CITY AUDITOR'S OFFICE

Collection of Development And Permit Fees

JANUARY 12, 2009

AUDIT REPORT NO. 0803

CITY COUNCIL
Mayor W.J. "Jim" Lane
Vice Mayor Ron McCullagh
Lisa Borowsky
Wayne Ecton
Suzanne Klapp
Robert Littlefield
Tony Nelssen

January 12, 2009

CITY AUDITOR

Your Honor and Members of the City Council:

Enclosed is a report of Collection of Development and Permit Fees, Audit No. 0803.

The collection of development and permit fees by the One Stop Shop, Inspections Administration, and Records is a structured process that operates in a control environment that provides reasonable assurance that fees will be collected and recorded.

Areas for improvement identified during the audit include: (1) strengthening the security of the Community Development System, (2) ensuring transactions are processed consistently through training of staff, and (3) providing updated policies and procedures for staff in the One Stop Shop to reference.

We would like to thank the Planning and Development Services Department staff, particularly Sue Landreth for her cooperation and assistance during the audit.

Audit work was conducted by Senior Auditor Kim Prendergast under the direction of Assistant City Auditor Joyce Gilbride.

If you need additional information or have any questions, please contact me at (480) 312-7756.

Sincerely,

Brent Stockwell
Acting City Auditor

City of Scottsdale

4021 N. 75th St.
Suite 105
Scottsdale, AZ 85251

(480) 312-7756
(480) 312-2634 Fax

www.ScottsdaleAZ.gov

TABLE OF CONTENTS

Executive Summary	1
Background	3
Objectives, Scope, and Methodology	9
Evaluation of Management Controls	11
Findings and Analysis	13
1. Strengthening the security of the Community Development System	13
2. Ensuring transactions are processed consistently through training of staff	13
3. Providing updated policies and procedures for staff in the One Stop Shop to reference	14
Management Response	15
Action Plan	17

EXECUTIVE SUMMARY

An audit of the Collection of Development and Permit Fees was included on the Audit Plan for fiscal year 2008/09, as approved by the City Council on July 8, 2008. The purpose of this audit was to test the control environment to ensure that there is reasonable assurance that fees will be collected and recorded.

As a result of audit testing, there is reasonable assurance that fees will be collected and recorded related to development and permit fees. Revenues traced from the Community Development System to iNovah and SmartStream balanced for six random dates tested in July 2008, for the One Stop Shop, Inspections Administration, and Records.

Control activities are in place, but could be strengthened to provide greater assurance of compliance or timely detection of noncompliance.

Several areas for improvement within Development Services were identified:

- Strengthening the security of the Community Development System (page 13).
- Ensuring transactions are processed consistently through training of staff (page 13).
- Providing updated policies and procedures for staff in the One Stop Shop to reference (page 14).

The response from management begins on page 15 and includes their action plan for follow-up on items addressed in this audit.

