate the assessments with the Tax Collector and County Finance to ensure assessments are collected and deposited to fund 10302. Also, notification letters are required to be mailed for all new properties added to the tax roll and/or when there is an increase in assessment.

SOP 22 - TECO Invoice Reconciliation-applies to monthly invoices for TECO accounts that are within the RSLP. This process has been developed to assist staff in completing the tasks associated with this function timely and in accordance with ordinances, policies and/or standards.

SOP 23 - Program Revenue & Expenditure Reconciliation applies to program revenues and expenditures within the RSLP. This process has been developed to assist staff in completing the steps performed to fulfill the responsibility, including but not limited to its detailed

process of reviewing, approving, and reconciling Program expenditures to ensure monies are used solely for the Program.

The above SOP's provide guidance processes to maintain and validate the Program's revenues and expenditures. This guidance will help identify all charges to the RSLP ledger and expedite corrections to any incorrect charges to the Program. This is critical to the Program's solvency and to meet Statutes and Ordinance requirements.

**TARGET COMPLETION DATE: JUNE 01, 2023**

## 2.6 OPERATING RESERVE MINIMUM BALANCE

### DISCUSSION

Per Ordinance 17-17 §16, special assessment rates must be established annually to ensure the Program:

- Recovers the full cost associated with street lighting districts.
- Maintains a \$1 million operating reserve minimum balance at the end of each fiscal year.
- Develops a financial plan to reimburse the operating reserve if it falls below \$1 million.

### AUDIT PROCEDURES

The Audit Team determined if policies and procedures align with written guiding principles; and if the control design is efficient and effective to support management in achieving the operating reserve minimum balance workflow step and mitigating the improper or incorrect valuation risk.

To determine if the activities performed align with written guiding principles and the control design, the Audit Team reviewed the Raffetis June 23, 2022, Street Lighting Program Assessment Rate study and performed interviews with key members who worked on the Study.

To determine if the activities performed by the Division align with written guiding principles and the control design, the Audit Team reviewed the operating reserve balance at FYE 2013-2022; and reviewed financial plans to reimburse the Program when the Program operating reserve dipped below the \$1 million minimum in FY2017.

**FIGURE 9 – OPERATING RESERVE MINIMUM BALANCE**

**PRINCIPAL BUSINESS OBJECTIVE** – Establish special assessment rates annually to ensure the Program recovers the full cost associated with street lighting districts and maintains the operating reserve minimum balance of \$1 million.

**RISK: Improper or Incorrect Valuation** - The transaction or balance is incorrectly valued or incorrectly allocated.

**CONTROL: Short, Medium and Long Range Planning** - The organization plans for the immediate future, usually covering the next year, the medium term often viewed as a two to five year time horizon, and the longer term which may stretch out many decades.

Written Guiding Principle	Procedure Reviewed	Policies and Procedures Align with Written Guiding Principle	Control design is adequate	Activities Performed Align with Written Guiding Principle and Control Design
Ordinance 17-17 §16	The operating reserve maintains a minimum of \$1 million at the end of each fiscal year. A financial plan is developed to reimburse the reserve balance if it falls below the minimum.	No	No	Could not test control design as it does not exist.

**Ordinance 17-17 §16 Fund Reserves**, states that, "Notwithstanding, the County will maintain a minimum operating reserve of \$1 million in the Program to promote prudent financial management of the Program. The "minimum reserve" is defined as the total cash and cash equivalents less any expenditure encumbrances. To the extent that the operating reserve is less than the \$1 million minimum reserve requirement at the end of any fiscal year, the County will develop a financial plan to reimburse the reserve balance to an amount equal to the minimum reserve. Notwithstanding the above, the County may have on balance an amount in excess of the \$1 million minimum reserve amount.

**SOP §12.2.1 Residential Street Lighting Program**, does not provide specific guidance for maintaining the \$1 million operating reserve minimum balance at the end of each fiscal year.

## RESULTS

Test results indicate that the operating reserve minimum balance workflow step does not enable the Division to ensure \$1 million is maintained in the reserve at the end of each fiscal year. For example,

- The Division lacks an SOP that requires or provides guidance on how the Division should:
  - Recover the full cost associated with street lighting districts.
  - Maintain a \$1 million operating reserve minimum balance at the end of each fiscal year.
  - Develop a financial plan to reimburse the operating reserve if it falls below \$1 million.
- The Division lacks a control design that supports management in achieving the operating reserve minimum balance workflow step and mitigates the improper or incorrect valuation risk.

