



Internal Audit Report

**Flood Control District
December 2002**



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December 23, 2002

Don Stapley, Chairman, Board of Supervisors
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We have completed our FY 2002-03 review of the Flood Control District of Maricopa County (FCD). The audit was performed in accordance with the annual audit plan that was approved by the Board of Supervisors.

The highlights of this report include the following:

- FCD complies with Federal and State mandates that regulate the inspection and maintenance of dams and other flood control structures.
- The district does not consistently enforce the requirements established by sand and gravel mine operator permits.
- Many activities remain to be completed in order for the County to submit a federal water quality program permit, by the March 2003 deadline, and avoid a possible \$31,000 daily fine for non-compliance.
- Significant procedural control weaknesses were found in the district's processing of contractor invoices, exposing FCD to financial risk.

Attached are the report summary, detailed findings, recommendations, and FCD's management response. We have reviewed this information with the Director and appreciate the excellent cooperation provided by management and staff. If you have questions, or wish to discuss items presented in this report, please contact George Miller at 506-1586.

Sincerely,

A handwritten signature in cursive script that reads "Ross L. Tate".

Ross L. Tate
County Auditor

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Executive Summary

Dam Inspections and Maintenance (Page 9)

Our review of FCD dam and other flood control structure inspection/maintenance records and reports found that the district complies with Federal and State mandated requirements. No significant exceptions or control weaknesses were identified. We also found that the Operations and Maintenance (O&M) Division's workload is increasing and the backlog of non-critical work orders has grown. The division has implemented strategies to address its short-term needs.

Floodplain Use Permits (Page 11)

Our review of FCD Floodplain Use Permit activities found overall compliance with all major requirements and adequate management controls. We also found that permit workloads are increasing, FCD does not consistently enforce its requirement for sand and gravel miners to submit site reclamation plans, and the district does not regularly inspect sand and gravel mining sites. These control weaknesses expose County citizens and visitors to possible health, safety, and property risks. FCD should strengthen controls in these areas.

Federal Programs (Page 14)

FCD has updated its floodplain management plan within the time frames set by the Federal Emergency Management Agency (FEMA). We found no control weaknesses or exceptions to National Flood Insurance Program requirements. We also found that the district has completed many activities required for the County to apply for a mandated water permit. However, many other activities remain to be completed to meet the March 2003 deadline and the County risks a \$31,000 daily fine for non-compliance. Pursuant to this permit, FCD has not established an IGA with the County to resolve storm water issues as required by a 1991 Board of Supervisors (Board) Resolution. FCD should establish the required IGA with the County and strengthen financial controls over the federal water permit provisions.

Capital Improvement Projects (Page 17)

Our review of FCD Capital Improvement Program (CIP) project expenditures and invoice processing found payments to be accurately and properly posted; CIP Report Summary totals agree to financial detail records. However, we found significant procedural control weaknesses over contractor invoice payment activities, Notices to Proceed, and property sales and leases. These control weaknesses increase FCD's exposure to financial and legal risk. FCD should strengthen controls in these areas.

Contract and IGA Procurement (Page 21)

Our review of 25 FCD IGAs and Article 5 contracts (\$96 million total budgeted expenditures) found that all were procured and executed in compliance with the requirements established by ARS and the Maricopa County Procurement Code. The contract awards are adequately documented and properly approved. FCD also complies with ARS requirements limiting the amount of money that public agencies may spend on in-house construction projects. No material control weaknesses or exceptions were found.

Budget Certification and Reserves (Page 23)

FCD does not annually certify to the Board the amount of funding that the district considers necessary to conduct its operations, as prescribed by ARS. As a result, the Board determines FCD's expenditure budget and the tax rate necessary to generate this funding level. FCD also has not established procedures to calculate, document, and hold reserves needed for potential liabilities, as recommended by federal standards. These control weaknesses expose FCD to potential financial and operational risk. FCD should certify its annual funding needs to the Board and develop controls to adequately address the district's reserve needs.

County Administrative Policies (Page 26)

Our review of FCD employee tuition payments and employee travel/training expenditures found no control weaknesses or significant exceptions to County policy requirements. FCD has established effective controls to help protect the district from inherent legal risks. However, FCD does not adequately identify and track employees that operate district vehicles or monitor equipment operators for current licensing and certifications. These control weaknesses expose the district to potential risk. FCD should strengthen controls over these areas.

Disaster Recovery Plan (Page 29)

FCD has not developed a Disaster Recovery Plan to recover its information systems in the event of a disaster, as required by County policy. Without a formal plan, FCD does not have assurance that the district can recover its systems in a timely manner and may experience business interruption. FCD should develop a Disaster Recovery Plan.

MfR Performance Measures (Page 30)

Our review of six FCD Key Results Measures, developed for the Managing for Results (MfR) program, identified several areas for improvement. During FY 2003 the district intends to request approval to make significant changes to its strategic plan. FCD should finalize written procedures and establish controls for collecting data. The district should also closely review performance measure data prior to entering this information into the Electronic Business Center (EBC).

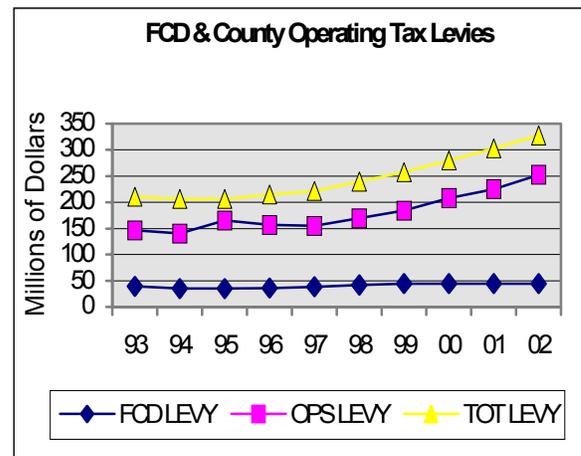
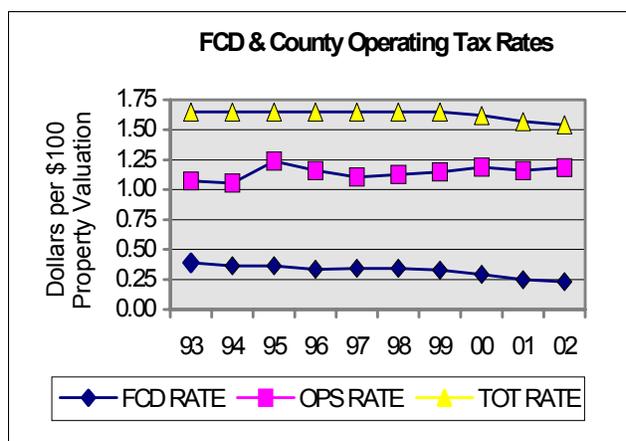
Introduction

Background

The Maricopa County Board of Supervisors established the Flood Control District of Maricopa County (FCD) in 1959. The State of Arizona had previously passed legislation allowing the creation of flood districts in order to reduce flood risks and provide flood management services. FCD is authorized all the powers, privileges, and immunities granted to municipal corporations by ARS (Sections 11 and 48) and State Executive Order #77-6. Federal environmental programs also regulate FCD operations.

FCD is responsible for providing regional flood control within Maricopa County (County) and local flood protection in unincorporated county areas. The district is governed by a Board of Directors (BOD), comprised of the Board of Supervisors (Board), that appoints a seven person Flood Control Advisory Board (FCAB) to make recommendations regarding FCD policies and Capital Improvement Program (CIP) projects. Some cities and agencies within the County manage their own flood prone properties. Through Intergovernmental Agreements (IGA), FCD may partner with cities to share the costs of some flood control structures.

Legislative action designates flood control districts as special taxing districts, giving FCD authority to levy a secondary property tax on parcels within the County. The district must annually certify the amount of tax levy necessary to fund its operations to the Board, which approves the secondary tax rate. ARS requires that the tax revenue generated be used only to fund FCD operations and activities. The following charts show the County Operating, FCD, and total tax rates/levies from FY 1993 through FY 2002.



FCD's tax rate has been lowered over this period resulting in a relatively flat \$45 million levy, which was agreed upon five years ago by the Board. During this same period, the County's operating tax rate has increased slightly and its levy has grown.

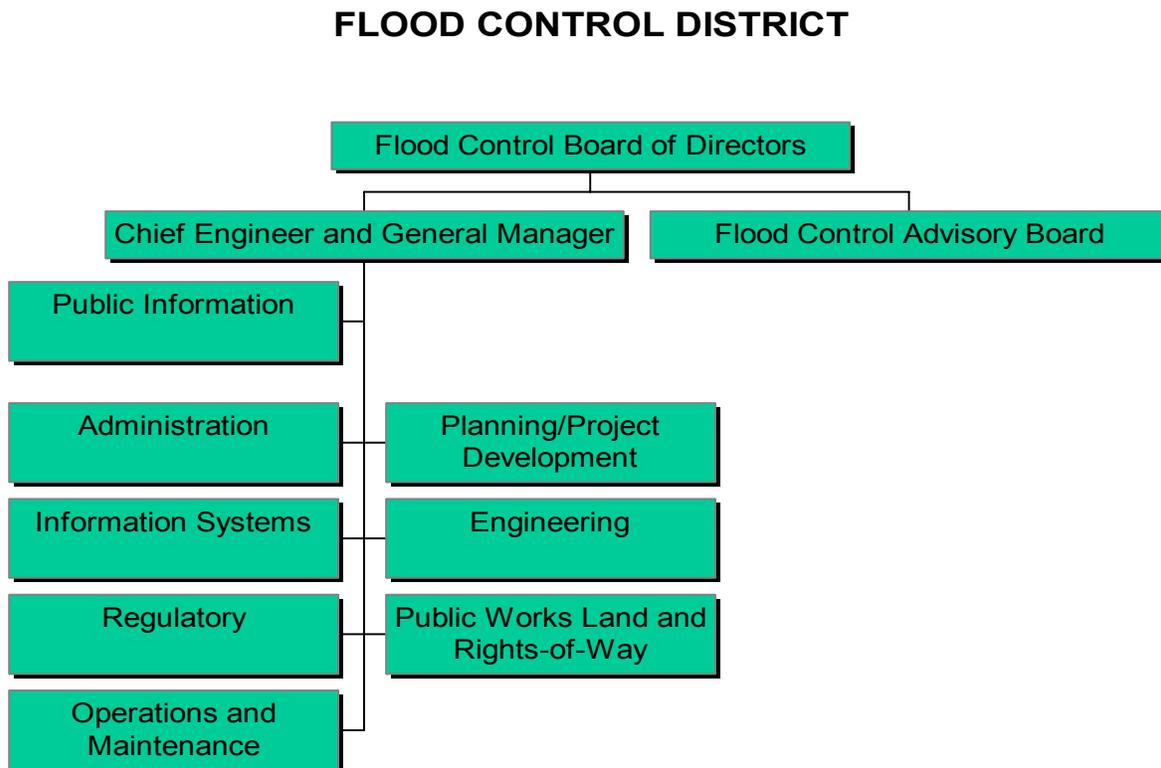
Mission, Goals, and Performance Measures

FCD’s mission is to provide flood hazard identification, regulation and remediation, and education to Maricopa County residents so they can reduce their risks of property damage, injury and death due to flooding, while enjoying the natural and beneficial values served by floodplains. The district has developed several major goals to support its mission.

