

MANATEE COUNTY CLERK OF THE CIRCUIT COURT
INTERNAL AUDIT DEPARTMENT

IMPACT FEE REVENUE AUDIT

A U D I T R E P O R T

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MANATEE COUNTY CLERK OF THE CIRCUIT COURT
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A U D I T R E P O R T

The Internal Audit Department conducted a financial, compliance, and operational audit of the Impact Fee Revenue Collection Administration Section for the audit period June 1, 2005 through May 31, 2006. The audit was performed in accordance with *Generally Accepted Governmental Auditing Standards* issued by the Comptroller General of the United States; and the *Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.

BACKGROUND:

The Impact Fee Administration Section, under the direction of the Planning Department, is responsible for the assessment of impact fees as outlined and directed by Manatee County Ordinance R-04-170. This section ensures that the Board approved impact fee rate schedule is current and applied accurately to projects. There are two employees in this function and they are also responsible for the co-ordination, administration and bookkeeping of Board approved impact fee credits and the application of ordinance directed exemptions and/or waivers of impact fees. All impact fees are posted on open permits managed by the Building Department using the Community Plus software. Impact fees collected by the County for the twelve-month period ending May 31, 2006 exceeded \$20 million dollars.

PURPOSE/OBJECTIVES:

The main audit purpose/objectives included, but were not limited to, the following:

- To ensure that impact fees are accurately assessed.
- To verify an adequate system of internal control exists to safeguard assets, maintain the integrity of reports on operations, and provide adequate evaluation of the Impact Fee Administration's objectives and responsibilities.
- To verify compliance with laws and regulations, including Florida Statutes, policies and procedures, and signed agreements or contracts.
- To evaluate overall operational efficiency and effectiveness.

SCOPE:

The scope of the audit included reviewing the overall adequacy of the Impact Fee Administration's internal controls and the operational efficiency and effectiveness by examining and testing financial and operational records and compliance to the state and county laws for the twelve-month period ending May 31, 2006. Due to the lack of internal controls over the manually calculated assessments and credits, the scope was expanded for these areas to include a four-year period. The audit was limited to the accuracy of assessment calculation and input verification but did not include how those fees were spent.

METHODOLOGY:

Internal control evaluations were accomplished by reviewing key operations of this specified area through discussions with management and staff, observations, and analytical and substantive testing of individual internal controls. Risk analysis was used to establish priorities of audit objectives.

IRREGULARITIES, ABUSE, OR ILLEGAL ACTS:

There were no indications of irregularities, abuse, or illegal acts that were discovered during the Impact Fee Revenue Audit for the audit period ending May 31, 2006.

TEST OF COMPLIANCE:

Internal Audit tested compliance with certain laws and regulations, obtained an understanding of internal controls and assessed control risk. Tests performed were limited to the specific areas included in the Purpose/Objective section of this report and appeared to provide sufficient evidence to support an opinion on compliance and internal controls for the areas tested. Except as noted in our audit report, tested items were in compliance with regulations and other policies established by the Impact Fee Administration department.

STATEMENT ON INTERNAL CONTROL STRUCTURE:

In planning and performing the audit of the Impact Fee Revenue Administration for the twelve months ended May 31, 2006, the internal control structure was considered in order to determine the auditing procedures for the purpose of this report. As a result, we noted in the audit report matters involving the internal control structure and its operations that are considered reportable conditions under standards established by the U.S. General Accountability Office, *Government Auditing Standards*. Reportable conditions involve matters relating to deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize and report on data consistent with management's intentions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions, as defined above. In addition, because of the inherent limitations in any internal control structure, deficiencies in the design or operation of the internal control structure may exist and not be detected. We believe the conditions identified in our audit report may constitute reportable conditions as previously defined.

MANAGEMENT TEAM AND MANAGEMENT ACTION PLAN:

A Management Action Plan will be given for each Area for Improvement. Management Action Plans are corrective actions with implementation dates developed in cooperation with the Planning Department's management team and the Internal Audit Department. The management team included Carol Clarke, Director of the Planning.

MANAGEMENT SUMMARY:

Impact fees are established by the Board of County Commissioners, assessed and collected on private development projects to offset the effects of added costs created by new developments and improvements of properties on existing County infrastructure. Internal Audit examined the assessment and collection of impact fees, but the audit did not include how those impact fees are spent.

The administration of impact fee revenue assessments, credits, and refunds are the responsibility of the Planning Department. Approximately 90% of impact fee assessments are automatically calculated and collected through the Building Department's software. Results of our testing found that these computer-generated fees are properly and accurately assessed. In addition, testing on impact fee refunds found adequate internal controls and proper segregation of duties. For the remaining 10% of impact fee assessments, Management primarily relies on one employee to perform manual calculations, and input into the Building Department's software. These impact fees are primarily on commercial permits and non-standard improvements and these manual assessment calculations are performed without review or input verification. In addition, impact fee credits, given to developers for donations of land and performing work that is the County's responsibility, are also manually calculated, maintained and distributed primarily by the same employee. While the audit found that the impact fee administrative staff is well trained, knowledgeable and committed to quality service, a lack of segregation of duties currently exists that gives the employee too much control over manually calculated impact fee transactions without adequate detection controls.

We extensively tested the nearly twenty-five million dollars of manually calculated impact fees assessed in the four-year period ending May 31, 2006 and the more than twenty-four million dollars of impact fee credits that have been booked since 1989. We found insignificant calculation and input errors but did not find any intentional errors during this period of un-reviewed work. In this report we recommend the necessary controls that must be added to the manual calculation, input, and recordkeeping accountability over impact fees assessed, credits distributed, and fees collected, to reduce significant exposure to intentional error.