## IMPACT

The Trust Fund FYE 2013 - 2022 operating reserve balances exceeded the operating reserve minimum balance requirement of \$1 million in all years except FYE 2017. As a result, in 2017, management engaged Raffetis to conduct a rate study and develop a financial plan to reimburse the operating reserve. The study resulted in a 17% increase in assessment rates to bring the operating reserve into conformance with Ordinance 17-17.

Based on test results, it appears that the lack of traditional control techniques such as written guiding principles, control design, and control activities, did not have a material impact on maintaining the minimum operating reserve.

## RECOMMENDATION

Policies, procedures, and control design are an essential part of any organization. Together, they provide a roadmap for day-to-day operations. They ensure compliance with higher level written guiding principles, give guidance for decision-making, and streamline internal processes. Therefore, consideration should be given to building upon the foundation already in place by:

- Enhancing SOP §12.2.1 to include additional guidance.
- Implementing an efficient and effective monitoring control. Guidance at Appendix A.

Once the control deficiencies are mitigated, consideration should be given to aligning the activities performed to the SOPs and the documented control design.

## MANAGEMENT RESPONSE: CONCUR

The RSLP team has developed the SOP manual that provides guidance on day-to-day operations associated with the program. The SOP's provide management guidance on the use of a forecasting model that optimizes the Program's resources, predict rate increases and studies. This is critical to the Program's solvency and to meet Statutes and Ordinance requirements.

Specifically, SOP 21 - Program Budgeting & Operating Reserve Forecasting applies to managing the RSLP budget and forecast future operating reserve. This process has been developed to assist staff in completing the tasks associated with this function timely and in accordance with ordinances, policies and/or standards.

**TARGET COMPLETION DATE: JUNE 01, 2023**



## APPENDIX A FIVE-YEAR PROJECTION MODEL TOOL

### DISCUSSION

The Audit Team served in an advisory capacity to management in the development of an efficient and effective five-year projection model tool that projects Program revenues and expenditures to reduce costs and optimize resources; and monitors the operating reserve.

### RESEARCH

The Audit Team:

- Reviewed the Raftelis June 23, 2022, Street Lighting Program Assessment Rate Study and performed interviews with the key members who worked on the Study and with Division's management.
- Researched the GFOA Best Practice For General Fund Balance / Reserves.
- Analyzed aggregated historical financial data from Oracle reports.

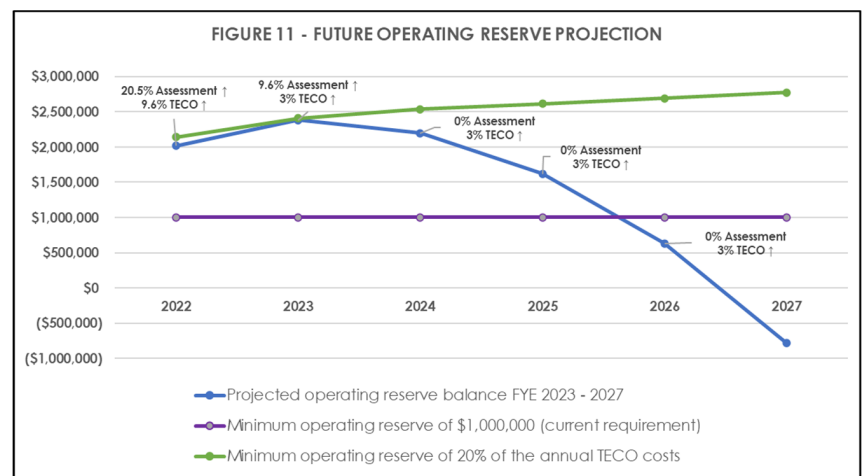
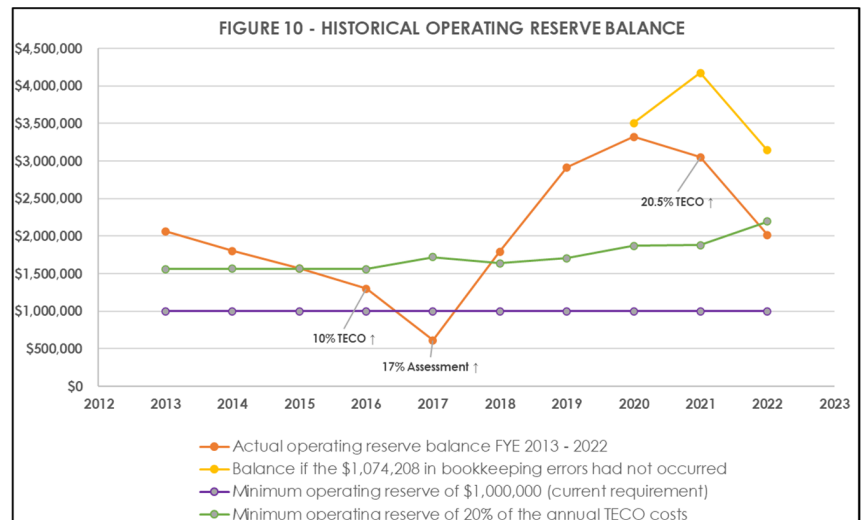
### Historical Operating Reserve