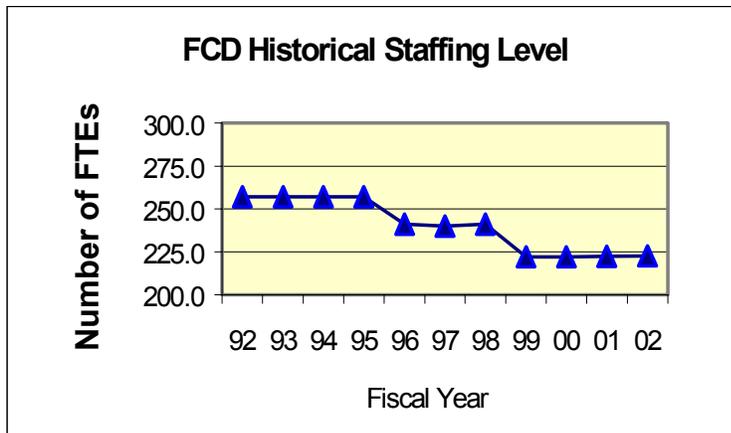
FCD has also developed a strategic plan as part of the County’s Managing for Results (MfR) Program. This plan addresses six FCD programs: Administrative Services, Flood Protection, Floodplain and Drainage Compliance, Information Collection and Dissemination, Information Technology, and Planning. FCD’s prior operational philosophy was primarily to construct flood control structures. The district’s philosophy now includes citizen education and flood regulation.

Organizational Structure

FCD is comprised of seven divisions reporting to the Chief Engineer/General Manager (CE/GM). The chart below depicts the district’s organizational structure.



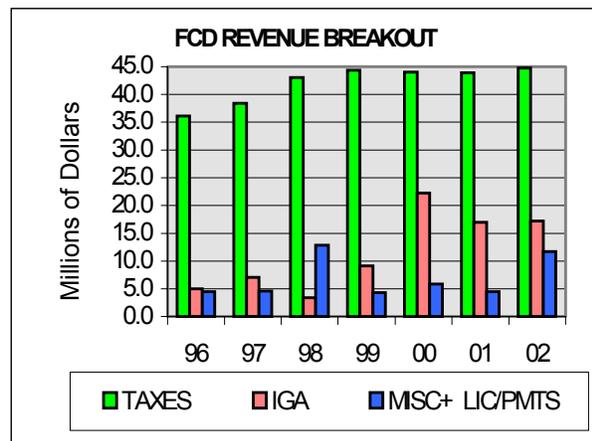
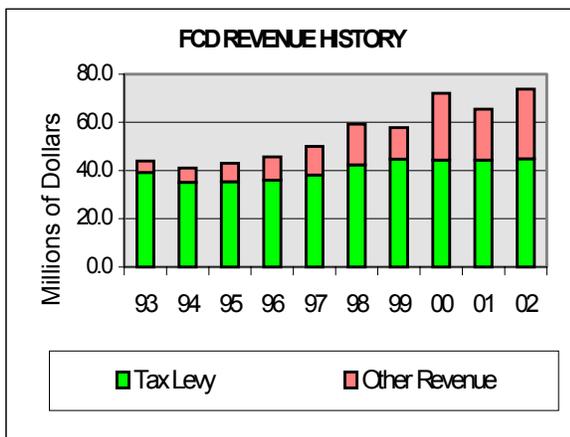
The district has maintained a staffing level of 222 positions for the past several years. Ten years ago the district operated with 257 positions. The graph on the following page shows this trend.



Operating Budget

FCD’s FY 2003 operating budget is \$80 million and approximately 62 percent is generated from the secondary tax, which generally covers the district’s operational and CIP project costs. Most of the tax levy is generated during two periods: October-November and April-May. Due to the cyclical revenue stream, FCD must properly manage projects to ensure year round funding.

FCD has worked aggressively to generate IGA revenue from the State, County, local cities, and developers that cost share in the district’s capital improvement projects. The two charts below depict FCD’s revenue history (past ten years) and revenue sources (past seven years). “Other” revenue consists of land sales, lease and rental income, easements, and permit fees.



Major Program Operations

CIP Projects: The Planning/Project Management, Engineering, and Public Works/Land divisions interface in the CIP flood projects. FCD has developed a comprehensive five-year program for planning, building, and managing needed flood control projects and making major improvements to existing structures, throughout the County. The district generates ideas and conducts in-house studies to identify problems/issues that provide the basis for CIP projects. FCD handles the land acquisitions, property titles, right-of-way plans, and property management operations to support CIP projects. The district also serves as the lead agency for CIP flood related projects.

Regulatory Activities: FCD oversees floodplain and drainage management for 13 communities and the unincorporated areas of the County. Through written IGAs with the County and local municipalities, FCD provides flood management and ensures that the County complies with mandated Federal, State, and County floodplain regulations, as well as, National Flood Insurance Program requirements. The district is also responsible for processing permits for drainage clearances, easements, and building in 100-year floodplains.

Structural Inspections, Operation, and Maintenance: FCD maintains dams, flood structures (post construction), and flood property including operation, maintenance, repair, inspection, and testing. The district must methodically inspect all flood control structures annually and prepare detailed written reports of the results. FCD's Operations and Maintenance (O&M) Division has developed a separate inspection schedule for all facilities under the district's control. The division inspects all structures, dams, levies, and floodways quarterly to identify any operational problems such as plugged outlets, repair/maintenance needs, and public liability issues.

Scope and Methodology

The objectives of this audit were to determine FCD's:

- Compliance with statutory requirements related to tax revenues and reserves, IGAs, Maricopa Procurement Code Article 5, in-house construction, and land purchases/sales.
- Adherence to Code of Federal Regulations (CFR) addressing flood control structures.
- Enforcement of Maricopa County Floodplain and Drainage Regulation requirements.
- Information System applications.
- Potential liability issues.
- Compliance with, and monitoring of, Community Rating System requirements.
- Work order tracking and billing procedures.
- Compliance with County's Education Tuition Reimbursement Program, Travel Policy, and other Administrative Policy requirements.

This audit was performed in accordance with Government Auditing Standards.

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Department Reported Accomplishments

The Flood Control District has provided the Internal Audit Department with the following information for inclusion in this report.

Flood Control District of Maricopa County Accomplishments
November 2002

- The District won a national award for real-time flood forecasting tool.
- The National Flood Insurance Program’s Community Rating System (NFIP CRS) has rated the district in the top 1 percent of floodplain management in the U.S.
- The District General Manager was honored with lifetime achievement award.
- The National Weather Service honored district staff for saving lives in October 2000 floods.
- The District co-hosted National Floodplain Managers (ASFPM) Conference.
- The District won first White House Annual Joint Center Sustainable Community Award.
- The District won the Marvin Black Excellence in Partnering Award.
- The District won the Desert Peaks Award in Regional Excellence.
- The District was rated in the top one percent by FEMA for building a sustainable community.
- The Murphy School District named the District a “Guardian Angel”.

Issue 1 Dam Inspections and Maintenance

Summary

Our review of FCD dam and other flood control structure inspection/maintenance records and reports found that the district complies with Federal and State mandated requirements. No significant exceptions or control weaknesses were identified. We also found that the Operations and Maintenance (O&M) Division's workload is increasing and the backlog of non-critical work orders has grown. The division has implemented strategies to address its short-term needs.

Federal and State Requirements

The Code of Federal Regulations (CFR) Title 33 Chapter II sets requirements for FCD dam/levee inspection and maintenance activities. FCD must:

- Adequately maintain the flood control structures that were constructed by the U.S. government and later given to the district.
- Appoint a "Superintendent" who is responsible for FCD operations. The Superintendent must submit semi-annual reports to the Army Corps of Engineer that cover inspections, maintenance, and operations of the flood control structures that were constructed by the U.S. government.
- Inspect flood control levees every 90 days and take advance measures to insure the availability of adequate labor and materials to meet all contingencies. These measures consist primarily of controlling conditions that endanger levees and repairing damages.

