FREDERICK COUNTY
INTERAGENCY INTERNAL AUDIT AUTHORITY

FREDERICK COUNTY'S
DEVELOPMENT REVIEW FEE
COLLECTION PROCESS

REPORT # 10-01
NOVEMBER 18, 2009

TABLE OF CONTENTS

Executive Summary

Our audit found that fees charged to applicants by Development Review were accurate based on the applicable year's Board of County Commissioners (BoCC) approved fee schedule. Fee refunds were accurate, appropriate, and approved by the Director of Development Review Engineering. In addition, Treasury Department's internal controls over the collection and deposit of development review fees charged are adequate.

To its credit, Development Review has improved its internal controls over development review fees charged. Specifically in September 2008, Development Review implemented a fee control checklist to document fees charged for a project. In addition, toward the end of 2008, the Director of the Division of Permitting and Development Review and the Development Review Engineering Director verbally instructed staff not to waive or modify fees they generated. Also in April 2009, Interagency Information Technologies (IIT) implemented Hansen programming for improvement plan projects, which eliminated manual fee adjustments, as requested by Development Review. Further, on September 2, 2009, Development Review management issued a policy to staff that requires completion of a form for any fee that requires a manual adjustment.

However, the audit found that Development Review can strengthen its internal controls even further to increase the effectiveness and efficiency of its fee charging process. We discussed with IIT staff the feasibility of making programming improvements in Hansen, which would eliminate the number of manual adjustments made by staff. Development Review management is concerned that manual adjustments increase the potential for errors and fraud, and we agree. Specifically, programming municipality information in Hansen would eliminate the need for manual adjustments, as these projects are exempt from many fees. Hansen programming of 50 percent resubmittal fees, which are required for projects with numerous reviews, and multiple exemption fees for Adequate Public Facilities Ordinance and Forest Resource Ordinance projects would also eliminate the need for manual adjustments. Further, programming refund payments in Hansen would provide Development Review with a comprehensive record of all development review fee transactions. Accordingly, we are recommending that Development Review work with IIT to make these programming improvements.

Additionally, to improve the internal controls of the development review fee charging process, we recommend that Development Review develop written standard operating procedures (SOPs). The SOPs should include a supervisory review process for fees charged and evidence of such review. Lastly, we recommend that Development Review establish procedures for accountability over its project files.

ii

I. Introduction

This audit was requested by the Division Director of Permitting and Development Review (DPDR) in April 2008, as part of the fiscal year 2009 Internal Audit risk assessment questionnaire process. 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 objective.

This report is intended to provide information to management; however, it also a matter of public record, and with the exception of any applicable disclosure exemptions, distribution should not be limited. Information extracted from this report may also serve as a method to disseminate information to the public as a reporting tool to help citizens assess government operations. Management responsible for the functional area reviews the report, and their formal written responses are incorporated into the final report per IIAA policy and generally accepted government auditing standards.

It is management's responsibility to design and implement an adequate system of internal control, and it is the Internal Audit Division's responsibility to determine if management's system of internal control is functioning properly in relation to the audit objectives. It is also management's responsibility to decide if action should be taken in response to any reported audit recommendations, taking into consideration related costs and benefits. Management, therefore, assumes the risk of making the decision not to implement any reported recommendations.

II. Background

There are two Development Review departments within DPDR. The Development Review Planning Department is responsible for reviewing and approving site development plans and subdivision plats, and enforcing subdivision regulations, the Forest Resource Ordinance (FRO), and the Adequate Public Facilities Ordinance (APFO). The Development Review Engineering Department is responsible for reviewing and approving plans and permits associated with storm water management, roads, storm drains and grading, and coordinating County improvement projects. The Engineering Department also processes easements, agreements and other legal documents.

The development review process begins when an applicant submits the appropriate applications and copies of their plans to the Development Review staff. The staff then creates a project within Hansen, the computer system used to charge and process applicable review fees and track the status of each review. Fees are charged in accordance with the yearly fee schedule approved by the Board of County Commissioners (BoCC), which establishes the applicable fees for each type of review. Any updates to the fee schedule are adjusted by Interagency Information Technologies (IIT) in Hansen. The applicant pays all fees through the County's Treasury Department, who is responsible for the collection and deposit of fees into a County bank account. In addition to development review fees, Hansen also charges any other applicable fees, such as fees from the Health Department, Office of Life Safety, and the Utilities and Solid Waste Management Division.

Development Review does not perform any reviews until the applicant pays all required fees. Once the fees have been paid, the Development Review staff reviews the project's plans. After the first review is completed, staff notifies the applicant of any issues that need to be corrected. The applicant is required to correct the issues, resubmit the plan, and pay any additional fees. Once all the reviewers are satisfied with the project's plans, the project is approved; and the fee process is complete.

According to the Hansen database, there were 3,017 projects with fee activity, which generated approximately $4.4 million in fees paid during our audit period.

III. Objective, Scope, and Methodology

The objective of this audit was to determine whether internal controls are adequate over review fees charged, collected, and/or deposited. The scope of our audit was development review fee transactions from July 1, 2007 through June 30, 2009.