Figure 10 shows the changes in the reserve during FYEs 2013 - 2022 and demonstrates how the volatility of the TECO costs impacted the reserve. It also shows what the reserve would have been in FYEs 2020 - 2022 had there not been cost misclassification netting \$1,074,208 in overcharges to the Program.

In FY2017 a TECO cost increase of 10% reduced the reserve by \$689,965. In FY2022 a TECO cost increase of 20.5% reduced the reserve by \$1,033,445. The timing difference between TECO cost increases (generally effective in January) and the non-ad valorem assessment collection the following November required the operating reserve to float these costs for at least 11 months.

### Future Operating Reserve Projection

Figure 11 projects the reserve for the next five years. The five-year projection model includes the current minimum operating reserve of \$1,000,000 and a minimum operating reserve of 20% of the annual TECO costs. This model is an internal control that could be used to predict fiscal year-end balances, anticipate when rate studies are necessary, reduce the Program's costs, and optimize resources.



**Figure 12 - Future Operating Reserve Projection includes the following assumptions.**

	<b>TECO Rate Increase</b> - Assumes TECO costs are charged to the Program the month incurred per Generally Accepted Accounting Principles.	<b>Special Assessment Rate Increase</b>
<b>2023</b>	9.6% - Based on increases in January and April 2023.	20.5% - Actual
<b>2024</b>	3% - Projection based on 9-year historical average.	9.6% - Projection based on FY2023 TECO cost increases.
<b>2025</b>	3% - Projection based on 9-year historical average.	0%
<b>2026</b>	3% - Projection based on 9-year historical average.	0%
<b>2027</b>	3% - Projection based on 9-year historical average.	0%

## RESULTS

The GFOA Fund Balance Guidelines recommend 16.6% of expenditures as the minimum operating reserve balance. Raffetis in its June 2022 Rate Study recommended 20% of the annual TECO costs as the minimum operating reserve balance.

Changing the reserve minimum balance from \$1 million to 20% of the annual TECO costs would:

- Mitigate the risk of insufficient funds due to timing differences.
- Allow the operating reserve to act as a rate stabilizer and absorb moderate TECO cost increases which would increase the time between rate studies and assessment rate increases. Rate studies and notifying parcel owners cost the Program over \$100,000 plus personnel costs. (Conducting the FY2022 rate study and notifying parcel owners of the rate increase cost the Program \$110,764 plus personnel costs to support these activities.)

Changing the Program's operating reserve minimum balance requirement may require the Board's approval and revision of Ordinance 17-17 §16.

Creating, adopting, and utilizing a modeling tool and/or changing the operating reserve minimum balance requirement is at the sole discretion of management.

## **PRINCIPAL BUSINESS OBJECTIVE MANAGEMENT OF PROGRAM FUNDS**

### **AUDIT COMMENT 3**

Collectively, SOP §12.2.1, control design, and activities performed do not provide a reasonable level of assurance that the transaction processing misallocation risk is mitigated during the following management of program funds workflow steps:

- TECO costs
- Other program costs
- Support personnel cost allocation

Unsuccessfully mitigating this risk hampers the Division's ability to efficiently and effectively achieve its principal business objective to ensure program funds are adequately managed and used only for the purposes for which they were assessed in conformance with Ordinance 17-17 §15 and the Public Works Professional Services Processing Procedure. Recommendations were made to build upon the control environment already in place.

The Audit Team served in an advisory capacity to management in the development of an efficient and effective personnel cost tracking tool that tracks support personnel costs to be allocated to the Program.

