



**A Report to the
City Council**

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Mayor Pro Tem
Sheryl Cole

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**Office of the
City Auditor**

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Building and Development Fees Audit

December 2014



REPORT SUMMARY

We found that the Planning and Development Review Department (PDRD) made several errors in assessing building and development fees, resulting primarily in undercharges to customers. Based on the high incidence of errors, we cannot provide assurance that customers who go through the City's development and permitting process are charged accurate fees in accordance with the Council-approved fee schedule and that the City is recovering the cost of providing land development-related services.

TABLE OF CONTENTS

BACKGROUND1

OBJECTIVE, SCOPE, AND METHODOLOGY1

AUDIT RESULTS.....3

Appendix

Appendix A: Management Response.....9

Exhibits

Exhibit 1: Additional Phase Inspection Fee.....4

Exhibit 2: Landscape Inspection Fee5

GOVERNMENT AUDITING STANDARDS COMPLIANCE

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those 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 TEAM

Niki Raggi, CGAP, CRMA, CICA, Assistant City Auditor
Neha Sharma, CPA, CIA, CISA, Auditor-in-Charge
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December 15, 2014



Audit Report Highlights

Why We Did This Audit

This audit was included on our Strategic Audit Plan due to risks observed through audits and investigations, as well as concerns raised by Council.

What We Recommend

PDRD should strengthen system controls over AMANDA and establish a process to ensure that building and development fees are consistently charged accurately and in accordance with the Council-approved schedule, including assigning responsibilities for communicating fee changes and performing periodic reviews of fees assessed.



For more information on this or any of our reports, email oca_auditor@austintexas.gov

BUILDING AND DEVELOPMENT FEES AUDIT

Mayor and Council,
I am pleased to present this audit on building and development fees.

BACKGROUND

- The Planning and Development Review Department (PDRD) manages land development services, such as plan reviews, permitting, and inspection services.
- Since 2007, the City uses an automated permitting system (AMANDA) to track the status of applications and to assess the fees charged by the City for providing development-related services.
- In 2012, the City Council approved a revised fee structure for building and development fees to better recover the cost of services provided. The revised fee structure included new fees and fee increases.
- Types of fees and amounts charged are authorized yearly by Council via ordinance.
- In Fiscal Year (FY) 2014, PDRD assessed approximately 200 fee types, via 133,000 transactions, and collected approximately \$24 million.

OBJECTIVES AND SCOPE

The objective of this audit was to determine whether the Planning and Development Review Department (PDRD) assesses land development-related fees in accordance with the City Council-approved fee schedule.

The audit scope included building and development fees that were assessed by PDRD through the permitting system during FY 2014.

WHAT WE FOUND

Based on the high incidence of errors found in this audit, we cannot provide assurance that customers are consistently charged accurate building and development fees in accordance with the Council-approved fee schedule and that the City is recovering the cost of providing land development-related services.

We tested 30 fee transactions and found that 12 fee transactions (or 40%) were not assessed in accordance with the Council-approved fee schedule, resulting in undercharges of as much as \$28,800 or overcharges of as much as \$2,400 on individual fee transactions. We also selected two fee types for which we reviewed all transactions in our scope period, and found that the majority were charged incorrectly, resulting in a revenue loss to the City of approximately \$100,000.

Errors found appear to be due to a number of factors, including limited supervisory oversight, poorly documented fee guidance, and system limitations.

We appreciate the cooperation and assistance we received from PDRD staff during this audit.

Corrie E. Stokes, Acting City Auditor

BACKGROUND

The Planning and Development Review Department (PDRD) manages the City's One Stop Shop, which serves as a central location to address land development needs including review, permitting, and inspections services.

Since 2007, PDRD uses a permitting system called AMANDA (Application Management And Data Automation) to track the status of applicant cases and to assess its various fees. In Fiscal Year (FY) 2014, PDRD assessed approximately 200 fee types and collected approximately \$24 million in revenues.