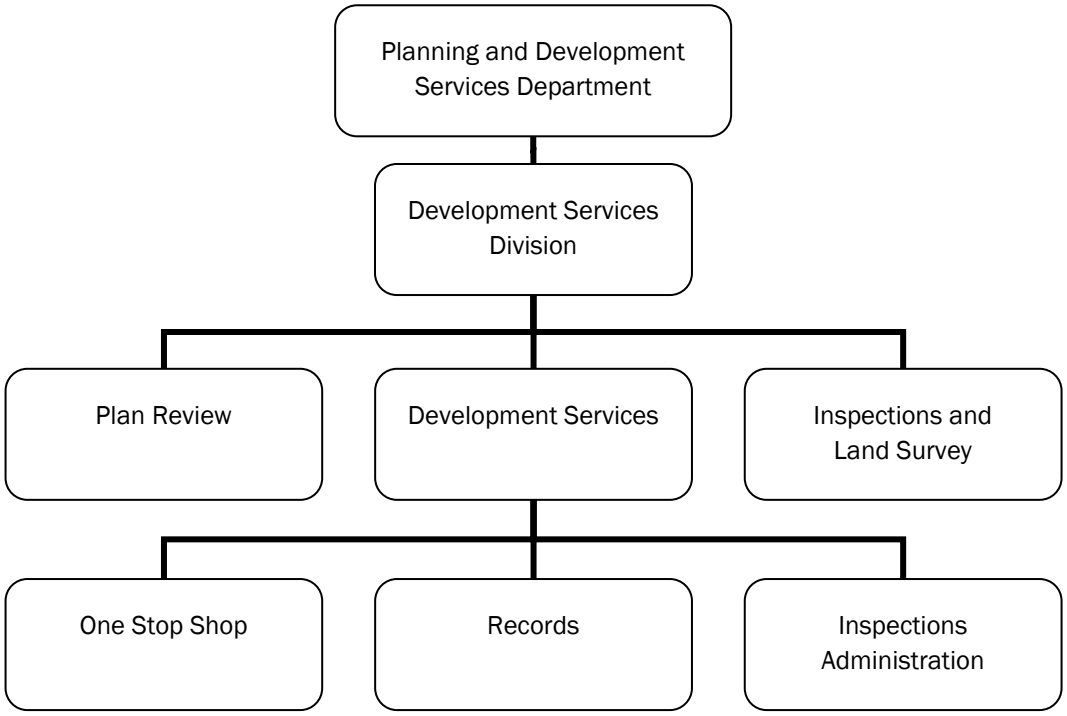
BACKGROUND

Introduction

The City of Scottsdale's Planning and Development Services Department's mission is "Working with Citizens to build and preserve Scottsdale as a great community," according to the FY 2008/09 Budget Book. The Planning and Development Services Department is comprised of the following divisions: Administration, Planning and Customer Services, Development Services, Office of Environmental Initiatives, and Preservation.

The Development Services Division is divided into three areas: Plan Review, Development Services, and Inspections and Land Survey. Development Services is further broken down into the One Stop Shop, Records, and Inspections Administration. The focus of this audit is on the revenues collected by the One Stop Shop, Records, and Inspections Administration sections of Development Services. The Development Services Division Organizational Chart is shown in Chart 1.

Chart 1. Organizational Chart



SOURCE: Auditor analysis of the FY 2008/09 City of Scottsdale Budget Book, the City's Web site, and discussions with management.

Development and permit fees are authorized under City Charter as well as City Code. The City Charter, Article 1, Section 3, Paragraph G requires those "responsible for new physical development within the city to provide for or furnish, or pay a fee in lieu of providing for or furnishing...public facilities

necessary to maintain satisfactory levels of service for said new development" while Article 1, Section 3, Paragraph H of the Charter requires "architectural and site plan review and approval prior to the development, construction, or conversion of any building or structure other than a detached single-family dwelling."

In addition, Ordinance No. 3378 modified City Code Chapter 46, Planning, Development, and Fees, to group development-related fees together, to make it easier for citizens to locate and plan for them.

Permit Issuance and Customer Service

In fiscal year 2006/07, the City issued over 14,500 permits and provided front-line customer service to over 35,000 customers at the One Stop Shop, Records, and Inspections Administration. In fiscal year 2007/08, over 9,000 permits were issued and front-line customer service was provided to over 24,000 customers at the One Stop Shop, Records, and Inspections Administration, a decline from fiscal year 2006/07. The real estate market decline is continuing to cause a drop in building permit revenues; development and permit fee revenues are expected to decline as measured by permits issued and property valuations. Therefore, the number of customers served is expected to decline as well.

Revenue Collection

Development Services staff are tasked with collecting revenues related to development in the City of Scottsdale. Development and permit fee collection are essential for the successful development of the City and revenues are collected within three areas of Development Services: The One Stop Shop, Records, and Inspections Administration.

The One Stop Shop provides a single location for customers to apply for approvals for the development process. The ability to complete all steps in the permitting process at one location aids citizens in the smooth transition through the development process. The One Stop Shop accepts payments for: Plan Reviews, Permits, Encroachment Permits, Fire Inspection Fees and Water and Sewer Development Fees. The One Stop Shop also accepts payments for pre-application research fees, applications, and sign permits, in addition to other miscellaneous fees.

