

**Follow-Up
Audit of Road Impact Fee
Credits and Capacity
Encumbrance/Reservations**

**Report by the
Office of County Comptroller**

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November 23, 2004

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

We have conducted a follow-up of the Audit of Road Impact Fee Credits and Capacity Encumbrance Reservations. Our original audit included the period of October 1, 1998 to July 31, 1999. Testing of the status of the previous Recommendations for Improvement was performed for the period February 1, 2002 through April 30, 2004. Our follow-up audit was conducted in accordance with generally accepted government auditing standards and included such tests as we considered necessary in the circumstances.

The accompanying Follow-Up to Previous Recommendations for Improvement presents a summary of the previous conditions and the previous recommendations. Following the recommendations is a summary of the current status as determined in this review. A response to the Recommendation for Improvement that was not fully implemented was received from the Manager of the Building Division and is 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: James Harrison, Interim Director, Growth Management Department
Robert Olin, Manager, Building Division

**IMPLEMENTATION STATUS OF
PREVIOUS RECOMMENDATIONS
FOR IMPROVEMENT**

**FOLLOW-UP OF THE AUDIT OF ROAD IMPACT FEE CREDITS AND CAPACITY ENCUMBRANCE/RESERVATIONS
STATUS OF PREVIOUS RECOMMENDATIONS FOR IMPROVEMENT**

| NO. | PREVIOUS RECOMMENDATION | IMPLEMENTATION STATUS | | | |
|-----|--|-----------------------|-----------------------|-----------------|----------------|
| | | IMPLEMENTED | PARTIALLY IMPLEMENTED | NOT IMPLEMENTED | NOT APPLICABLE |
| 1. | We recommend the appropriate signatures be recorded on the credit use receipt before they are validated. | ✓ | | | |
| 2. | We recommend the credit use receipts be validated/recorded in the correct zone. | ✓ | | | |
| 3. | We recommend the Building Division ensures transactions and balances are correct in the road impact fee credit accounts. | ✓ | | | |
| 4. | 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) | 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. | ✓ | | | |
| 6. | We recommend the Building Division ensures that a road impact fee credit balance is available in the account before issuing a credit receipt. | ✓ | | | |

**FOLLOW-UP OF THE AUDIT OF ROAD IMPACT FEE CREDITS AND CAPACITY ENCUMBRANCE/RESERVATIONS
STATUS OF PREVIOUS RECOMMENDATIONS FOR IMPROVEMENT**

| NO. | PREVIOUS RECOMMENDATION | IMPLEMENTATION STATUS | | | |
|-----|--|-----------------------|-----------------------|-----------------|----------------|
| | | IMPLEMENTED | PARTIALLY IMPLEMENTED | NOT IMPLEMENTED | NOT APPLICABLE |
| 7. | 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. | | | | ✓ |
| 8. | We recommend transfer receipts be prepared when transferring files from one place to another. | ✓ | | | |
| 9. | We recommend the Building Division performs the following: | | | | |
| A) | Obtain a reasonable estimate of the construction value from 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. | | ✓ | | |
| 10. | We recommend the Building Division ensures road impact fees and credits are charged correctly on building permits. | ✓ | | | |

INTRODUCTION

INTRODUCTION



Scope and Methodology

The audit scope was limited to an examination of the status of the previous Recommendations for Improvement from the Audit of the Road Impact Fee Credits and Capacity Encumbrance/Reservations. Testing of the status of the previous recommendations was performed for the audit period February 1, 2002, through April 30, 2004.

To determine if the prior audit recommendations had been implemented, partially implemented, or not implemented, the following audit methodology was used:

Twenty-two building permits that were issued with costs offset by impact fee credits were reviewed and tested for appropriate signatures, validation in the correct zone, accuracy of balances, adequate support documents, and any occurrences of negative balances in credit accounts.

We reviewed a sample of capacity accounts established after January 1, 2002. These capacity accounts contained 40 building credits that were reviewed for legal descriptions, proper signatures, correct validation, accurate balances, and no instances of negative balances.

Interviews were conducted with fiscal personnel regarding reconciliation, deposit, and payment processes.

