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INTERNAL AUDIT DIVISION MEMORANDUM

DATE: May 24, 2019

TO: Birgitta Corsello, County Administrator

FROM: 
Phyllis Taynton, CPA, Auditor-Controller

SUBJECT: Internal Control Review of the Public Facilities Fees – Collections

INTRODUCTION

Pursuant to the Internal Audit Division's Fiscal Year 2018/19 Audit Plan, we performed an internal control review of the collections process of the Public Facilities Fees.

BACKGROUND

Solano County has an established Public Facilities Fee program. Solano County's Public Facilities Fees (PFF) are an impact fee. An impact fee is a commonly used means for mitigating the impacts created by future growth. The County imposes an impact fee on all new construction within all incorporated and unincorporated areas of Solano County. Public agencies regularly levy impact fees on new development to fund a variety of public facilities. The County PFF is used to fund public facilities in the following County functions: public protection, health and social services, library, general governments, and transportation.

California Government Code section 6600, et. Seq. provides for the establishment and collection of PFF to fund County facilities to meet future county growth requirements. Solano County PFF is also authorized by Charter 11, Article X of the Solano County Code and Resolution 2013-36 as adopted by the Solano County Board of Supervisors. The PFF were last updated on December 3, 2013.

OBJECTIVES

The objectives of our review were to verify the fees remitted to Solano County for Fiscal Years 2016/2017 and 2017/2018 were in conformance with the approved fee schedule, to determine whether the agencies complied with the applicable agreements concerning collecting and remitting PFF, and to determine whether remittances are accounted for in accordance with applicable laws, regulations, and/or agreements.

SCOPE and METHODOLOGY

The scope of our review was limited to internal controls and processes in place related to the assessment, collection, and remittance of PFF to Solano County for fiscal years 2016/17 and 2017/18.

To achieve our objectives, we selected five out of the eight agencies (Rio Vista, Dixon, Fairfield, Vallejo, and Vacaville) and performed the following:

- Interviewed staff from the County Treasury¹ and the agencies' Finance and Community Development departments;
- Observed processes and reviewed controls of the building permit issuance process;
- Verified building permits were issued in the appropriate month;
- Sampled and traced remittances to appropriate supporting documentation; and
- Validated agencies' compliance with County Code for remittance of quarterly collections.

We conducted our review in accordance with the *International Standards for the Professional Practice of Internal Auditing* as developed by the Institute of Internal Auditors.

In any system of internal controls inherent limitations exist which may result in errors or irregularities occurring and not being detected. Limitations may include, but are not limited to, resource constraints, management override, and circumvention of internal controls by collusion. Accordingly, our review would not necessarily disclose all weakness in the operating procedures, accounting practices, and compliance with County policy.

CONCLUSION

Solano County received \$8,761,327.84 and \$6,036,215.48 of PFF from participating agencies in Fiscal Years 2016/2017 and 2017/2018, respectively. The following is a breakdown of the PFF collection by fiscal year:

PFF Collections		
	FY 16/17	FY 17/18
City of Rio Vista	\$ 7,957.00	\$ 487,675.40
City of Dixon	619,833.00	844,381.44
City of Fairfield	3,398,577.02	2,322,262.90
City of Vallejo	456,849.41	175,590.12
City of Vacaville	3,374,160.63	1,828,646.72
Resource Management	346,890.74	273,637.83
City of Suisun	459,737.39	44,138.44
City of Benicia	97,322.65	59,882.63
Totals	\$ 8,761,327.84	\$ 6,036,215.48

¹ City of Vacaville does not collect the County's PFF. Instead, applicants remit directly to the Solano County Treasurer.

Based upon our review, the processes and internal controls related to the assessment, collection, and remittance of PFF to Solano County appear adequate and in compliance with applicable laws, regulations, and agreements. However, our review identified the following control deficiency related to the assessment, collection, and remittance of PFF:

1. One city used the incorrect square footage to assess County public facilities fees for non-residential buildings.

The following page provides a detailed description of the finding and the related recommendation. The recommendation should assist the agency in administering the assessment, collection, and remittance of County's PFF.

We issued a separate memo to each participating agency. A copy is attached for your records.

The Internal Audit Division would like to thank the participating agency's staff and management for their time, assistance, and cooperation extended to us during our review.

Public Facilities Fee Collections Process Internal Control Review
For process in place as of June 30, 2018 and 2017
FINDINGS and RECOMMENDATIONS

1. Assessment of County PFF for Non-Residential Buildings

The City of Rio Vista assessed non-residential PFF rates using building square footage that had been rounded up to the nearest thousandth. This resulted in an overcharge of \$815.76 or 9.2% on total non-residential PFF rates in the sample we selected.

Non-residential developments are assessed a PFF rate using a fee schedule approved by the board of supervisors (BOS)². The County's public facilities form (provided to the City) automatically calculates the correct PFF rate upon inputting the building's exact square footage. This information is found on the building permit application, which should match the building permit and associated reports. The City rounded up the square footage before entering it onto the public facilities form which resulted in the error not being caught sooner.

Recommendation:

The City of Rio Vista should input correct and accurate information into their automated building software and onto the County's public facilities form.

Management Response:

We agree with the auditors' comments, and the following action will be taken to improve the situation. The Community Development Administrative Assistant will input the building's exact square footage, provided in the building permit application, into the automated building software and onto the County's public facilities form to calculate the correct Public Facilities Fee rate approved by the board of supervisors.

² The PFF rate is calculated by multiplying non-residential fee amount per 1,000 building square feet.