The City charges customers a fee for the services provided. During 2011, PDRD engaged a consultant to examine the development fee schedule to determine whether it aligned with the cost of providing services. Based on the consultant recommendations, the City Council approved changes to PDRD's fee structure, including new fees and fee increases. The new fee structure and an initial increase of 25% on applicable development-related fees were adopted in June 2012. Since then, Council has approved yearly fee increases of 25% on selected fees.

The types of fees and the amount for each fee are authorized by ordinance at the beginning of each fiscal year and the list of fees is included in the Council-approved fee schedule, which is adopted as part of the City budget. The yearly fee ordinance takes precedence over fees established by earlier ordinances.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Building and Development Fee Audit was conducted as part of the Office of the City Auditor's (OCA) Fiscal Year (FY) 2014 Strategic Audit Plan, as presented to the City Council Audit and Finance Committee. This audit was included on the Strategic Audit Plan due to risks observed through audits and investigations, as well as concerns raised by Council.

Objective

The objective of this audit was to determine whether the Planning and Development Review Department (PDRD) assesses land development-related fees in accordance with the City Council-approved fee schedule.

Scope

The audit scope included building and development-related fees that were assessed by PDRD through the permitting system during Fiscal Year (FY) 2014.

Methodology

To accomplish our objectives, we performed the following steps:

- reviewed applicable laws, policies and procedures relating to assessment of fees by Planning and Development Review Department;
- conducted interviews with staff in the PDRD;
- analyzed fee transactions and project information in AMANDA;
- tested fee calculations for agreement with the City Council-approved fee schedule for a judgmental sample of 30 fee transactions invoiced to customers through AMANDA;

- tested fee calculations for agreement with the City Council- approved fee schedule for all transactions related to two of the fees for which we identified exceptions; and
- tested selected transactions for the development service surcharge for agreement with the City Council -approved fee schedule.

AUDIT RESULTS

We found that the Planning and Development Review Department (PDRD) made several errors in assessing land development-related fees which resulted in undercharges by as much as \$28,800 or overcharges of as much as \$2,400 on individual transactions and in a revenue loss of approximately \$100,000 from errors found on a selection of fees. Based on the high incidence of errors found in this audit, we cannot provide assurance that customers who go through the City's development and permitting process are charged accurate fees in accordance with the Council-approved fee schedule and that the City is recovering the cost of providing land development-related services.

Finding: PDRD staff did not charge land development fees accurately and consistently, primarily resulting in undercharges to customers and thus significant revenue loss, impacting the City's cost recovery efforts.

When processing development and permitting applications, PDRD should charge customers fees and fee amounts as established in the Council-approved fee schedule for the relevant fiscal year. Charging and collecting the accurate amount is essential to ensure that customers are consistently charged fairly. Furthermore, in light of the results of the 2011 consultant study and subsequent Council approval of new fees and fee increases, charging the accurate fee amounts is crucial to enable the City to recover the cost of services provided and to safeguard the financial health of the City.

However, based on our review of fee transactions, we found that PDRD staff did not consistently charge accurate fees. We tested 30 fee transactions, out of a total of approximately 133,000 transactions that were assessed by PDRD staff and billed to customers during our scope period, and found that:

- 16 fee transactions (or 54%) were assessed in accordance to the Council-approved fee schedule;
- 12 fee transactions (or 40%) were not assessed in accordance to the Council-approved fee schedule; and
- 2 fee transactions (or 6%) had minor computation errors.

Examples of errors found include:

- a fee undercharge of \$28,815 due to staff applying an incorrect fee amount;
- a fee undercharge of \$5,742 due to staff not applying a required surcharge;
- a fee overcharge of \$2,423 due to staff adding 30%, instead of discounting a 30% Smart Growth incentive to a fee; and
- a fee overcharge of \$2,200 due to staff applying the incorrect fee type.

