

SEMINOLE COUNTY

**REVIEW OF
DEVELOPMENT REVIEW FUND**

DECEMBER 2007

Prepared by:
Internal Audit Division
Clerk of the Circuit Court



MARYANNE MORSE
Clerk of the Circuit Court
Seminole County

December 20, 2007

The Honorable Brenda Carey
Chairman
The Board of County Commissioners
Seminole County, Florida
1101 East First Street
Sanford, FL 32771

Dear Madam Chairman:

I am very pleased to present you with the attached review of the Development Review Fund.

The review found conditions that warrant management's attention. These conditions and management's corrective action plans are included in the report that follows. We believe the corrective action plans are responsive to the conditions noted.

I would like to personally thank the men and women of the Planning and Development Department for their assistance throughout the course of this review. Their assistance was deeply appreciated. With warmest personal regards, I am

Most cordially,

Maryanne Morse
Clerk of the Circuit Court
Seminole County

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Seminole County Planning and Development

Review of the “Development Review Fund”

The Internal Audit Division of the Office of the Clerk of the Circuit Court has completed a review of the “Development Review Fund”.

Purpose

The purpose of this review was: 1) determine compliance with management's established procedures; 2) evaluate the adequacy and effectiveness of those procedures; 3) evaluate compliance with county ordinances and Florida Statutes and 4) verify that fee collections are in accordance with the approved fee schedule.

Background

The Development Review Fund (the Fund) is used specifically to account for the revenues and costs associated with implementing Florida Statute 125.56 “Enforcement and amendment of the Florida Building Code and the Florida Fire Prevention Code; inspection fees; inspectors; ...”, and the County’s “New Building and Inspection Fee” schedule per Resolution No. 2003-R-210, approved by the Board of County Commissioners on December 9th, 2003.

Florida Statute 125.56 (1) authorizes governments “.... to adopt a building code to provide for the safe erection, alteration, and repair of any building within its territory.” Futhermore, Florida Statute 125.56 (2) states in part that, “ ...the Board of County Commissioners of each of the several counties may provide a schedule of reasonable inspection fees in order to defer the costs of inspection and enforcement of the provision of this act and of any building code adopted pursuant to the terms of this act.”

The Attorney General’s Opinion 89-28, dated May 10, 1989, provides additional guidance as to the allowable expenditures of the fund. The opinion stated that “...the inspection fees collected pursuant to Florida Statute 125.56 may only be used to defray the costs of inspection and enforce the provisions of Florida Statute 125.56 and the building code adopted by the county pursuant to that section. They may not be used for the purpose of funding the preparation, implementation, and enforcement of the comprehensive plan and the regulatory activities required by Florida Statute 163.3161, the “Local Government Comprehensive Planning and Land Development Act.”

The results of the audit are included in the report that follows.

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Scope

The scope of this review included the revenues and expenses related specifically to the Fund. We evaluated the system of internal controls, reviewed management's written procedures, evaluated compliance with those procedures, and verified that statutory and county codes are being met. We examined the revenues and expenses for the period April 2005 through April 2007.

The review included:

- Review of disbursements from the Fund to ensure that the charges are legitimate charges to the Fund;
- Review of the excess funds collected and being held in reserve;
- Review of the internal controls over the revenue collection and disbursement process;
- Interviews with county personnel;
- Review of the county administrative code, and other county ordinances; and,
- Any other procedures considered necessary under the circumstances.

The audit was performed by Lewis Dundas and Bill Carroll.

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Overall Evaluation

It is our opinion, the county has taken the necessary steps for compliance with FS 553.80 (1) (f). Effective in October 2007, a separate and distinct budget was established for the Building Division. This is designed to ensure that fees collected for permitting and inspections is not commingled with revenues and expenses from other activities.

FS 553.80 (1) (f) “authorizes governing bodies of local governments to provide a schedule of reasonable fees to be used solely for carrying out the local government’s responsibilities in enforcing the Florida Building Code. Local governments are not allowed to use these monies to pay for activities unrelated to enforcing the building code.” We believe that the steps taken by Planning and Development ensure compliance with FS 553.80 (1) (f).

