

**Audit  
Of  
Road Impact Fee Credits  
and Capacity  
Encumbrance/Reservations**

**Report by the  
Office of County Comptroller**

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## TABLE OF CONTENTS

Transmittal Letter.....	1
Executive Summary .....	2
Action Plan.....	4
Introduction .....	7
Background .....	8
Scope, Objectives, and Methodology .....	8
Overall Evaluation.....	11
Recommendations for Improvement .....	12
1. Credit Use Receipts Should Be Signed by Appropriate Personnel.....	13
2. Credits Were Not Validated/Recorded in the Correct Road Impact Fee Zone .....	14
3. Credits in the Road Impact Fee Credit Accounts Need to Be Calculated Correctly.....	15
4. Credits in the Road Impact Fee Credit Accounts Should Be Supported .....	17
5. Capacity Encumbrance/Reservation Procedures Need to Be Strengthened .....	19
6. Road Impact Fee Credits Were Issued Over the Amount Available in the Account .....	23
7. Internal Controls Over Building Division's Cash Collection and Reconciliation Procedures Should Be Strengthened .....	24
8. Transfer Receipts Need to Be Maintained For Files.....	26
9. Procedures for Building Permit Fees Should Be Strengthened.....	26
10. Building Permit Fees Should Be Charged Correctly.....	30

January 15, 2002

Richard T. Crotty, County Chairman  
And  
Board of County Commissioners

We have conducted an audit of Road Impact Fee Credits and Capacity Encumbrance/Reservations. The audit was limited to an examination of internal controls and procedures performed for road impact fee credits and capacity encumbrance/reservations. We also reviewed additional matters that came up during our review. Our audit was conducted in accordance with generally accepted government auditing standards and included such tests as we considered necessary in the circumstances.

Although the processing of road impact fee credits and capacity encumbrance/reservations have been handled by several county departments over the years, responses to our Recommendations For Improvement were received from the Director of the Building Division, who currently has responsibility for this function. These responses are incorporated herein.

We appreciate the cooperation of the personnel of the Building Division during the course of the audit.

Martha O. Haynie, CPA  
County Comptroller

c: Ajit M. Lalchandani, County Administrator  
John Warbington, Director of Building Division, Planning/Community Services  
Department

# EXECUTIVE SUMMARY

## Executive Summary

We have conducted an audit of Road Impact Fee Credits and Capacity Encumbrance/Reservations. The audit was limited to an examination of internal controls and procedures performed for road impact fee credits and capacity encumbrance/reservations. During our review, we found road impact fee credit and capacity encumbrance/reservation controls under the Building Division were adequate. Based on our testing, road impact fee credit procedures were materially in compliance with Orange County Ordinances and Code. Improvements were needed as follows:

During our review of road impact fee credit files, we found that credit use receipts, whereby impact fee credits are issued, were not always signed by appropriate personnel and were not always validated in the correct impact fee zone. In addition, we found eight errors on the building credit summary sheets in the 42 files reviewed for a net overstatement of \$189,225.68. These errors consisted of incorrect entries and over and under stated credit balances in the account. Overstating the road impact fee credit account balance allows permitting to occur without the required payment of fees, resulting in lost revenue. Further, in one file, \$716,079 in road impact fee credits was transferred from one account to another prior to the monies being available in the transferring account. Credit amounts were transferred to the account after this transaction.

During our review of capacity encumbrance/reservation files, we also found capacity use receipts were not always signed by the appropriate personnel and were not validated in the correct road impact fee zone as required by Orange County Code.

Internal controls over Building Division's cash collection and reconciliation procedures need to be strengthened. We found that the duties of accounting and custodial functions were not segregated and that blank checks are accepted and processed at a later date. We also found that permitting payments were not always safeguarded.

The owner's estimated value was not always stated on the building permit application for commercial and residential. Without this value, we could not determine if the correct permitting fees were charged. In addition, a system to ensure Building Division values are current is not in place and documented.

Recommendations for Improvement are noted in this report. Prior to the issuance of the report, Building was notified of the areas of concern and has begun developing and implementing corrective action. We encourage management to continue implementing corrective actions and commend their on-going efforts.

