

MANAGEMENT AND CULTURE AUDIT

UTILITY DEPARTMENT



**Fort
Smith**
ARKANSAS

MAY 11, 2018

PREPARED BY

VANESSA M. JOHNSON, CPA, LLC
INTERNAL AUDIT | SOX | PROCESS IMPROVEMENT

Vanessa M. Johnson, CPA, LLC

May 11, 2018

The Honorable Carl Geffken
City Administrator
City of Fort Smith
623 Garrison Ave, 3rd Floor
Fort Smith, AR 72901

RE: Utility Department - Management & Culture Performance/Compliance Audit

Dear Mr. Geffken:

The Internal Audit Office contracted with Vanessa M. Johnson, CPA, LLC (VMJ CPA) to provide professional independent internal audit services. We have completed the Management & Culture Performance/Compliance Audit for the City's Utility Department.

The primary objectives of this audit were to:

1. Assess operational practices, resources, technology, and training programs, and those practices impacted by the Consent Decree;
2. Assess the structure and management practices of the Utility Department related to effective resource utilization;
3. Determine the effectiveness of internal controls;
4. Provide practical recommendations for improving coordination efficiency, and effectiveness of the Utility Department functions.

The audit period consisted of calendar years 2015 through 2017. The attached audit report outlined the detailed findings, recommendations, and management's responses.

We would like to thank the Utility Department for their assistance and cooperation during the course of the audit.

Sincerely,

Vanessa M. Johnson

Vanessa M. Johnson, MBA, CPA, CIA
Managing Director

TABLE OF CONTENTS

TRANSMITTAL LETTER.....
EXECUTIVE SUMMARY.....	2-6
INTRODUCTION.....	2
BACKGROUND.....	2
AUDIT SCOPE & OBJECTIVES.....	2
PROCEDURES PERFORMED.....	3
AUDIT METHODOLOGY.....	3
CONCLUSION & SIGNIFICANT ISSUES.....	4
ACKNOWLEDGEMENT & SIGNATURES.....	6
DETAILED FINDINGS AND RECOMMENDATIONS, MANAGEMENT RESPONSES, AND	
ASSESSMENT OF RESPONSES.....	7-27
EXHIBIT I: EMPLOYEE SURVEY.....	28
EXHIBIT II: MAP OF SEWER BASINS.....	35
EXHIBIT III: MANAGEMENT RESPONSES.....	36
EXHIBIT IV: ACKNOWLEDGEMENT STATEMENT.....	40

EXECUTIVE SUMMARY

INTRODUCTION

VMJ CPA has completed the Management & Culture performance audit of the Utility Department. The audit considered the organizational design and reporting structure of the Department; the oversight responsibilities, accountability, and authority of management; talent and culture; and the infrastructure of the Department. The audit was included in the calendar year 2017 Audit Plan and was a direct result of our Risk Assessment process conducted in 2017.

BACKGROUND

The City of Fort Smith has a population of approximately 88,000 citizens. The City Utility Department's mission is to ensure the sustained delivery of quality water and wastewater services that promote health, safety, and quality of life for all customers. The City has approximately 502 miles of sewer lines, 12,000 manholes, 23 pump stations, and 2 wastewater treatment plants.

The Utility Department has undergone major changes over the last few years. On January 2, 2015, the City entered into a Consent Decree with the Environmental Protection Agency (EPA) and the Department of Justice (DOJ) to eliminate Sanitary Sewer Overflows (SSOs). In April 2017, Jerry Walters was hired to fill the vacant Utilities Director role. The Department was restructured in 2015 and then again in 2017. At least 50 employees of the Utility Department have been added to the staff over the last three (3) years.

Due to all the changes in the Department, implementation of new processes, and the Consent Decree, Management and Culture was assessed as high as part of the 2017 risk assessment performed. Audit areas consisted of the Departments Infrastructure, Talent and Culture, Management Oversight, Authority, and Accountability, and Organizational Design and Reporting Structure. In addition, the initiatives of the Consent Decree, as it relates to the CMOM programs, were reviewed to assess progress since the Date of Lodging.

We noted that the City is currently implementing a new ERP system that will be utilized by all City Departments. The ERP system will have features to assist the Utility Department with its procurement process, asset record keeping, and training. Moreover, the Utility Department is also in the process of making updates to its Lucity system to meet the record management requirements of the Consent Decree.

AUDIT SCOPE AND OBJECTIVES

Our audit objectives, as refined during research and the risk assessment process occurring throughout the course of our work, were as follows:

1. Assess operational practices, resources, technology, and training programs, and those practices impacted by the Consent Decree;

-
2. Assess the structure and management practices of the Utility Department related to effective resource utilization;
 3. Determine internal controls are properly designed to mitigate risks; and
 4. Provide practical recommendations for improving coordination efficiency, and effectiveness of the Utility Department functions.

The engagement scope covered activities and transactions occurring during calendar year 2015, 2016, and 2017.

PROCEDURES PERFORMED

To obtain sufficient evidence to achieve audit objectives and support our conclusions, we performed the following:

- Interviewed management and key personnel to gain an understanding of the roles and responsibilities of Utilities staff;
- Obtained and reviewed City Ordinances, standard operating procedures (SOPs) related to processes and Consent Decree initiatives;
- Obtained and reviewed the organizational charts, job descriptions, Needs Assessment Study, and other relevant documentation to identify and assess the different teams functional in the Department;
- Obtained and reviewed Consent Decree Program plans, schedules, and supporting documentation;
- Performed walkthroughs with Utilities personnel to assess internal control design;
- Conducted a survey with Utilities staff to assess employee morale within the department;
- Reviewed communication protocols established by the Department for internal and external communications; and
- Reviewed rate models, proposed financial policies, permit fee schedule and performed analytical procedures.

AUDIT METHODOLOGY

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards and in conformance with the International Standards for the Practice of Internal Auditing as promulgated by the Institute of Internal Auditors. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

The scope of our work did not constitute an evaluation of the overall internal control structure of the Utility Department. Management is responsible for establishing and maintaining a system of internal controls to ensure that City assets are safeguarded; financial activity is accurately reported and

reliable; and management and employees are in compliance with laws, regulations, and policies and procedures. The objectives are to provide management with reasonable, but not absolute assurance that the controls are in place and effective.

CONCLUSIONS AND SIGNIFICANT ISSUES

We believe that we have obtained sufficient and appropriate evidence to adequately support the conclusions provided below as required by professional auditing standards. Each conclusion is aligned with the related Audit Objective for consistency and reference. For detailed findings, recommendations, management responses, comments and assessment of responses see the “Detailed Findings, Recommendations, Management Responses, and Assessment of Responses” section of this report.

AUDIT OBJECTIVE 1 - Assess operational practices, resources, technology, and training programs, and those practices impacted by the Consent Decree.