Of the exceptions found, some had errors that appear to be unique to the individual transaction. As such, we could not draw conclusions beyond the test results. For others, the errors appeared to be tied to the specific fee, and based on further testing, appeared to be an indicator of a frequent problem.

Based on our test results we cannot provide assurance that development-related fees are charged accurately and consistently.

Although we cannot estimate the extent of the errors on all fees transactions assessed by PDRD, based on the high incidence of errors found in this audit, we cannot provide assurance that customers who go through the City’s development and permitting process are charged accurate fees in accordance with the fee schedule approved by the City Council. Furthermore, we cannot provide assurance that PDRD is adequately charging customers for the cost for providing land development-related services.

Based on the results of our test of 30 transactions discussed earlier, we selected two fees (Additional Phase Inspection and Landscape Inspection) for further testing and reviewed all 262 transactions in which PDRD charged these two fees during our scope period. Also, since our test of 30 transactions identified issues related to the development surcharge, for the two fees selected, we tested whether the surcharge had been accurately applied. Based on our review, we found that PDRD frequently undercharged customers by applying the fee amount from a prior fiscal year, resulting in a revenue loss to the City of at least \$79,000 (\$60,000 for Additional Phase Inspection and \$19,000 for the Landscape Inspection). Furthermore, we noted that staff did not consistently apply the required surcharge of 4%, resulting in an additional revenue loss of at least \$16,000 (for a total of approximately \$100,000 revenue loss during our scope period.).

Additional Phase Inspection Fee

When an applicant requests that a construction project be released in several phases, the City charges a fee for the cost of performing inspections during each phase of the project. As a result of the fee study mentioned earlier, this fee was initially increased by 25% during FY 2012 and by an additional 25% in FY 2014. Exhibit 1 shows the fee amounts from the two fiscal years. We reviewed all 80 transactions in our scope period related to this fee, and found that in several instances PDRD staff erroneously assessed customers the fee amount from FY 2013, which resulted in undercharges of at least \$60,000. Specifically:

- in 34 transactions (or 42%) staff erroneously applied the fee amount from FY 2013;
- in 33 transactions (or 41%) staff applied the correct fee amount from FY 2014; and
- for the remaining transactions, we were unable to verify the calculation.

EXHIBIT 1
Additional Phase Inspection Fee

Additional Phase Inspection	Council-approved fee for FY 2013	Council-approved fee for FY 2014	Difference
Fixed fee per additional inspections	\$450	\$563	\$113

SOURCE: OCA analysis fees assessed by PDRD in AMANDA during FY 2014, November 2014.

Landscape Inspection Fee

Projects other than single family are required to have a landscape inspection. As for the additional phase inspection fee, the landscape inspection fee was also increased by 25% in FY 2013 and by an additional 25% in FY 2014. Exhibit 2 shows the difference in amounts between FY 2013 and FY 2014. We reviewed all 182 transactions in our scope period for this fee and found that in most cases PDRD staff charged the fee amount from a prior fiscal year, resulting in undercharges of at least \$19,000. Specifically:

- in 135 transactions (or 74%) staff erroneously applied the fee amount from FY 2013;
- in 2 transactions (or 1%) staff applied the correct fee amount from FY2014;
- in 1 transaction (or 0.5%) staff erroneously applied the fee amount from FY 2012; and
- for the remaining transactions, we were unable to verify the calculation.

EXHIBIT 2
Landscape Inspection Fee

Landscape Inspection	Council-approved fee for FY 2013	Council-approved fee for FY 2014	Difference
Up to 1 acre	\$394	\$492	\$98
From 1.01 to 5 acres	\$625	\$781	\$156
Over 5 acres	\$625+\$50/acres (over 5)	\$781+\$62.50/acres (over 5)	\$156+12.50/acre (over 5)

SOURCE: OCA analysis fees assessed by PDRD in AMANDA during FY 2014, November 2014.