# ACTION PLAN

**AUDIT OF ROAD IMPACT FEE CREDITS AND CAPACITY ENCUMBRANCE/RESERVATIONS  
ACTION PLAN**

NO.	MANAGEMENT RESPONSE			IMPLEMENTATION STATUS		RECOMMENDATIONS
	CONCUR	PARTIALLY CONCUR	DO NOT CONCUR	UNDERWAY	PLANNED	
1.	X			X		We recommend the appropriate signatures be recorded on the credit use receipt before they are validated.
2.	X			X		We recommend credit use receipts be validated/recorded in the correct zone.
3.	X			X		We recommend the Building Division ensures transactions and balances are correct in the road impact fee credit accounts.
4.	X			X		We recommend the Building Division maintains adequate support documentation in the road impact fee credit accounts.
5.						We recommend the Building Division performs the following:
A)	X			X		Ensure legal descriptions for capacity encumbrance/reservation accounts are in the file;
B)	X			X		Ensure capacity use receipts have the appropriate signatures before the corresponding building permit has been finalized;
C)	X			X		Verify that capacity use receipts are not sold, assigned, transferred or conveyed apart from the real property described in the capacity reservation certificate and take caution to ensure that capacity use receipt validations include the correct traffic impact fee zone; and
D)			X			Ensure proper precautions are taken to accurately account for capacity encumbrances/reservations.
6.	X			X		We recommend the Building Division ensures that a road impact fee credit balance is available in the account before issuing a credit receipt.

**AUDIT OF ROAD IMPACT FEE CREDITS AND CAPACITY ENCUMBRANCE/RESERVATIONS  
ACTION PLAN**

NO.	MANAGEMENT RESPONSE			IMPLEMENTATION STATUS		RECOMMENDATIONS
	CONCUR	PARTIALLY CONCUR	DO NOT CONCUR	UNDERWAY	PLANNED	
7.						We recommend the following internal controls be implemented:
A)	X			X		Accept checks that are completed by the payor at the time of receipt;
B)	X			X		Segregate the duties of accounting and custodial functions and ensure a reconciliation of receipts includes the use of a check log and be approved by a supervisor; and
C)	X			X		Safeguard permitting payments by using a locked mailbox.
8.	X			X		We recommend transfer receipts be prepared when transferring files from one place to another.
9.						We recommend the Building Division performs the following:
A)	X			X		Obtain a reasonable estimate of the construction value by the building permit applicant to ensure that permitting fees are calculated based on the proper valuation;
B)	X			X		Implement and document a system to ensure Building Division values are current; and
C)	X			X		Ensure the accuracy of all applicable amounts prior to issuing a building permit.
10.	X			X		We recommend the Building Division ensures road impact fees and credits are charged correctly on building permits.



# INTRODUCTION

**Background**

The Board of County Commissioners determined that new growth and development requires improvements to the major road network system. One way to finance these improvements is road impact fees on new growth and development which does not exceed a pro rata share of the reasonably anticipated costs of major road network system expansion and improvements. These road impact fees are to be paid to the Building Division at the time of issuance of a building permit. For certain projects, the road impact fees may be deferred until the authorization of pre-power or issuance of a certificate of occupancy. In addition, in lieu of paying the impact fee due, an owner is entitled to a credit against any road impact fees assessed in an amount equal to their cost of off-site improvements or contributions of land, money or services for off-site improvements.

Capacity applies to the ability of the current infrastructure to accommodate the additional road trips created by new development. A developer is required to apply for a capacity encumbrance letter to ensure the capacity is available for the proposed development. When the capacity is needed, the developer applies for a capacity reservation certificate, along with payment of a capacity reservation fee. Capacity reservation fees can be paid according to the type of capacity reservation certificate requested (fixed or flexible). If a fixed certificate is requested, a specific quantity of capacity must be requested and fees are paid for use during each year of the reservation time frame. Upon receipt of applicable fees, the flexible certificate allows the developer to utilize the capacity at anytime during the term of the certificate. Capacity use receipts are used by the developer to obtain credits for road impact fees charged on building permits.

**Scope, Objectives,  
and Methodology**

The audit was limited to an examination of internal controls and procedures performed for road impact fee credits and capacity encumbrance/reservations. The period audited was October 1, 1998 to July 31, 1999 and considered procedures in place through April 2001. In some cases, documents reviewed and actions taken were for periods significantly

earlier than the stated audit period due to the nature of these transactions. The audit objectives were as follows:

1. To verify procedures performed for road impact fee credits and capacity encumbrance/reservations were according to Orange County Ordinances and Code.
2. To determine if internal controls relating to procedures performed for road impact fee credits and capacity encumbrance/reservations were adequate.
3. To ensure road impact fee credits and capacity encumbrance/reservations were processed accurately and transactions were posted correctly.

To verify procedures for road impact fee credits and capacity encumbrances/reservations were according to Orange County Ordinances and Code, we reviewed and compared applicable ordinances and code to Building Division procedures.