See Area for Improvement #1 at page 6

We would like to thank the Impact Fee Administration Section and staff for the cooperation and courtesy afforded to our auditors throughout the audit. We appreciate the efforts and timeliness in addressing the issues raised during the audit and aggressively seeking solutions to these matters. We look forward to the continued effort on monitoring controls and maintaining accountability over all of their operations.

AUDIT REPORT AUTHORIZATION:

This audit report has been reviewed and authorized by:

Richard J. Orienti, CIA, CFE
Director of Internal Audit

R. B. "Chips" Shore
Clerk of the Circuit Court & Comptroller

AREA FOR IMPROVEMENT #1.....

Impact fees are established by the Board of County Commissioners, assessed, and collected on private development projects to offset the effects of added costs created by new developments and improvements of properties on existing County infrastructure. In approximately 90% of impact fee assessments, the fees are automatically calculated and collected through software maintained by the Building Department. The remaining 10% of impact fee assessments are on commercial developments and non-standard improvements, which are calculated manually by the Planning Department. While less in numbers, these commercial assessments individually are larger in dollar amounts than the assessments generated automatically. Internal Audit found that these manually generated impact fees are calculated and input into the permitting system by one employee without review or input accuracy verification. A substantial risk of intentional errors exists for such un-reviewed calculations and input. Internal Audit performed extensive testing of the approximately twenty-five million dollars (\$25,000,000) of manually calculated fees and found no indication that any intentional errors occurred during the four-year period ending May 31, 2006. Our testing did find, however, that insignificant errors in calculation and input did occur throughout the four-year sample of assessments tested. Review and input accuracy verifications are necessary controls to assure assessment calculations are accurate and properly entered into the system used to control impact fee payment collections.

The impact fee legislation approved by the Board of County Commissioners also includes provisions for impact fee credits to be given when developers donate land and right-of-way or complete improvements that are the County's responsibility. Internal Audit found these credits are manually calculated, input into a spreadsheet, monitored and distributed through direct input to the software maintained by the Building Department by the same employee without review, reconciliation, or input accuracy verification. A substantial risk of intentional errors exists for such un-reviewed maintenance of records and distribution. Internal Audit performed extensive testing of the approximately twenty-four million dollars (\$24,000,000) of impact fee credits and found no indication that any intentional errors occurred since 1989. In addition, all credits listed as outstanding on the spreadsheet as of May 31, 2006, totaling nine and one half million dollars (\$9,500,000) were traced to approval by the Board of County Commissioners ensuring the validity of the spreadsheet's balance. Additional controls such as review, accountability, reporting, and input accuracy verifications are necessary to ensure impact fee credits are properly recorded, maintained, and distributed.

Reporting of the approximately nine million dollars of impact fee credits is not contained in the County's financial statements or its footnotes. This practice appears consistent with Generally Accepted Accounting Principles (GAAP) and with other counties surveyed. This matter was communicated to the external auditing firm for further review.

Management Action Plan

Management agrees with the significant risk associated with un-reviewed manually calculated impact fees and impact fee credits and will pursue a segregation of duties so that one employee does not have total control over impact fee transactions. In addition, management will require the preparation of an ongoing impact fee credit activity report that would reconcile transactional activity on a periodic basis. This report will be analytically reviewed and approved by management. Implementation is expected by December 31, 2007. Management will also develop policies and procedures by June 30, 2008 which detail the segregation of duties between employees and the production of the ongoing activity report. Internal Audit will pursue financial statement accountability and reporting with the County's external auditing firm who are responsible for auditing the County's financial statements.



Manatee County

Clerk of the Circuit Court and Comptroller

R.B. "Chips" Shore

P.O. Box 25400 • Bradenton, Florida 34206 • (941) 749-1800 • FAX (941) 741-4082 • www.clerkofcourts.com

MEMORANDUM

TO: Carol Clarke, Director of Planning Department

FROM: R. B. "Chips" Shore, Clerk of the Circuit Court, County Comptroller and Auditor

DATE: June 13, 2007

RE: Impact Fee Revenue Audit

Enclosed is the Internal Audit Report for the Impact Fee Revenue Audit as of May 31, 2006. Our Internal Audit Department will perform a follow-up audit on the areas of improvement included in this report, together with those areas identified in the final audit report, to verify implementation of Management's Action Plan.

I wish to thank you and your staff for their courteous and professional cooperation with our Internal Auditors throughout the audit. If you have any further questions regarding this report, please feel free to contact Richard Orienti at extension 4170.

RBS/RJO/MDB

Enclosures

cc: Manatee County Board of County Commissioners
Ed Hunzeker, County Administrator
Rob Eschenfelder, County Attorney's Office



Manatee County

Clerk of the Circuit Court and Comptroller

R.B. "Chips" Shore

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MEMORANDUM

TO: City Desk Editor, Bradenton Herald
City Desk Editor, Manatee AM
Islander Bystander
Sid Thomas, Editor
WHNZ, Newsroom
Longboat Key Observer

FROM: R. B. "Chips" Shore, Clerk of the Circuit Court, County Comptroller and Auditor

DATE: June 13, 2007

RE: Announcement of the Release of an Internal Audit Report

My office is releasing today the Internal Audit Report for the Impact Fee Revenue Program as of May 31, 2006. Copies may be obtained by contacting the Internal Audit Department at (941) 708-6001 extension 246. Copies of the report can either be mailed or picked up at the County Courthouse room 158.