CONCLUSION

Based on the results of the audit procedures performed the audit team noted that overall the Utility Department has made progress toward several of the initiatives ordered by the Consent Decree and other operational practices and supportive processes. The Utility Department has implemented a training program to further educate employees and develop technical skills. Moreover, management is working with outside consultants to develop its technological capabilities to meet regulatory requirements, improve recordkeeping, and streamline operational processes. However, some specific areas of attention are noted below. Based on inquiries conducted during the audit and supporting documentation reviewed, we determined:

- Permits are not issued for backflow prevention devices/assemblies. **(See Finding #1)**
- Permit and inspection fees are not collected for backflow prevention devices/assemblies. **(See Finding #2)**
- With a 63% participation rate, employees scored low in the areas of compensation, as many are not satisfied with their salary compared to job responsibilities. **(See Finding #9)**
- Performance evaluations are not performed annually for all employees to provide feedback on performance. **(See Finding #10)**
- All Utility Department employees do not have email addresses or login credentials to access to the network. **(See Finding #11)**
- There is a lack of supporting documentation related to work orders pertaining to SSOs. **(See Finding #12)**

AUDIT OBJECTIVE 2 - Assess the structure and management practices of the Utility Department related to effective resource utilization.

CONCLUSION

The Utility Department is the largest City department consisting of approximately 241 employees. The current structure of the Department was approved in December 2017. Based on the results of the audit procedures performed, the audit team noted that its current structure

may not allow for effective operations within the Department for certain functions. Moreover, management practices regarding policies and procedures to provide consistency in departmental activities and recordkeeping are lacking to effectively and efficiently manage operations. Based on inquiries conducted during the audit and supporting documentation reviewed, we determined:

- The MIS team is reporting to the Engineering Director, but is not structured to effectively support all information technology needs of the Department and coordinate with the City's Information Technology Department. **(See Finding #8)**
- Standard Operating Procedures (SOPs) do not indicate effective date and last reviewed date to evidence SOPs are reviewed periodically as required by the Consent Decree. **(See Finding #5)**
- All SOPs are not documented and maintained to provide guidance to staff on how to effectively and efficiently perform activities of the Department. **(See Finding #6)**

AUDIT OBJECTIVE 3 - Determine internal controls are properly designed to mitigate risks.

CONCLUSION

Based on the results of the audit procedures performed, the audit team noted that Utility Department should improve the design of internal controls to properly mitigate risks.

- Financial policies and procedures are not formally approved and adopted. **(See Finding #7)**
- Reporting to ADEQ and EPA has not been completely accurate and consistent with supporting documentation. **(See Finding #13, #14)**

AUDIT OBJECTIVE 4 - Provide practical recommendations for improving coordination, efficiency, and effectiveness of the Utility Department functions.

CONCLUSION

Based on the results of the audit procedures performed, the audit team notes the following overall recommendations.

FOG Control Program

- Consider assessing fees for FOG generator permits and inspections. **(See Finding #3)**
- Develop program key performance indicators **(See Finding #4)**
- Perform a comprehensive audit of the FOG Control Program in 3-5 years when the program has been fully implemented, inspections performed, and records maintained for the program.

SSO Reporting Component

- The City of Fort Smith should not be reporting SSOs to ADEQ for FCRA-owned sewer asset locations. **(See Finding #13)**

Private Service Line Defect Remediation Program/SEP Program

- Perform a comprehensive audit of the PSLDR Program in 3-5 years when the program has been fully implemented and records maintained for the program.

Information Technology

- Perform a comprehensive audit of Information Technology for the Utility Department within the next 5 years to assess security, applications, and operational efficiency once the new ERP system and the additional features within Lucity have been implemented.
- Perform a comprehensive audit of the Inventory Management system and processes within the next 3-5 years once all inventory locations have fully implemented the requirements of the Consent Decree.

ACKNOWLEDGEMENT AND SIGNATURES

The Audit Team would like to thank the Utility Department for their cooperation, time, and efforts throughout the course of the engagement.

Vanessa M. Johnson, MBA, CPA, CIA
Managing Director

DETAILED FINDINGS, RECOMMENDATIONS, MANAGEMENT RESPONSES, AND ASSESSMENT OF RESPONSES

FINDING #1 – PERMITS ARE NOT ISSUED FOR BACKFLOW PREVENTION DEVICES/ASSEMBLIES (RISK RATING = HIGH)

FINDING #2 – PERMIT AND INSPECTION FEES ARE NOT COLLECTED FOR BACKFLOW PREVENTION DEVICES/ASSEMBLIES (RISK RATING = HIGH)

BACKGROUND:

On August 21, 2001, Ordinance No. 50-01 was passed and approved to establish a cross-connection program for the protection of the public water system of the City of Fort Smith. The purposes of the cross-connection program are to 1) protect the public water supply of the City of Fort Smith from the possibility of hazards from backflow into the public water system; 2) eliminate or control cross-connections, actual or potential, thereby protecting the public water system from the User's service connection; and 3) provide for the maintenance of a continuing program of cross-connection control that will systematically prevent a hazard from affecting the public water system.

The Cross-Connection Program requires all affected users to eliminate cross-connections or installation of an approved backflow prevention assembly or device. A backflow prevention assembly is a mechanical check valve assembly with shut-off valves used to prevent the backflow of contaminants or pollutants into the public water system. A backflow prevention device is a mechanical backflow preventer without the shut-off valves. It does not have shut-off valve on either side of the backflow prevention mechanism.

Section 11 of Ordinance 50-01 states "Any User who now has installed, or is required to install or maintain, any backflow prevention assembly, backflow prevention device or private fire hydrant which requires a permit for same to obtained under the requirements of this Ordinance and program of cross-connection control, shall be assessed annually a fee, or fees, determined as follows:

- For each RPZA or DRPZA installed in the User's service connection which meets the requirements of Section 3.1.1 shall be assessed a fee in the amount of \$45.00 for each Assembly Permit.
- For each DCVA or DDCVA installed in the User's service connection which meets the requirements of Section 3.1.1 shall be assessed a fee in the amount of \$45.00 for each Assembly Permit and an inspection fee of \$94.00.

-
- For any backflow prevention assembly or backflow prevention device installed in the User's service connection, fire protection line or private fire hydrant line in a location as may be approved by the Approving Authority, but which does not meet the requirements of Section 3.1.1, shall be assessed a fee in the amount of \$45.00 for each Assembly Permit and an inspection fee of \$94.00.
 - For any private fire hydrant installation as required under Section 4.5 above shall be assessed a fee in the amount of \$45.00 for each Private Fire Line Permit and \$45.00 for each Assembly Permit if a backflow prevention assembly is required as part of the private fire hydrant installation.

The Cross-Connection Program is currently managed under the Engineering Division in the Utility Department consisting of a Cross Connection Coordinator and a Cross Connection Technician. A Cross Connection Data Technician position is currently vacant and has been approved but not funded. These positions were transferred from Program 5610 – Water Systems in 2018.

FINDING 1:

Permits are not issued for backflow prevention devices/assemblies. As of March 1, 2018, there are 1,565 active devices/assemblies that have been identified. For these devices, there have been no permits issued for these devices, as outlined by the Ordinance 50-01. The Cross-Connection team has currently conducted approximately 631 surveys to identify backflow prevention devices/assemblies. Of those 631 surveys, 25-30 were found that the City had no record of. There are still approximately 3,900 more surveys to conduct based on a listing of non-residential services in the city.