To determine if internal controls relating to procedures performed for road impact fee credits and capacity encumbrance/reservations were adequate, we interviewed appropriate personnel and obtained internal written procedures for road impact fee credits and capacity encumbrance/reservations. We then examined these procedures for adequate internal control.

To ensure road impact fee credits and capacity encumbrance/reservations were processed accurately and deductions were posted correctly, we selected a sample of road impact fee credit and capacity encumbrance/reservation files and reviewed each for selected criteria. For road impact fee credit files, we determined if a Development/Alternative Development Agreement was in the file or other documentation of a road impact fee credit assignment. We also determined if appropriate personnel signed the traffic impact fee credit use receipts (credit use receipts) and whether credits were recorded in the authorized traffic zone. In addition, we verified that the road impact fee account balance was

accurate. For capacity encumbrance/reservation files, we verified that the application for the capacity encumbrance letter and the receipt for the capacity encumbrance letter application fee were in the file. We also determined that there was a complete legal description, a construction location map, a Utilities Division capacity review response, and a Traffic Engineering capacity review response in the file. In addition, we determined if an application for the capacity reservation certificate, if applicable, was in the file and the corresponding fee was correctly collected. We also ensured a receipt for the capacity reservation certificate application fee was correct and in the file. Further, we ensured that all issued capacity use receipts were signed by the appropriate personnel, validated, and used in the authorized traffic zone. We also ensured the balance in the capacity reservation file was correct.

We did not perform any testing of the accuracy of the compilation of road impact fee credits and capacity encumbrances/reservations.

During our review of road impact fee credits and capacity encumbrance/reservations, other matters came to our attention regarding building permit fees that needed reporting. When performing procedures during the survey phase of the audit, we noted certain procedures in the building permitting process that needed improvement. We reviewed a sample of building permits and corresponding building applications to determine if the owner's estimated value was obtained, if the building value amount (based on Building Division's calculation) was correct and whether building permit fees were calculated correctly.

Had we performed additional procedures in addition to those relating to the above areas, other matters could have come to our attention that would have been included in this report.

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## INTRODUCTION



Audit of Road Impact Fee Credits and  
Capacity Encumbrance/Reservations

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### **Overall Evaluation**

In our opinion, road impact fee credit and capacity encumbrance/reservation controls under the Building Division were adequate. Based on our testing, road impact fee credit procedures were materially in compliance with Orange County Ordinances and Code. Additional improvements are needed as noted in this report.

# RECOMMENDATIONS FOR IMPROVEMENT

**1. Credit Use Receipts Should Be Signed by  
Appropriate Personnel**

Six percent (22 of 392) of the credit use receipts were not signed by the appropriate Planning and Building Division personnel. Furthermore, a review of seven road impact fee credit accounts could not be conducted because six of the files could not be located by Building Division staff and one of the files lacked adequate documentation. Prior to permitting, the credit use receipt should have the signature of a Plan Examiner and the Impact Fee Administrator. Without the appropriate signatures, these receipts could be duplicated without timely detection or the incorrect fee could be charged. If undetected, this could result in a loss of revenue.

**We Recommend** the appropriate signatures be recorded on the credit use receipt before they are validated.

**Management's Response:**

It was discovered during the audit that appropriate Orange County personnel did not sign credit use receipts. The credit use receipts in question covered permits issued from 1992 through 1999. During this time, several different managing divisions were involved in the oversight of these receipts. The oversight of the Transportation Credit Accounts became the responsibility of the Building Division on September 22, 1996. During 1999 the Concurrency Management Official's signature became the only required signature for authorization of a credit use receipt.

Additionally, it was indicated that a review couldn't be conducted on seven transportation credit accounts because the files could not be located. These files were established prior to 1989. Therefore, it is possible that these files remained with the original or one of the other managing division offices.

The Building Division concurs that the appropriate signature be obtained and recorded on the credit use receipt.

**2. Credits Were Not Validated/Recorded in the Correct Road Impact Fee Zone**

Thirty-six percent (4 of 11) of the road impact fee credit accounts reviewed had credits validated/recorded in the incorrect traffic impact fee zone. Furthermore, a review of sixteen of the accounts for the proper zone could not be conducted due to the following:

- Six of the files could not be located by Building Division staff.
- One of the files lacked adequate documentation.
- Four of the files contained non-validated credit use receipts.
- Five files could not be determined because the Developer's Agreement was not available or the zone was not stated in the Agreement and there were no credit use receipts in the file.