### 3.1 TECO COSTS

#### DISCUSSION

TECO residential street lighting services constitute approximately 95% of the Program's total annual costs. The Division assigns an account string to all (County and Program) street lighting TECO accounts. The list of approved TECO accounts with the associated account string is forwarded to the Public Works Fiscal staff before being forwarded to County Finance. County Finance enters the information into CUPS (an accounting system) for payment processing. Each month, the Program's manager reviews TECO invoices and validates that they are within 3% of the Division's estimates. If errors are identified, research is performed, and adjustments are made the following month.

#### AUDIT PROCEDURES

The Audit Team determined if policies and procedures align with written guiding principles; and if the control design is efficient and effective to support management in achieving the TECO costs workflow step and mitigating the transaction processing misallocation risk.

To determine if the Division's TECO invoice review process activities performed align with written guiding principles and the control design, the Audit Team:

- Observed the Division perform the November 2022 TECO invoice review process. The observation included the Division's review of cost estimates and research of variances.
- Reviewed the TECO invoice review process spreadsheet's data and formulas for accuracy.
- Tied the TECO invoice review process spreadsheet to street lighting TECO account transactions posted to the Program Utility Services Account.

**FIGURE 13 – TECO COSTS**

**PRINCIPAL BUSINESS OBJECTIVE** – Program funds are adequately managed and used only for the purposes for which they were assessed.

**RISK: Transaction Processing Misallocation** - Accounting error/entity attribution error.

**CONTROL: Reconciliations/Comparisons/Edits** - There are traditional control techniques, such as comparisons of sub ledger totals to control accounts, that are relevant to the achievement of the objective.

Written Guiding Principle	Procedure Reviewed	Policies and Procedures Align with Written Guiding Principle	Control Design is Adequate	Activities Performed Align with Written Guiding Principle and Control Design
Ordinance 17-17 §15 Division's SOP, §12.2.1	Invoices received by the County are sent directly to the Clerk's Office for the BOCC. The Division reviews the invoices and attempts to reconcile any errors for the subsequent month's adjustments.	No	No	No
<b>Ordinance 17-17 §15 Trust Funds</b> , states that, "all moneys received under the provisions of this Ordinance shall be deemed to be trust funds, ... and apply the said monies only for the purposes of this Ordinance."				
<b>Division SOP §12.2.1 Residential Street Lighting Program</b> , states that "Invoices received by the County are sent directly to the Clerk's Office for the BOCC. The...(Division) reviews the invoices and attempts to reconcile any errors for the subsequent month's adjustments."				

## RESULTS

Test results indicate that the TECO costs workflow step does not enable the Division to ensure that funds are only used for the sole purpose of the Program. For example,

- SOP §12.2.1 does not:
  - Require Program funds to be used for the sole purpose of the Program.
  - Include the steps performed by the Division to fulfill its responsibility, including but not limited to its detailed process of reviewing, approving, and reconciling Program expenditures to ensure funds are used solely for the purpose of the Program.
- Although the Division's TECO invoice review process activities performed aligned with written guiding principles and the control design, the control design is not efficient and effective. The Division's control design only requires monitoring to ensure TECO invoice amounts are within 3% of the Division's estimates. It lacks a control to identify general ledger posting errors.

To build upon the control design already in place, during fieldwork, management implemented a general ledger posting error detective control whereby Public Works Fiscal will provide a monthly financial report to the Division detailing the charges allocated to the Program Utility Services Account. The Division will verify that TECO invoices were posted correctly to the Program Utility Services Account and are applicable to the Program.

- The inventory of TECO accounts appears to be sufficiently accurate in the ArcGIS, and TECO invoices appear to be sufficiently accurate.

## IMPACT

Due to a lack of detective control in the Division's TECO invoice review process control design, the Audit Team evaluated the impact of the control deficiency.

To identify any overcharges or undercharges of TECO invoices to the Program's Utility Services Account, the Audit Team interviewed Raftelis, performed sufficiency and accuracy testing on certain aspects of the assessment performed by Raftelis during its 2022 rate study, and compared the full population of 324 TECO invoices charged to the Program's Utility Services Account in FY2022 to the invoices validated by the Division in its monthly TECO invoice review process.

The Audit Team identified financial activities performed that did not align with Ordinance 17-17 §15. Program funds were applied to costs that were not for the sole purpose of the Program. During FY2020, 2021, and 2022, due to account string misclassifications assigned to three TECO accounts, \$1,075,795.19 was inadvertently posted to the Program's Utility Services Account. These errors were not identified due to a missing key control in the control design. TECO charges posted to the Program's Utility Services Account are not reviewed by the Division.