FINDING 2:

Permit and inspection fees are not collected for backflow prevention devices/assemblies. According to the City Ordinance 50-01, each permit fee is \$45, which is to be renewed annually. For 1,565 active devices/assemblies, not collecting fees for permits is approximately \$70,425 loss in revenue annually. Inspection fees are \$94. For 1,565 active devices/assemblies, not collecting fees for inspections is approximately \$147,110 loss in revenue annually for a total of \$217,535 in loss of revenue annually for permit and inspection fees combined.

RECOMMENDATIONS:

The Utility Department management should review the City Ordinance for the Cross-Connection Program, since the last revision in January 2009 and adhere to the

requirements to properly issue permits and assess fees for permits and inspections to promote a healthy and safe water system. In addition, the Cross-Connection team should continue to complete the surveys to identify backflow prevention devices to ensure a complete and accurate list of devices is maintained in the City's records.

UTILITY DEPARTMENT'S MANAGEMENT

RESPONSE:

Agree. The Utility Department leadership is drafting a new, consolidated fee structure/schedule which includes all services provided by the Department. This fee structure document will include, among others, fees for cross-connection, backflow devices and FOG inspections and permits.

Now that the cross-connection team is staffed, the new team leader is developing the new permit form for the cross-connection program. The process to issue the actual permit is being developed. Conducting the initial surveys is on-going.

RESPONSIBLE PARTY: Jerry Walters, Director Utilities

ESTIMATED DATE OF COMPLETION: December 21, 2018

ASSESSMENT OF RESPONSE: Management's response, as presented, sufficiently addresses the issues identified and corrective actions are appropriate.

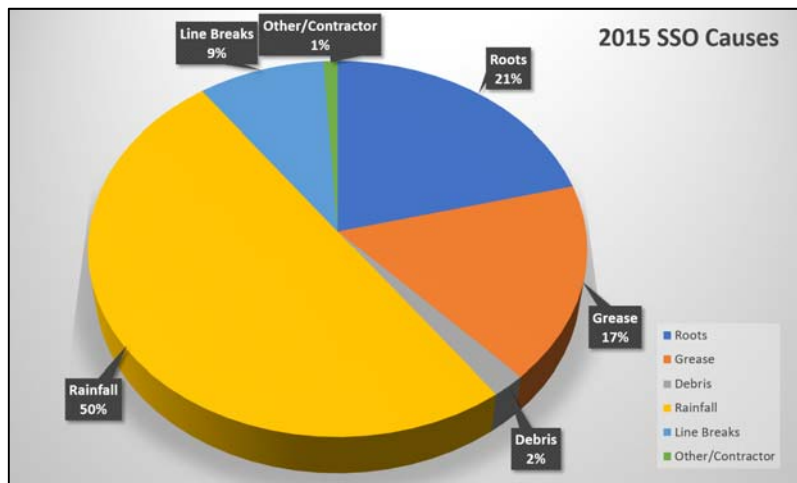
**FINDING #3 – NO FEES ARE ASSESSED FOR FOG GENERATOR PERMITS AND INSPECTIONS
(RISK RATING = HIGH)**

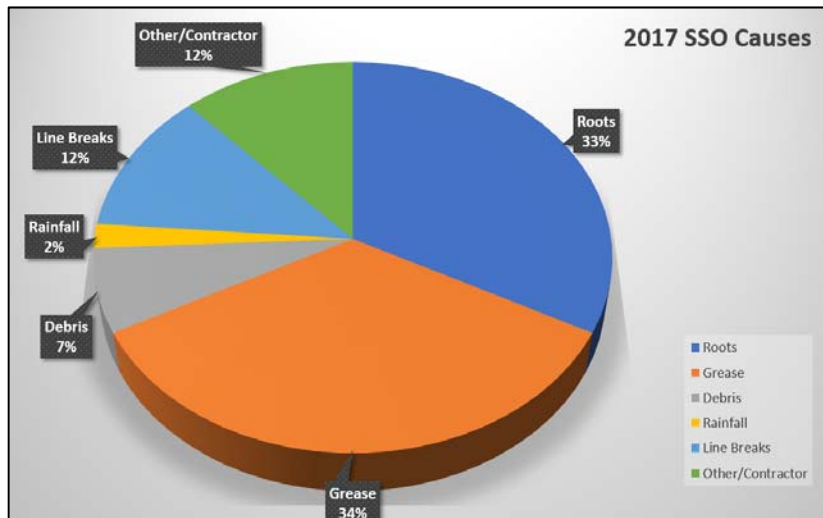
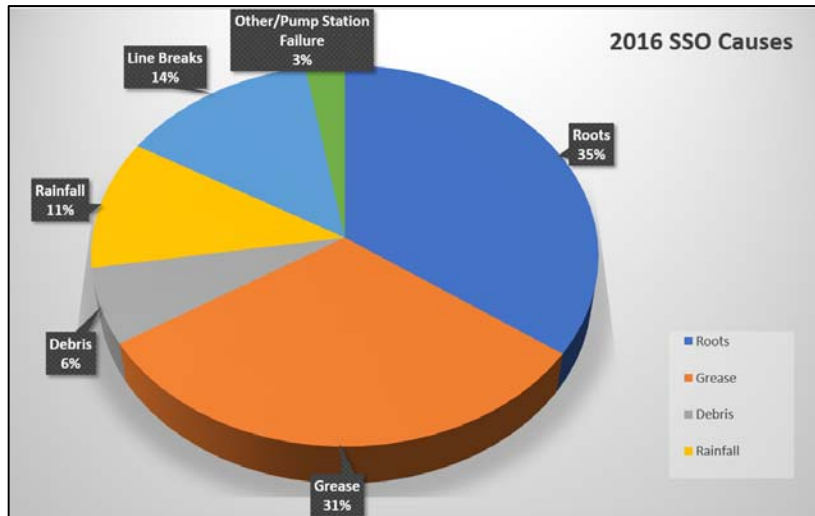
**FINDING #4 – DEVELOP PROGRAM KEY PERFORMANCE INDICATORS
(RISK RATING = HIGH)**

BACKGROUND:

According to Section V, Article Seven of the Consent Decree, the City shall develop a Capacity, Management Operation, and Maintenance (CMOM) Program, which includes a Fats, Oil, and Grease (FOG) Program Component. The FOG Program is intended to control the discharge of FOG into the WCTS by way of guidance, policies, and regulations governing FOG generators, FOG haulers, and by educating the public. The purpose of the FOG Program is to reduce the occurrences of blockages of sanitary sewer lines and sanitary sewer overflows (SSOs) due to FOG and to support compliance, in concert with other CMOM Program components, with the Consent Decree, the CWA, and City’s National Pollutant Discharge Elimination System (NPDES) permits.

From the data provided by Utilities, grease is one of the leading causes of SSOs: 17% in 2015, 31% in 2016, and 34% in 2017.





The City’s FOG Program Plan was submitted to the EPA on December 27, 2016 and approved by the EPA on February 3, 2017. Ordinance 89-16 to regulate the FOG Program was adopted December 20, 2016. In Q4 2017, the FOG Program team started issuing permits to Food Service Establishments (FSEs). As of 1/23/18, 355 FOG devices have been identified. Inspections will expect to initiate in July 2018. FOG permits are renewed every two (2) years for which inspections will be completed during the 2-year cycle. Currently, no fees are assessed for permits or inspections. All funding for the FOG program comes from the Water & Wastewater Fund.