Chapter 23, section 91-25 of the Orange County Code allows the use of a portion or all of a credit account to be assigned or reassigned only within the road impact zone that the project site is located. Proper accounting procedures require that transactions be assigned to the appropriate general ledger account. Validation of the credit use receipt with the incorrect zone will result in the incorrect general ledger classification of the transaction. If the credit use receipts are sold, assigned, transferred or conveyed to a zone outside the original project site described in the Developers Agreement, construction could occur in an area that does not contain the capacity to support new development.

**We Recommend** credit use receipts be validated/recorded in the correct zone.





**Management’s Response:**

The four items indicated as not being properly validated/recorded in the proper traffic impact fee zones were for permits issued during 1988, 1989, and 1992. During this time the Finance Department staff reviewed all receipts processed by the Building Division and routinely made corrections. Therefore, it is possible that corrections to the accounting system were made to reflect the proper zones after these items were incorrectly validated. However, if a Plan Examiner entered the improper zone then other personnel carried it incorrectly forward.

The Building Division concurs that credit use receipts be validated/recorded in the correct zone, and we will re-emphasize this with Division personnel.

**3. Credits in the Road Impact Fee Credit Accounts Need to Be Calculated Correctly**

During our review of road impact fee credit accounts, we found eight errors in the building credit summary sheet for a net overstatement of \$189,225.68. These errors consisted of incorrect entries and over and under stated credit balances in the account. As previously stated, a review of seven accounts could not be conducted because six of the files could not be located by Building Division staff and one of the files lacked adequate documentation. See the following table for these errors:

<b>Account Number</b>	<b>Exception Amount</b>	<b>Comment</b>
10c	(\$ 3,837.88)	Overstated BDB - (over drawn balance) - assigned more than the available balance
30	721.26	Understated BDB - balance remains unreconciled
30	(1,368.68)	Overstated BDB - incorrect credit entry for lot 13
30	11,670.78	Understated BDB -the beginning balance on summary sheet is less than the support documentation

**RECOMMENDATIONS  
FOR IMPROVEMENT**



Account Number	Exception Amount	Comment
32	(125,525.32)	Overstated BDB - the Developers Agreement has expired
46	(1,060.98)	Overstated BDB - (over drawn balance - a refund and a credit for 1,060.98/each was recorded for B88-010974
65	(120,000.00)	Overstated BDB-credits on the summary sheet are for more than support documentation
74	50,175.14	Understated balance – calculation error
<b>Total</b>	<b>(\$189,225.68)</b>	

BDB-Building Division Balance

The \$125,525.32 overstatement and \$50,175.14 understatement were corrected during our review.

Good accounting practices require that accounting information be verifiable, accurate and complete. Overstating the road impact fee credit account balance allows permitting to occur without the required payment of fees, resulting in lost revenue. Understating the account balance requires an additional payment of fees that is not required for permitting, resulting in unearned revenue.

**We Recommend** the Building Division ensures transactions and balances are correct in the road impact fee credit accounts.

**Management’s Response:**

During the audit, it was stated that eight errors were uncovered resulting in overstated and understated credit balances in seven transportation credit accounts. Four of the accounts (10c, 30, 32, and 46) were dormant since 1996. As stated, two of the accounts (32 and 74) were adjusted to reflect the correct balances. The agreement for account 65 states that impact fee credits be issued at \$150,000 per acre. The account was granted credits in the amount of \$1,513,605 by the end of 1996. However, after discussing the matter with the developer and in the absence of

**RECOMMENDATIONS  
FOR IMPROVEMENT**



additional supporting documentation the account has been adjusted to reflect a lower available balance.

The Building Division concurs that every effort should be taken to ensure that accurate and complete information is entered into each account.

**Auditor’s Comment:**

Although four of the accounts listed above were dormant, they had a credit balance and could be used at some point in the future.

**4. Credits in the Road Impact Fee Credit Accounts Should Be Supported**

During our review of road impact fee credit accounts, we found 12 transactions on the building credit summary sheet totaling \$10,066.32 that were not supported. As previously stated, a review of seven accounts could not be conducted because Building Division staff could not locate six of the files and one of the files lacked adequate documentation. See the following table for these unsupported amounts:

<b>Account Number</b>	<b>Unsupported Amount</b>	<b>Comment</b>
32	(\$9,474.68)	No documentation for refund.
45	(287.29)	The building summary sheet is the only source of information for the transaction.
45a	(1,368.69)	The file contains a variance in the amount stated in the building department summary sheet and audit reconciliation for lot #10.
45a	(1,368.69)	The file contains a variance in the amount stated in the building department summary sheet and audit reconciliation for lot #25.
45a	(1,368.69)	The file contains a variance in the amount stated in the building department summary sheet and audit reconciliation for lot #43.