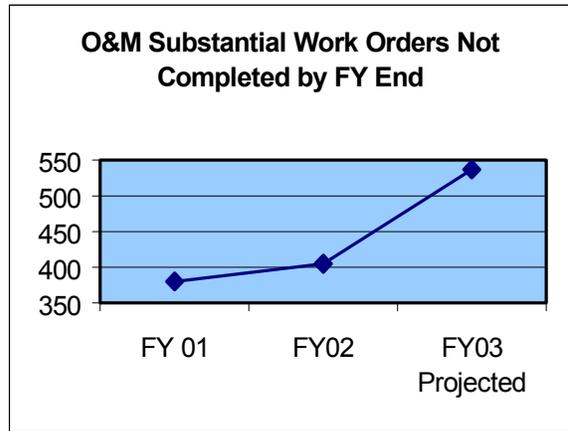
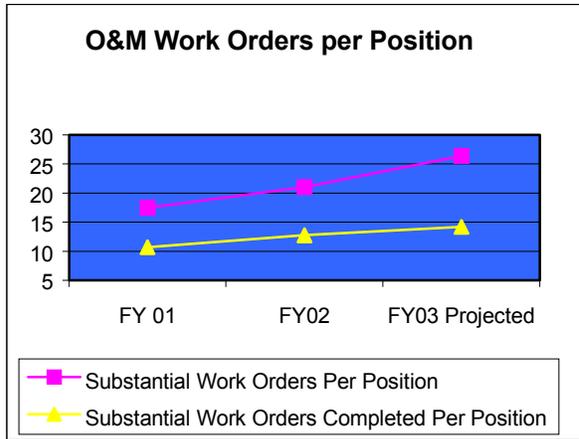
ARS 45-1212 requires FCD to supply the Arizona Department of Water Resources (ADWR) with copies of its annual inspection reports. The contents of these reports are specified in Arizona Administrative Code R12-15.

Review Results

We reviewed FCD O&M Division and Capital Improvement Program/Planning Division records to verify the district's compliance with the above Federal and State requirements. We selected 14 structures as a sample and examined the quarterly and annual inspection reports on file. The documentation confirms that FCD complies with the mandated requirements. No significant exceptions or control weaknesses were identified.

Besides inspections, the O&M Division performs flood control structure maintenance activities. Over the past five years, the district has reduced the number of O&M Division positions by 30 (from 85 to 55) and has increased its utilization of inexpensive inmate labor. The division uses an automated work order tracking system to record all costs (labor, materials, and equipment). While high priority work orders are completed in a timely manner, records show the division's workload has increased and a backlog of non-critical work orders has developed. The backlog is depicted by the graphs on the following page.

To ensure that high priority maintenance activities are performed in a timely manner, the O&M Division now delays non-critical work order activities so that sufficient staff are available. The division also plans on utilizing contract labor, as needed.



FCD’s General Manager/Chief Engineer serves as its Superintendent. We contacted the Army Corps of Engineers to verify if FCD submits the required semi-annual inspection reports. The Corps representative confirmed that FCD submits the semi-annual inspection reports in a timely manner.

Recommendation

None, for information only.

Issue 2 Floodplain Use Permits

Summary

Our review of FCD Floodplain Use Permit activities found overall compliance with all major requirements and adequate management controls. We also found increasing workloads, that FCD does not consistently enforce a requirement for sand and gravel miners to submit site reclamation plans, and the district does not regularly inspect sand and gravel mining sites. These control weaknesses expose County citizens and visitors to possible health, safety, and property risks. FCD should strengthen controls in these areas.

Federal, State, and Internal Requirements

Numerous ARS and federal regulations regulate FCD's issuance of Floodplain Use Permits. Further requirements are established by the Floodplain Regulations for Maricopa County (FRMC), the Drainage Regulations for Maricopa County, and FCD policies. These also address Sand and Gravel Mining operations, Floodplain Clearances, and associated records.

Prior to beginning operation, sand and gravel miners must apply for a permit with FCD's Regulatory Division and provide appropriate development and reclamation plans. The Regulatory Division then reviews the plans to assure that proposed operations meet established criteria, before issuing a permit. FCD also believes that the district should regularly inspect sand and gravel mining operations to achieve the objectives of FRMC Section 102. FCD's authority to conduct these inspections is established by ARS 48-3609 and the FRMC.

Construction Projects

FCD has established procedures to ensure the district's compliance with the aforementioned regulations. FCD has also developed inspection procedures to ensure that land use maintains historical flows, does not block washes, and structures have achieved the appropriate finished floor elevation.

We obtained listings of Floodplain Use Permits (non-sand and gravel mining) and Floodplain Clearances, issued by FCD from January 2001 through June 2002, in unincorporated Maricopa County and appropriate incorporated communities. We then selected the following as test samples:

- 12 of 224 Floodplain Use Permits issued for unincorporated Maricopa County
- 4 of 35 Floodplain Use Permits issued for other communities.
- 9 of 219 Floodplain Clearances issued for unincorporated Maricopa County
- 1 of 5 Floodplain Clearances issued for other communities.

We reviewed Regulatory Division documentation for the test sample permits/clearances verify FCD's compliance with applicable laws, regulations, and procedures. We found no material exceptions or control weaknesses.

Sand and Gravel Mining

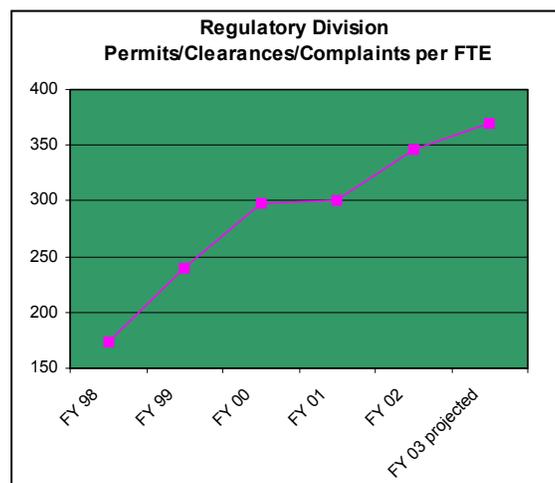
FCD has established strong procedures to assure that all applications for Sand and Gravel mining Floodplain Use Permits are adequately reviewed before a permit is issued. We examined all of the 37 outstanding permit files and found each to have been reviewed. We also found the following exceptions to established procedures:

- FCD does not routinely require sand and gravel miners to include a reclamation plan in their development plan, as required. Only 13 (35%) of the development plans contained a reclamation plan. The other 22 permits stipulate that the permit-holder must submit a reclamation plan six months prior to discontinuing operations. However, we examined six closed files and found that three had failed to reclaim the site.
- FCD does not inspect sand and gravel mine permit holders on a regular basis. Only 24 (65%) of the 37 permit holders, outstanding within the last 18 months, have been inspected. Records also show that 15 (56%) of 27 permit holders, outstanding prior to 2001, had not been inspected in over five years. During 2001 and 2002 inspectors found 7 (29%) of the 24 active mines to be in violation of permit conditions.

Growing Demand for Permits

The U.S. Census Bureau reports that the County's population grew 45 percent between 1990 and 2000. Much of the growth occurred in unincorporated areas, later annexed by cities, increasing the demand for applications for Floodplain Use Permits, Floodplain Clearances, and Drainage Clearances. The Regulatory Division, which processes permit applications, is staffed with 30 employees, two employees "on loan" from the O&M Division, and a contracted consultant.

The graph below shows, by Fulltime Equivalent Employees (FTE), the total of three primary Regulatory Division workload indicators: applications for Floodplain Permits, applications for Floodplain Clearances, and Responses to Complaints. The workload for the past five fiscal years plus a projection for FY 2003 is depicted. Even though the workload has grown steadily, division records do not reflect a significant work backlog at this time.



NOTE: A large number of complaints (filed primarily for slow permit processing) led the FCD Board of Directors (BOD) to direct the district to improve its service to the public. This directive prompted FCD to develop and submit a Results Initiative Request (RIR) for five additional Regulatory Division positions in February 2002. The request is currently pending.

Potential Risk

FCD's failure to require a reclamation plan increases the likelihood that the sand and gravel miners will not adequately complete land reclamation. The Risk Management Department reports that if mining site reclamation is not performed, County residents and visitors are subject to the following:

- Personal safety risk related to steep embankments of abandoned mining pits.
- Personal health risk resulting from contamination of ground water resulting from illegal dumping in abandoned mine pits at depths at or near the water table.

FCD's failure to perform routine compliance inspections of sand and gravel mines increases the risk that miners will deviate from permitted plans, which could divert, retard, or obstruct the flow of water in the floodplain. The result is increased risk to property and the safety of County residents and visitors.

Recommendation

FCD should:

- A. Require all sand and gravel miners requesting permits to submit a plan of reclamation prior to issuing a permit.
- B. Require all sand and gravel miners that hold existing permits to submit a reclamation plan as soon as possible, if they have not yet done so.
- C. Inspect the operations of sand and gravel permit holders, on a regular basis, to ensure that the miners comply with applicable requirements.

Issue 3 Federal Programs

Summary

FCD has updated its floodplain management plan within the time frames set by the Federal Emergency Management Agency (FEMA). We found no control weaknesses or exceptions to National Flood Insurance Program requirements. We also found that the district has completed many activities required for the County to apply for a mandated water permit. However, many other activities remain to be completed to meet the March 2003 deadline and the County risks a \$31,000 daily fine for non-compliance. Pursuant to this permit, FCD has not established an IGA with the County to resolve storm water issues as required by a 1991 Board of Supervisors (Board) Resolution. FCD should establish the required IGA with the County and strengthen financial controls over the federal water permit provisions.

National Flood Insurance Program

The Federal Emergency Management Agency's (FEMA) National Flood Insurance Program requires all participants in the agency's Community Rating System (CRS) to recertify that its performance continues to comply with specific criteria. Under this program, FCD must submit its recertified annual comprehensive Floodplain Management Plan to FEMA each October. If FCD properly implements credited activities, the district is awarded points that help reduce National Flood Insurance costs for County citizens residing within 100 year floodplains.

Records show that after approving FCD's 2002 Comprehensive/Floodplain Management Plan, FEMA awarded the district with a CRS Class 5 rating in May 2002. This rating qualifies County residents living within a 100-year floodplain for a 25 percent Flood Insurance rate reduction. FEMA information shows that only three of the 938 U.S. communities participating in the National Flood Insurance program have earned a higher rating than Class 5.