Development Surcharge

Based on the fee study mentioned earlier, the City Council approved a surcharge of 4% to be applied on all development services fees, unless exempt by ordinance. This surcharge is intended to cover the costs of software, consulting and training to upgrade, replace or implement new technology systems. The revenue collected from the surcharge is placed into a designated fund used exclusively for One Stop Shop technology improvements. However, we found that in fiscal year 2014, PDRD staff did not consistently apply the required 4% surcharge on the landscape inspection or on the additional phase inspection fee transactions discussed above, resulting in a revenue loss of approximately \$16,000.

We also noted that in several instances in which staff correctly applied the surcharge, the surcharge amount was combined with the fee amount. According to PDRD finance staff, when the surcharge is rolled up with the fee amount instead of entered as a separate entry in the system, the surcharge is not allocated to the designated fund. Based on our review of the surcharge for additional phase inspection and landscape inspection fees discussed above, the surcharge was often combined with the fee amount, resulting in at least \$3,000 being allocated to the general fund instead of the technology upgrades fund.

Tree Mitigation and Fair Notice fees

When removal of a tree is authorized, the City requires applying mitigation measures. One of these measures is making a payment of a fee to the Urban Forestry Replenishment Fund. For this fee, we noted that during our scope period PDRD staff charged customers \$200 per caliper inch (or \$75 for certified affordable developments). While these amounts are included in the City's environmental criteria manual, they differ from the amount of \$75 per caliper inch which is included in the FY 2014 Council-approved fee schedule. Also, we noted that during our scope period PDRD staff charged customers a fair notice fee (\$200), which is paid by the applicant to establish vested rights for a new project. However, this fee was not included in the FY 2014 Council-approved fee schedule. Based on our conversations with PDRD staff, it appears that the correct information for these two fees was inadvertently left out from the fee schedule.

We found that errors appear to be due to a number of factors, including insufficient supervision, unclear accountability responsibilities, conflicting guidance, and deficiencies in the permitting system.

Limited Supervisory Oversight

Based on our interviews, staff operates with a large degree of autonomy, supervisors do not routinely conduct spot check reviews to ensure accuracy of fees, and it is unclear who has responsibility for the accuracy of the fees overall. Further, we noted that staff made several changes to the established fee without adding comments to explain the reason for the changes or omitted information, such as the number of phases that would be needed to verify the accuracy of the fees assessed. We also identified one instance in which a waiver was granted without verifying the needed documentation, which resulted in a waiver of approximately \$500 being granted to an inapplicable project.

Poorly Documented Fee Guidance

At the beginning of each fiscal year, PDRD finance staff works with the City's IT department to update the fees in AMANDA. Also, PDRD finance staff distributes an updated fee schedule to relevant staff. However, based on our interviews, not all staff appeared to be aware of this process or familiar with the most up to date fee schedule. We also noted that staff, instead of exclusively relying on the fee schedule, used informal guidance, such as information in an online comment library or in emails from past supervisors. Such information included outdated amounts or information that was conflicting with the Council-approved fee schedule.

System Limitations:

Based on our interviews and observations, it appears that AMANDA lacks controls to facilitate accurate and consistent fee assessment. PDRD management indicated that obstacles to leveraging functionalities in AMANDA include limited IT resources and delays in the implementation of upgrades to the permitting system.

Examples of system limitations are listed below:

Ability to alter the fee amount for automated fees is not restricted: although several fees in AMANDA are defaulted to the fee authorized, the ability to alter the authorized fee amount is not restricted to a limited number of users. In our analysis of fee transactions, we identified at least 5,200 instances in which a system defaulted amount was altered. We observed that fee amount could be altered by typing over the defaulted amount and there is no requirement to add a comment to explain the rationale for the override.

Not all fees are automated in AMANDA: in our interviews and observations, we noted that not all fees in AMANDA are automatically defaulted to the fee authorized. Rather, in several instances staff has to manually calculate the fee amount and then enter it into the system. For example, the Landscape Inspection, the Additional Phase Inspection, and Tree Mitigation fees all need to be calculated manually, increasing the possibility of a calculation or data entry error.