**RECOMMENDATIONS  
FOR IMPROVEMENT**



Account Number	Unsupported Amount	Comment
45c	(1,060.98)	"Paid Cash" is written on the Credit Use Receipt for lot 55. None of the 10 Credit Use Receipts in the file were signed or validated.
45c	(1,060.98)	"Paid Cash" is written on the Credit Use Receipt for lot 77. None of the 10 Credit Use Receipts in the file were signed or validated.
46	151.78	The amount listed on the Building summary sheet was not supported.
63	(1,368.69)	There is an unsupported credit on the building summary sheet for B92-041656.
72	6,724.99	File contained inadequate documentation.
72	19,041.24	File contained inadequate documentation.
84	1,507.00	File contained inadequate documentation.
<b>Total</b>	<b>\$10,066.32</b>	

According to Chapter 23, Article IV, Sec. 23-95 of the Orange County Code, Building Division staff are responsible for the establishment and monitoring of road impact fee credit accounts. Good business practices require that adequate records be maintained. We could not determine if these amounts were valid or accurate since no support documentation exists. Credit accounts could be over/understated by these amounts.

**We Recommend** the Building Division maintains adequate support documentation in the road impact fee credit accounts.

**Management's Response:**

Audit determined that twelve transactions were not supported by proper documentation during their review. Six transportation credit accounts (32, 45, 45a, 45c, 46, and 63) had no activity since 1993. One account (84) contains evidence of documentation.

The Building Division concurs that adequate support documentation be maintained in the account files.

**Auditor's Comment:**

Although there was documentation in file no. 84, as noted above, this documentation was not adequate as there was no support for a \$1,507 assignment to another account.

**5. Capacity Encumbrance/Reservation Procedures Need to Be Strengthened**

During our review of capacity encumbrance/reservation account files, we found the following:

- A) Nine percent (4 of 43) of the capacity encumbrance/reservation accounts did not have the complete legal description of the proposed development property in the file. The file for one account could not be located to determine if the legal description was present in the file. According to Section 30-582 (a) (3) of the Orange County Code, a parcel I.D. number and legal description must be submitted with an application for a capacity encumbrance letter. Furthermore, Section 30-614 requires that the Concurrency Management Official maintain documentation for all aspects of the concurrency management system. Without such in the file, documentation does not exist to verify capacity or transfers of capacity.
  
- B) Two percent (13 of 664) of the capacity use receipts were not signed by the appropriate Planning and Building Division personnel. The file for one account could not be located to determine if the capacity use receipts had been signed. Prior to permitting, the capacity use receipt requires the signature of the Capacity Management Official and a Plans Examiner. Without the appropriate signatures, duplication of capacity use receipts and inaccuracy in permitting could occur. If undetected, unauthorized duplication

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## RECOMMENDATIONS FOR IMPROVEMENT



of capacity use receipts could result in loss of revenue.

- C) Eight percent (51 of 664) of the capacity use receipts were used or validated in the incorrect road impact fee zone. The file for one account could not be located to determine if the capacity use receipts were recorded or validated in the correct zone. According to Section 30-587 of the Orange County Code, a capacity encumbrance letter may not be sold, assigned, transferred or conveyed separate from the real property that is described in the letter. Section 30-598 requires that a capacity reservation certificate not be sold, assigned, transferred or conveyed separate from the real property that is described in the capacity reservation certificate. If capacity use receipts are sold, assigned, transferred or conveyed apart from the real property described in the capacity reservation certificate, construction could occur in an area that does not contain the capacity to support new development. Validation of the capacity use receipt with the incorrect zone will also result in the incorrect general ledger classification of the transaction.
- D) Eighteen percent (3 of 17) of the capacity encumbrance/reservation accounts did not contain the correct balance. The file for one account could not be located to determine if it contained the correct balance. Overstating the capacity encumbrance/reservation account balance allows permitting to occur without the required payment of fees, resulting in lost revenue. Understating the account balance requires an additional payment of fees that is not required for permitting, resulting in unearned revenue. The following table shows the incorrect balances:

**RECOMMENDATIONS  
FOR IMPROVEMENT**



Account Number	Amount	Comment
97-125	\$ 114.00	Overstated account balance
98-91	\$1,368.69	Understated account balance
98-143	\$1,722.00	Understated account balance

The Building Division corrected the \$114.00 overstated balance and the \$1,368.69 understated account balance during our review.