FCD records also verify that the district submitted its 2003 CRS Comprehensive Floodplain Management Plan to FEMA in July 2002. FCD then submitted documentation to FEMA showing that the Board of Supervisors had approved the plan on September 2002. FCD will maintain its Class 5 rating unless FEMA disapproves the district's 2003 plan.

Water Quality/Clean Water Act Requirements

The 1987 Federal Water Quality Act (WQA) amends the Clean Water Act and requires that (NPDES) permits be issued in two phases of a comprehensive national program for addressing storm water discharges. Municipal storm water pollutants may be discharged from point sources and storm water conveyances to navigable waters, under a permit issued by the Environmental Protection Agency (EPA). The agency oversees all phases of the NPDES permit implementation process.

Phase I: A 1991 Board Resolution (91-07), relating to EPA and NPDES permitting, authorizes FCD to negotiate IGAs with the cities designated in Phase I activity. These IGAs specify activities and limits funding and also authorize FCD to work with five cities to resolve storm water permit issues. The resolution authorizes the district to contract with consultants to augment the district's resources in order to meet NPDES requirements.

Another 1991 Board Resolution (90-08) authorizes FCD and the County to jointly develop a storm water management program that includes permitting. The resolution directs the FCD CE/GM and the County Manager (CAO) to negotiate an IGA and resolve issues pertaining to NPDES storm water permitting.

Phase II: The Federal Register (Volume 64 December 8, 1999) delineates NPDES permitting and expands requirements to include smaller municipalities, in urbanized areas, or any municipal separate storm sewer system not already covered by the Phase I rule. This includes Maricopa County. The permits under Phase II implementation are due March 10, 2003. The County must comply with the Notice of Intent (permit) mandate and apply by the due date. The application must include a storm water management plan and requires six minimum control measures that must be met. If the permit application is not submitted by the due date, the County is exposed to a potential \$31,000 EPA daily fine for non-compliance.

NPDES Permit Status

Phase I: FCD's NPDES Storm Water Quality Program began in 1989 with the EPA's NPDES rules addressing storm water discharge from medium to large-sized municipalities. FCD established IGAs with four Phase I cities to perform permit activities. The costs for services were shared equally between FCD and the cities. FCD also established an IGA with the U.S. Geological Service to establish and monitor storm water stations with communities and the County to characterize storm water quality.

FCD and the County have not established an IGA to resolve storm water permitting as directed by the 1991 Board Resolution (90-08). NOTE: We reviewed IGA 99006 (between FCD and the County) authorizing support services and cross-charging each agency for costs. The IGA reflects Environmental (Clean Water/NPDES) Services but does not reference the specific permitting activities required by separate Board Agendas and Resolutions. The IGA states that in the event of disagreement, between FCD and the County, the CE/GM and CAO will resolve the issues and, if necessary, refer the problem to their separate boards to decide.

Phase II: Extensive and detailed work is required to complete the County's NPDES permit. To develop and draft a County plan and control measures, FCD must interact with County departments, the district's legal counsel, other municipalities, the Arizona Department of Environmental Quality, and the EPA. FCD has been working on permit activities for the past year, along with other required duties, and believes these can be completed by the deadline.

The County permit is not a statutory FCD function and the NPDES permit requires the County to maintain storm water program developments over the next five years. FCD has not established funding reserves for permit activities and the district has not received funding support from the County. In conjunction with the Phase II permit, FCD submitted two Results Initiative Requests

(RIR) in February 2002 to fund the County's mandated NPDES permit activity. One request (\$200,000) was to pay for a consultant dedicated to permit activities; the other (\$46,500) was for a water technician to monitor storm water stations. The Office of Management and Budget reported that both RIRs were pending as of October 2002.

FCD has added seven storm water stations (total of 23) and expects to add more as other cities begin Phase II activities. These new stations require monitoring and data reports. The district currently has only one water-quality technician to perform maintenance, monitoring and reporting activities. FCD will increase its utilization of its U.S. Geological Services contract to conduct storm water sampling and quarterly report writing.

Recommendation

FCD should:

- A.** Establish an IGA with the County that addresses the specific responsibilities and funding for Phase II NPDES permit activities and future permit related activities, as required by Board Resolution 90-08.
- B.** Estimate reserve levels required to cover current and potential liability related to on-going cities and permit activities and present this information to its BOD for review and action.

Issue 4 Capital Improvement Projects

Summary

Our review of FCD's Capital Improvement Program (CIP) project expenditures and invoice processing found payments to be accurately and properly posted; CIP Report Summary totals agree to financial detail records. However, we found significant procedural control weaknesses over contractor invoice payment activities, Notices to Proceed, and property sales and leases. These control weaknesses increase FCD's exposure to financial and legal risk. FCD should strengthen controls in these areas.

Applicable Requirements

Several State, County, FCD, and other regulations establish controls that directly regulate or support the district's Capital Improvement Program (CIP) projects and related activities. Significant subject areas are identified below.

ARS: Sets requirements for sale and disposition of properties; provides landlord/tenant requirements; discusses appraisal methods; sets requirements for sale notice/bid advertising specifications; defines proof of publication; requires FCD tax revenues to be used only for flood control related purposes.

Maricopa County Procurement Code Article 5: Provides construction contract procedures and regulations; addresses contract awards, notices to proceed, and change orders.

FCD Resolutions: Authorize district to lease land owned but must comply with ARS for sale, disposition, advertising, and publication for available properties and to maximize revenue by leasing land while pending other uses or sale; FCD staff shall review excess land and provide BOD with recommendation for sale or lease; district should periodically advertise rental/lease space available and state rate will be fair market value.

IGAs and Contracts: FCD and participating agencies that enter into IGAs and contracts must comply with the stated terms, conditions, and specified co-shared expense requirements.

American Society of Appraisers, Principles of Appraisal Practice and Code of Ethics: Requires any collaborating appraiser who disagrees with any or all findings to prepare, sign, and include in the appraisal report their dissenting opinion.

Uniform Standards of Professional Appraisal Practice: Administrative and Technical review distinctions, scopes of works, and other applicable requirements for reviews.

American Institute of Certified Public Accounts (AICPA): Recommends controls to effectively process invoices.

Test Results

We examined documentation maintained by FCD to support its CIP project activities, expenditures, and reporting to verify the district's compliance with the above requirements. The tests and results of our review and control assessment are discussed in the following paragraphs.

Project Expenditures: Using FCD's FY2002 CIP Report, we selected three projects having \$120 million total project costs over several years. We examined approximately \$3 million of contract expenditures and then balanced the related expenses to the CIP Project Summaries to ensure the CIP Report reflected all applicable costs. We then validated FCD's tracking and monitoring of overall contract costs to ensure procedures effectively control contract limits. We also validated 27 vendor invoices (\$7.3 million total), subsequent payments, and costs incurred for court ordered actions related to land condemnations.

We found that CIP Project Summaries' expenditures balanced to the CIP Report totals without material exceptions. Contract limits appear to be effectively tracked and monitored. Vendor invoices show management approvals. FCD's finance office allocates on-call contract costs to the proper projects on a monthly basis. We also noted the following exceptions during our review of 27 the individual invoices:

- Five invoices (\$88,359 total) for three contractors could not be validated to contract rates. Invoiced job titles did not match the contract fee schedule or were not shown; one contractor listed only employee names. Rates did not agree to the fee schedules, or were not shown on the invoice, and could not be recalculated from invoice detail. Overhead and profit were not shown as separate line items and could not be determined.
- One \$34,826 invoice included sub-contractor invoices. Only two of three subcontractor fee schedules found were in the contract file but were been attached to the original contract. One subcontractor invoice billed tasks, but not labor and hours, and was manually overwritten without properly completed documentation and support.
- Notices to Proceed (NTP) are not always clearly documented to show revision number and/or original and revised information.

FCD administers many contracts. The district risks making overpayments if contract managers do not verify invoice charges against contract fee schedules and supporting documentation is not maintained in contract files.

IGA Billings: FCD has established many agreements with other public agencies to share the costs of CIP projects. These agreements require FCD to monitor, track, and bill CIP costs to the district's partner agencies. We reviewed five CIP projects and seven related IGAs to verify if partner payments were billed in compliance applicable IGA terms and the costs were recovered. We found that FCD correctly billed and recovered \$10.3 million of costs due from its partners. We also reviewed FCD Public Works Land and Right of Way Division labor cost charges (work done for Maricopa County Department of Transportation and others) and found that FCD billed and recovered the charges (\$104,000) for the work performed. The district has developed strong controls (automated work orders, IGA tracking system, etc.) over the cost tracking/recovery process and no exceptions were noted.

We also reviewed FY 2001 and FY 2002 O&M Division work order listings and identified those work orders showing that the division had performed activities for other customers. We tested fifteen of those work orders to identify the customer and verify that expenses were charged back, if required. We found that each test sample work order represented work that the division had performed for other FCD operating divisions and none were CIP related. Therefore, none of the charges were required to be billed. No significant control weaknesses or exceptions were noted.

Land Sales: We examined FCD's file documentation that supports two district land sales that were performed by the Public Works Land and Right of Way Division. We identified the following procedural control weaknesses:

- Files were not well maintained in logical sequential order and the sale checklists do not have complete details.
- A title search could not be found for one sale.
- Bid Registers for public land auctions do not list high bid for each bidder, show winning bids, or match Registered Bidder lists; FCD does not certify Bid Registers; auction sheets file documentation is not consistent.
- For one sale, the division gave no written explanation for a large variance between the original outside appraisal of \$235,650 (July 9, 1999) and the revalued review appraisal of \$702,500 (August 10, 1999) that was used as minimum sale bid. File does not contain an explanation for directing the Review Appraiser to use "extraordinary assumptions". NOTE: The property was sold for approximately \$1.3 million.

Leases: We reviewed five FCD property leases and found a \$2,035 payable due to the district. This IGA and the revenue due the district are discussed below.

