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Paula S. O'Neil, Ph.D.
Clerk & Comptroller
Pasco County, Florida

May 2, 2017

The Honorable Mike Moore, Chairman, and
Members of the Board of County Commissioners
Pasco County Board of County Commissioners
8731 Citizens Drive
New Port Richey, Florida 34654

Dear Chairman Moore and Members of the Board:

Enclosed is Audit Report No. 2016-06, an audit of the County's compliance with Chapter 78, Division 3 of the County Code of Ordinances (School Impact Fees) and the Intergovernmental Agreement entered into by the County, the District School Board, and the Clerk & Comptroller's Office.

The objective of the audit was to evaluate the adequacy of the internal controls over processes related to the assessment, imposition, calculation, and collection of School Impact Fees.

Based on the results on the completed audit, six audit comments were identified. All comments and recommendations were discussed management, and their verbatim responses were included in this report.

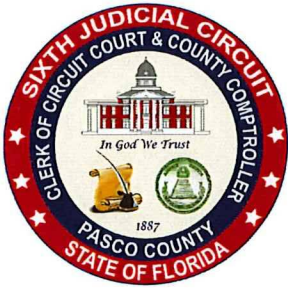
The recommendations made in this report were provided to improve the control environment. During the course of this audit, management took corrective actions, and implemented some of the Inspector General's (IG) recommendations.

We appreciate the cooperation and professional courtesy received from the Central Permitting and Financial Services Department during this audit. Please let us know if you wish to discuss any of the information provided in the report.

The results of the audit were as follows:

Compliance:

1. The issuance of Certificates of Occupancy was not always in compliance with Pasco County Ordinance 01-06.
2. Appropriation of School Impact Fees funds were not in compliance with Pasco County Ordinance 01-06.



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Pasco County Board of County Commissioners
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Control Activities:

3. There was a lack of Segregation of Duties.
4. Operational procedures to complete and maintain documentation related to the assessment and collection of School Impact Fees did not exist.
5. Accela did not always reflect the correct work type code.
6. Documentation was not always complete or did not exist.

We request the Board to receive and file report.

Sincerely,

Paula S. O'Neil, Ph.D.
Clerk & Comptroller

Office of Paula S. O'Neil
Clerk & Comptroller
Pasco County, Florida

Pasco County Board of County Commissioners

Central Permitting Department

School Impact Fees Audit

May 23, 2017



Department of Inspector General

Patrice Monaco-McBride, CIG, CIGA, CGFO
Inspector General

Josseibel Vázquez-González, MACC, CIGA, CFE
Internal Auditor

Report No. 2016-06

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Executive Summary

Background Information

As part of the Department of Inspector General (IG) annual audit plan for fiscal year 2016, the IG conducted an audit of Pasco County Board of County Commissioners (BCC) compliance with Chapter 78 of the County Code of Ordinances. The audit period for this audit was October 31, 2015 through March 31, 2016.

School impact fees were imposed by the BCC for new residential construction within incorporated and unincorporated areas of the County. According to Chapter 78 of the County Code of Ordinances, school impact fees were needed to continue to provide school services and to prevent future deficiencies in school facilities.

The BCC, the District School Board of Pasco County (School Board), and the Clerk & Comptroller's Office entered into an Intergovernmental Agreement that provided guidance on the appropriation, transfer, and expenditure of school impact fees. The agreement was effective and approved by the BCC on April 3, 2001, and granted the BCC the power and authority to enact, impose, and collect school impact fees on behalf of the School Board.

Developers of new residential construction paid school impact fees per dwelling unit. The BCC gave Central Permitting the responsibility to assess and collect impact fees for transportation, mobility, parks and recreation, libraries, schools, emergency services, hurricane mitigation, and resource recovery fees.

Payment of school impact fees did not apply to County customers who were exempt for the following reasons: alternations or expansions; replacement of a dwelling unit; mobile homes; waivers; and credits.