FINDINGS:

No fees are assessed for FOG generator permits or inspections. The burden to cover the FOG Program costs is absorbed by the residents of the City through increased

water and sewer rates. Moreover, there is no criteria outlined to evaluate performance of the program once fully implemented.

RECOMMENDATIONS:

While there is no requirement by the City Ordinance 89-16 to assess fees for permits and inspections of FOG generators, an evaluation should be performed to assess fees for FOG generator permits and inspections to cover the costs of operating the program. Instead of including the cost of the FOG Program in the increase of water and wastewater rates for residents, another source of revenue should be considered from Food Service Establishments (FSEs) and other entities that require FOG generators. These establishments that want to do business within the City should understand safety requirements and related costs. Below are other cities of different populations with FOG Programs in place to provide a benchmark of the fee amount, if any, that is charged for FOG generator permits.

TABLE 1 – FOG DEVICE/GENERATOR PERMIT STUDY		
Location	Population¹	Permit Fee
Denton, MD	4,388	\$150
Lancaster, CA	160,106	\$340
Norman, OK	122,180	\$100
St. Joseph, MO	76,472	No fee
Miami-Dade County	2.693 million	\$150-\$750

**Ex. for City of Fort Smith FOG Program: 355 generators x \$150 permit fee = \$53,250 revenue*

Please keep in mind that management should consider all relevant administrative costs to operate and determine a reasonable fee amount. Furthermore, this will allow the Utility Department to itemize its revenue generating activities and associated costs and assist in evaluating program performance.

Criteria to evaluation program performance should be established to ensure proper data gathering during implementation to monitor performance.

UTILITY DEPARTMENT’S MANAGEMENT RESPONSE:

Agree. The Utility Department leadership is drafting a new, consolidated fee structure/schedule which includes all services provided by the Department. This fee structure document will include, among others, fees for cross-connection, backflow devices and FOG inspections and permits.

Fees for FOG permits were proposed, but not adopted. Also, performance indicators were developed for the FOG program and were submitted to EPA in Feb. 2018. Staff is developing performance indicators to measure progress and success in meeting department goals. The indicators that were developed for the FOG program will be included in this ongoing effort. The goal is to ensure that the measures are specific, meaningful and achievable.

RESPONSIBLE PARTY: Jerry Walters, Director Utilities

ESTIMATED DATE OF COMPLETION: December 21, 2018

ASSESSMENT OF RESPONSE: Management's response, as presented, sufficiently addresses the issues identified and corrective actions are appropriate.

**FINDING #5 – UNABLE TO DETERMINE EFFECTIVE DATE/REVIEW DATE OF SOPs
(RISK RATING = MEDIUM)**

**FINDING #6 – SOPs ARE NOT DOCUMENTED AND MAINTAINED
(RISK RATING = MEDIUM)**

BACKGROUND:

Standard Operating Procedures (SOPs) outline the detail tasks necessary to perform activities for a process to be completed successfully. As processes change, new regulations implemented, or staff changes, it is critical to periodically review procedures for accuracy. Moreover, the Consent Decree requires SOPs to be developed for the general operation and maintenance of all components of the WCTS, including gravity sewers, manholes, pump stations, force mains, and all other major ancillary facilities. We obtained documented SOPs for Programs 5610, 5611, 5603, 5604, 5625, 5626, and some SOPs for 5501.

FINDING 5:

Standard Operating Procedures (SOPs) do not indicate effective date and last reviewed date to evidence SOPs are reviewed periodically as required by the Consent Decree.

FINDING 6:

All SOPs are not documented and maintained to provide guidance to staff on how to effectively and efficiently perform activities of the Department. Moreover, there are no policies from Utility management that specify the frequency of review of SOPs for those activities not stipulated by the Consent Decree.

RECOMMENDATIONS:

All SOPs for Utility operations should be documented and maintained. In addition, all SOPs should be reviewed periodically (3-5 years) as required by the Consent Decree and Utility management, evidenced by signature and date. At minimum, of all SOPs should be consistent with the City's SOP formats/content and those requirements of the Consent Decree.

UTILITY DEPARTMENT'S MANAGEMENT

RESPONSE:

Agree. All department SOPs will be signed and dated when drafted and at each review. A department policy will be created to require periodic review.

RESPONSIBLE PARTY: Jerry Walters, Director Utilities

ESTIMATED DATE OF COMPLETION: August 18, 2018

ASSESSMENT OF RESPONSE: Management's response, as presented, sufficiently addresses the issues identified and corrective actions are appropriate.

**FINDING #7 – FINANCIAL POLICIES NOT APPROVED AND FORMALLY ADOPTED
(RISK RATING = HIGH)**

BACKGROUND:

In 2015, Burns & McDonnell completed a documented manual of proposed financial policies the Utility Department should consider as the need for a robust financial process grows considerably with the Consent Decree initiatives. As of December 31, 2017, these policies have not been formally approved and adopted.

FINDING:

Financial policies and procedures are not formally approved and adopted.

RECOMMENDATIONS:

All financial policies and procedures applicable to Utility processes should be formally approved and adopted to promote management's accountability for mitigation of risks through proper internal controls. These policies and procedures should be implemented in conjunction with the City's Finance Department to ensure information accurately and timely transferred.

UTILITY DEPARTMENT'S MANAGEMENT

RESPONSE:

Agree. The Utility Department and Finance Department have met and decided what policies are actually needed by the Utility Department. The new policies will be developed by the Utility department staff, coordinated with the Finance Department and taken to the Board for review and approval.

RESPONSIBLE PARTY: Jerry Walters, Director Utilities

ESTIMATED DATE OF COMPLETION: December 19, 2018

ASSESSMENT OF RESPONSE: Management's response, as presented, sufficiently addresses the issues identified and corrective actions are appropriate.

**FINDING #8 – INEFFECTIVE STRUCTURE OF MANAGEMENT INFORMATION SYSTEM TEAM
(RISK RATING = HIGH)**

BACKGROUND:

Currently, CDM Smith has been contracted as an outside consultant to assist with the IT modification efforts of Lucity required by the Consent Decree. The Consent Decree requires the Utility Department's CMOM program to modify its MIS system to track operation and maintenance efforts in response to SSOs, for reporting of SSOs to regulatory agencies and the public, for stopping SSOs, and for implementing corrective actions to prevent future SSOs. In addition, there are other systems/software utilized by the Department, such as SCADA and Tokay, that would need IT support as well. The City is implementing a new ERP system that will be used by all Departments, so there will be additional IT support for the ERP system as well.

FINDING:

The MIS team is reporting to the Engineering Director, but is not structured to effectively support all information technology needs of the Department.