Raftelis identified the 2020 and 2021 TECO accounting string misclassifications during its 2022 rate study. The overcharges were removed from its analysis and did not impact the recommended rates passed on to the parcel owners. During 2022, management corrected two of the three accounting strings. At the end of fieldwork, in March 2023, the Program had not yet been refunded the \$1,075,795.19. Management is working with Public Works Fiscal staff to make the appropriate adjusting journal entries or budget amendments and to correct the accounting string misclassification for the third TECO account.

TECO Invoice Misclassification Posting Errors	
Fiscal Year	Program Overcharges
2020	\$182,634.08
2021	\$892,502.69
2022	\$658.42
Total	\$1,075,795.19

The lack of traditional control techniques such as written guiding principles, control design, and control activities, had a material impact on whether the Program funds are adequately managed and used only for the sole purpose of the Program. The Program's funds, \$1,075,795.19, were used for purposes other than for which they were assessed.

#### **RECOMMENDATION**

Policies, procedures, and control design are an essential part of any organization. Together, they provide a roadmap for day-to-day operations. They ensure compliance with higher level written guiding principles, give guidance for decision-making, and streamline internal processes. Therefore, consideration should be given to building upon the foundation already in place by:

- Enhancing SOP §12.2.1 to include additional guidance.
- Strengthening the control design.
- Reimbursing the Program \$1,075,795.19 for the TECO invoice posting errors.

Once the control deficiencies are mitigated, consideration should be given to aligning the activities performed to the SOPs and the documented control design.

#### **MANAGEMENT RESPONSE: CONCUR**

The RSLP team has developed a Standard Operating Procedure Manual to address Audit Comment 3.1. The SOP manual provides guidance on day-to-day operations associated with the program.

The below SOP's have been developed to address Audit Comment 3.1

SOP 22 - TECO Invoice Reconciliation This procedure applies to monthly invoices for TECO accounts that are within the RSLP. This process has been developed to assist staff in completing the tasks associated with this function timely and in accordance with ordinances, policies and/or standards.

SOP 23 - Program Revenue & Expenditure Reconciliation applies to program revenues and expenditures within the RSLP. This process has been developed to assist staff in completing the steps performed to fulfill the responsibility, including but not limited to its detailed process of reviewing, approving, and reconciling Program expenditures to ensure monies are used solely for the Program.

The above SOP's provide guidance processes to maintain and validate the Program's revenues and expenditures. This guidance will help identify all charges to the RSLP ledger and expedite corrections to any incorrect charges to the Program. This is critical to the Program's solvency and to meet Statutes and Ordinance requirements.

Additionally, a Budget amendment was approved during the April 19, 2023, BOCC meeting reimbursing the RSLP \$1,075,795.19 for the TECO invoice posting errors.

**TARGET COMPLETION DATE: JUNE 01, 2023**

### 3.2 OTHER PROGRAM COSTS

#### DISCUSSION

Other Program costs constitute approximately 5% of the Program's annual costs and include professional services, contracted services, postage, legal advertising, tax collection commissions, support personnel salaries and wages, and indirect administrative costs. These expenditures, except for support personnel and indirect administrative costs, follow the traditional procurement process.

In the traditional procurement process, the program manager creates a purchase requisition in Oracle Cloud, assigns the account string, and submits the requisition for approval. A purchase order number is assigned after the requisition is approved. After the product or service is received, invoices are reviewed and routed for approval by Public Works Fiscal staff who work with County Finance to effectuate payment.

#### AUDIT PROCEDURES

The Audit Team determined if policies and procedures align with written guiding principles; and if the control design is efficient and effective to support management in achieving the other program costs workflow step and mitigating the transaction processing misallocation risk.

To determine if the activities performed align with written guiding principles and the control design, the Audit Team:

- Reviewed FY2022 other program costs for reasonableness based on the estimates included in the Raffelis 2022 Rate Study.
- Inquired with Raffelis concerning prior year other program cost concerns.