Files were reviewed and checked to determine if they were appropriate. Interviews were also conducted with personnel regarding file transfers.

Documentation for a sample of permits with credit amounts were reviewed to determine: if an estimated value was provided by the permit applicant; if the value calculated by the Building Division was accurate; and whether the higher of these two values was used to correctly calculate the impact fee.

**FOLLOW-UP TO PREVIOUS
RECOMMENDATIONS FOR
IMPROVEMENT**



1. Credit Use Receipts Should Be Signed by Appropriate Personnel

During the prior audit, it was noted that six percent (22 of 392) of the credit use receipts reviewed were not signed by the appropriate Planning and/or Building Division personnel.

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

Status:

Implemented. The appropriate personnel, including the Plans Examiner and the Impact Fee Administrator, had signed all of the twenty-two credit use receipts reviewed.

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

As noted in the previous review, 36 percent of the road impact fees reviewed had credits validated/recorded in the incorrect traffic impact fee zone.

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

Status:

Implemented. All of the 22 credit use receipts reviewed had been validated/recorded in the correct zone.

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

During the prior audit, eight errors in the building credit summary sheets were found resulting in a net overstatement in the accounts of \$189,225. This could have allowed permitting to occur without the required payment of fees resulting in lost revenue to the County.

**STATUS OF PREVIOUS
RECOMMENDATIONS
FOR IMPROVEMENT**



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

Status:

Implemented. All of the 22 credit use receipts reviewed were posted correctly in the applicable six accounts reviewed and no errors were noted. In addition, the balances in the accounts tested were found to be correct.

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

During our prior audit, we noted that 12 transactions on the building credit summary sheets totaling \$10,066.32 were not supported. Because of the lack of support, it could not be determined if the amounts were valid or if the balances in the accounts were correct.

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

Status:

Implemented. All of the 22 credit use receipts reviewed were fully supported by documentation in the appropriate account files.

5. Capacity Encumbrance/Reservation Procedures Need to Be Strengthened

During our prior audit, it was noted that:

- 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 as required in County Code.

**STATUS OF PREVIOUS
RECOMMENDATIONS
FOR IMPROVEMENT**



- B) Two percent (13 of 664) of the capacity use receipts were not signed by the appropriate Planning and Building Division personnel, as required.
- C) Eight percent (51 of 664) of the capacity use receipts were used or validated in the incorrect road impact fee zone.
- D) Eighteen percent (3 of 17) of the capacity encumbrance/reservation accounts did not contain the correct balance. Overstating accounts allows permitting without the required payment of fees. Understating accounts can result in overpayments resulting in unearned income to the County.

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.

Status:

- A) Implemented. All of the eight capacity encumbrance/reservation accounts reviewed had a complete copy of the legal description of the property in the file.

**STATUS OF PREVIOUS
RECOMMENDATIONS
FOR IMPROVEMENT**



Follow-Up of the Audit of Road Impact Fee
Credits and Capacity
Encumbrance/Reservations

- B) Implemented. All of the capacity use receipts reviewed had the required signatures of the appropriate Planning and Building Division personnel.
- C) Implemented. All of the capacity use receipts reviewed were validated in the correct traffic impact fee zone.
- D) Implemented. All of the capacity use receipts reviewed were posted correctly into the eight accounts reviewed and the balances in the eight accounts were correct.

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

During our prior audit, we noted that \$716,079 in road impact fee credits were transferred between accounts without the monies being available in the transferring account. Issuing credits on building permits before credit amounts are available allows permitting to occur without the required payment of fees, resulting in potential lost revenue to the County.

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

Status:

Implemented. A review of six road impact fee credit accounts and eight capacity encumbrance/reservation accounts did not disclose any instances where credits were transferred between accounts before the funds were available in the transferring account.



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

During the previous audit the following internal control issues were noted:

- A) When applicants wanted to leave payment for a permit, and there was uncertainty as to the final cost, applicants were allowed to drop off blank checks that were processed later.
- B) There is inadequate internal control over the cashier operations, because one of the Building Division's cashiers:
 - Had access to the safe;
 - Collected and distributed un-deposited checks;
 - Performed the division's cashier reconciliations; and,
 - Had the ability to make changes to the computer records.
- C) Once the permitting process has been completed, the Plans Examiner placed payments in a "residential drop-off box" which was not an enclosed/secured box.