An IGA between FCD and the City of Tempe requires that gross revenues from recreational facility sub-agreements be shared 75 percent (FCD) and 25 percent (City of Tempe). The original 1988 Agreement/Lease between developer and Tempe was subsequently reassigned several times. File documentation shows the lease is currently assigned to Family Golf Center. The lease calls for minimum annual rental or a percentage of gross receipts, whichever is greater. The minimum rental for years 10 through 25 is \$60,000. FCD property income summaries for FY 2000 through FY 2002 for Family Golf Center shows a total \$177,965 collected vs. the minimum due of \$180,000. IGA files reflect no copies of gross receipt statements since 1996 to support whether minimum or gross is greater.

We also identified several procedural control weaknesses. These are:

- The district's CE/GM did not sign four leases. The Public Work Lands Real Estate Division policy does not designate lease-signing authority and no other written designation is on file.
- Current insurance certificates were not on file, to comply with lease clauses, or insured name does not match lease file.
- Lease file documentation is not adequately maintained in order to effectively track compliance with lease clauses. Annual rent tracking sheets have mixed dates, are missing information, and do not agree to financial spreadsheets.

FCD has not established procedures to ensure the district's compliance with ARS requirements, district resolutions, or applicable performance standards that address land sales and lease activities. This control weakness increases the risk of lost revenue. The district also is exposed to legal and financial risk if land sales and leases are not adequately documented and monitored.

Recommendation

FCD should:

- A.** Discuss invoice review procedures with staff to ensure that invoices are paid according to contract fee schedules and that the files contain all applicable schedules
- B.** Verify past invoices of the three contractors whose invoices could not be validated against the current contract; determine and recover any overpayments; review billing requirements with the contractors to ensure compliance with FCD procedures.
- C.** Strengthen procedures over issuing revisions to Notices to Proceed to ensure the revisions are clearly documented in order to minimize legal liability.
- D.** Review the IGA and Family Golf Center lease with City of Tempe; recover \$2,035 current lease amounts due; obtain and examine gross receipt statements for past several years; determine and recover amounts owed on gross receipts over minimums received; obtain current insurance certificates from named lessees to comply with lease clauses.
- E.** Update Public Lands Real Estate Division written sale and lease procedures to cover all significant ARS, FCD resolutions, and municipal government standards addressing delegated authorities, bid registers, and documentation standards.

Issue 5 Contract and IGA Procurement

Summary

Our review of 25 FCD IGAs and Article 5 contracts (\$96 million total budgeted expenditures) found that all were procured and executed in compliance with the requirements established by ARS and the Maricopa County Procurement Code. Contract awards are adequately documented and properly approved. FCD also complies with ARS requirements limiting the amount of money that public agencies may spend on individual in-house construction projects. No material control weaknesses or exceptions were found.

IGA and Contract Procurement Requirements

IGAs: ARS 11-952 permits two or more public agencies to enter into Intergovernmental agreements (IGA) for joint or cooperative action. All IGAs must be in writing, reviewed by the County Attorney's Office, approved by the Board, signed by the Board Chairman, and specify:

- Duration and purpose of the agreement.
- Manner of any financing provisions.
- Method(s) of termination.
- Any other necessary matters.

IGAs must be filed with either the Secretary of State or County Recorder. County Policy A1110 makes the Clerk of the Board responsible for officially filing all IGAs with the County Recorder once applicable parties have executed the agreements.

Contracts: ARS Title 48 gives FCD the power to "make and execute all necessary contracts" and CE/GM authority to "contract with private persons, firms or other governmental agencies." ARS Title 34 regulates construction contract procedures, places dollar limitations on construction not requiring advertised bids, and also limits the dollar amount that FCD can spend on construction work using the district's in-house labor force. The FY 2002 limit was \$15,811.

The Maricopa County Procurement Code requires all contracts to be approved by the Board unless specifically excepted. Article 5 sets requirements for construction contract invitations for bid, bid specification and scope, notices to proceed, change orders, and other significant matters.

Compliance Verification

We first reviewed five FCD IGAs (\$23.4 million total) and found that all were executed in compliance with ARS 11-952 requirements. We also examined five of the district's large (\$12.6 million total) construction related contracts and found that all were executed in compliance with Maricopa County Procurement Code, Article 5 requirements. The IGA and contract files were organized, complete, and the agreements contained all necessary documentation. We found no exceptions or control weaknesses.

We then conducted a test, selecting three large projects (\$120 million total over several years) from FCD's FY 2002 CIP Report. We examined 15 IGAs and contracts (\$60.5 million total), from the three projects, for compliance with ARS and Maricopa County Procurement Code requirements.

FCD's records show the following:

- Test sample project IGAs and contracts are in writing, appropriately signed by FCD BOD and all participants, and approved by legal counsel as applicable.
- IGAs are recorded in compliance with County policy.
- Cost-shared project participants' costs are specified.
- FCD complies with Maricopa County Procurement Code requirements to publicly advertise project contracts. Selection Committees are formed to review contractor Letters of Interest and subsequent proposals.
- No material control weaknesses or exceptions.

FCD performs some CIP project design work using in-house staff; however, this work is not subject to ARS 34-201 spending limitations. While examining FCD's FY 2001 and FY 2002 Work Order listing (in-house labor), we found none relating to CIP project construction work or other construction activities exceeding the ARS threshold.

Recommendation

None, for information only.

Issue 6 Budget Certification and Reserves

Summary

FCD does not annually certify to the Board the amount of funding that the district considers necessary to conduct its operations, as prescribed by ARS. As a result, the Board determines FCD's expenditure budget and the tax rate necessary to generate this funding level. FCD also has not established procedures to calculate, document, and hold reserves needed for potential liabilities, as recommended by federal standards. These control weaknesses expose FCD to potential financial and operational risk. FCD should certify its annual funding needs to the Board and develop controls to adequately address the district's reserve needs.

ARS Requirements

ARS 48-3620 (A) requires FCD to annually certify to the Board the amount of tax levy on taxable real property that FCD considers necessary to: 1) pay expenses to administer the district's operations, 2) maintain and operate its flood control system, and 3) perform regulatory functions and any of the objects and purposes of common benefit.

ARS Section 48-3620 (C) requires the Board, at the time of levying general County taxes, to levy and collect taxes on taxable real property in the district sufficient to provide the amount certified. The statute further authorizes that maintenance and operation tax proceeds not used for current maintenance and operation may either be paid into a reserve, for the above purposes, or be used to extend, improve, and construct the flood control system. ARS 48-3603 (D) provides that if FCD fails to certify to the Board the amount of taxes necessary, the Board shall ascertain the amount that should have been certified and levy tax sufficient to produce such an amount. ARS 11-952 requires agreements between governmental agencies to be in writing (See Issue 5).

Federal Accounting Standards

The Statement of Federal Financial Accounting Standards recommends that an allowance for estimated uncollectibles be recognized in order to reduce the gross amounts of receivables to its net realizable value. Losses due to uncollectible amounts should be measured, through a systematic methodology base, analyzing both individual accounts and a group of accounts as whole. The reporting entity should disclose the amount of current liabilities not covered by budgetary resources.

The Governmental Accounting Standards Board (GASB) Statement 34 requires state and local governments to now report the value of their infrastructure assets, including dams. The statement pronounces infrastructure reporting is essential to assess financial position, reporting the costs of programs and functions, and to improve fiscal accountability. Following initial capitalization, infrastructure assets should be depreciated or asset preservation efforts and results should be recorded, using a Modified Approach. The second option requires condition assessments be made at three-year intervals, annual estimates be conducted to maintain and preserve assets, and these estimates be compared to actual expenses for the past five reporting periods.

Budget Certification

We requested verification of FCD’s annual Board certifications from FY 1998 through FY 2002, along with supporting documentation, to identify the methods used. Management stated the district did not present an official tax levy certification to the Board, in any of the prior five years, due to a FCD/County agreement that caps FCD’s tax levy at \$45 million for a five-year period. This agreement is referenced in Clerk of the Board records but is not in writing, as confirmed by Office of Management and Budget. Advantage 2.0 financial reports show that FCD has received between \$43.9 million and \$44.8 million of tax levies for each year that agreement has been in effect.

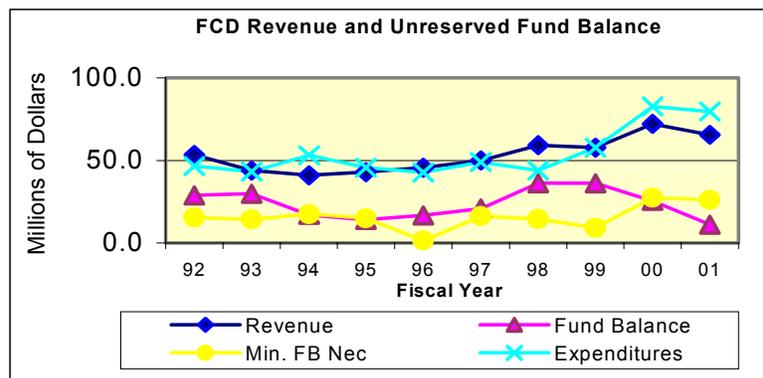
We reviewed IGA #99006 between the County and FCD, which authorizes the two parties to provide services to one another and charge for the services. Historically, the County includes FCD in its annual budget process, estimating FCD’s preliminary budget needs and knowing that adjustments may be required. This practice allows the County to include FCD in the County general financial condition and consider the secondary tax rate that the Board approves annually. However, the practice does not appear to satisfy the ARS mandate that FCD annually certify its funding needs (based on County growth, economic indicators, aging structures, etc.) and then submit this amount to the Board for review and approval.

Fund Balance

FCD’s fund balance (reserves) are critical to its operation due to:

- The cyclical timing of FCD’s tax levy payment flow.
- Project cost-sharing among agencies.
- Aging flood structures and flood structure emergencies, depreciation, and replacement costs.
- Inherent potential for legal or and financial liabilities.