Some automated fees are calculated incorrectly in AMANDA: we noted that the development surcharge is not automated correctly in AMANDA and we identified instances in which the surcharge is added to fees that are exempt by ordinance and conversely instances in which the surcharge is not applied to fees that are required by ordinance. For example, based on our review of all transactions for selected fees during our scope period we noted that:

- a 4% surcharge of \$26.88 is automatically added to a project when the Chapter 245 Review fee of \$672 is charged, although the fee schedule exempts this fee from the surcharge; and
- no surcharge is automatically added to a project when the Board of Adjustment fees (\$388 and \$688) are assessed, although these fees should be subject to the surcharge. Based on review, this error resulted in revenue loss of approximately \$2,200 during our scope period.

PDRD management indicated that the errors related to the Chapter 245 Review fee and Board of Adjustment fees have been corrected.

Observation: We observed that PDRD has granted employees more access than is likely operationally necessary for their position.

We performed a limited review of access rights in AMANDA and noted that PDRD has not established a process to define user roles in AMANDA. Further, PDRD does not routinely perform a review of employee's access rights to ensure their adequacy and relevance. Also, PDRD staff indicated that permissions that were created at the time of the implementation of AMANDA, in 2007, have not been reviewed or adjusted, unless someone requested a change.

We reviewed access rights for a few employees and noted that employees with the role of "cashier" in AMANDA have the ability to record payments as well as alter the fee amounts, in violation of basic financial controls. We also identified one instance in which employees transferred between divisions (for example, from Permit Center to Commercial Review), and the access related to their new role was added to their existing access, instead of being replaced. PDRD staff confirmed that

roles for these employees were exceeding the roles that were operationally necessary for their position.

Although in our review we did not identify any wrongdoing, the control weaknesses identified could potentially allow staff to inappropriately alter the fee amounts or other information in AMANDA that is used to calculate the fees, and it would be extremely difficult to detect these wrongdoings.

RECOMMENDATIONS

The recommendations listed below are a result of our audit effort and subject to the limitation of our scope of work. We believe that these recommendations provide reasonable approaches to help resolve the issues identified. We also believe that operational management is in a unique position to best understand their operations and may be able to identify more efficient and effective approaches and we encourage them to do so when providing their response to our recommendations. As such, we strongly recommend the following:

1. **PDRD should strengthen system controls over assessing fees in AMANDA, including, but not limited to:**
 - a) **automating fee calculation;**
 - b) **limiting the number of employee who can alter fee amount;**
 - c) **producing exceptions reports;**
 - d) **identifying the authority granted to each user; and**
 - e) **developing and implement user roles, providing staff only access to those functions that are necessary to accomplish their responsibilities.**

MANAGEMENT RESPONSE: CONCUR. Refer to Appendix A for management response and action plan

2. **PDRD should establish a process to ensure that land development fees are consistently charged accurately and in accordance to the Council-approved fee schedule. Such process should include:**
 - a) **clearly assigned roles and responsibilities for fee accuracy;**
 - b) **clearly assigned roles and responsibilities for communication of fee changes to PDRD staff;**
 - c) **establish a process to verify fee types and fee amounts between AMANDA and the Council-approved schedule;**
 - d) **establish a process to ensure that all information that would be needed to perform a review of fee calculation be included in AMANDA, including needed documentation and explanations when a fee amount is altered;**
 - e) **identify training needs and provide periodic training accordingly; and**
 - f) **conduct periodic review of exception reports generated by AMANDA.**

MANAGEMENT RESPONSE: CONCUR. Refer to Appendix A for management response and action plan.