The following conditions require management’s attention:

- A standard methodology for calculating the estimated building valuation for permit fee assessment is not documented in writing;
- The policy and procedures for issuing of residential “Shell” construction permits is not documented in writing;
- The policy and procedures for issuing of commercial “Shell” construction permits is not documented in writing;
- A standard has not been established for estimating the cost of commercial finish-out projects;
- Some of the permits examined contained errors in the permit fee calculation;
- A Disbursement Signature Authorization Sheet was not kept on file;
- Invoices do not always have a proper approval signature;
- A disbursement was approved by the employee themselves; and,
- Instances of insufficient authorization to approve invoices for payment.

Our findings and recommendations are included in the report that follows.

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FINDING NO. 1

A standard methodology for calculating the estimated building valuation for permit fee assessment is not documented in writing.

Some of the permit fees in the approved Building and Inspection Fee Schedule are based on both a fixed fee component and a variable fee component.

Variable fees are based on a rate per thousand dollars of construction value of the building or improvement being permitted.

Construction values are the greater of either the declared value provided by the applicant or an estimated value calculated during processing using the square footage of the proposed building times the average construction cost per square foot for the type of construction of the building.

The average construction cost per square foot is provided by the International Code Council's Building Valuation Data Table.

We selected a sample of 101 permits. Nineteen of the permits sampled were for new building construction. Seventeen were for new single family residential and two were for new commercial projects.

We recalculated the permit fees for these nineteen permits. We agreed with the permit fees for the two commercial permits. We also agreed with permit fees for seven of the single family residential.

Of the remaining ten, we found seven that we did not agree with. For these seven, the actual amount collected for five was more than what we calculated. The amount collected for the other two was less. In the other three permits, the applicants declared value was used. The auditor's calculation was always less than the declared value used by the applicant.

We also found that the calculations of the construction values are not imaged and are discarded. Therefore, we could not review documentation to possibly resolve differences noted above.

Recommendation:

The image of the calculation of the estimated construction value should be included in the ON-BASE document image retrieval system to create a more complete permit file and audit trail. This will allow for subsequent examination of the propriety of permit fees collected. Also the calculation sheet should not be discarded but rather placed in the permit file.

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Management Response:

Management concurs with this recommendation. A procedure has been implemented whereby a fee worksheet will be generated for each permit requiring documented calculations to determine the valuation. The worksheet will be included with the permit package and will be scanned and maintained in the On-Base system.

FINDING NO. 2

The policy and procedures for issuing of residential "Shell" construction permits is not documented in writing.

There is no written policy and procedures for "Shell" permits issued for Single Family Attached (e.g.: Townhouses) new construction. Also there is no "Shell" permit fee rate in the county approved building and inspection fee schedule.

There is a policy of charging minimum fees for permits issued for "Shell Construction" of buildings that will contain multiple units such as townhouses (Single Family Attached) that will be completed at a later date. No value is assigned to the cost of the exterior construction for use in assessing permit fees at this time. Two of the 101 permits selected were this type of permit.

When the individual units are to be completed a new permit is to be pulled and the applicant must pay the new permit fees for building, electric, plumbing, and mechanical based on the estimated construction value using the same average cost per square foot for the construction group rate and type as in new single family residential construction. This assures that the permits issued are based on the estimate of the completed project, including the value of the exterior not assessed in issuing the "Shell" permit.

For the two permits examined, the rates assessed for electrical and plumbing were not the minimum rates for new single family residential (\$40 electric and \$55 plumbing) or new other than single family residential construction (\$20 electric and \$20 plumbing) as per the rate schedule. Instead the fee was \$25 in all instances and is equal to the 1st re-inspection fee for these permit types.

Recommendation:

We recommend that a residential "shell" classification be added to the fee schedule and approved by the Board of County Commissioners to assure consistent application of rates and that the policy for issuing shell permits be documented in writing.