**We Recommend** the Building Division performs the following:

- A) Ensure legal descriptions for capacity encumbrance/reservation accounts are in the file;
- B) Ensure capacity use receipts have the appropriate signatures before the corresponding building permit has been finalized;
- C) Verify that capacity use receipts are not sold, assigned, transferred or conveyed apart from the real property described in the capacity reservation certificate and take caution to ensure that capacity use receipt validations include the correct traffic impact fee zone; and
- D) Ensure proper precautions are taken to accurately account for capacity encumbrances/reservations.

**Management's Response:**

- A) Four capacity encumbrance/reservation accounts were cited as not having complete legal descriptions of the proposed development property in the file. However,

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## RECOMMENDATIONS FOR IMPROVEMENT



one file did contain the legal description (97-140). The Building Division staff has since created a checklist to minimize these types of occurrences. We concur that every effort be taken to retain appropriate documentation.

- B) Two percent of the capacity use receipts were cited as not being signed by plans examiners when issuing permit documents.

This issue has been previously addressed, see Item #1.

- C) Eight percent of the capacity use receipts were used or validated in the incorrect road impact fee zone. This occurs when a Plans Examiner incorrectly inputs the improper zone while populating the fee screen during the review process. This carries over during validation at time of fee collection.

We concur that caution should be taken to ensure that capacity use receipt validations include the correct traffic impact fee zone. This issue will be re-emphasized with all Plans Examiners.

- D) Three of the capacity encumbrance/reservation accounts were cited with an incorrect balance. This statement is incorrect. Account 97-125 was stated to be over \$114.00. However, this was a capacity reservation application fee that was included with the capacity reservation fee submitted by the developer for processing the reservation certificate. This is the standard application fee charged for processing these requests, as per the Fee Directory. No credit capacity use was permitted for \$114. Both account 98-91 and 98-143 was mentioned to be understated. These occurrences took place as a refund or transfer was processed which made it appear that each account was understated. When a refund is processed a voucher is prepared, authorization signatures are obtained, and a copy is then made for the account file. Once this process is completed, the account



spreadsheet is updated. A permit refund was authorized for account 98-91 along with an impact fee transfer. Account 98-143 had a transfer of the impact fee. Therefore, both accounts had the impact fee transferred to another permit. No additional impact fee was collected on the new permits. Therefore, as mentioned, when the Division completed processing the refund and transfers the funds were returned to the appropriate account.

**Auditor's Comment:**

At the time of our review, the \$114 application fee was included in the amount for credits on the building summary sheet. The amount was taken out of the building summary sheet by building staff after we brought it to their attention. Also, account 98-91 was deducted from the credit balance on the building summary sheet but there were voided documents in the file. As such, no deduction should have been made. Account 98-143 had the \$1,722 deducted twice from the credit balance on the building summary sheet for the same lot number.

**6. Road Impact Fee Credits Were Issued Over the Amount Available in the Account**

According to Section 23-95 of the Orange County Code, a portion or all of a road impact fee credit account may be assigned for use in another account only within the road impact zone in which the project site is located. We found that \$716,079 in road impact fee credits was transferred from one account to another without the monies being available in the transferring account. Credit amounts were eventually transferred to the account after the fact. These credits should not have been issued until the credit amounts were available in the account. Issuing credits on building permits before credit amounts are available allows permitting to occur without the required payment of fees, resulting in lost revenue.

**We Recommend** the Building Division ensures that a road impact fee credit balance is available in the account before issuing a credit receipt.

**Management's Response:**

The Building Division concurs with this recommendation.

**7. Internal Controls Over Building Division's Cash Collection and Reconciliation Procedures Should Be Strengthened**

During our review of cash collection and reconciliation procedures for the Building Division, we found the following:

- A) Building permit applicants (the vast majority are contractors) are allowed to drop off blank checks that are processed later. This is done when an applicant wishes to leave payment for a permit when there is uncertainty as to the final cost. Checks incomplete in amount or payee should not be accepted. Incomplete checks increase the possibility of impropriety.
  
- B) One of the Building Division's cashiers who has access to the safe usually collects the undeposited cash and checks at the end of the day to place in the safe overnight and distributes them the following morning to the Plans Examiner for processing. The cashier also performs the Building Division's cashier reconciliation and has the ability to make changes to computer records. The reconciliation of all cashing transactions that are ready for deposit does not occur until the morning after receipt. The reconciliation does not include the use of a check log and is not approved by a supervisor. Good internal controls require the segregation of the following duties: performance, record keeping, and the safeguarding of assets. In addition, a reconciliation of receipts should include the use of a check log and be approved by a supervisor. The lack of good internal controls can

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## RECOMMENDATIONS FOR IMPROVEMENT



result in collusion, misappropriation and falsification of assets.