RECOMMENDATIONS:

The MIS team should be centralized with the City's IT Department, since the proposed IT staff in the Utility Department will not have any administrative rights and would need the approval of the City's IT management for any IT related decisions. From reviewing the job descriptions of the proposed MIS team and interviewing the Utilities management team to gain a better understanding of the responsibilities of the proposed MIS positions, work load, etc., the number of MIS positions and the structuring do not effectively and efficiently support the operations of the Utility Department to ensure a streamlined process. Instead of 5 MIS staff in Utilities with no administrative access, 2-3 resources with the necessary access and credentials in the City's IT Department could be designated to work with the Utility Department for its IT support roles. Furthermore, any necessary training, system/application maintenance, research, and analysis can be performed on an as needed basis with the designated IT staff from the City's IT Department. This will allow proper oversight and management of IT security access, software/system deployment, and IT control that would otherwise be lost in a decentralized structure.

**UTILITY DEPARTMENT'S MANAGEMENT
RESPONSE:**

Non-concur. Establishing the Utility Departments' MIS group has been a high priority in support of the Utility Department meeting consent and non-consent decree related work. A significant amount of effort was spent establishing and developing the MIS program that would meet Utility Department needs. Your opinion that the MIS group should be in the IT Department was considered early on by Utility management and rejected. The MIS group is centrally located within

the department to provide a full spectrum of support to the Utility Department staff, both in the office and in the field. It seems that a central opinion of this finding is that the MIS team needs to be in IT so it can have admin rights. Again, early on, Utility management considered the need for the team to have admin rights and determined that the MIS team does not need admin rights. The admin rights question was easily answered because the Utility Department has funded two FTEs in IT to provide the support needed from an admin rights perspective.

RESPONSIBLE PARTY: Jerry Walters, Director Utilities

ESTIMATED DATE OF COMPLETION: N/A

ASSESSMENT OF RESPONSE: Management's response, as presented, does not sufficiently address the finding. The finding is not the opinion that the MIS team should be in IT so that they can have admin rights. Moreover, the MIS team can't provide a full spectrum of support to the Utility Department's staff if it doesn't have the capabilities to do so. The finding identifies that the current structure of the MIS team is not designed to effectively support all information technology needs of the Department. The MIS team provides support services to several applications and systems utilized by the Utility Department, which in turn potentially impacts information provided to other City Departments. As managing information systems and its components is a critical function in any organization, centralizing these activities will allow for proper oversight and management of IT security access, software/system deployment, maintenance, and IT control that would otherwise be lost in a decentralized structure. Furthermore, it will eliminate task redundancy and streamline processes for efficient operations.

**FINDING #9 – EMPLOYEES ARE NOT SATISFIED WITH SALARY COMPARED TO RESPONSIBILITIES
(RISK RATING = HIGH)**

BACKGROUND:

An Employee Survey was conducted for a one-week period to assist in assessing employee morale in the Department as it related to management, job responsibilities, compensation, work environment, and the Consent Decree. The survey was anonymous and consisted of 33 questions with the following choices: 1) Strongly Agree, 2) Agree, 3) Neither Agree or Disagree, 4) Disagree, and 5) Strongly Disagree. Forty percent (40%) of participants who took the survey have worked for the Department for 3 years or less; whereas, thirty-two percent (32%) of participants have worked for the Department for 10 or more years.

FINDING:

With a 63% participation rate, employees scored low in the areas of compensation, as many are not satisfied with their salary compared to job responsibilities. All other areas pertaining to management, job responsibilities, and working for the Department scored in the range of being "Neutral". See results of the survey in Exhibit I.

RECOMMENDATIONS:

Utilities management should evaluate compensation and other incentives for Utility staff to increase the morale of employees in this area.

**UTILITY DEPARTMENT'S MANAGEMENT
RESPONSE:**

Although I agree with the premise of this finding, the Utility Department has little direct influence over resolving this long standing issue.

Shortly after the Utility Director arrived, an employee survey was conducted. The results of that survey highlighted this long-term issue. The survey conducted by the auditor confirmed the results of the employee survey conducted by the Utility Director in May 2017. HR is currently conducting a City wide review of all job descriptions. Once that is completed, a salary survey will be conducted. The Department will work with HR to determine the appropriate salaries related to the job descriptions.

RESPONSIBLE PARTY: Jerry Walters, Director Utilities

ESTIMATED DATE OF COMPLETION: N/A

ASSESSMENT OF RESPONSE: Management's response, as presented, sufficiently addresses the issues identified and corrective actions are appropriate.

**FINDING #10 – EMPLOYEE EVALUATIONS ARE NOT PERFORMED ANNUALLY
(RISK RATING = HIGH)**

BACKGROUND:

Employee evaluations are important ways to communicate work performance to employees. In addition, evaluations also allow the employee to discuss career goals and development in the organization. As part of our review of the Talent & Culture area of the audit, we requested from HR to provide the last dates of all Utility employees evaluations.

FINDING:

Performance evaluations are not performed annually for all employees to provide feedback on performance. Forty-one (41) employees hired prior to January 1, 2017 does not show that an evaluation has ever been performed. **Note: Pending to clear some open items regarding hire dates with HR.*

RECOMMENDATIONS:

Performance evaluations should be performed annually for all employees to provide feedback on performance and discuss the employee's career development plan.

UTILITY DEPARTMENT'S MANAGEMENT

RESPONSE:

Agree. The current performance plans do not adequately measure employee performance. HR is revising the plans and once completed, each Utility Department employee will have a performance plan that will measure performance and provide meaningful feedback from their supervisor. Revised performance plans will be fully implemented within six months of publishing the new City policy and performance plan format. Until that time, the old performance plans will be used. Evaluations will be performed annually.

RESPONSIBLE PARTY: Jerry Walters, Director Utilities

ESTIMATED DATE OF COMPLETION: May 2019

ASSESSMENT OF RESPONSE: Management's response, as presented, sufficiently addresses the issues identified and corrective actions are appropriate.

**FINDING #11 – EMPLOYEES LACK PROPER ACCESS TO NETWORK
(RISK RATING = HIGH)**

BACKGROUND:

When performing other procedures of the audit, we identified that several Utility employees did not have email addresses. Hence, many were unable to take the online Employee Survey. Some Utility employees that management deem to not need emails for their job responsibilities are not provided emails or login credentials.

FINDING:

All Utility Department employees do not have email addresses or login credentials to access to the network.

RECOMMENDATIONS:

All Utility employees should have access to login to the Department's network to access departmental communications and information.

UTILITY DEPARTMENT'S MANAGEMENT

RESPONSE:

Agree. IT will evaluate and determine the cost of providing email addresses and log-in credentials for each employee. Once the specifics have been defined, a decision will be made on how to best provide access.

RESPONSIBLE PARTY: Jerry Walters, Director Utilities

ESTIMATED DATE OF COMPLETION: December 19, 2018

ASSESSMENT OF RESPONSE: Management's response, as presented, sufficiently addresses the issues identified and corrective actions are appropriate.

**FINDING #12 – LACK OF SSO DOCUMENTATION
(RISK RATING = HIGH)**

BACKGROUND:

SSO occurrences are made known to the City in various ways, including residents calling in to report occurrences or discovery by City personnel. When SSOs are reported through the Call Center/System Control, work orders (WO) are created by the System Operators. When the WO is created, field personnel is dispatched to investigate the SSO call. When the investigation is completed, an SSO number is assigned and documented within Lucity in the SSO module and Work Order module.

