

COUNTY AUDIT DEPARTMENT

REPORT # 350

An Audit of:

**DEVELOPMENT SERVICES
MOBILITY FEES CONTROL ENVIRONMENT**

JUNE 26, 2018



Pat Frank INTEGRITY. TRANSPARENCY. ACCOUNTABILITY.

CLERK OF COURT & COMPTROLLER • HILLSBOROUGH COUNTY, FLORIDA



June 26, 2018

The Honorable Sandra L. Murman, Chairman
The Honorable Victor D. Crist
The Honorable Ken Hagan
The Honorable Al Higginbotham
The Honorable Pat Kemp
The Honorable Lesley "Les" Miller, Jr.
The Honorable Stacy R. White

Dear Chairman Murman and Commissioners:

The Audit Team performed an audit of the *Development Services - Mobility Fees Control Environment* (Audit Report # 350, dated June 26, 2018). Responses to the Audit Team's recommendations were received from the Director of Development Services and have been included in the Report after each audit comment and recommendation.

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

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

The Audit Team appreciates the cooperation and professional courtesies extended to the auditors by the Director and personnel of Development Services during this audit.

Sincerely,

Heidi Pinner, CIA, CISA, CFE, CRMA
Director of County Audit

CC: Mike Merrill, County Administrator
Lucia Garsys, Chief Development & Infrastructure Administrator
Adam Gormly, Director of Development Services
Kevin Brickey, Economist, Management & Budget Office
Dan Klein, Chief of Staff
Rick VanArsdall, Chief Deputy, Clerk to the Board

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EXECUTIVE SUMMARY

BACKGROUND INFORMATION

The Hillsborough County Board of County Commissioners adopted the *Mobility Fee Program Ordinance* (Ordinance) on April 26, 2016 to replace transportation impact fees with a mobility fee program. The new mobility fee assessments went into effect on January 1, 2017, and apply to new development.

The Ordinance states that the purpose of the mobility fee program is “*to link the provision of the mobility facility capital improvements needed to serve new growth to the policies in the Future of Hillsborough Comprehensive Plan.*” Mobility fee revenues are to be used solely to mitigate the impact that new residential and nonresidential growth is projected to create on the mobility network.

Sections of the Consolidated Impact Assessment Program Ordinance (Hillsborough County Ordinance 96-29, as amended) related to Transportation/Right-of-Way (ROW) were referenced in the new mobility fee ordinance for the purpose of grand-fathering development projects that had achieved specified stages of development. These grand-fathered projects remain subject to transportation impact fees for periods of time as determined by the Mobility Fee Ordinance. Building permit applications submitted prior to January 1, 2017, are automatically grand-fathered, meaning that the customer is not required to perform any action. For all other grand-fathered development projects, the customer is required to submit a grand-fathering application and obtain approval from the Development Services Department (Development Services.) If a customer does not apply for grand-fathering in these instances, the new mobility fee applies.

Permit related data, including fee assessments and payments, is maintained by Development Services in the *Permits Plus* application.

OBJECTIVE

To determine whether or not adequate controls exist for the assessment and collection of fees related to the *Hillsborough County Mobility Fee Program Ordinance* (Document #16-8).

SCOPE

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

The Audit Team reviewed the new Mobility Fee Ordinance and the related processes and controls within Development Services. The audit scope period was January 1, 2017 through September 30, 2017.

OVERALL EVALUATION

The employees of Development Services, Procurement Services, and Management and Budget were responsive to the Audit Team's inquiries and provided the information requested in a timely and polite manner. The Audit Team encountered knowledgeable and dedicated employees during the course of the audit.

The following table summarizes the audit comments and corresponding cross references to the page number where the audit comment details can be found in this Report.

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3	Adequate controls are in place for the impact fee offset buy-back program.	11

OPINION

The overall control environment relative to the mobility fee program is at the repeatable maturity level. This means that control awareness exists and policies are defined and in place. Management has established controls with some clarity on roles, responsibilities and authorities, but accountability and performance monitoring requires improvement. Addressing the opportunities identified in this Report will enhance the overall control structure and provide increased consistency and assurance.

The exit conference was held on May 23, 2018.

Other minor concerns not included in this Report were communicated to management and/or corrected during fieldwork.

AUDITED BY

Heidi Pinner, CIA, CISA, CFE, CRMA, Director of County Audit
 Margaret Brown, CIA, Audit Manager
 Greg McCullough, CPA, CIA, CFE, Senior Internal Auditor
 Lovonia Scott, CGAP, Internal Auditor II

AUDIT COMMENTS & RECOMMENDATIONS

AUDIT COMMENT 1

There is an opportunity to improve controls over mobility fee assessment.