The One Stop Shop is staffed with a Development Services Manager, five Development Services Representatives, a Plans Coordinator, three Secretaries, and a Roving Secretary. The five Development Services Representatives and, upon occasion, the Development Services Manager, collect fees using the Community Development System, an internally developed system used to collect development and permit fee data. Account posting occurs through Financial Services' iNovah cashiering system and SmartStream financial system.

Records staff collect fees for copies of records, site plans, pre-applications, and sign plans and permits. The Records area is staffed with a Development Services Manager and six Development Services Representatives.

Inspections Administration staff collect fees for temporary certificate of occupancy applications, temporary electric applications, and inspections, as well as minimum permits and dry utility plans and permits. The Inspections Administration area is staffed with a Development Services Manager and five Development Services Representatives.

In our review of the process, we determined that plan review and permitting are very structured but have many variables that can lead to difficulties for staff. Thorough training and understanding of the fees is necessary given the variables within the development process.

There is a set City-wide fee schedule, which is updated annually after adoption by the City Council, effective July 1 of each year. The fee schedule outlines the fees for different permits, plan reviews and fees. However, as of December 24, 2008, the online schedule of rates and fees on the City's Web site was "temporarily unavailable while it is updated for the new fiscal year."

Fees collected as part of the development and permit process are posted primarily by the One Stop Shop, Records, and Inspections Administration staff, although there are minimal transactions from other areas of the City. In fiscal year 2006/07, $33.7 million was collected for planning and development, fire services, and water and sewer fees City-wide. In fiscal year 2007/08, $28.6 million was collected in the same categories, resulting in a revenue decrease of $5.1 million or 15.2 percent from fiscal year 2006/07 to 2007/08.

Online Calculator

An online Permit Fee Calculator is available for customers to estimate fees on the City of Scottsdale Web site; however, in order to get accurate and complete fees for the project, customers are encouraged to come in to the One Stop Shop to meet with a Development Services Representative.

Fee Reduction Programs

The City offers fee reductions for projects in different areas of the City. In the southern part of the City, residents have a Southern Area Residential Fee Reduction Program available; while businesses have two programs, a Southern Area Business Fee Reduction Program and a Downtown Business Fee Reduction Program, which reduce specific fees for new business projects and renovations within specific areas generally south of Camelback Road.

The Southern Area Residential Fee Reduction Program was approved by the City Council in May 2004. This program was established to encourage and stimulate investment in homes south of Indian Bend Road. The program was modeled after the Business Fee Reduction Program in that it reduces specific permit fees for citizens who reinvest back into their homes.

Online Services

In the past few years, the Planning and Development Department has invested significant resources into enhancing online services and providing self-serve options so that customers can access information without having to visit City offices. Customers can now submit construction plans digitally,

which enables the review process to occur online. Digital submittals can be uploaded for tenant improvements, single family, and deferred fire submittals, digital plats and maps of dedications.

Also available online are quick and inexpensive permits referred to as "Minimum Permits," which do not require staff plan review and/or approval. These permits can be obtained online, with an option to immediately schedule an inspection for the next day. Minimum permits can be obtained for a variety of projects for single-family residences including: gas or electric water heaters, replacing or repairing broken water lines, repair of natural gas or propane gas lines, plumbing for water softeners, and sewer line repairs, among others.

Financial Systems

The One Stop Shop, Records, and Inspections Administration staff utilize the Community Development System to calculate fees. The Community Development System is an internally developed system that was originally created to track development permit and inspection data. The system also was created to have a mechanism to balance against the cashiering database. The Community Development System has evolved into a much broader system, tracking projects through the development process and providing a historical record for Development Services.