FINDING:

The Utility Department was not able to provide supporting documentation for 22 work orders identified to be related to SSOs reported by residents. We requested a listing of all WOs created from 1/1/2015-12/31/2017 and filtered by any WO pertaining to an overflow in its description. We noted 22 WOs that didn't have an SSO number in addition to SSO start date/time and end date/time. It is likely at times for SSO numbers to not be updated in the WO module due to manual data entry process. Therefore, we searched within the DMR Reports created from the SSO module to locate the 22 WOs without SSO numbers, but was not able to locate them.

The cause noted on 16 of 22 WOs was either "unknown" or left with a question mark (?). There were 6 of 22 WOs with causes noted as "heavy rainfall". Utilities management explained that the 22 WOs created were not true SSOs reported, but were automatically triggered due to a malfunctioning system that was in place, but no longer in use. There was no additional evidence provided to support management's explanation and to confirm whether these occurrences should have been reported to ADEQ and the EPA.

RECOMMENDATIONS:

All SSO documentation should be properly maintained for the required retention period in order to support SSOs reported/not reported.

UTILITY DEPARTMENT'S MANAGEMENT

RESPONSE:

The current practice is to only assign an SSO number in Lucity when it's determined by the field crew that a SSO has actually occurred. Non-SSO events are not given a SSO number. There will be cases where a work order is issued, but it turns out not to be a SSO. One of the issues that this finding highlights is that it is often very difficult to find old paperwork once it has been put in a box and placed in storage. This is very inefficient way to maintain documents. The department has started to digitize all old paper files. MSO work orders are being scanned into Lucity. Project

documents are being scanned into e-Builder. Once the documents have been digitized, it will be much easier to find specific documents as they are needed. The CD requires that we maintain records for 5 years past the closing date. This will be easy to do because the files are digitized. Hard copy of documents will be recycled after digitizing.

RESPONSIBLE PARTY: Jerry Walters, Director Utilities

ESTIMATED DATE OF COMPLETION: July 2021

ASSESSMENT OF RESPONSE: The timeframe noted above to address the finding seems extended. Management should strive to have digital records maintained for all SSOs sooner than the time estimated above.

**FINDING #13 – CITY IS REPORTING SSOs FOR UNOWNED SEWER ASSETS
(RISK RATING = HIGH)**

BACKGROUND:

In February of 2001, Resolution 50-01 was adopted to execute the Memorandum of Agreement (MOA) between Fort Smith and the Fort Chaffee Redevelopment Authority (FCRA) that outlined terms and conditions for developing and implementing a reuse plan for the Ft. Chaffee Military Reservation that was closed in September 1997 to ensure an orderly conversion to civilian use. The MOA referenced the City of Fort Smith as an independent contractor and agent to FCRA during the Interim Operating Period. In 2002, Amendment 2 (Agreement to Adjust Municipal Boundaries, Provide Municipal Services and Related Issues) to the MOA continued Fort Smith's status as an independent contractor and agent for FCRA for the operation and maintenance of FCRA's sewer system located within the new boundaries of Fort Smith. As of today, FCRA still owns the sewer assets until the Interim Operating Period ends.

FINDING:

As an independent contractor and agent to FCRA, the City of Fort Smith is reporting SSOs to ADEQ for FCRA-owned sewer asset locations. There was a total of fifteen (15) SSOs reported over a three-year period (2015-2017) by the City of Fort Smith for FCRA-owned sewer assets. See Exhibit II which shows the FCRA sewer basins area on the eastern side of Fort Smith.

RECOMMENDATIONS:

The City of Fort Smith should not report SSOs to ADEQ for FCRA-owned sewer asset locations since the City is an independent contractor and agent to FCRA. Fines/penalties for the SSOs occurring at FCRA-owned sewer assets should not be assessed to the City of Fort Smith. A discussion with FCRA should be held to determine proper reporting of SSO occurrences of FCRA-owned sewer assets during the Interim Operating Period.

UTILITY DEPARTMENT'S MANAGEMENT

RESPONSE:

FCRA is not positioned to respond to maintenance requirements, including SSOs, with these manholes. The Utility Department will continue to respond to overflows or maintenance requirements with the FCRA sewer system.

RESPONSIBLE PARTY: Jerry Walters, Director Utilities

ESTIMATED DATE OF COMPLETION: July 6, 2018

ASSESSMENT OF RESPONSE: Management's response, as presented, does not sufficiently address the finding. The current Agreement with FCRA states that as an independent contractor, the City of Fort Smith will continue to perform maintenance operations for FCRA-owned sewer assets during the extended Interim Period. The City of Fort Smith is under no obligation to report to ADEQ SSOs that occur for FCRA-owned sewer assets. As recommended above, discussions should be held to determine proper reporting of SSO occurrences of FCRA-owned sewer assets during the Interim Operating Period.

**FINDING #14 – INACCURATE AND UNTIMELY REPORTING TO ADEQ AND EPA
(RISK RATING = HIGH)**

BACKGROUND:

The Consent Decree requires SSOs to be reported to ADEQ within 24 hours of the City’s awareness of an SSO. The information reported to ADEQ and the EPA should be complete and accurate. Supervisors are responsible for ensuring the information reported is complete and accurate.

FINDING:

Reporting to ADEQ and the EPA has been inaccurate and untimely. We obtained the complete list of all SSOs that occurred during the audit period and randomly selected the following samples to determine if SSOs are reported timely with the correct information.

2015: 60 samples
2016: 25 samples
2017: 25 samples

We noted the following:

- Two (2) SSOs that occurred in December 2015 were not reported on the December Monthly DMR Report, which were related to data entry issues.
- Eight (8) SSOs were not reported within the required 24-hour period.
- Ten (10) SSOs reported were either reported under the wrong permit or had incorrect SSO start and end dates entered incorrectly.
- Seventeen (17) SSO Reports completed by field personnel did not have either an employee or supervisor’s signature to evidence review of completeness and accuracy.

RECOMMENDATIONS:

We recommend Field Personnel and Supervisors should evidence their review of SSO Reports for completeness and accuracy by signing and dating the report. This should be completed prior to entering information into the ADEQ website. Moreover, SSOs should be reported timely to ADEQ as required by the Consent Decree.

UTILITY DEPARTMENT’S MANAGEMENT

RESPONSE:

Staff will be reminded of the need to ensure SSOs are reviewed and properly input to the system.

RESPONSIBLE PARTY: Jerry Walters, Director Utilities

ESTIMATED DATE OF COMPLETION: JULY 19, 2018

ASSESSMENT OF RESPONSE: Management's response, as presented, sufficiently addresses the issues identified and corrective actions are appropriate.

EXHIBIT 1

EMPLOYEE SURVEY

Employee Survey

172
Responses

06:49
Average time to complete

Closed
Status

1. My job is challenging.

172
Responses

3.83 3.83 Average Rating

2. My skills are effectively used in my current position.

172
Responses

4.04 4.04 Average Rating

3. The job orientation I received was effective.

172
Responses

3.34 3.34 Average Rating

4. The workload is reasonable.

172
Responses

3.48 3.48 Average Rating

5. The work environment is safe and comfortable.

172

3.00

172
Responses

3.93 3.93 Average Rating

6. The work environment is appropriately equipped with the tools and resources needed to perform my job efficiently and effectively.