FIGURE 14 – OTHER PROGRAM COSTS				
<b>PRINCIPAL BUSINESS OBJECTIVE</b> – Program funds are adequately managed and used only for the purposes for which they were assessed.				
<b>RISK: Transaction Processing Misallocation</b> - Accounting error/entity attribution error.				
<b>CONTROL: Code of Accounts Structure</b> - The design of the general ledger or sub ledger account codes assists in minimizing errors and allow for effective data capture and reporting.				
Written Guiding Principle	Procedure Reviewed	Policies and Procedures Align with Written Guiding Principle	Control Design is Adequate	Activities Performed Align with Written Guiding Principle and Control Design
Ordinance 17-17 §15 Public Works Professional Services Processing Procedure Division's SOP §12.2.1	Other program costs invoice approval.	No	No	No
<b>Ordinance 17-17 §15 Trust Funds</b> , states that, "all moneys received under the provisions of this Ordinance shall be deemed to be trust funds, ... and apply the said monies only for the purposes of this Ordinance."				
<b>Public Works Professional Services Processing Procedure</b> , the procedures are general in nature and not specifically for Program invoicing. However, the procedures include, upon receipt, invoices entered onto a log by the Administrative Specialist and assigned to a processing accountant based on the supplier assignment list. The processing accountant:				
<ul style="list-style-type: none"> <li>• Reviews the invoice detail including supplier name, capital improvement program number, purchase order number, service period, project name, and work order number.</li> </ul>				

- Verifies all classifications, names, rates, and any other fees against the approved work order or contract.
- Ensures all required backup documentation is included.

The accountant enters the payment package into DocuVantage and routes the package to the Project Manager and Section Manager for approval. Once approved, the payment package is routed to the Fiscal Manager for final approval and delivered to County Finance to process payment. (From: B.01h)

**SOP §12.2.1 Residential Street Lighting Program**, the Division's SOPs do not include any guidance on how other Program expenditures are procured by the Division, processed by the Public Works Fiscal staff, reviewed, and approved for payment, and reconciled to the general ledger.

## RESULTS

Test results indicate that the other program costs workflow step does not enable the Division to ensure funds are used for the sole purpose of the Program. For example,

- SOP §12.2.1 does not align with Ordinance 17-17 §15. The SOP:
  - Does not require funds to be used for the sole purpose of the Program.
  - Does not include the steps performed by the Division to fulfill its responsibility, including but not limited to its detailed process of procuring, reviewing, approving, and reconciling Program expenditures to ensure funds are used solely for the purpose of the Program.
- The control design is not efficient and effective as it allows purchases to be posted to the Program without the program manager's approval. There is also no periodic review of expenditures posted to the Program fund to identify errors.
- Activities performed did not align with written guidelines principles and the control design.

## IMPACT

In FY2021, \$50,534.96 of Program funds were applied to consulting activities that were not for the purpose of the Program. In FY2022, \$52,122.37 in Program related postage costs were not applied to the Program.

The lack of traditional control techniques such as written guiding principles, control design, and control activities, had a material impact on whether the Program funds are adequately managed and used only for the sole purpose of the Program.

Other Program Costs Posting Errors		
Fiscal Year	Cost Misclassifications	Impact to the Program Fund
2021	Consulting activities	overcharged \$50,534.96
2022	Postage (1)	undercharged \$52,122.37
Total: undercharged \$1,587.41		
(1) Corrected during fieldwork.		

## RECOMMENDATION

Policies, procedures, and control design are an essential part of any organization. Together, they provide a roadmap for day-to-day operations. They ensure compliance with higher level written guiding principles, give guidance for decision-making, and streamline internal processes. Therefore, consideration should be given to building upon the foundation already in place by:

- Enhancing SOP §12.2.1 to include additional guidance.
- Following through with the Division's commitment to enhance the control design.
- Working with Enterprise Solutions and Quality Assurance:



- To establish a designated cost center for the Program. Once the designated cost center is established, all requisitions coded to the cost center will be routed to the Program's project manager for approval.
- Explore the feasibility of restricting the usage of the Program fund to only the designated cost center.
- Reimbursing the Program for \$50,534.96 in non-Program related consulting service costs.

Once the control deficiencies are mitigated, consideration should be given to aligning the activities performed to the SOPs and the documented control design.

**MANAGEMENT RESPONSE: CONCUR**

The RSLP team has developed a Standard Operating Procedure Manual to address Audit Comment 3.2. The SOP manual provides guidance on day-to-day operations associated with the program.

The below SOP's have been developed to address Audit Comment 3.2.

SOP 21 - Program Budgeting & Operating Reserve Forecasting This procedure applies to managing the RSLP budget and forecast future operating reserve. This process has been developed to assist staff in completing the tasks associated with this function timely and in accordance with ordinances, policies and/or standards.