FCD carries over budget funds from one fiscal year to the next to cover its first quarter cash flow until secondary tax levy funds are received, which begins in September. The district’s finance office reports that formal procedures for calculating the necessary fund balance have not been developed, but estimates that approximately \$12 million is required. This amount will fund four months salaries, interfund charges, and anticipated CIP invoices. The graph below shows FCD’s annual revenues, expenditures, and fiscal year-end fund balance from FY 1992 through FY 2001.



Partnerships: Via IGAs and contracts, FCD's partners agree to reimburse the district for various project costs or developments that agencies have requested. The co-shared costs vary from year to year, but average approximately \$20.5 million. We asked FCD to estimate the amount of project reimbursements to calculate the district's potential cost liability if expenses were not reimbursed. The FY 2003 estimate is \$17.5 million. FCD stated the outstanding and potential liabilities had no calculated reserves and were not included in any fund balance amounts.

Dam Repairs: FCD maintains 22 earthen dams, assumed from the Federal government, which the district has full responsibility (CFR 33 Chapter II). Dams have an estimated useful life of 50 years, but many district dams are aged well past 50 years. Dams are showing significant aging based on internal and external inspections. All FCD dams currently need an overall assessment, internal and external structural assessment, and a plan to repair, replace, or demolish and provide alternate flood protection (e.g., basins). FCD estimates that the total amount of money required to address these mandated activities is \$73 to \$200 million. The large variance in estimate reflects unknown factors. FCD does not have a reserve for this liability, although the district has now added dams to its CIP plans.

Potential Risks

FCD has not established a formal process for estimating the district's tax levy requirements and certification. The district's ability to effectively administer, operate, maintain flood control structures and perform all flood-related regulatory functions and activities may be negatively impacted if necessary funding is not certified. NOTE: FCD's legal counsel reports that the Board's ability to set the FCD tax rate helps protect the district against financial hardship and insufficient funding reserves.

The County and FCD are exposed to financial and legal risk if FCD does not maintain sufficient reserves to fund mandated activities. The district currently lacks reserves to address mandated or liability related activities, with only enough to cover first quarter operating costs. FCD has until 2006 to assess and value its infrastructure assets, required by GASB 34, using a Modified Approach or depreciation methodology. If one of the methods is not implemented, independent auditors may qualify subsequent annual financial statements and reduce FCD's financial ratings.

Recommendation

FCD should:

- A. Prepare an annual certification of its tax levy needs, identifying all mandated activities and funds required, and request its BOD to review and approve the amount to be submitted to the Board for funding, as required by ARS.
- B. Monitor tax revenues received, to ensure full payment, and monitor and document proceeds not used for current operations and present this information to the BOD.
- C. Develop a written policy for calculating and developing reserves as recommended by the Statement of Federal Financial Accounting Standards and GAAP.
- D. Document all future County/District operating and financial agreements in writing.
- E. Determine if a Modified Approach will provide a better long-term infrastructure valuation basis than depreciation, then implement activities required by GASB 34.

Issue 7 County Administrative Policies

Summary

Our review of FCD employee tuition payments and employee travel/training expenditures found no control weaknesses or significant exceptions to County policy requirements. FCD has established effective controls to help protect the district from inherent legal risks. However, FCD does not adequately identify and track employees that operate district vehicles or monitor equipment operators for current licensing and certifications. These control weaknesses expose the district to potential risk. FCD should strengthen controls over these areas.

County Policy Requirements

Tuition Reimbursement: The purpose of County Administrative A1801 is to assist Maricopa County employees to maintain or improve knowledge and skills in their current position or profession. Funds are distributed, on a first-come, first-served basis. The County has developed formal procedures, over the process, which also apply to FCD tuition reimbursements.

Travel Expenses: Administrative Policy A2313-2322, also applicable to FCD, provides requirements and procedures for County employee travel expenditures. These address reports and documentation, formal reviews and approvals, and spending limitations.

Legal Issues: FCD is covered under the County's Self-Insured Trust Fund that the Risk Management Department administers. The County Human Resources Department handles district personnel matters.

Vehicle and Equipment: FCD employees that operate district owned vehicles and/or equipment must obtain an appropriate County Vehicle Use Permit that is good for five years. County Administrative Policies A2302, A2309, and A2310 establish the criteria for employees to obtain the appropriate permit. Specific criteria, procedures, and controls have been established.

Audit Test Results

We reviewed FCD file documentation, conducted audit tests, obtained information from County departments, and interviewed appropriate staff to determine FCD's compliance with the above County policies and procedures. The results of our review are summarized below.

Tuition Reimbursements: We tested FCD's FY 2002 and FY 2003 (July 2002 through September 2002) tuition reimbursement expenses using a sample of 23 classes taken by 19 employees. The classes account for \$5,047 (36%) of paid tuition reimbursements and \$2,994 (51%) of budgeted, but not yet paid, reimbursements. After selecting the test sample, we examined the supporting documentation to determine FCD's compliance with policy requirements.

FCD's tuition reimbursement procedures conform with County policy requirements. Application and approval forms were adequately completed with no significant exceptions. The district also performs thorough eligibility reviews, has established strong controls, and documents required

approvals. The tuition reimbursement files are complete and well organized. No significant payment exceptions were found.

Employee Travel Expenses: We obtained a listing of FCD's travel/training expenditures from the County's Advantage 2.0 financial reporting system. We selected five FY 2001 and FY 2002 FCD travel/training expenditures (\$15,952 total) from the \$276,551 two-year total and examined these for compliance with County travel policy requirements. We found the following:

- FCD procedures for processing travel/training payments and reimbursements meet County policy requirements.
- Test sample travel authorization and expense reports are complete and document budget reviews and approval signatures. No significant exceptions were noted.
- Travel related costs were within authorized amounts and were adequately supported.
- The district's employee travel expense files are orderly and complete.

Legal Issues: FCD has secured its own independent legal counsel to represent the district in business matters. The County Attorney's Office provides legal assistance to FCD on County procedural related matters. The County Human Resources Department (HR) reports that FCD employees have filed a large number of grievances. HR further reports that FCD management encourages employees to express their opinions, informs employees of the County grievance procedures, works well with HR to resolve grievances, and takes appropriate corrective actions. When necessary, the district replaces managers and supervisors.

The Risk Management Department Safety Office (RMSO) reports that FCD has established a safety committee that meets monthly to review all employee accidents and determine applicable preventive measures. RMSO describes the district's safety record as "outstanding". The office's accident report for FCD, during the period July 1999 through June 2002, shows a total of \$65,000 of paid accident claims. RMSO reports that given the size and nature of FCD's operation that this three-year total is low.

We met with FCD's independent counsel and reviewed a number of FCD legal issues. These include pending lawsuits, fund reserves, costs/liabilities related to maintaining federally built structures, and the Floodplain Regulation issues presented earlier in this report. The information obtained during this meeting indicates that FCD has established strong controls over legal exposure related to the district's business operations, as confirmed by:

- Pending lawsuits cases are actively monitored and addressed; necessary actions are initiated.
- Counsel updates and advises the FCD BOD and Advisory Board on a regular basis.
- Counsel identified controls established to protect the district against financial hardship and insufficient funding reserves.
- Floodplain Regulations and use permits contain strong controls enforceable by FCD.

Vehicle and Equipment Operator Permits: FCD has established procedures to facilitate compliance with the County's policies. The district submits employees' applications for vehicle permits to RMSO together with a copy of the employee's valid Arizona driver's license. RMSO

checks the employee's driving record, tests the employee's ability to operate equipment and trucks over one ton, and issues an operator permit that corresponds to the equipment that the employee is approved to operate. RMSO also maintains a database of all employees authorized to operate County and district vehicles/equipment that includes the types that each employee is approved to operate.

Our audit testing of FCD vehicle permits with the RMSO database report found the following exceptions to County policy requirements and control weaknesses:

- 20 (10%) of the 198 vehicle permits issued to FCD employees have expired, including two of 42 issued to truck/equipment operators; 33 permits are shown as belonging to employees who no longer are FCD employees.
- Employees that take FCD vehicles home overnight have not obtained overnight use permits, as required by County policy.
- FCD does not maintain a comprehensive listing of employees that operate district vehicles/equipment, what they are permitted to operate, or when their permits expire.
- FCD files contain support documentation for numerous vehicle operator permits, but for only 5 of the 16 in our test sample. FCD referred us to RMSO, which had complete documentation supporting the vehicle permits issued to 15 of the 16 test sample employees.
- We were unable to locate FCD documentation supporting the vehicle permits for 3 of the 7 heavy equipment operators included in the test sample. Again, RMSO had complete documentation for all test sample employees.

Risks

In event of accident or incident, the County may be exposed to legal and financial risk due to undocumented/unauthorized drivers, employees whose driving records are not reviewed/updated on periodic basis, and not knowing vehicle locations. Maintenance and repair costs of trucks and heavy equipment may also increase if operators don't have required training.

FCD management was not aware of the requirements of Administrative Policy 2310 regarding overnight use permits. However, failure to follow overnight approval policy requirements could lead to misuse of County vehicles.

Recommendation

FCD should:

- A. Review RMSO's Vehicle Permit list and submit additions, corrections, and deletions ASAP.
- B. Review individuals' vehicle use permits on a regular basis, to ensure they are current, and notify the employee and the supervisor when a renewal is due.
- C. Obtain occasional use overnight permits for FCD employees that may need to take FCD vehicles home overnight sporadically and annually submit a list of FCD employees possessing overnight permits to the County Administrative Officer, as required.
- D. Develop and maintain a listing of employees that operate vehicles/equipment, including the type of vehicles that employees are permitted to take vehicles home overnight.

Issue 8 Disaster Recovery Plan

Summary

FCD has not developed a Disaster Recovery Plan to recover its information systems in the event of a disaster, as required by County policy. Without a formal plan, FCD does not have assurance that the district can recover its systems in a timely manner and may experience business interruption. FCD should develop a Disaster Recovery Plan.