Management Response:

Management concurs with this recommendation. The Building Division will document in writing a policy ensuring a consistent application of rates.

However residential “Shell” permits are classified in the fee schedule under Permit Fees Section XI.A.1 Building Permit Fees for Buildings (new construction and alternations): which states “Value of construction is determined by the most recent December publishing of the Southern Building Code Congress estimates per square foot, excluding the regional modifier, of all areas under roof according to the type of construction and use”. The Southern Building Code Congress Building Valuation Data Tables are followed and include shell costs for types of construction.

Audit Comment

A “Shell” permit is essentially a deferral of some of the permit fees that are due. The builder/owner is allowed to pay the balance of the fees as the project progresses. Therefore, we are recommending additional controls be established to ensure that all fees are subsequently collected.

FINDING NO. 3

The policy and procedures for issuing commercial “Shell” construction permits is not documented in writing.

There is a policy of issuing shell permits for the initial construction of office building exteriors. This policy differs from the “Residential Shell” permit described above in that a value is assigned to the exterior construction in assessing permit fees.

Permit # 06-5296 was for the construction of a new office building shell, and had the estimated construction cost valued using the “Utility” group rate for Type IIB construction. Type IIB construction is defined as construction for those types in which the building elements are of noncombustible materials.

When the auditor inquired why the “Utility” group rate was used, the response was that for this type of construction the Utility rate is used since the interior of the building will be finished out later and as this occurs fees for the interior construction permit fees will be collected at that time.

However, as noted in audit finding No. 4 below, the value of interior finish-out cannot be estimated. Therefore, there is no objective way to evaluate that the cumulative permit fees collected to completely finish-out an office building will, at least, equal industry averages.

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Recommendation:

We recommend that standardized fee structures be established for both interior building permits and for remodeling. This would ensure that the cumulative average cost per square foot, after all interior finish-out construction is completed, at least equals that stated in the Building Valuation Data Tables for the appropriate construction type. The policy for this type of permit should be documented in writing.

Management Response:

Management concurs with this recommendation. The Building Division will document in writing a policy ensuring a consistent applications of rates.

However as stated in Finding #2, Management Response above, the Southern Building Code Congress Building Valuation Data Table is used and the rate (for shell only buildings deduct 20 percent) shall be followed as written utilizing the 80 percent for the shell and 20 percent rate for the type of construction.

FINDING NO. 4

A standard has not been established for estimating the cost of commercial finish-out projects.

One permit tested is for the finish out of commercial office space. The \$15,000 value used in issuing permit number 06-4586 was the amount declared by the applicant to finish out 1,100 square feet of office space. This averages out to \$13.64 per square foot and is less than any group rate for any type of construction per the Building Valuation Data sheet.

To attempt to estimate the average construction cost per square foot for interior finish-out of office space, the construction cost per square foot for the Mercantile construction group (the least expensive finished group rate for any type of construction) was compared to the Utility construction group used in issuing shell permits (the lease expensive unfinished group rate for any type of construction). The difference between the rates for these two groups should tend to estimate the minimum average cost per square foot to finish-out the interior of a commercial building. The differential between these two groups, per the Building Valuation Data sheet, range from a low of \$33.43 to a high of \$41.77. This data would tend to indicate that this applicant's valuation of the project cost averaging \$13.64 may be understated.

The auditor inquired if an average cost of \$13.64 per square foot is a reasonable value for this type of construction and did the process include its own estimated cost calculation? In response it was stated that the tables do not have rates for this type of finish-out construction and therefore they use the applicants declared value in assessing the permits.

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Recommendation:

We recommend that data tables be obtained that contain average rates for commercial interior finish-out projects. If no such tables are available then consideration should be given to establishing a minimum cost per square foot for this type of construction. This would assure applicants do not understate the declared value of the project.

Also, the policy for assessing fees for these types of permits should be documented in writing to assure consistent processing of this type of permit.