To address our audit objective, we interviewed Development Review, Treasury, and IIT staff regarding the development review fee process and assessed internal controls over fees charged, collected and deposited. We also evaluated refund transactions to determine if refunds were accurate, appropriate, and approved.

To ensure that fees were properly charged, we reviewed projects that had manual fee adjustments and projects that did not have manual fee adjustments. For the projects with manual fee adjustments, we randomly selected a sample of 60 projects, totaling $181,486, from the 1,037 projects during our audit period. For the projects without manual fee adjustments, we randomly selected a sample of 61 projects, totaling $35,605, from the 1,980 projects during our audit period. We also randomly sampled 23 of 34 refunds issued during our audit period. All three of these samples were statistically valid sample sizes based on a maximum tolerable error of 5 percent and a desired reliability of 95 percent.

To ensure that fees were properly collected and deposited, we judgmentally selected 18 projects as part of our preliminary testing. Since the Treasury Department's internal controls over collecting and depositing were adequate, and no problems were found during preliminary testing, further testing was not needed.

IV. Audit Results

Our audit found that the Treasury Department's internal controls over the collection and deposit of development review fees charged are adequate. These internal controls include segregation of duties over the handling of payments, supervisory review, and reconciliation of development review fees charged in Hansen to payments processed for deposit. The audit also found that fees charged by Development Review were accurate based on the applicable year's BoCC approved fee schedule for 137 of the 139 projects sampled[1]; and fee refunds were accurate, appropriate, and approved by the Director of Development Review Engineering.

To its credit, Development Review has improved its internal controls over development review fees charged. In September 2008, Development Review implemented a fee control checklist to document fees charged for a project. In addition, toward the end of 2008, the Director of DPDR and the Development Review Engineering Director verbally instructed staff not to waive or modify fees they generated. Although 41 of the 60 projects we sampled had manual fee adjustments where the same employee modified the fee that they generated, all of these instances occurred prior to management issuing the verbal policy. Also in April 2009, IIT implemented Hansen programming for improvement plan projects, which eliminated manual fee adjustments, as requested by Development Review. Further, on September 2, 2009, Development Review management issued a written policy to staff that requires completion of a form for any fee that requires a manual adjustment.

While improvements were made to improve internal controls over fees charged, the audit found that Development Review can strengthen its internal controls even further to increase the effectiveness and efficiency of its fee charging process. We found that further enhancements can be made by: 1) working with IIT to improve Hansen programming of fees and refunds, 2) developing written standard operating procedures that include a formal documented supervisory review process, and 3) establishing a system to account for development review files.

IMPROVEMENTS TO HANSEN PROGRAMMING OF FEES ARE NEEDED

The United States Government Accountability Office defines internal control as "an integral component of an organization's management that provides reasonable assurance that the

---

[1] Our review of fees charged found only two fees, totaling $677, that were not accurately charged based on the fee schedule.

following objectives are being achieved: 1) effectiveness and efficiency of operations, 2) reliability of financial reporting, and 3) compliance with applicable laws and regulations."[2]

Over the past few years, Development Review and IIT have worked together to increase the amount of fees and fee variations included in Hansen programming to reduce the number of manual fee adjustments, thereby increasing the efficiency of the development review process. For example, Hansen now calculates lot fees and generates fees for improvement plan projects. However, there are still fees and fee types that are not currently programmed into Hansen that require staff to take time to manually adjust fees. Development Review management is concerned that manual adjustments increase the potential for errors or fraud, and we agree. Currently, program coding in Hansen is not used to identify if a project is a municipality project, which would exempt the project from many fees. In addition, if a project has a 50 percent resubmittal fee or multiple exemption fees for an APFO or FRO project, staff has to manually insert the fee, since these fees are not programmed in Hansen. Additionally, fee refunds are currently processed exclusively through PeopleSoft and are not recorded in Hansen. Therefore, Hansen cannot be used as a comprehensive record of all development review fee transactions.

During the audit, Internal Audit met with IIT's Hansen specialists to discuss possible programming improvements to reduce the number of manual adjustments. Based on our discussions with IIT, certain improvements can be made if they are given specific guidelines from Development Review.

Recommendation 1: We recommend that Development Review work with IIT to incorporate the following programming improvements into Hansen:

- Municipality information to determine if a project site is exempt from certain fees;
- Fifty percent resubmittal fees;
- Multiple exemption fees for APFO and FRO projects; and
- A transaction record of fee refunds.

WRITTEN STANDARD OPERATING PROCEDURES ARE NEEDED

"Internal control comprises the plans, policies, methods and procedures used to meet the organization's mission, goals and objectives, and in doing so, supports performance based management. Internal control also serves as the first line of defense in safeguarding assets and

---

[2] United States General Accounting Office (now the United States Government Accountability Office). 1999. *Standards for Internal Control in the Federal Government,* [November, 1999]. Washington, D.C.: Government Accountability Office., pg.4.

preventing and detecting errors and fraud."[3] "Qualified and continuous supervision should be provided to ensure that internal control objectives are achieved."[4]

Development Review does not currently have written standard operating procedures (SOPs) for the charging of review fees. In our opinion, such procedures would help Development Review management communicate its procedures, goals, and objectives to the staff. The Director of Development Review Engineering stated that she has not developed written SOPs because of a lack of resources in her department, but agreed that such procedures would be helpful. Although the Development Review staff and the Director of Development Review Engineering stated that there were supervisory reviews of fees charged, when needed, we found no evidence of supervisory review of fee transactions, except for refund payments. In September 2008, Development Review implemented a fee checklist control, which documents all the fees charged for a project; but there was no evidence of supervisory review on the fee checklists that we reviewed.