MANAGEMENT RESPONSE



MEMORANDUM

TO: Corrie Stokes, City Auditor

FROM: Gregory I. Guernsey, AICP, Director
Planning and Development Review Department

DATE: December 12, 2014

SUBJECT: Response to Fee Audit of the Planning and Development Function

Enclosed please find our response to the development fee audit. We concur with all findings and as such, have provided our strategy and implementation plan to address each of the two audit recommendations.

The audit scope included land development-related fees that were assessed by the Planning and Development Review Department through the permitting system during the period October 1, 2013 to September 30, 2014.

We are confident the attached submittal will allow your office to track the next steps of the process. Please contact me if you have any additional questions.



Gregory I. Guernsey, AICP, Director
City of Austin, Planning and Development Review Department

APPENDIX A

December 2014 Development Fees Audit – Planning and Development Review Department Action Plan

Recommendation	Concurrence and Proposed Strategies for Implementation	Status of Strategies	Proposed Implementation Date
1. PDRD should strengthen controls over assessing fees in AMANDA, including but not limited to:			
a) automating Fee Calculation	Concur. We are currently in the process of identifying fees captured through AMANDA that do not automatically calculate and implementing automation functionality in the AMANDA database.	In progress	End of Q2 FY15
b) limiting the number of employees who can alter fee amount	Concur. Proposed strategy is to limit the ability for staff to update the fee amount by removing the "Update" ability from all users except supervisors and managers and the "Delete" ability from all users. Comments will be required for all	Not yet started	End of Q2 FY15 for "Update" ability, End of Q3 FY15 for "Delete" ability
c) producing exceptions reports	Concur. Reports to monitor and ensure comments have been inserted: *When fees are manually waived, deleted, or updated; *When fees are inserted manually.	Not yet started	End of Q2 FY15
d) identifying the authority granted to each user	Incorporated into response for #1e	--	--
e) developing and implement user roles, providing staff only access to those functions that are necessary to accomplish their responsibilities.	Concur. Template roles and permissions will be developed for each division and user level in AMANDA. Current users will be updated to conform to established templates.	In progress	End of FY15

APPENDIX A

December 2014 Development Fees Audit – Planning and Development Review Department Action Plan

Recommendation	Concurrence and Proposed Strategies for Implementation	Status of Strategies	Proposed Implementation Date
2. PDRD should establish a process to ensure that land development fees are consistently charged accurately and in accordance to the Council- approved fee schedule. Such process should include:			
a) clearly assigned roles and responsibilities for fee accuracy	Concur. A PDR committee will be identified and established to regularly discuss any fee issues. SOP documentation will be developed based on committee conversations.	Not yet started	Start committee meetings Q2 FY15, SOP documentation by end of FY15
b) clearly assigned roles and responsibilities for communication of fee changes to PDRD staff	Concur. Committee mentioned in #2a will address concerns on a periodic basis. Email account established for immediate concerns (PDRDFinance@austintexas.gov).	Not yet started	Start committee meetings Q2 FY15
c) establish a process to verify fee types and fee amounts between AMANDA and the Council- approved schedule	Concur. Will establish a cross walk to the fee schedule based on the fee codes in AMANDA. Testing of fees will be a responsibility of the committee established in #2a.	In Progress	End of Q2 FY15
d) establish a process to ensure that all information that would be needed to perform a review of fee calculation be included in AMANDA, including needed documentation and explanations when a fee amount is altered	Concur. Folder info fields will be created in AMANDA to house this fee related information. Fees then should be automatically assessed using this information and alterations will be handled and documented by supervisors as mentioned in #1b.	Not yet started	End of Q2 FY15
e) identify training needs and provide periodic training accordingly	Concur. Conduct once a year department-wide training prior to the beginning of each Fiscal Year to review new fee schedules. Establish new employee training for those staff assessing fees to review PDR-specific AMANDA fee SOP.	Not yet started	End of FY15
f) conduct periodic review of exception reports generated by AMANDA	Concur. Review will be conducted by Finance and PDR Managers.	Not yet started	End of Q3 FY15