The iNovah cashiering system integrates with the Community Development System through the use of tables that match and draw transactions from the Community Development System to iNovah. Staff balance their Community Development System revenue transactions to iNovah nightly. The staff then consolidate deposit information and send information regarding their deposit totals to the City cashier. The City cashier sends an e-mail nightly to Financial Services staff to confirm control totals and upload batch totals into SmartStream by account. The detail transactions are kept in iNovah; only the total of transactions is uploaded into SmartStream. Data from SmartStream does not flow back in to the Community Development System. Chart 2 is a diagram of the flow of data from the Community Development System to iNovah to SmartStream.

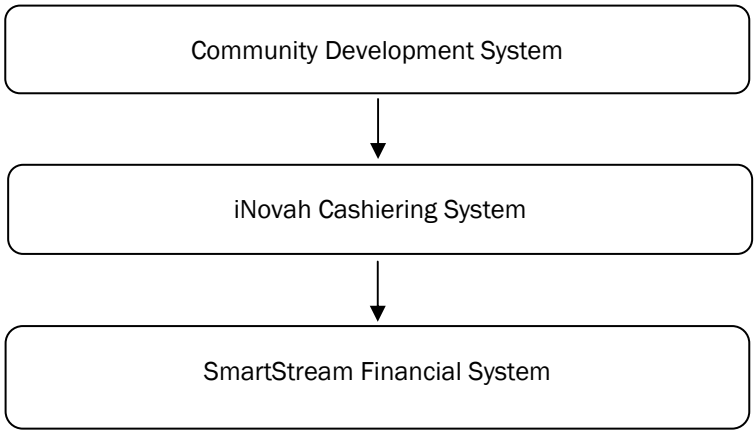
Cash Transactions

Observations of transactions processed by the One Stop Shop staff indicate that very few cash transactions are handled by counter staff. Most transactions are processed using credit cards or checks; this leads to a lower potential risk of misappropriation of cash revenue by counter staff.

Cross Training

Staff within the One Stop Shop, Inspections Administration, and Records are currently involved in a cross training program to increase breadth and depth of knowledge of representatives. This program is supported by management.

Chart 2. Electronic Data Flow Among Systems



SOURCE: Auditor analysis of electronic data flow among financial systems.

OBJECTIVES, SCOPE, AND METHODOLOGY

This audit was proposed to test the control environment to ensure that there is reasonable assurance that development and permit fees will be collected and recorded. The scope was limited to fiscal years 2006/07, 2007/08 and limited transactions from fiscal year 2008/09.

To complete the work we:

1. Obtained and reviewed applicable City codes, administrative regulations, and policies.
2. Reviewed selected documents/transactions to determine if:
    - Development and permit fee revenue posted properly through the City's systems from the Community Development System to the iNovah cashiering system and to the SmartStream financial reporting system.
    - Development and permit fees were calculated correctly for randomly selected plans.
    - Policies and procedures are in place.
    - Management reviews and authorizes transactions.
    - Separation of duties is in place.
    - The Community Development System incorporated data integrity and security.
3. Observed staff assisting customers at the One Stop Shop.
4. Interviewed various individuals, including but not limited to:
    - Planning and Development staff, including the One Stop Shop, Inspections Administration, and Records.
    - Financial Services staff.

Prior Audit Work
We also reviewed recommendations made in a previous audit (Cash Handling Audit No. 0705, March 2008).

The Cash Handling Report, as it related to the One Stop Shop, had two items addressed in the report's Action Plan:

1. The One Stop Shop accepts checks written for amounts in excess of what is necessary to settle the transaction. In multiple cases, when a customer presented an overpayment, the cashier processed a refund for the difference either on the same day or within a few days of the transaction, before the check cleared the bank.

2. The clearing account used by staff at the One Stop Shop to post any overpayments and the corresponding refunds was out of balance by almost $20,000. This condition had been in existence for at least 20 months.

The department has taken action to address these items.

Current Audit Work

As a result of audit testing, there is reasonable assurance that fees will be collected and recorded related to development and permit fees. Revenues traced from the Community Development System to iNovah and SmartStream balanced for six random dates tested in July 2008, for the One Stop Shop, Inspections Administration, and Records.