The objective was to determine whether or not mobility fees were assessed, calculated, and collected in accordance with the ordinance.

The Audit Team reviewed the processes that Development Services has in place to assess, calculate, and collect mobility fees and ensure compliance with the ordinance. The Audit Team also obtained a download of permit data from the *Permits Plus* system for analysis. This permit data included 3,396 permits issued between 1/1/2017 and 9/30/2017 which involved a mobility fee or transportation impact fee. Based on an initial review, the Audit Team identified the following areas for testing:

- Duplicate assessments of both impact fees and mobility fees.
- Permits with a mobility fee assessment and a permit application date prior to 1/1/2017.
- Grand-fathering of permits in which payment of transportation impact fees occurred after 1/1/2017.
- Accuracy of mobility fee assessments based on the construction type and location associated with the permit.
- Accuracy of recording/posting fee revenues to the general ledger, and
- Timing verification of the certificate of occupancy issuance.

Duplicate Assessment/Payment Testing

The Audit Team performed testing to identify instances of a permit with both a transportation impact fee and a mobility fee assessment. The Audit Team identified 48 permit numbers that were potential duplicates and determined if the permit contained a duplicate fee assessment.

Results of Testing

Thirty-four (34) of the 48 permit numbers identified were duplicates and had both a transportation impact fee and a mobility fee assessed and collected. These transactions involve two customers, total \$33,319.48, and require a refund to the customers. The customer is required to request the refund in writing. During the course of the audit, Development Services took immediate corrective action by emailing the customers asking them to submit a refund request in writing. The Audit Team was provided copies of the emails.

The Audit Team determined that the remaining 14 were not duplicates and both transportation impact and mobility fees were assessed because of grand-fathering. For these instances, the correct amount was paid but payments were collected as mobility fees when they should have been collected as transportation impact fees. These 14 permits require a journal entry to move the mobility collection to the correct revenue account.

Permit Application Date Testing

Mobility fees went into effect January 1, 2017. The Audit Team identified 398 permits with a mobility fee assessment. These 398 permits were reviewed to verify that the permit application date was on, or after, January 1, 2017. Any permit identified with an application date occurring prior to the January 1, 2017 date was investigated for appropriateness.

Results of Testing

Of the 398 permits tested, one permit had a permit application date prior to 1/1/2017. This permit qualified for an impact fee assessment due to automatic grand-fathering. However, the customer was assessed, and paid, a mobility fee assessment of \$2,547. He/she is, therefore, eligible for a refund of the difference between the mobility fee paid and the impact fee that should have been assessed.

Testing of the Grand-fathering Process

The Audit Team identified 2,998 permits (out of 3,396 permits in the audit scope) with a transportation impact fee assessment. Of these 2,998 permits, 2,321 (77%) had an application date on or after January 1, 2017. From these 2,321 permits, the Audit Team sample tested 50 permits to determine whether or not the permit was properly grand-fathered. Testing included identifying subdivision names, researching *Permits Plus* data, reviewing Development of Regional Impact (DRI) documentation, and reviewing grand-fathering applications and approval documents for sufficiency and adequacy in compliance with the mobility fee ordinance.

Results of Testing

Of the 50 permits tested, 48 were grand-fathered by application and two were automatically grand-fathered. Forty (40) of the 48 permits (83%) had the required approval letter on file approving the grand-father application. The remaining permits did not have the required approval letter but did have the approval notated elsewhere.

Mobility Fees Assessment Testing

The Audit Team selected a sample of 40 residential and commercial permits issued in the scope period with a mobility fee assessed. The sample included 38 residential permits and 2 commercial permits.

The Audit Team researched each permit using the *Permits Plus* system and the County GIS mapping software to determine whether or not the assessment district (urban or rural) and the benefit district (1-5) assigned to the permit were accurate.

The Audit Team then either verified the assessed mobility fee against the mobility fee schedule or if needed, recalculated the assessed mobility fee based on the applicable unit of measurement and the assessment district.

Ultimately only 33 of the 40 permits in the sample were applicable to this test. The remaining seven permits, because of grand-fathering, had a mobility assessment fee changed to an impact fee after the initial assessment. An alternate procedure was applied to these 7 transactions to verify that the grand-fathering application was completed by the customer and an approval letter was written and on file.