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.

**STATUS OF PREVIOUS
RECOMMENDATIONS
FOR IMPROVEMENT**



Follow-Up of the Audit of Road Impact Fee
Credits and Capacity
Encumbrance/Reservations

Status:

- A) Implemented. Our review of the cashier operations indicated that blank checks are no longer accepted for payment of permits.
- B) Implemented. Our review of the cashier operations disclosed that the accounting and cash custodial functions are adequately segregated.
- C) Not Applicable. A drop box is no longer used.

8. Transfer Receipts Need to Be Maintained for Files

During the prior audit, we noted 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 the Building Division ever received these files, since prior to the audit, these files were processed by other county departments.

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

Status:

Implemented. Our review of the road impact fee credit and capacity encumbrance files disclosed that adequate documentation for transferring files is being maintained. No files were transferred into the division during the follow-up audit period. For files that were transferred out of the division to storage, complete documentation was maintained in the division to account for those files.



9. Procedures for Building Permit Fees Should Be Strengthened

During the prior audit we noted the following:

- 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 Orange County Fee Schedule indicated that the minimum (County) schedule of valuations should be applied to a structure for which a permit is filed. However, if the owner's estimate is greater, it should be used for determining the fee. Without the owner's estimated value, we could not determine if the correct permitting fees were charged.
- B) Based on the sample of building applications reviewed, the aggregate Building Division's estimated building value was 31 percent less than the owner's estimated value. The building permit fees were calculated on the lower building department value resulting in lower permitting fees. Additionally, we could not obtain adequate documentation from the Building Division to determine how their estimated value is calculated.
- C) The review of the commercial building permit applications revealed that one of the three applications reviewed did not have the Building 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. Also, 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.

**STATUS OF PREVIOUS
RECOMMENDATIONS
FOR IMPROVEMENT**



Follow-Up of the Audit of Road Impact Fee
Credits and Capacity
Encumbrance/Reservations

We Recommend the Building Division performs the following:

- A) Obtain a reasonable estimate of the construction value from 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.

Status:

- A) Implemented. A sample of ten permit applications were reviewed and all contained a construction value recorded by the building permit applicant.
- B) Implemented. Since the prior audit, a consulting agency was hired and performed a study of fees and values charged by the Building Division. The study was completed January 2003 and led to a revised fee schedule that was approved by the Board of County Commissioners on October 23, 2003. The revised schedule covering new fees and valuations became effective January 1, 2004.
- C) Partially Implemented. A sample of ten permit applications and the related building plans were reviewed to determine whether the Building Division had calculated valuations accurately. We noted that the Building Division valuation had been calculated correctly for all ten applications. However, in one case the Building Division valuation was not used to calculate the building permit fee and the applicant's lower estimated value was used. This resulted in the applicant being charged \$3,620 when the fee should have been \$6,631, a difference of \$3,011. The Building Division reviewed this item and has taken

action to begin to recover the difference owed to the County.

We Again Recommend the Building Division ensures that all applicable amounts are accurate and are correctly entered on the application and into the permitting system prior to the issuance of a building permit.

Management's Response:

The Building Division concurs that every possible effort be taken to ensure that correct fees are captured. Therefore, the Building Division has re-emphasized the necessity of entering updated valuation information on permit applications and in the permitting system with all permitting personnel. In addition, every commercial plan examiner has been instructed to immediately notify permitting staff when valuation changes occur so that updated values can be used for the calculation of permit fees.

10. Building Permit Fees Should Be Charged Correctly

During our prior audit, we noted that when reviewing building permits that had road impact fee credits used, 25 percent (31 of 124) of the building permits had road impact fees that were overcharged totaling \$10,890.24. This was due to a fee increase on January 1, 1999. Subsequent to the audit, these overcharges were refunded to the appropriate parties.

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

Status:

Implemented. The overcharges noted during the audit have been refunded to the customers. In addition, we reviewed 62 building permits that had credits and no instances of over/under charges were noted.