School impact fees were assessed at the time Building Permit applications for new residential construction were submitted. School impact fees were to be paid to the Central Permitting Department (Department) prior to the issuance of Certificates of Occupancy (CO). When a CO was not required, the school impact fees were to be paid prior to final inspections. During the audit period, all new residential construction was subject to the following school impact fee schedule:

Type of Dwelling	School Site (Land)	School (Facilities)	Total
Single-family detached	\$ 350	4,478	\$4,828
Single-family attached	\$ 126	1,614	\$1,740
Mobile Home	\$ 203	2,640	\$2,843
Multi-Family	\$ 133	1,722	\$1,855

School impact fees collected by the County were held separate and distinct from all other revenues and were deposited into the School Impact Fee Fund. According to the Intergovernmental Agreement, fees collected during each month were to be appropriated and transferred to the School Board during the following month. In fiscal year 2016, the monthly appropriation of School Impact Fees, approved by the BCC, totaled \$5,185,148.

Audit Period Monthly Appropriations	
Month	Amount
October 2015	\$ 623,064.00
November 2015	1,445,870.00
December 2015	847,349.00
January 2016	443,515.00
February 2016	782,661.00
March 2016	1,042,689.00
Total	<u>\$ 5,185,148.00</u>

Objective

The overall objective of the audit was to determine compliance by the BCC and the Clerk & Comptroller's Office with the provisions of the intergovernmental agreement, and evaluate internal controls over processes related to the assessment, imposition, calculation, and collection of School Impact Fees. Specifically, the objectives were to:

- Determine compliance with the terms of the School Impact Fee Ordinance.
- Determine if non-payments of school impact fees, due to exemptions, waivers, offsets, or credits were authorized, documented, and compliant with the School Impact Ordinance.
- Determine if there were adequate controls over the assessment and collection of school impact fees.

Scope and Methodology

The audit period was from October 31, 2015 through March 31, 2016. The nature and scope of the audit was intended to provide objective and relevant assurance, and to contribute to the effectiveness and efficiency of governance, risk management, and control processes as they related to the imposition, calculation, and collection of School Impact Fees.

During the audit period, the Central Permitting Department issued 19,569 building permits to the customers of Pasco County. Of the 19,569 issued during the audit, a total of 888 permits were related to new residential contrition and school impact fees. These 888 permits were considered the total population for this audit.

A statistically random sample of permits for testing based on a 95% confidence level and a 5% margin of error was extracted. The recommended sample size was 269 permits.

- 269 permit files, applications, and impact fee calculation forms
- Over 400 receipts
- Over 500 building plans and building inspection documents
- 40 developer credit letters

Although the audit team exercised due professional care in the performance of this audit, this does not mean that unreported noncompliance or irregularities did not exist. The deterrence of fraud, and/or employee abuse was the responsibility of management. Audit procedures alone, even when carried out with professional care, cannot guarantee that fraud or abuse will be detected.

The audit was neither designed nor intended, to be a detailed study of every relevant system, procedure, or transaction. The purpose of this report was to provide an independent objective analysis, recommendations, and information concerning the activities reviewed. It was not an appraisal or rating of management.

To achieve the objectives, the procedures performed included, but were not limited to, the following:

- Reviewed the Intergovernmental Agreement between the BCC, the School Board, and the Clerk & Comptroller's Office.
- Reviewed School Impact Fee Ordinance 01-06 and Land Development Code, Chapter 1300.
- Interviewed key personnel involved in the assessment and collection of School Impact Fees.
- Verified the accuracy of documentation maintained in permit files related to School Impact Fee.
- Reviewed 269 permit files that included physical permits, permit applications, impact fee calculation forms, multiple receipts, multiple building plans, multiple developer credit letters, and multiple inspection documents.
- Identified opportunities for improvement.

Statutory and Pasco County Guidelines

To conduct this audit, the Department of Inspector General relied on the following authoritative guidelines to serve as criteria:

- Section 263A of the Internal Revenue Code – Revenue Rule 2002-9.
- F.S. 163.31801 – Impact Fees.
- Pasco County School Impact Fee Ordinance 01-06.
- Pasco County Land Development Code – Chapter 1300.

Conclusion

The internal controls over the assessments, collection, and monthly transfer of School Impact Fees would benefit from some improvements to reduce the risk of fraud, waste, and abuse of and Clerk & Comptroller resources. Strengthening the system of internal controls will help safeguard assets, improve the reliability of the accounting data, and improve compliance with applicable laws, contractual obligations, and policies and procedures.