172
Responses

3.67 3.67 Average Rating

7. I am provided with enough training to do my job properly.

172
Responses

3.67 3.67 Average Rating

8. I am provided with enough information to do my job properly.

172
Responses

3.52 3.52 Average Rating

9. I understand what is expected of me in the workplace.

172
Responses

4.1 4.10 Average Rating

10. High quality work is stressed and is of high importance.

172
Responses

4.08 4.08 Average Rating

11. There is a high degree of team spirit on my job.

172
Responses

3.26 3.26 Average Rating

12. My job provides equal opportunities for all employees.

172
Responses

3.63 3.63 Average Rating

13. Managers give fair and equal treatment to all employees.

172
Responses

3.5 3.50 Average Rating

14. Managers are available to discuss job related issues.

172
Responses

3.81 3.81 Average Rating

15. Managers welcome suggestions and feedback.

172
Responses

3.6 3.60 Average Rating

16. Managers tell employees how they are doing on a periodic basis using performance evaluations.

172
Responses

3.07 3.07 Average Rating

17. Managers have trust and confidence in staff.

172
Responses

3.55 3.55 Average Rating

18. Managers give recognition for improvement and achievement.

172
Responses

3.27 3.27 Average Rating

19. Managers encourage cooperation in the workplace.

172
Responses

3.79 3.79 Average Rating

20. Managers provide development opportunities.

172
Responses

3.48 3.48 Average Rating

21. Managers practice fair and consistent policies and procedures.

172
Responses

3.45 3.45 Average Rating

22. Staff have trust and confidence in their managers.

172
Responses

3.31 3.31 Average Rating

23. I am satisfied with my salary.

172
Responses

2.16 2.16 Average Rating

24. My compensation matches my responsibilities.

172
Responses

2.33 2.33 Average Rating

25. I am empowered to influence the quality of my work.

172
Responses

3.76 3.76 Average Rating

26. I am comfortable with the professionalism of my coworkers.

172
Responses

3.65 3.65 Average Rating

27. I am able to achieve balance between my work and my family life.

172
Responses

3.82 3.82 Average Rating

28. I enjoy the physical working environment.

172
Responses

3.98 3.98 Average Rating

29. I am satisfied with the City's Utilities Department as a place to work.

172
Responses

3.3 3.30 Average Rating

30. Overall, how would you rate your work experience?

172
Responses

3.67 3.67 Average Rating

31. I know what the City's Consent Decree is.

172
Responses

3.91 3.91 Average Rating

32. I understand how the Consent Decree impact my job responsibilities.

172
Responses

3.83 3.83 Average Rating

33. How long have you worked for the City's Utilities Department?

- Less than 1 year 33
- 1-3 years 36
- 3-5 years 19
- 5-10 years 29
- 10-15 years 21
- More than 15 years 34

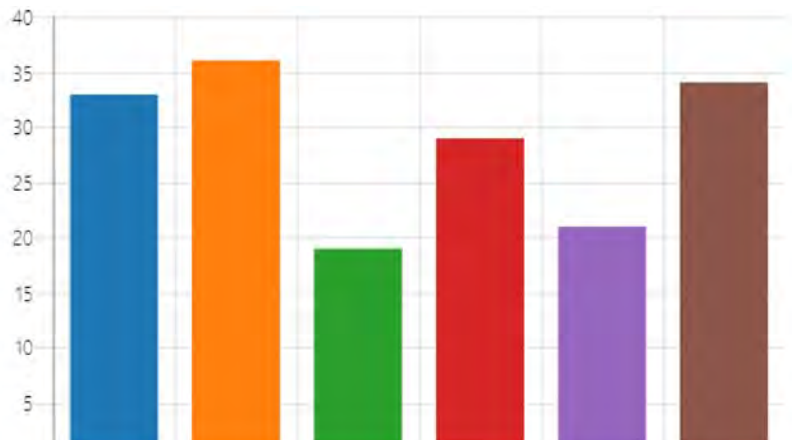
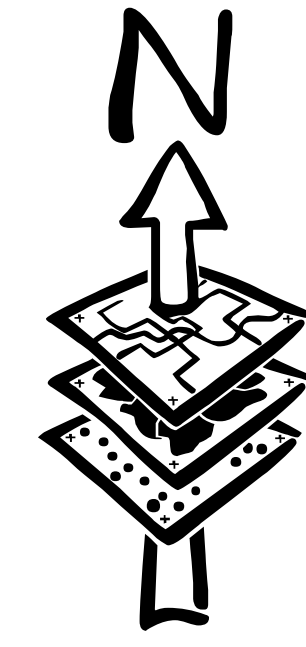


EXHIBIT 2

MAP OF SEWER BASINS

City of Fort Smith Sewer Basins



1"=1,500'

Legend

- ▲ WWTP
- ⊙ Sewer Lift Stations
- Rain Gauge
- ⋯ Basin Split
- ⊕ Sewer Sub-Basins
- ⊕ Arkansas River
- Streets
- ⊕ City Limits

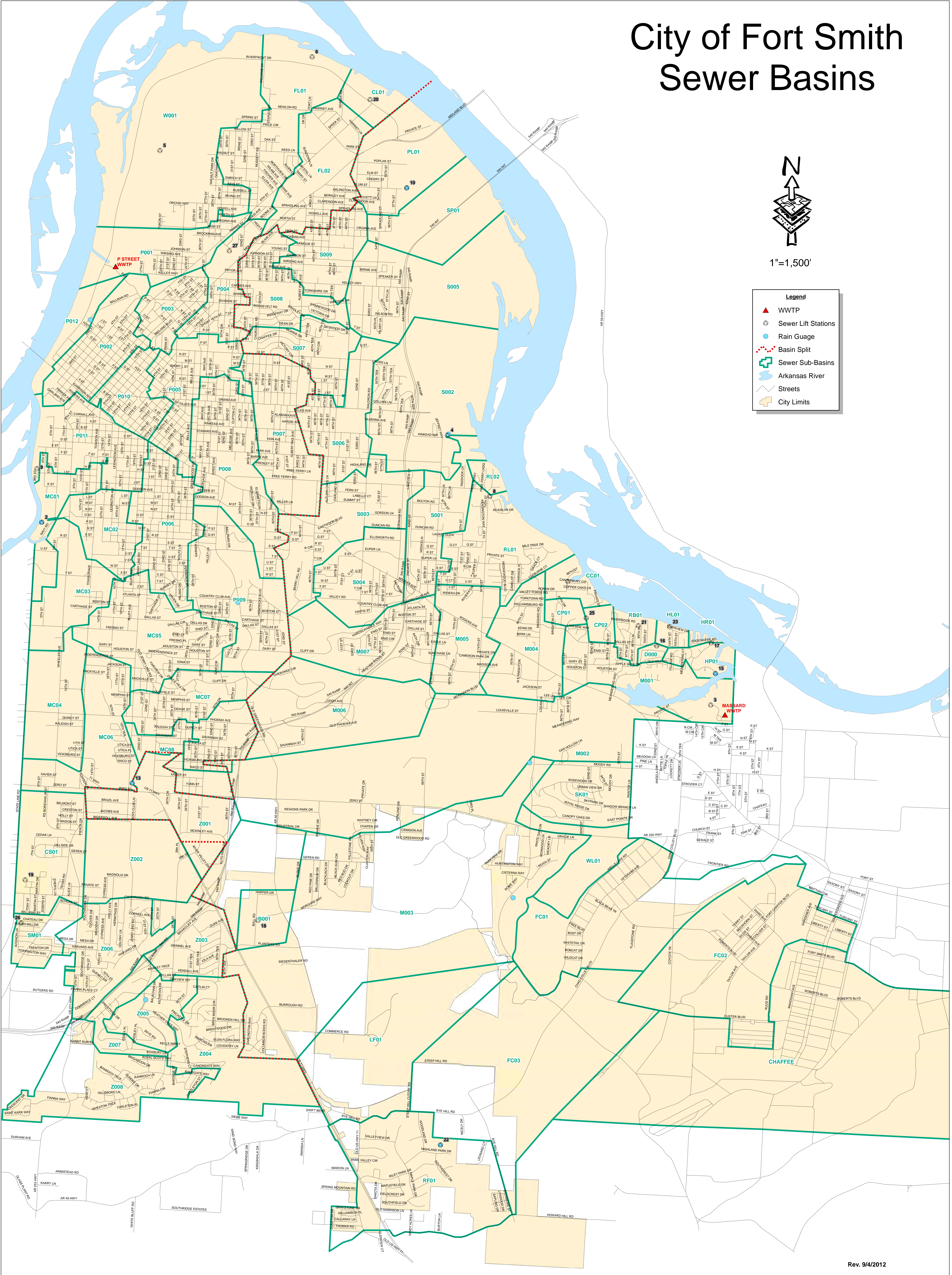
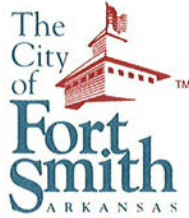