County Policy Requirements

County Administrative Policy A1602 requires that each elected official and appointed director establish a Disaster Recovery Plan(s) and practices to ensure that:

- Information resources are protected, backed-up, and recoverable.
- The integrity, availability, and reliability of all electronic assets are not compromised or affected.

Review Results

FCD has established some compensating controls that management believes may mitigate the risk of extended downtime of the district's information systems during a disaster. However, the district has not developed a formal Disaster Recovery Plan, as required by County policy. Without a formal recovery plan, FCD does not have assurance that the district can recover its systems in a timely manner and may experience business interruption.

Recommendation

FCD should develop a disaster recovery plan and test/update the plan periodically. If FCD believes that its current mitigating controls are sufficient, in lieu of a disaster recovery plan, district senior management should explain, document, and sign a formal attestation.

Issue 9 MfR Performance Measures

Summary

Our review of six FCD Key Results Measures, developed for the Managing for Results (MfR) program, identified several areas for improvement. During FY 2003 the district intends to request approval to make significant changes to its strategic plan. FCD should finalize written procedures and establish controls for collecting data. The district should also closely review performance measure data prior to entering this information into the Electronic Business Center (EBC).

County Policy Requirements

Board Policy B6001 (4.D Evaluating Results) requires the Internal Audit Department to review County departments' strategic plans and performance measures. The policy also requires that a report of the results be issued. As part of this audit we performed certification reviews of six FCD Key Results Measures. The following information defines the results categories that are used in the certification process.

Definitions

Certified: The reported performance measurement is accurate (+/-5%) and adequate procedures are in place for collecting/reporting performance data.

Certified with Qualifications: The reported performance measurement is accurate (+/-5%) and adequate procedures are not in place for collecting and reporting performance data.

Factors Prevented Certification: Actual performance measurement data could not be verified due to inadequate procedures or insufficient documentation. This rating is used when there is a deviation from the department's definition, preventing the auditor from accurately determining the performance measure result.

Inaccurate: Actual performance is not within five percent of reported performance and/or the error rate of tested documents is greater than five percent.

Not Applicable: Performance measurement data is not yet available.

Review Results

Key Measure #1: Percent capital projects requested, prioritized, and recommended on the current list that are completed in that year.

Results: Certified

The reported performance measure is accurate and adequate procedures are in place for collecting and reporting performance data.

Measure #1	Qtr 1	Qtr 2	Qtr 3	Qtr 4	FY02 Total
Reported #s					24.7%
Actual #s					24.7%

Key Measure #2: Percent of dams receiving routine maintenance to state and sponsoring agency specifications.

Results: Certified with Qualifications

The reported performance measure is accurate, however, written procedures need to be developed to ensure the continued accuracy of reported data.

Measure #2	Qtr 1	Qtr 2	Qtr 3	Qtr 4	FY02 Total
Reported #s	100%	100%	100%	100%	100%
Actual #s	100%	100%	100%	100%	100%

Key Measure #3: Percent of available lease property parcels leased.

Results: Factors prevented certification.

Measure #3	Qtr 1	Qtr 2	Qtr 3	Qtr 4	FY02 Total
Reported #s	98.9%	100%	100%	0	101.1%
Actual #s	N/A	N/A	N/A	N/A	N/A

Actual performance measure data could not be verified due to inadequate procedures and measure definition inconsistencies. The calculation method, at one point, seems to have been amended from “ # of parcels leased / # of parcels available to be leased” to “ # of parcels leased / # of parcels ‘likely’ to be leased”. The calculation method listed in the EBC specifically mentions the latter formula (includes “likely”).

FCD operations staff has not developed a clear definition for “likely”. We suggest that the measure be re-examined and simplified. The Public Works Land and Right of Way Division Manager has been advised of the discrepancy and reports that the calculation method will be corrected to exclude this confusing term. The manager is unsure how “likely” became part of the formula and reports that the word should not be a factor in the measure calculation.

Key Measure #4: Percent of cumulative linear miles of Zone A watercourses requiring delineation that were delineated and submitted to FEMA.

Results: Certified.

Measure #4	Qtr 1	Qtr 2	Qtr 3	Qtr 4	FY02 Total
Reported #s	0	1%	3%	0	4%
Actual #s	0	1.1%	3.6%	0	3.8%

The reported performance measure is accurate and adequate procedures are in place for collecting and reporting performance data.

Key Measure #5: Percent of \$\$ value of positive media attention received at a rating of five or above (on scale of one to nine).

Results: Inaccurate.

The error rate for the third and fourth quarter is beyond the 5 percent threshold. In addition, FCD has the ability to manipulate the news items selected that are entered into the “PRTracker” software system. The district has not developed controls to ensure that all (including negative news articles / broadcasts) are entered.

Measure #5	Qtr 1	Qtr 2	Qtr 3	Qtr 4	FY02 Total
Reported #s	100%	100%	100%	100%	100%
Actual #s	100%	100%	92.85%	88.87%	99.1%

Key Measure #6: Percent of cumulative square miles of watershed identified for Area Drainage Master Plan study where study was completed.

Results: Certified.

The reported performance measure is accurate and adequate procedures are in place for collecting and reporting performance data.

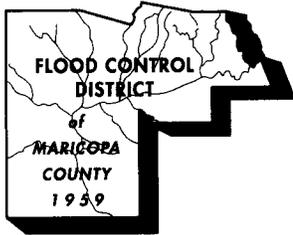
Measure #6	Qtr 1	Qtr 2	Qtr 3	Qtr 4	FY02 Total
Reported #s	0	1.4%	3.7%	.4%	5.5%
Actual #s	0	1.4%	3.7%	.4%	5.5%

Recommendation

FCD should:

- A. Develop and implement written procedures for collecting and reporting key performance measurement data related to Key Measure #2 (% of dams receiving routine maintenance to state and sponsoring agency specifications).
- B. Correct the calculation methodology for Key Measure #3 (% of available lease property leased) to exclude reference to “likely to be leased”.
- C. Develop and implement written procedures for collecting and reporting key performance measurement data related to Key Measure #5 (% of \$ value of positive media attention received at a rating of five or above on scale of one to nine).
- D. Develop controls to ensure that all news items (positive and negative) are used in the calculation of the measure.
- E. Closely review performance measures data prior to entering this information in the EBC.

Department Response



FLOOD CONTROL DISTRICT
of
Maricopa County

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BOARD OF DIRECTORS
Fulton Brock
Andrew Kunasek
Don Stapley
Mary Rose Garrido Wilcox
Max W. Wilson

December 13, 2002

Ross Tate
Internal Audit, Maricopa County
301 West Jefferson
Suite 1090
Phoenix, AZ 85003

Dear Mr. Tate:

As Chief Engineer and General Manager of the Flood Control District of Maricopa County, I am submitting our comments and our action plan on the recommendations of the Audit Team. Your Team's findings and recommendations are on target.

The recommendations of the audit team confirm the practices and diligence of our operating divisions and our key support functions. I was especially pleased that again no exceptions were found in our finance department, confirming the policies and practices that are in place as well as the quality of the management and the dedication of the staff responsible for these functions. Your positive comments regarding the quality of our travel expense management and our capital asset management were particularly gratifying not only to myself but also to the individuals responsible for these functions.

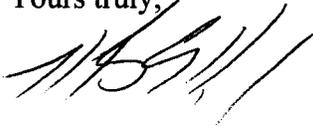
More problematic is the audit findings regarding our relationship with the County. While statutorily, we along with the other special districts are separate and distinct from the County, in fact budget guidance that is applied to the County general fund agencies is applied to special districts as well. While funds are maintained separately, the annual budget and the accompanying tax rate is considered in aggregate with the County and other special districts. Thus the finding that I must certify my resource needs to the District's Board of Directors annually is counter to the County practice of identifying the resources available and requiring us to prepare the budget accordingly. Similarly, the recommendation to memorialize all budget agreements with the County by Board action will require changes in practice both in the District and the County.

In closing, I would like to express my personal appreciation for the efforts that you and your Team made during the audit process. The District welcomes insightful review of its

Ross Tate
December 13, 2002
Page 2 of 2

programs, policies and practices. Your Audit Team was exceptionally knowledgeable and professional. Although your investigation was comprehensive, your Team did not intrude on our day-to-day operations. Your recommendations were on target and well received.

Yours truly,

A handwritten signature in black ink, appearing to read 'M. Ellegood', written over a horizontal line.

Michael S. Ellegood, P.E.
Chief Engineer and General Manager

MSE/aar

cc: Julie Lemmon
Barbara Hummell

Department Response from the Flood Control District of Maricopa County

Issue 1 Dam Inspections & Maintenance

Recommendation – None, for information only

Issue 2 Floodplain Use Permits

Recommendation A: Require all sand and gravel miners to submit a plan of reclamation prior to issuing a permit, including phasing and time frame for implementation.

Response: Concur - completed. The District will require all new applicants to submit a reclamation plan with the application.

Target Completion Date: completed in October 2002

Benefit/Costs: The reclamation plan will identify post operation topography and/or whether it is integrated into a Watercourse Master Plans. The reclamation plans will also determine how the reclamation plan will be phased.

Recommendation B: Require all sand and gravel miners that hold existing permits to submit a reclamation plan as soon as possible, if they have not done so.

Response: Concur - in process. The District will inspect all current permits and determine if a reclamation plan was part of the initial permit approval. If not, but a plan was requested that is past due, the District will advise the permit holder that a reclamation plan must be submitted within 30 days. In many cases, a reclamation plan was not part of the initial permit approval and the permits stipulate that a plan should be submitted prior to expiration. The owners of these plants will be reminded of this stipulation in writing, and also advised that a reclamation plan must be approved prior to renewal of the permit. All closed mining activities will also be inspected to ensure the land has been adequately reclaimed.

Target Completion Date: March 31, 2003

Benefit/Costs: The reclamation plan will identify post operation topography and/or whether it is integrated into a Watercourse Master Plans. The reclamation plans will also determine how the reclamation plan will be phased.