At the conclusion of the background and information gathering, we developed a risk matrix depicting the risk of undetected noncompliant activity in relation to management developed controls. We determined that procedures appeared to be in place, and there appeared to be sufficient use of controls, to offer some assurance of compliance, based solely on the risk matrix and accompanying analysis.

The following areas for improvement within the control structure were identified, which will be discussed in the following pages:

1. Strengthening the security of the Community Development System.
2. Ensuring transactions are processed consistently through training of staff.
3. Providing updated policies and procedures for staff in the One Stop Shop to reference.

Audit work was conducted in accordance with generally accepted government auditing standards as they relate to expanded scope auditing in a local government environment and as required by Article III, Scottsdale Revised Code, Section 2-117, *et seq*. Generally accepted government auditing standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Audit work took place from July through December 2008, with Kim Prendergast conducting the work.

EVALUATION OF MANAGEMENT CONTROLS

A control structure is in place, but could be strengthened to provide greater assurance of compliance or timely detection of noncompliance.

A sufficient control structure should exist to provide assurance of compliance with appropriate statutory regulations. To be considered sufficient, the following elements should be present:

- *Control Environment* - Management is aware of the need for a control system and communicates this need with an attitude and awareness that sets the tone for the organization.
- *Risk Assessment* - Relevant risks that impact compliance are identified, evaluated, and used as the basis for determining how to manage risk.
- *Control Activities* - Policies and procedures are developed and documented.
- *Information and Communication* - Usable, relevant information is captured and exchanged in a form and time frame that allows employees to effectively carry out their duties.
- *Monitoring* - Periodic assessments of the control structure are undertaken to identify what is working and what needs to be improved or modified.

Results of work conducted indicate the internal control structure over the collection of development and permit fees could be improved through:

1. Strengthening the security of the Community Development System.
2. Ensuring transactions are processed consistently through training of staff.
3. Providing updated policies and procedures for staff in the One Stop Shop to reference.

The control structure in place was observed and included:

- One Stop Shop, Inspections Administration, and Records Development Services Representatives conducting transactions with customers in a pleasant and helpful manner.
- Management empowering staff to make independent decisions while assisting customers.
- Management documenting policies and procedures and making them available to staff in Inspections Administration and Records.
- Proper segregation of duties.

FINDINGS AND ANALYSIS

1. Strengthening the security of the Community Development System.

CRITERIA:
To maintain a sufficient internal control structure, periodic monitoring of systems is needed to assess what is working and what needs to be improved or modified.

CONDITION:
The Community Development System does not provide consistently reliable information. Data can be added or deleted from fields in previously processed transactions, and dates can be changed or deleted, due to "glitches" in software.

CAUSE:
System administrators have the ability to change or modify data, excluding fees charged, with few security limitations or compensating controls. Recent migration to a new platform for the Community Development System has created unique situations which require programming corrections.

EFFECT:
The Community Development System cannot be relied on to provide consistently accurate information, other than as a balancing tool for daily revenue deposits, when compared to the iNovah cashiering system.

2. Ensuring transactions are processed consistently through training of staff.

CRITERIA:
City Code Chapter 46, Section 46-141 states there is a fee schedule for fees associated with plan review, building permits, and other fees related to development processing. The fees shall be examined annually. Also, a schedule of fees is available at the City development review services counter.

City Code Chapter 66, Section 66-107 states that fees may be charged for encroachment permits, and fees may be examined no more often than annually.

To maintain a sufficient internal control structure, usable, relevant information should be provided in a form and time frame that allows employees to effectively carry out their duties.

CONDITION:
Fees were charged inconsistently by not utilizing (1) correct fees and (2) square footage or linear footage from plans, in some cases. For 15 randomly selected plans purged during April and May 2008, three plans had fee discrepancies, undercharging customers a total of $109.44. The fees charged for the entire sample were $31,381.41. The error was insignificant at approximately one third of 1 percent of the value of the sample.