- C) Once the permitting process has been completed, the Plans Examiner drops the payment in the "residential drop off mailbox" in the Building Division cashier's office. The "mailbox" is not an enclosed/secure box. Good internal controls require that assets, such as cash, be safeguarded. The lenient safeguards over cash can result in loss or misappropriation of receipts.

**We Recommend** the following internal controls be implemented:

- A) Accept checks that are completed by the payor at the time of receipt;
- B) Segregate the duties of accounting and custodial functions and ensure a reconciliation of receipts includes the use of a check log and be approved by a supervisor; and
- C) Safeguard permitting payments by using a locked mailbox.

**Management's Response:**

- A) The Building Division has maintained a drop off permit process for many years as an accommodation to our clients since the cost of a permit cannot be calculated until the plans are reviewed. Part of the process includes the acceptance of checks incomplete in amount. At the time of acceptance each check is restrictively endorsed, entered on a check log, and retained in the safe until permit issuance. Under these conditions, the possibility of misappropriation is slight and is weighed against our obligations to provide service. Nevertheless, this process has been altered so that checks are no longer accepted when plans are dropped off for review.

- B) The supervisor over the cashiering section performs the reconciliation of all cashiering transactions. The supervisor rarely performs cashier activities, has been restricted from making changes to computer records, and management now approves the reconciliation of all cashiering transactions.

Therefore, segregation of performance, record keeping, and the safeguarding of assets have been re-addressed.

- C) This issue has been previously addressed, see Item #7, (A) above.

**8. Transfer Receipts Need to Be Maintained For Files**

As noted in several recommendations, we found that the Building Division could not locate the files for six road impact fee credit accounts and one capacity encumbrance/reservation account. We were unable to ascertain whether Building Division ever received these since, prior to our audit period, these files were processed by several county departments during the past few years. Care should be taken to ensure files are maintained appropriately. A transfer receipt signed by parties providing and receiving the files would help ensure accountability of the files.

**We Recommend** transfer receipts be prepared when transferring files from one place to another.

**Management's Response:**

The Building Division concurs with this recommendation.

**9. Procedures for Building Permit Fees Should Be Strengthened**

During our audit of road impact fee credits and capacity encumbrances/reservations, we noted the following concerns regarding building permit fees:

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## RECOMMENDATIONS FOR IMPROVEMENT



- A) Seven percent (1 of 15) of the commercial applications for building permits and 80 percent (4 of 5) of the residential applications for building permits reviewed did not have the owner's estimated value stated on the application. The 1999 Orange County Fee Schedule indicates that the minimum (County) schedule of valuations should be applied to a structure for which a permit is filed. However, if the contract valuation (owner's estimate) is greater it should be used for determining the fee. Without the owner's estimated value on these applications, we could not determine if the correct permitting fees were charged.
- B) Based on our sample of building applications, the aggregate Building Division value was 31 percent less than the owner's estimated value. Calculating the building permit fees on a lower construction value results in lower permitting fees. A comparison between the Building Division estimated value for the fifteen commercial and five residential applications sampled and the November/December 1999 Southern Building magazine rates for "average" construction resulted in fourteen of the commercial and all of the residential applications having a Building Division estimated value of construction less than the value derived from the Southern Building magazine rates. According to Chapter 9, Section 9-103 of the Orange County Code, the 1997 edition of the Standard Building Code is the governing law for building standards in Orange County, Florida. We could not obtain adequate documentation from the Building Division to determine how their estimated value is calculated. A system should be in place and documented to determine if the Building Division's estimated value is in line with current costs. Utilizing non-current rates can result in a lower calculated construction value and lower permitting fees.
- C) The review of the commercial building permit applications revealed that one of the three applications reviewed did not have the Building

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## RECOMMENDATIONS FOR IMPROVEMENT



Division value for the cost of construction calculated correctly and 14 percent (2 of 14) of the permits did not have the correct building fee. The accuracy of the Building Division value calculation for the cost of construction could not be determined for thirteen accounts because the amount was not stated on the application or inconclusive information existed for determining the value. Good accounting practices require that amounts be stated accurately and that procedural documentation exists to ensure the consistent handling of permit processing. If the Building Division value instead of the owner's estimated value is used as the estimated cost of construction and it is calculated incorrectly, the building permit fees, a derivative thereof, will be incorrect. In addition, the estimated cost of construction may be calculated correctly and an error can occur in applying the applicable Orange County Fee Schedule amount to the construction value resulting in an incorrect permitting fee. The aforementioned incorrect building fee represents \$48,205.00 in uncollected building permit fees, of which \$48,195.00 has since been collected by the Building Division.