Recommendation C: Inspect the operations of sand and gravel permit holders, on a regular basis, to ensure that the miners comply with applicable requirements.

Response: Concur—in process. An inspection schedule is being established and inspections will begin in January 2003. Operators who are in total compliance with all requirements and

stipulations will be inspected on a semi-annual basis. Quarterly inspections will be performed for those operations that are non-compliant until their operations meet the applicable requirements.

Target Completion Date: June 30, 2003

Benefit/Costs: The inspection of current permits will ensure compliance with the permit requirements.

Issue 3 Federal Programs

Recommendation A: Establish an IGA with the County that addresses the specific responsibilities and funding for Phase II NPDES permit activities and future permit related activities, as required by Board Resolution 90-08.

Response: Concur – in process. Due to the current uncertainty of the acting regulatory authority and the final permit, the District will address Recommendation B first due to a rapidly approaching statutory deadline of March 10, 2003. The District will delay the IGA in anticipation of the release of the final NPDES permit.

Target Completion Date: June 30, 2003

Benefits/Costs: There will be a clear distinction of the District's responsibilities in relation to the County's permit. A written agreement will be established to reimburse the District for their efforts as a consultant/agent for the County.

Recommendation B: Estimate reserve levels required to cover current and potential liability related to on-going cities and permit activities and present this information to its BOD for review and action.

Response: Concur – in process. In order for the County to move forward on the NPDES permit issue, time is of the essence due to a stringent regulatory deadline of March 10, 2003. The District will use their on-call contract to identify County program shortfalls/requirements for their NPDES permit. The District will ensure the County gets their Notice of Intent (NOI) and Stormwater Management Plan (SWMP) filed by the March 10, 2003 deadline. After the NOI is filed, the County will have a full 5 years to implement their entire program. In the development of the SWMP, the reserve and liability issues will be addressed.

Target Completion Date: March 10, 2003 or later if a new regulatory deadline is established for the NOI and SWMP submission. IGA negotiation (Recommendation A) will occur either simultaneously or following NOI and SWMP submission.

Benefits/Costs: The County will be in compliance with the NOI requirement and SWMP provisions of the Phase II stormwater permitting program.

Issue 4 Capital Improvement Projects

Recommendation A: Discuss invoice review procedures with staff to ensure that invoices are paid according to contract fee schedules and that the files contain all applicable schedules.

Response: Concur – in process. Invoice procedures are being updated and will be presented to District staff.

Target Completion Date: February 28, 2003

Benefits/Cost: This will strengthen the accuracy and accountability of invoices.

Recommendation B: Verify past invoices of the three contractors whose invoices could not be validated against the current contract; determine and recover any overpayments; review billing requirements with contractors to ensure compliance with FCD procedures.

Response: Concur – in process.

Target Completion Date: March 31, 2003

Benefits/Cost: The adherence to fee schedules will ensure contract compliance.

Recommendation C: Strengthen procedures over issuing revisions to Notices to Proceed to ensure the revisions are clearly documented in order to minimize legal liability.

Response: Concur – in process. Work assignment procedures were updated and addressed at District staff meeting on December 2, 2002. Subsequent meetings with project managers who committed errors will be scheduled.

Target Completion Date: February 28, 2003

Benefits/Cost: The procedural review with staff will certify their understanding.

Recommendation D: Review the IGA and Family Golf Center lease with City of Tempe; recover \$2,035 current lease amounts due; obtain and examine gross receipts statements for past several years; determine and recover amounts owed on gross receipts over minimums received; obtain current insurance certificates from named lessees to comply with lease clauses.

Response: Concur – completed with modifications. The former lessee for this lease area filed bankruptcy. District Counsel advised Property Management that the District would expend more money in legal fees than in recovery of past rent. The new lessee is making timely payments. Monthly revenue reports supplied by our managing partner (City of Tempe) show that gross receipts at this golf facility have never justified increasing rents greater than current minimum received. These revenue reports were made available to the auditing staff. Proof of liability coverage through insurance certificates by District lessees was completed on all current lease agreements.

Target Completion Date: completed in November 2002

Benefits/Costs: The approach undertaken was fiscally responsible.

Recommendation E: Update Public Lands Real Estate Division written sale and lease procedures to cover all significant ARS, FCD resolutions, and municipal government standards addressing delegated authorities, bid registers, and documentation standards.

Response: Concur – in process

Target Completion Date: March 31, 2003

Benefits/Cost: By formalizing bidding registers, updating the signature delegation authority resolution, and reviewing current document standards, and implementing changes to conform with current standards, the District will achieve greater clarity in reporting, processing, and accuracy when administering its real estate dispositions.

Issue 5 Contract and IGA Procurement

Recommendation – None, for information only.

Issue 6 Budget Certification and Reserves

Recommendation A: Prepare an annual certification of its tax levy needs, identifying all mandated activities and funds required, and request its BOD to review and approve the amount to be submitted to the Board for funding as required by ARS.

Response: Concur – in process. Will implement the annual certification of the District's tax levy needs with the submission of the FY 03/04 budget, and each succeeding budget.

Target completion date: February 24, 2003

Benefits/Costs: This certification will comply with ARS.

Recommendation B: Monitor tax revenue received, to ensure full payment, and monitor and document proceeds not used for current operations and present this information to the BOD.

Response: Concur – will implement with modifications. We presently monitor tax revenues received; however, there is no way to ensure full payment since taxpayers make payments directly to the County Treasurer. We can, however, inform the Board whether we collected our tax levy limit of \$45 million or not.

Target Completion Date: completed in November 2002

Benefits/Costs: The Board of Directors will be informed of the District's tax revenues.

Recommendation C: Develop a written policy for calculating and developing reserves as recommended by the Statement of Federal Financial Accounting Standards and GAAP.

Response: Concur – in process. We will develop subject policy and it will be reflected in our FY 03/04 budget submission.

Target Completion Date: January 31, 2003

Benefits/Costs: This policy addresses the fund balance carryover amount and protects District from unfunded liabilities.

Recommendation D: FCD should document all future County/District operating and financial agreements in writing.

Response: Concur – completed. All Intergovernmental Agreements, Memorandum of Understanding and all contractual agreements with public agencies were reviewed and found to be in written format.

Target Completion Date: completed in November 2002

Benefits/Costs: Written documents eliminate misunderstandings between agencies.

Recommendation E: Determine if a Modified Approach will provide a better long-term infrastructure valuation basis than depreciation, then implement activities as required by GASB 34.

Response: Concur – implementation not currently possible. The District made a determination and has valued its assets using the Depreciation Methodology as permitted by GASB 34.

Target Completion Date: completed in November 2002

Benefits/Costs: The District has identified a more accurate valuation using the depreciation methodology.

Issue 7 County Administrative Policies

Recommendation A: Review RMSO's Vehicle Permit list and submit additions, corrections, and deletions ASAP.

Recommendation B: Review individuals' vehicle use permits on a regular basis, to ensure they are current, and notify the employee and the supervisor when a renewal is due.

Recommendation C: Obtain occasional use overnight permits for FCD employees that may need to take FCD vehicles home overnight sporadically and annually submit a list of FCD employee possessing overnight permits to the County Administrative Officer, as required.

Recommendation D: Develop and maintain a listing of employees that operate vehicles/equipment, including the type of vehicles that employees are permitted to take vehicle home overnight.

Response: Concur with Recommendations A, B, C, and D - in process. District staff reconciled the RMSO list with the District's information. The members of the IT Division, the Operations and Maintenance Division and the Administrative Division are in the process of expanding the District's human resources information database to include information about individuals' state drivers license number and expiration date, county drivers license expiration date, county drivers license vehicle authorization information and CDL medical clearance expiration date. In addition, in accordance with guidance received from Internal Audit, a list of employees required to take the Blue Stake vehicle home overnight was forwarded to RMSO.

Target Completion Date: March 31, 2003

Benefits/Costs: Maintained vehicle records will avoid misuse of District vehicles.

Issue 8 Disaster Recovery Plan

Recommendation: FCD should develop a disaster recovery plan and test/update the plan periodically. If FCD believes that its current mitigating controls are sufficient, in lieu of a disaster recovery plan, district senior management should explain, document, and sign a formal attestation.

Response: Concur – in process. The District has extensive controls in place to reduce risk of loss of computer services and to recover from any loss of service within an acceptable timeframe. These controls, however, have not been brought together in a single disaster recovery plan. We agree that there is value in doing so.

Target Completion Date: March 1, 2003

Benefits/Costs: The Board, the Flood Control District and the public will be reassured that adequate controls are in place to avoid disasters and that a plan exists for disaster recovery should it occur. There is a very small likelihood that a need for additional hardware or software will be identified during plan preparation.

Issue 9 MfR Performance Measures

Recommendation A: Develop and implement written procedures for collecting and reporting key performance measurement data related to Key Measure #2 (% of dams receiving routine maintenance to state and sponsoring agency specifications).

Recommendation B: Correct the calculation methodology for Key Measure #3 (% of available lease property leased) to exclude reference to "likely to be leased".

Recommendation C: Develop and implement written procedures for collecting and reporting key performance measurement data related to Key Measure #5 (% of \$ value of positive media attention received at a rating of five or above on scale of one to nine).

Recommendation D: Develop controls to ensure that all news items (positive and negative) are used in the calculation of the measure.

Recommendation E: Closely review performance measures data prior to entering this information in the EBC.

Response: Concur with Recommendations A, B, C, and D – in process. The District MfR representative is on medical leave and cannot address the recommendations at this time.

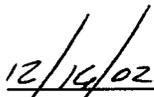
Target Completion Date: March 31, 2003

Benefits/Cost: This will comply with County policy.

Approved by:



Michael S. Ellegood, P.E.
Chief Engineer and General Manager



Date



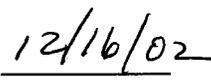
Robert B. Williams
Chief Public Works Officer



Date



David R. Smith
Chief Administrative Officer



Date