CAUSE:
Lack of up-to-date written policies and procedures for staff to follow, combined with staff inexperience with program guidelines and staff inexperience reviewing unfamiliar plans.

EFFECT:
Customers may be charged incorrectly, resulting in revenue shortfalls to the City or excess charges to customers.

3. Providing updated policies and procedures for staff in the One Stop Shop to reference.

CRITERIA:
To maintain a sufficient internal control structure, policies and procedures must be developed and documented.

The purpose of having a policy and procedures manual is to:

- Communicate management's expectations and established requirements to which staff must conform.
- Allow for business continuity during staff absence.

CONDITION:
A current policy and procedures manual is not available for the One Stop Shop staff to reference.

CAUSE:
Prior policy and procedures manual is out of date and not useful. Management is currently working on an update to the manual, which is in process and expected to take several months to complete.

EFFECT:
Staff do not have explicit policies and procedures documented to assist them in their work assignments.

MANAGEMENT RESPONSE

Planning & Development Services
INTEROFFICE MEMORANDUM

DATE: January 12, 2009

TO: Brent Stockwell, Acting City Auditor

FROM: David E. Richert, Planning & Development Services General Manager

RE: **RESPONSE TO CITY AUDIT REPORT NO. 0803**

We appreciate the work performed by City Audit staff in completing the Collection of Development and Permit Fees Report No. 0803. Attached is our written response to the observations set forth by your team, which includes our timeline for implementation.

We further appreciate the opportunity to collaborate with your office as the accurate collection of fees is a priority for our department.

Attachment: Action Plan

CC: David Ellison, Assistant City Manager
Connie Padian, Planning & Development Services Administrator
Michael Clack, Chief Development Officer
Dennis Enriquez, Senior Development Services Manager
Sue Landreth, Development Services Manager
Jason Song, Lead Systems Integrator
Dan VandenHam, Senior Management Analyst
Joyce Gilbride, Assistant City Auditor
Kim Prendergast, Senior Auditor
Susan English, Audit Associate

ACTION PLAN

1. Strengthening the security of the Community Development System.

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION:

- Create additional security levels specific to staff responsibilities
- Regularly (no less than annually) review security levels

RESPONSIBLE PARTY: Jason Song, Lead Systems Integrator

COMPLETED BY: on or before March 31, 2009

2. Ensuring transactions are processed consistently through training of staff.

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION:

- Initiate cross training between division staff to provide checks and balances ensuring consistency between entry data, plans and permits
- Provide on-going training of proper application of fee reduction programs and minimum fee requirements through weekly staff meetings
- Completion and review of new policies and procedures manual (see item #3 below)

RESPONSIBLE PARTY: Sue Landreth, Development Services Manager

COMPLETED BY: on or before February 28, 2009

3. Providing updated policies and procedures for staff in the One Stop Shop to reference.

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION:

- Completion of the new policies and procedures manual
- Provide as needed updates to the new policies and procedures manual
- Review all contents of the new policies and procedures manual with staff during regularly scheduled weekly meetings

RESPONSIBLE PARTY: Sue Landreth, Development Services Manager

COMPLETED BY: on or before February 28, 2009

City Auditor's Office
4021 N. 75th St., Suite 105
Scottsdale, Arizona 85251
(480) 312-7756
http://www.ScottsdaleAZ.gov
Search: "auditor"

Audit reports are available on the Web site.

This material is available in alternate format upon request.

Audit Committee
Councilman Robert Littlefield, Chairman
Vice Mayor Ron McCullagh
Councilwoman Suzanne Klapp

City Auditor's Office
Kyla Anderson, Auditor
Susan English, Audit Associate
Joyce Gilbride, Assistant City Auditor
Lisa Gurtler, Assistant City Auditor
Leo Lew, Senior Auditor
Joanna Munar, Senior Auditor
Kim Prendergast, Senior Auditor
Brent Stockwell, Acting City Auditor

The City Auditor's Office provides independent research, analysis, consultation, and educational services to promote operational efficiency, effectiveness, accountability, and integrity in response to City needs.