Results of Testing

- The assessment district was accurately assigned for 32 of the 33 permits tested (97%). For one permit, the property was listed in *Permits Plus* as being in the rural assessment district but was identified by the County's GIS as being located in the Residential Planned 2 (RP-2) district as part of a planned village and should have been assessed at the lower urban rate. The Ordinance states that development in conformance with the Planned Village standards of the *Future of Hillsborough Comprehensive Plan* and the *Hillsborough County Land Development Code* within the RP-2 area shall be assessed the rate applicable to the urban assessment district. This misclassification has an impact on the fees assessed. The assessment district for this permit should be updated in *Permits Plus* to reflect the correct assessment rate.
- The benefit district was confirmed for 32 out of 33 permits (97%). One permit (3%) had the benefit district classified as "1" when the correct benefit district was verified as "3." Development Services will have to submit a journal entry to move the paid fee assessment to the proper benefit district.
- The amounts of the mobility fee assessments were confirmed for 31 of 33 permits (94%) tested. Of the two incorrect permits (6%), one customer was incorrectly assessed and overpaid by \$1,110. The second incorrect permit assessed the customer the rural rate of \$4,141 but should have been assessed the urban rate of \$2,861, a difference of \$1,280. Both customers are eligible for a refund. The customer is required to request the refund in writing.
- For the seven grand-fathered permits, the Audit Team determined that an application for grand-fathering was completed for the related subdivision for all seven permits. Six of the permits had the required approval letter on file for the grand-fathering of the subdivision. The remaining permit did not have the written approval letter on file, but review and approval was indicated by an application spreadsheet and a note on the application.

Mobility Fees Recording

The Audit Team judgmentally selected a sample of nine permits, one for each applicable month of the scope period, with a mobility fee payment. For each of these permits, the Audit Team verified that payments were recorded in Oracle correctly. The Audit Team traced the payment recorded in *Permits Plus* to the related daily Deposit Report Summary (DR report) and then reconciled it to the associated journal to ensure:

- The mobility fee's dollar amount, description (assessment and benefit district) and the accounting string on the DR report agreed to the Oracle journal entry (JE).
- The accounting string used to record the collected revenue was correct, based on the mobility fee's assessment and benefit district.

Results of Testing

The dollar amounts, descriptions, and accounting string for the mobility fees listed on the DR report agreed to the Oracle JE for all nine payments tested (100%).

The accounting strings used to record the collected revenue were correct for all nine DR reports tested (100%).

Mobility Fees Certificate of Occupancy Testing

A certificate of occupancy (CO) is a document issued by Development Services to certify a building's compliance with applicable building codes and other laws, indicating that it is in a condition suitable for occupancy. Development Services requires that all fees associated with the permit be paid in full before the CO is issued.

The Audit Team reviewed data for all permits issued in the scope period which involved a mobility fee or transportation impact fee payment to determine whether or not a CO was issued prior to the permit being paid in full.

Results of Testing

All mobility fees, or transportation impact fees, were paid prior to, or at the time of, the issuance of the certificate of occupancy. No exceptions were noted.

RECOMMENDATIONS

Development Services should consider separating the duties of the Impact Fee Coordinator. The root cause of many of the issues identified during testing is a lack of separation of duties between the execution and oversight of the fee assessment process. One employee, the Impact Fee Coordinator, is responsible for calculating all commercial mobility fee assessments, has limited back-up for urgent residential mobility fee assessment calculations, performs weekly reviews of assessment calculations performed by the permit techs, handles all grand-fathering requests, and handles all offset accounts. This arrangement creates a potential "single-point-of-failure" for the process within Development Services.

Development Services should consider the following to improve controls over mobility fee assessments:

- While Development Services took immediate corrective action to notify the customers for the 34 duplicate payments, a more proactive control or monitoring activity should be developed and implemented to prevent and/or detect future occurrences.
- Continue working with County Finance to move the 14 permits recorded incorrectly as mobility fees to the correct impact fee revenue account.
- Notify all the identified customers of their eligibility for a refund of any incorrect assessments.
- Ensure that copies of written approval letters are maintained and on file for the grand-fathered transportation impact fees.
- Ensure that all building permits for properties located in the RP-2 future land use category are identified in *Permits Plus* as urban if developed as a planned village as provided in the Mobility Fee Ordinance.
- Initiate and submit a journal entry to move the paid mobility fee assessment from benefit district “1” to the correct benefit district “3” for the one permit identified.