SOP 22 - TECO Invoice Reconciliation This procedure applies to monthly invoices for TECO accounts that are within the RSLP. This process has been developed to assist staff in completing the tasks associated with this function timely and in accordance with ordinances, policies and/or standards.

SOP 23 - Program Revenue & Expenditure Reconciliation applies to program revenues and expenditures within the RSLP. This process has been developed to assist staff in completing the steps performed to fulfill the responsibility, including but not limited to its detailed process of reviewing, approving, and reconciling Program expenditures to ensure monies are used solely for the Program.

The above SOP's provide guidance processes to maintain and validate the Program's revenues and expenditures. Additionally, the SOP's provide management guidance on the use of a forecasting model that optimizes the Program's resources, predict rate increases and studies. This is critical to the Program's solvency and to meet Statutes and Ordinance requirements.

Additionally, a Budget amendment was approved during the April 19, 2023, BOCC meeting reimbursing the RSLP \$50,534.96 for the non-Program related consulting service costs.

**TARGET COMPLETION DATE: JUNE 01, 2023**

### 3.3 SUPPORT PERSONNEL COST ALLOCATION

#### DISCUSSION

The County's direct labor (support personnel) responsibilities to manage the Program include, but are not limited to, petition validation, feasibility studies, Board agenda preparation, budget preparation, managing external rate studies, determining assessment rates to recommend to the Board for approval, preparing the tax roll, maintaining the street lighting inventory in the County's ArcGIS, inspecting new light installations, and procuring, reviewing, approving, and reconciling Program expenditures. These are direct costs incurred by the County to support the Program.

Indirect costs from the County's central service departments are allocated to the Program through the County's annual Cost Allocation Plan determined by MAXIMUS Consulting Services, Inc. The actual allocation of the indirect costs occurs every two years. For example, the FY2020 indirect costs were allocated in FY2022.

#### AUDIT PROCEDURES

The Audit Team determined if policies and procedures align with written guiding principles; and if the control design is efficient and effective to support management in achieving the support personnel cost allocation workflow step and mitigating the transaction processing misallocation risk.

To determine if the activities performed align with written guiding principles and the control design, the Audit Team interviewed management.

FIGURE 15 - PROGRAM EXPENDITURE MANAGEMENT - SUPPORT PERSONNEL COST ALLOCATION				
<b>PRINCIPAL BUSINESS OBJECTIVE</b> – Program funds are adequately managed and used only for the purposes for which they were assessed.				
<b>RISK: Transaction Processing Misallocation</b> - Accounting error/entity attribution error.				
<b>CONTROLS: Other Direct Control Methods, Procedures, or Things</b> - There are any other methods, procedures or things that have a direct impact on ensuring the achievement of business/quality objectives.				
Written Guiding Principle	Procedure Reviewed	Policies and Procedures Align with Written Guiding Principle	Control Design is Adequate	Activities Performed Align with Written Guiding Principle and Control Design
Ordinance 17-17 §15 GFOA Best Practice - Measuring the Full Cost of Government Service Division SOP §12.2.1	Support personnel costs are allocated to the Program.	No	No	Could not test control design as it does not exist.
<b>Ordinance 17-17 §15 Trust Funds</b> , states that, "all moneys received under the provisions of this Ordinance shall be deemed to be trust funds, ... and apply the said monies only for the purposes of this Ordinance.				
<b>Government Finance Officers Association (GFOA) Best Practice - Measuring the Full Cost of Government Service</b> , states that, "Governments should calculate the full cost of the different services that they provide. The full cost of a service encompasses all direct and indirect costs (both operating and capital) related to that service. Direct costs include the salaries, wages, and benefits of employees while they are exclusively working on the delivery of the service, as well as the materials and supplies, and other associated operating costs such as utilities and rent, training, and travel.				
<b>SOP §12.2.1 Residential Street Lighting Program</b> , does not include any guidance on how direct personnel costs should be tracked and allocated to the Program. The indirect support allocation to the Program is determined by MAXIMUS Consulting Services, Inc. and therefore, a division level SOP is not needed.				

## RESULTS

Test results indicate that the support personnel cost allocation workflow step does not enable the Division to ensure support personnel costs are allocated to the Program. For example,

- The SOP does not include any guidance on how direct personnel costs should be tracked and allocated to the Program.
- The Division lacks a control design that supports management in achieving the support personnel cost allocation workflow step.