Management Response:

Management concurs with this recommendation. The Building Division will utilize the Southern Building Code Congress Building Valuation Data Table to determine the construction cost of interior commercial finish out projects and will be followed as written utilizing 80 percent for the shell and 20 percent to finish out the interior of a commercial building. A written policy will be established to ensure all fees are calculated consistently and appropriately.

FINDING NO. 5

Some of the permits examined contained errors in the permit fee calculation.

Of the audit sample of 101 permits selected for testing, five contained errors in calculating the permit fees. Commercial Permit 04-14933 listed 7 window A/C outlets that should have been charged at \$1.00 each but were charged at \$0.20 each. Remodel Permit 05-15718 was not charged a Mechanical Permit Fee for the relocation of an exhaust fan. Fire Suppression Permits 06-2520 and 06-13377 were issued collecting only the base permit fee of \$35 and not charging the variable fee based on the value of the system of \$8.00 in each case. And on Re-Roof Permit 07-2650 the base charge assess was \$35.00 when the base charge per the rate schedule is \$25.00.

Recommendation:

We recommend that the permit processing procedures be reviewed and document them in writing to assure improved compliance in applying the approved permit rate schedule and the proper collection of fees.

Management Response:

Management concurs with this recommendation. The Building Division will review the permit processing procedures with staff to ensure compliance. However, out of the 101 permits selected, two (2) were updating errors, but three (3) were program errors due to code changes within the Building System. These have been corrected.

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FINDING NO. 6

A Disbursement Signature Authorization Sheet was not kept on file.

Each county division is responsible for providing a disbursement signature authorization sheet that documents the disbursement approval authority of an employee by listing the employee name, the dollar limit and types of expenditures they can approve for payment, and a sample signature.

Of the 75 disbursements examined the disbursement signature authorization sheet of an employee authorizing four expenditures selected for testing was not available to examination because it was discarded after the employee terminated employment.

Recommendation:

We recommend that all signature authorization sheets be retained by County Finance in accordance with the established records retention policy to allow for subsequent audit testing.

Management Response:

Management concurs with this recommendation. Signature authorization sheets will be retained by County Finance for an appropriate audit trail.

FINDING NO. 7

Invoices do not always have a proper approval signature.

The disbursement processing cover sheet is a document required by County Finance and includes: account code, disbursement distribution, PO, invoice number, disbursement description, processor name and superior reviewing and approving payment.

A review of 75 of these documents revealed that eight (8) did not have a signature of an authorized employee approving payment.

Recommendation:

County Finance should enforce the requirement that all cover sheets are completed in full. County Finance should return the forms that have missing information and/or signatures.

County Finance should verify the signatures of the cover sheet and the signature authority form are the same.

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Management Response:

Management concurs with the recommendation and will enforce the requirement that all cover sheets are completed in full. We are also reviewing our procedure to ensure that all signatures on the cover sheet and signature authority form are the same.

FINDING NO. 8

A disbursement was approved by the employee themselves.

One disbursement to a hotel for a future conference was approved by the employee themselves.

Generally as a matter effective internal control employees should not approve their own expenses or expenditures on their behalf.

Recommendation:

Supervisors should approve expenses or expenditures for staff; directors should approve expenses or expenditures for supervisors. County managers should approve expenses and expenditures for directors.

County Finance should verify appropriate authorized signatures are on approved disbursement sheets.

Management Response:

Management concurs with this recommendation and has instituted an internal sign-off procedure through the Planning and Development Department's chain of command.

FINDING NO. 9

Instances of insufficient authorization to approve invoices for payment.

Two invoices submitted to County Finance for payment were authorized by employees that have insufficient dollar limit authorizations to approve them, per examination of their approved disbursement signature authorization sheet.

Recommendation:

We recommend that County Finance procedures be reviewed to assure that when processing invoices for payment that all approval signatures have adequate dollar approval authority for the expenditure.

Management Response:

Management concurs with the recommendation and will be reviewing procedures to assure that when processing invoices for payment that approval signatures have adequate dollar approval authority for the expenditure.