The recommendations made in this report were offered to strengthen the control environment. During the course of this audit, all comments, observations, and recommendations were discussed with County management in the Central Permitting Department and Clerk & Comptroller management in Financial Services Department. Their responses were included in this report.

During the course of this audit, management implemented some of the recommendations. The Department of Inspector General commends the Central Permitting department and Financial Services Division on implementing the IG recommendation and taking corrective action during the audit. We are thankful for their cooperation during the audit.

Based on documentation reviewed and audit procedures performed, the IG identified the following opportunities for improvement:

No.	Description	Page Reference
Comments (Compliance):		
1.	The issuance of Certificates of Occupancy was not always in compliance with Pasco County Ordinance 01-06.	6
2.	Appropriation of School Impact Fees funds were not in compliance with Pasco County Ordinance 01-06.	6
Comments (Control):		
3.	There was a lack of Segregation of Duties.	7
4.	Operational procedures to complete and maintain documentation related to the assessment and collection of School Impact Fees did not exist.	8
5.	Accela did not always reflect the correct work type code.	9
6.	Documentation was not always complete or did not exist.	9

Audit Comments & Recommendations

Compliance: Since compliance with agreements, contracts, laws, rules, regulation, policies and procedures is expected, recommendations were not provided.

1. The issuance of Certificates of Occupancy was not always in compliance with Pasco County Ordinance 01-06.

Central Permitting issued Certificates of Occupancy prior to the payment of School Impact Fees (SIF).

- Permit 885260, SIF were paid on 5/30/16, the CO date was 5/23/16.
- Permit 888070, SIF were paid on 5/14/16, the CO date was 4/29/16.

Unless SIF were paid in full, Pasco County (the County) was not to issue COs or conduct final inspections for new residential construction. County Ordinance 01-06 Land Development Code, Chapter 1302.3.E).

Management Response:

Central Permitting notes that these permits are isolated to an incident which occurred during Accela implementation. Central Permitting has created an SOP to assist in the timely processing of impact fee payments prior to a CO. Central Permitting has immediately begun this type of policy and will continue to ensure impact fee payments are properly processed and receipted in Accela prior to CO issuance.

Target Implementation Date:

Immediately.

2. Appropriations of School Impact Fees collected were not in compliance with Pasco County Ordinance 01-06.

The Central Permitting Department did not consistently submit documentation related to School Impact Fees to Financial Services in a timely manner. As a result, the monthly transfer of SIF to the School Board was not in compliance with the County Ordinance.

- October 2015: documentation was submitted on 12/7/15.
- November 2015: documentation was submitted on 12/28/15.
- December 2015: documentation was submitted on 1/26/16.
- January 2016: documentation was submitted on 2/16/16.
- February 2016: documentation was submitted on 3/22/16.
- March 2016: documentation was submitted on 5/23/16.

According to Ordinance 01-06: Section 78-95, C and Section 78-112, B.1, any school impact fees collected by the County for one month should have been transferred during the following month.

Management Response:Central Permitting

Central Permitting has written policy and procedures regarding timeframe and deadlines for daily documentation submitted to Financial Services.

Management agrees with the Auditors recommendations and will implement written policies and procedures with Fiscal Services (General Ledger) to establish timeframe and deadlines for the preparation of documents related to the monthly transfer of SIF to the School Board. A meeting will be established in March 2017 to prepare this written policy with Fiscal Services (General Ledger).

Target Implementation Date:

March 2017.

Control Activities: Listed below are comments that represent opportunities to strengthen the internal controls. For each comment, a recommendation has been included.

3. There was a lack of Segregation of Duties.

Calculation forms reflected the same initials in the "prepared by" and "checked by" sections. It appeared that the same Development Review Technician (DRT) prepared and checked the calculation form.

Segregation of duties is a basic building block of sustainable risk management and internal controls for operations. The principle of segregation of duties is based on shared responsibilities of a key process that disperses the critical functions of that process to more than one person or department. Without this separation in key processes, the risk of fraud and error are far less manageable.