Recommendation 2: We recommend that Development Review develop written SOPs for the fee charging process. The SOPs should include a supervisory review process for fees charged and evidence of such review.

PROCEDURES TO ESTABLISH ACCOUNTABILITY OVER PROJECT FILES ARE NEEDED

Project files containing the development plan, application, correspondence, fee checklist, and other applicable information regarding the project are stored in two file rooms within Development Review. Of the 114 sampled projects[5], Development Review was unable to locate two project files. We found that Development Review does not have a current inventory of the files, and there are no sign out sheets or records kept for the location of the project files when they are taken from the file rooms. As a result, Development Review staff spends time trying to locate files. Without project files, Development Review does not have evidence of their review, other than what is stored electronically in Hansen.

Accountability for records is a key internal control. "Access to...records should be limited to authorized individuals, and accountability for their custody and use should be assigned and maintained."[6] Development Review should establish accountability over project files in order to establish an effective file keeping and project inventory process.

---

[3] Government Accountability Office. 1999. *Standards for Internal Control in the Federal Government*, *[November, 1999]*. Washington, D.C.: Government Accountability Office., pg. 4.
[4] Government Accountability Office. 1999. *Standards for Internal Control in the Federal Government*, *[November, 1999]*. Washington, D.C.: Government Accountability Office., pg. 13.
[5] Seven municipality projects were also reviewed, but the municipalities maintain these project files.
[6] Government Accountability Office. 1999. *Standards for Internal Control in the Federal Government*, *[November, 1999]*. Washington, D.C.: Government Accountability Office., pg. 15.

Recommendation 3: We recommend that Development Review establish procedures for accountability over its project files.

V. Summary of Response

On November 5, 2009, the Division Director of Permitting and Development Review provided a written response to our October 21, 2009 Draft Report. He agreed with all three of our recommendations and provided milestones for implementation. The Director's full response is attached.

Interagency Internal Audit Authority

November 18, 2009   **Interagency Internal Audit Authority**

PERMITTING AND DEVELOPMENT REVIEW DIVISION
FREDERICK COUNTY, MARYLAND
Department of Development Review
30 North Market Street • Frederick, Maryland 21701
Phone 301-600-1134 • Fax 301-600-1645

MEMORANDUM

Date: November 5, 2009

To: Richard A. Kaplan, Director, Internal Audit Division

Through: Gary Hessong, Director, Division of Permitting and Development Review

From: Betsy Smith, Deputy Director, Division of Permitting and Development Review

Date: November 5, 2009

Thank you for your effort in preparing the draft audit report for the development review fee process dated October 21, 2009. The Division of Permitting and Development Review has had an opportunity to review the report and offers the following Responses to Internal Audits recommendations:

Recommendation:
Development Review (DR) works with IIT to incorporate the following programming improvements into Hansen:

- Municipality information to determine if a project site is exempt from certain fees
- 50% resubmittal fees
- Multiple exemption fees for APFO and FRO projects
- A transaction record of fee refunds

Response:
DR concurs that this is a reasonable recommendation which will greatly improve the fee collection process. Development Review Technicians will be working with IIT under the management of the Deputy Director to implement these changes in Hansen. It is anticipated that all four aspects of this recommendation will be worked on concurrently, but due to the varying degrees of complexity may not be completed in the same timeframe.

- 50% resubmittals
  This task will be completed by March 1, 2010
- Multiple exemptions
  This task will be completed by July 1, 2010

- Transaction record for refunds

    This task will be completed by July 1, 2010. If it is found that Hansen Version 7 is unable to perform this operation, than this recommendation will be unable to be implemented until the county decides to upgrade the Hansen Software

- Municipalities

    This task is a bit more complex and includes the cooperation of municipal officials, and will therefore take a bit more time to execute. It is anticipated, if this cooperation is achieved that this task will be completed by January 1, 2011.

Recommendation:
Develop written SOP's for the fee charging process. The SOP's should include a supervisory review process for fees charged and evidence of such review.

Response:
DR concurs that this is a reasonable concern and the development of these SOP's will greatly improve the process and the accountability of fee collection.

This task will be completed by a manager within the Department of Development Review and will be complete by July 1, 2010.

Recommendation:
Development Review Establish Procedures for accountability over its project files

Response:
DR concurs that this is an important task for the Department. While the benefits may not be realized in relationship to fee collection, it will provide benefit as we move forward with other tasks related to file retention and storage.

The Development Review Technicians will be preparing these procedures as part of the overall records retention effort commissioned by the County Manager's office. IT is anticipated that this effort will be completed within 9 months.