## IMPACT

Due to a lack of SOPs and a control design, the Audit Team was not able to perform activity testing. Therefore, the Audit Team focused its review on the impact that these control deficiencies may have had on financial reports and conformance with GFOA Best Practice - Measuring the Full Cost of Government Service.

Three of the Division's personnel perform work for the Program and expend, in total, approximately one full-time equivalent in hours per year. The Audit Team reviewed the FY2022 support personnel costs and found that these costs were allocated to the Division's general budget rather than the Program.

Based upon interviews, management believed detailed time tracking was needed to support an allocation of support personnel costs to the Program. Due to a lack of detailed time tracking, effective FY2020, management requested support personnel costs to be removed from the Program allocation. To determine the impact of this decision, the Audit Team expanded its review to include the FY2018 through FY2022 support personnel costs and indirect costs charged to the Program.

FIGURE 16 - FY2018 – FY2022 Support Personnel and Indirect Costs Charged to the Program		
Fiscal Year	Support Personnel Costs Charged to Program	Indirect Costs Charged to the Program
2018	\$100,797	\$23,336 (Based largely on FY 2016 Direct Personnel Costs)
2019	\$101,230	\$21,544 (Based largely on FY 2017 Direct Personnel Costs)
2020	\$0	\$22,530 (Based largely on FY 2018 Direct Personnel Costs)
2021	\$0	\$25,392 (Based largely on FY 2019 Direct Personnel Costs)
2022	\$0	\$2,796 (Based largely on FY 2020 other Program costs. Excludes Direct Personnel Costs)

Approximately \$300,000 (\$100,000 per FY2020, 2021, and 2022) in direct personnel costs were not charged to the Program; and \$20,400 in indirect costs were not charged to the Program in FY2022. (Based on average FY2018-2021 indirect costs of \$23,500 per fiscal year less \$2,796 charged in FY2022.) As a result, these costs were not charged to the parcel owners who benefited from the Program and were passed onto the taxpayers of Hillsborough County.

## RECOMMENDATION

Policies, procedures, and control design are an essential part of any organization. Together, they provide a roadmap for day-to-day operations. They ensure compliance with higher level written guiding principles, give guidance for decision-making, and streamline internal processes. Therefore, consideration should be given to building upon the foundation already in place by:

- Enhancing SOP §12.2.1 to include additional guidance on tracking and allocating direct personnel costs to the Program.
- Implementing an efficient and effective monitoring tool to conform with the GFOA Best Practice - Measuring the Full Cost of Government Service by allocating all the Program's direct and indirect costs to the Program. In the spirit of Ordinance 17-17, these costs would then be charged to the Program's parcel owners who benefit from receiving street lighting. Due to a lack of control design, the Audit Team served in an advisory capacity to management in the development of an efficient and effective personnel cost tracking tool that tracks support personnel costs to be allocated to the Program. (See Appendix B.)

Once the control deficiencies are mitigated, consideration should be given to aligning the activities performed to the SOPs and the documented control design.

**MANAGEMENT RESPONSE: CONCUR**

The RSLP team has developed a Standard Operating Procedure Manual to address Audit Comment 3.3.

The RSLP team has developed SOP 21 - Program Budgeting & Operating Reserve Forecasting, which includes estimating personnel costs using the Personnel Costs Tracking Tool provided. Staff will begin using this tool over the next year to generate data which can be used to estimate personnel cost allocation. In the meantime, while that information is being collected, personnel costs will continue to be operationally funded within Public Works.

**TARGET COMPLETION DATE: JULY 01, 2024**

## **APPENDIX B**

### **PERSONNEL COST TRACKING TOOL**

#### **DISCUSSION**

The Audit Team served in an advisory capacity to management in the development of an efficient and effective personnel cost tracking tool.

#### **RESEARCH**

The Audit Team:

- Consulted with Raffelis on the level of support or documentation typically required or used by other jurisdictions to allocate personnel costs and the leading practice for allocating these costs.
- Performed research on GFOA Best Practice For Measuring the Full Cost of Government Service.
- Prepared a personnel cost tracking tool.

#### **RESULTS**

The Audit Team provided the personnel cost tracking tool to management to track support personnel costs to be allocated to the Program and conform with the GFOA Best Practice For Measuring the Full Cost of Government Service. Creating, adopting, and utilizing a personnel cost tracking tool is at the sole discretion of management.