**We Recommend** the Building Division performs the following:

- A) Obtain a reasonable estimate of the construction value by the building permit applicant to ensure that permitting fees are calculated based on the proper valuation;
- B) Implement and document a system to ensure Building Division values are current; and
- C) Ensure the accuracy of all applicable amounts prior to issuing a building permit.

**Management's Response:**

- A) In the absence of the owner's estimated value the Building Division uses the minimum schedule of valuations as stated in the 1999 Orange County Fee Directory.

We concur that the owner's estimated value is requested and this will be re-emphasized with Division personnel.

- B) The Building Division's mission is threefold:
- To ensure public health, safety, and the welfare through the enforcement of the adopted codes
  - To promote the economic health of Orange County by enhancing business development and retention
  - To provide exemplary customer service for Orange County Citizens and Customers

Keeping our mission in mind the Building Division periodically polls surrounding counties to compare our fee structure. We have found that our fees are somewhere in the middle of the pack. Additionally, a fee study is currently being conducted on the Building Division by a consulting firm and the findings will be forthcoming.

- C) The Building Division in conjunction with ISS has developed a computer process whereby the permit fees are calculated based on the construction valuation. This is currently operational for commercial permitting and underway for residential permitting. It will no longer be necessary for permit fee calculations to be made manually.

We concur that accurate fees be charged.

**RECOMMENDATIONS  
FOR IMPROVEMENT**



**10. Building Permit Fees Should Be Charged Correctly**

When reviewing building permits that had road impact fee credits used, we found that 25 percent (31 of 124) of the building permits had road impact fees that were overcharged totaling \$10,890.24. The following table shows the building permits that were overcharged:

Building Permit	Credit Letter Amount	Amount Overcharged
B99005951	\$1,722.00	\$353.31
B99005960	1,722.00	353.31
B99005963	1,722.00	353.31
B99005964	1,722.00	353.31
B99005968	1,722.00	353.31
B99005972	1,722.00	353.31
B99007157	1,722.00	353.31
B99007161	1,722.00	353.31
B99007168	1,722.00	353.31
B99007578	1,722.00	353.31
B99007581	1,722.00	353.31
B99007585	1,722.00	353.31
B99007649	1,722.00	353.31
B99007654	1,722.00	353.31
B99007656	1,722.00	353.31
B99007657	1,722.00	353.31
B99007798	1,722.00	353.31
B99008107	1,722.00	353.31
B99008172	1,722.00	353.31
B99008174	1,722.00	353.31
B99006796	1,722.00	353.31
B99006799	1,722.00	353.31
B99006806	1,722.00	353.31
B99007651	1,722.00	353.31
B99004300	1,094.95	344.40
B99004303	1,094.95	344.40
B99004314	1,094.95	344.40
B99004749	1,094.95	344.40
B99004754	1,094.95	344.40
B99005298	1,094.95	344.40
B99005635	1,094.95	344.40
<b>Total</b>		<b>\$10,890.24</b>



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## RECOMMENDATIONS FOR IMPROVEMENT



The road impact fees changed from \$1,368.69 to \$1,722.00 on January 1, 1999. Previously issued reservation certificates issued to the developer at the lower amount, required an additional fee of \$353.31 after January 1, 1999. The builder paid these additional funds. Some customers that were issued reservation certificates for \$1,722.00 after January 1, 1999 were mistakenly charged an additional \$353.31 when they applied to use this credit.

The \$344.40 amounts overcharged were due to the difference in the road impact fee charge and what was supposed to be charged (80% of impact fee) on the Impact Fee Agreement for one development.

These overcharged amounts were brought to the attention of the Building Division during the audit and were refunded to the appropriate parties, where applicable.

**We Recommend** the Building Division ensures road impact fees and credits are charged correctly on building permits.

### **Management's Response:**

Beginning on January 1, 1999 the transportation impact fee rate changed from \$1,368.69 to \$1,722.00. Previously issued reservation certificates issued to the developer at the lower amount, \$1,368.69 necessitated a fee due of \$353.31 after January 1, 1999. The builder, in conjunction with the reservation certificates paid these additional funds. Newer reservation certificates were issued at \$1,722. This created confusion with the Plans Examiners, which resulted in some errors. Prior to the audit being conducted, the Building Division began to address these errors by beginning to process refunds to the applicants erroneously charged.

The Building Division concurs that traffic impact fees and credits be charged correctly.