CLIENT RESPONSE:

1. *Concur*
2. *Concur*
3. *Concur*
4. *Concur*
5. *Concur*
6. *Concur*
7. *Concur*

CORRECTIVE ACTION PLAN:

1. *A position has been requested to assist in this function.*
2. *The hiring of a position will allow for greater control and monitoring of the assessments. All assessments will be done by Impact Fee staff, and not the permit techs.*

3. *Per County Finance, prior year revenues cannot be moved via Journal Entry (see email backup). I am working to process ID entries to correct the funds via the Reserves, as all revenues roll up into the reserves each year. Need to confirm process and viability with Management & Budget.*
4. *All customers have been notified of eligibility for refunds or already refunded.*
5. *Letters have been created and sent to customers for the audit findings. Working on getting letters created for all approved grandfathering applications. Current tracking via spreadsheet is accurate and maintained to be able to verify any permits for grandfathering status even if a letter is not yet generated.*
6. *Use lot size to determine base eligibility for urban classification of RP-2 zones per Ordinance. All RP-2 permits are to be sent to Impact Fee Program for review and assessment to ensure accurate classification.*
7. *Per County Finance, prior year revenues cannot be moved via Journal Entry. I am working to process ID entries to correct the funds via the Reserves, as all revenues roll up into the reserves each year. Need to confirm process and viability with Management & Budget.*

TARGET COMPLETION DATE:

1. *November 15, 2018*
2. *November 15, 2018*
3. *September 2018*
4. *Completed*
5. *December 2018*
6. *Completed*
7. *September 2018*

AUDIT COMMENT 2**Mobility fee offset trust accounts are adequately tracked and monitored.**

The objective was to determine whether or not mobility fee offset trust accounts are adequately tracked and monitored.

Mobility fee offset trust accounts are tracked in *Permits Plus*. The individual account shows account activity including transfers-in and payments, as well as the current balance. A mobility fee offset trust account is created by transferring balances from an established impact fee offset trust account.

The owner of the impact fee offset trust account must complete and submit an application, or a notarized letter, to Development Services requesting a conversion of the transportation impact fee offset trust account to a mobility fee offset trust account. Development Services confirms ownership of the account before it approves the application. If approved, Development Services completes and signs an approval letter for the transfer-in to the mobility fee offset trust account. The mobility fee offset trust account can then be used to pay mobility fees.

There were seven mobility fee offset trust accounts with activity in 2017. The Audit Team performed testing on these seven accounts to verify account creation and account payments.

Trust Account Creation

The Audit Team selected a transfer-in transaction to each of the seven mobility fee offset trust accounts and reviewed documentation to determine whether or not the transaction was properly supported. Proper support should include the completed application, or a notarized letter, to transfer a transportation impact fee account amount to the mobility fee offset trust account. The Audit Team also determined whether or not the transaction was supported by a letter signed by the Impact Fee Coordinator approving the transfer to the mobility fee offset trust account.

Results of Testing

All seven transfer-in transactions selected were supported by the completed application or notarized request document and the signed approval letter.

Trust Account Payments

The Audit Team also selected a payment transaction from each of the seven mobility fee offset trust accounts. The Audit Team reviewed documentation to determine whether or not the payment transaction was supported by a properly completed notarized assignment letter which contained the necessary information including the transaction dollar amount. In addition, the Audit Team determined whether or not the payment transaction was supported by the offset trust account approval letter signed by the Impact Fee Coordinator.

Results of Testing

All seven payment transactions selected were supported by the properly completed notarized assignment letter and the signed approval letter.

RECOMMENDATION

The Audit Team did not identify any material concerns that require management's corrective actions.

AUDIT COMMENT 3**Adequate controls are in place for the impact fee offset buy-back program.**

The objective was to determine whether or not the impact fee offset buy-back program is structured with adequate controls.

On May 17, 2017, the Board adopted resolution R17-059, which approved the County's plan to buy back transportation impact fee offsets (Offsets) using four parameters noted in the resolution as the guiding methodology. The Board also approved the use of the Competitive Modified Reverse Solicitation as the governing document for the Buy-Back program and each solicitation. The specific amounts are approved by the Board prior to each solicitation.

The Audit Team conducted interviews and documented the process flow of the impact fee buy-back program to determine if adequate controls are in place for the process. Controls include, but are not limited to, Board approval of the specific solicitation parameters, verification of offset account balances, account numbers, & ownership, the locking of the offset account in *Permits Plus* for those accounts who submitted a bid, and the Board's approval of the recommended award based on a detail list of bids.

The Audit Team selected the first offset buy-back solicitation that occurred in fiscal year 2017 and tested the supporting documentation to ensure that the controls identified for the process were working as intended.

Results of Testing

No exceptions were noted with the first offset buy-back solicitation that occurred in fiscal year 2017. The solicitation followed the process identified by the Audit Team. The results of testing indicated that the impact fee offset buy-back program is structured with adequate controls and the controls worked as intended.

RECOMMENDATION

The Audit Team did not identify any material concerns that require management's corrective actions.