EXHIBIT 3

MANAGEMENT RESPONSES



1. Findings 1 and 2:

Response: Agree. The Utility Department leadership is drafting a new, consolidated fee structure/schedule which includes all services provided by the Department. This fee structure document will include, among others, fees for cross-connection, backflow devices and FOG inspections and permits.

Now that the cross-connection team is staffed, the new team leader is developing the new permit form for the cross-connection program. The process to issue the actual permit is being developed. Conducting the initial surveys is on-going.

Estimated Completion Date: December 21, 2018

2. Finding 3 and 4:

Response: Agree. The Utility Department leadership is drafting a new, consolidated fee structure/schedule which includes all services provided by the Department. This fee structure document will include, among others, fees for cross-connection, backflow devices and FOG inspections and permits.

Fees for FOG permits were proposed, but not adopted. Also, performance indicators were developed for the FOG program and were submitted to EPA in Feb. 2018. Staff is developing performance indicators to measure progress and success in meeting department goals. The indicators that were developed for the FOG program will be included in this ongoing effort. The goal is to ensure that the measures are specific, meaningful and achievable.

Estimated Completion Date: December 21, 2018

3. Finding 5 and 6:

Response: Agree. All department SOPs will be signed and dated when drafted and at each review. A department policy will be created to require periodic review.

Estimated Completion Date: August 18, 2018

4. Finding 7:

Response: Agree. The Utility Department and Finance Department have met and decided what policies are actually needed by the Utility Department. The new policies will be developed by

the Utility department staff, coordinated with the Finance Department and taken to the Board for review and approval.

Estimated Completion Date: December 19, 2018

5. Finding 8:

Response: Non-concur. Establishing the Utility Departments' MIS group has been a high priority in support of the Utility Department meeting consent and non-consent decree related work. A significant amount of effort was spent establishing and developing the MIS program that would meet Utility Department needs. Your opinion that the MIS group should be in the IT Department was considered early on by Utility management and rejected. The MIS group is centrally located within the department to provide a full spectrum of support to the Utility Department staff, both in the office and in the field. It seems that a central opinion of this finding is that the MIS team needs to be in IT so it can have admin rights. Again, early on, Utility management considered the need for the team to have admin rights and determined that the MIS team does not need admin rights. The admin rights question was easily answered because the Utility Department has funded two FTEs in IT to provide the support needed from an admin rights perspective.

Estimated Completion Date: N/A

6. Finding 9:

Response: Although I agree with the premise of this finding, the Utility Department has little direct influence over resolving this long standing issue.

Shortly after the Utility Director arrived, an employee survey was conducted. The results of that survey highlighted this long-term issue. The survey conducted by the auditor confirmed the results of the employee survey conducted by the Utility Director in May 2017. HR is currently conducting a City wide review of all job descriptions. Once that is completed, a salary survey will be conducted. The Department will work with HR to determine the appropriate salaries related to the job descriptions.

Estimated Completion Date: N/A

7. Finding 10:

Response: Agree. The current performance plans do not adequately measure employee performance. HR is revising the plans and once completed, each Utility Department employee will have a performance plan that will measure performance and provide meaningful feedback from their supervisor. Revised performance plans will be fully implemented within six months

of publishing the new City policy and performance plan format. Until that time, the old performance plans will be used. Evaluations will be performed annually.

Estimated Completion Date: May 2019

8. FINDING 11:

Response: Agree. IT will evaluate and determine the cost of providing email addresses and log-in credentials for each employee. Once the specifics have been defined, a decision will be made on how to best provide access.

ESTIMATED COMPLETION DATE: DECEMBER 19, 2018

9. FINDING 12:

Response: The current practice is to only assign an SSO number in Lucity when it's determined by the field crew that a SSO has actually occurred. Non-SSO events are not given a SSO number. There will be cases where a work order is issued, but it turns out not to be a SSO. One of the issues that this finding highlights is that it is often very difficult to find old paperwork once it has been put in a box and placed in storage. This is very inefficient way to maintain documents. The department has started to digitize all old paper files. MSO work orders are being scanned into Lucity. Project documents are being scanned into e-Builder. Once the documents have been digitized, it will be much easier to find specific documents as they are needed. The CD requires that we maintain records for 5 years past the closing date. This will be easy to do because the files are digitized. Hard copy of documents will be recycled after digitizing.

ESTIMATED COMPLETION DATE: JULY 2021

10. Finding 13:

Response: FCRA is not positioned to respond to maintenance requirements, including SSOs, with these manholes. The Utility Department will continue to respond to overflows or maintenance requirements with the FCRA sewer system.


ESTIMATED COMPLETION DATE: JULY 6, 2018

11. Finding 14:

Response: Staff will be reminded of the need to ensure SSOs are reviewed and properly input to the system.

ESTIMATED COMPLETION DATE: JULY 19, 2018

Sincerely,



Jerry Walters
Utility Director

EXHIBIT 4

ACKNOWLEDGEMENT STATEMENT

Acknowledgement Statement

May 8, 2018

**SUBJECT: MANAGEMENT & CULTURE PERFORMANCE/COMPLIANCE AUDIT REPORT–
ACKNOWLEDGEMENT OF MANAGEMENT RESPONSES**

I acknowledge that the management responses contained in the above referenced report are those of the Utility Department. I also understand that this document will become a part of the final audit report that will be posted on the Internal Audit's website.

Sincerely,



Jerry Walters
Utility Department