Recommendation:

To strengthen internal controls, the DRT who prepares the calculation form should not be the one to verify the calculation form.

Management Response:

Accela automation provides a means for segregation of duties to occur, in that Accela automates fees based on parcel location and land use code. Once the fees have been automated, the DRT confirms accuracy of the fees. At impact fee payment processing, Permitting Technicians verify the payment received against the impact calculation form. Accela's internal records user activity increases segregation of duty and accountability.

Target Implementation Date:

Immediately.

4. Operational procedures to complete and maintain documentation related to the assessment and collection of School Impact Fees did not exist.

Central Permitting (CP) adhered to the Pasco County Land Development Code (LDC) Chapter 1302.1, Sections E, D, & F. These sections provided guidelines for age restricted rates, credits, refunds, and waivers of. However, the codes did not provide detailed

operational procedures that staff could follow and rely upon for adequate and consistent documentation. Lack of operational procedures resulted in inconsistent or incomplete documentation related to SIF.

Pasco County Ordinance 01-06 and LDC Section 1302.3 included policies for the calculation, imposition, payment, collection, monthly appropriation, credit, refund, and waiver of SIF. However, it did not include department procedures that directed employees how to complete their job responsibilities.

Department procedures are control activities that help ensure department directives are carried out, and that necessary actions are taken to address risks to the achievement of department objectives. Control activities should occur throughout the organization, at all levels, and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties.

Recommendation:

Establish Standard Operating Procedures (SOPs) to enhance the workflow of completing and verifying documentation related to SIF. These procedures should describe the process to complete and verify documentation related to the imposition, assessment, and collection of SIF. The SOPs should supplement the Pasco County Ordinance and LDC, and should be communicated to employees involved in the processing of SIF.

Management Response:

CP will adhere to the auditors' recommendations regarding SOPs. CP will establish SOPs to enhance the workflow of completing and verifying documentation related to SIF.

Target Implementation Date:

March 2017.

5. Accela did not always reflect the correct work type code.

In Accela, the work-type code for some permits was "RES-New Single Family Detached Home Const." (Single Family Residence). The work-type codes on the physical permits were "New 2 Family PLB" (Multi-Family Residence). The impact fee calculation forms for these permits reflected that correct assessment amounts for Multi-Family Residences. Electronic records (Accela) did not agree to physical permit documentation.

Recommendation: CP should identify discrepancies in the Accela system to ensure physical records agree with electronic records.

Management Response:

CP is currently reviewing these types of discrepancies and will put in place policies and procedures to prevent this occurrence.

Target Implementation Date:

March 2017.

6. Documentation was not always complete or did not exist.

Of the items reviewed, the following discrepancies were found:

- 264 permit files included impact calculation forms that did not reflect who it was “prepared by” or “checked by.”
- 3 permit files did not include impact fee calculation forms.
- 75 permit files reflected SIF that were paid (per Accela), but receipts were not found in these permit files.
- A permit file was not located by Central Permitting. As a result, the Department of Inspector General was unable to review supporting documentation. Permit number 890485.

Impact fee calculation forms were completed for all new residential construction permits and were maintained in permit files. The calculation forms were completed whether or not school impact fees were applicable. According to Central permitting staff, one Development Review Technician (DRT) would initially prepare the calculation form, and then a second DRT would verify the assessment.

Building permits and supporting documentation were to be maintained in permit files. Permit files were to be located at one of the Central Permitting locations (DC, LOL, or NPR) or at the CP warehouse in Dade City.

Recommendation:

Establish written policies and procedures that describe the process of how to properly complete documentation, and a list of supporting documentation that must be maintained in each permit file. Include a requirement for the DRTs to include their initials on the impact calculation form once they’ve assessed School Impact Fees. The policies and procedures should also describe where the permit files are maintained and how to track custody of the permit files.

Management Response:

Central Permitting, through Accela workflow, tracks and records user activity such as DRT impact fee assessment. Accela also allows for cloud based document storage which provides a centralized location for properly maintaining permit files. Central Permitting will ensure policies and procedures are updated and adhered to by staff.

Target Implementation Date:

Immediately.