



Internal Audit Report

2024-02 – IMPACT FEE ASSESSMENTS AND COLLECTIONS

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May 22, 2024

volusia.org/auditor

Report Highlights

Why We Performed This Audit

Impact fees are a large and important revenue source for the County. They are used to pay for infrastructure necessitated by new growth. In the past several years the laws have changed, the County has experienced growth, and the assessment and collection of fees have not been previously audited to this level. We wanted to ensure the County has controls in place to ensure impact fees are assessed and collected efficiently, effectively, and in compliance with laws and regulations.

What We Found

Auditors tested 150 impact fees with no issues in the assessment and calculation of impact fees. However, the County is not monitoring unspent impact fees and may be at risk of issuing refunds to feepayers. The County did not follow its 2020 plan to ensure compliance with state statutes that require administrative fee revenues not to exceed actual costs. Over the last four years, the County exceeded the actual cost by almost \$292,000. Finally, the County's impact fee policy and procedures handbook can be enhanced to ensure all regulations and procedures are captured to help ensure compliance.

We Recommend

Establish an impact fee analysis ensuring time usage requirements are tracked and meet County ordinances, implement policies and procedures on administrative fees collected to ensure revenues do not exceed actual costs, and update the policy and procedures handbook to help ensure state and county laws are communicated and met.

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May 22, 2024

Honorable Members of the County Council and County Manager:

I am pleased to present the audit report 2024-02 Impact Fee Assessments and Collections. The purpose of this audit was to assess, with a reasonable degree of assurance, that internal controls relating to the assessment and collection of impact fees are operating efficiently, effectively, and in compliance with laws, regulations, and policies. The audit scope included impact fees processed during fiscal years 2021 through 2023 (October 1, 2020, through September 30, 2023).

This audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, except for the requirement of an external quality control review. Those standards require that I plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for my findings and conclusions based on audit objectives. I believe the evidence obtained provides a reasonable basis for my findings and conclusions. The audit was performed in the months of November 2023 through March 2024. Svetlana Ries, staff auditor, assisted with the audit work.

This audit was successful due to the assistance of the staff within the Growth and Resource Management Department and the Public Works Engineering Division. We appreciate their support. All audit reports are available on the County's website at: volusia.org/auditor.

A handwritten signature in black ink, appearing to read "Jonathan Edwards", written in a cursive style.

Jonathan Edwards, CIA, CPFO
Internal Auditor

Background

The Growth and Resource Management Department (GRM) manages impact fee assessment, collection, and recording. Impact fees are incorporated in Chapter 70 of the County Ordinances. Thoroughfare, or road, impact fees were established by the County Council in 1986, fire/rescue impact fees were established in 1989, park impact fees were established in 1990, school impact fees were established in 1997, and emergency medical service impact fees were established in 2022. The impact fee revenues are collected from residential and commercial development to pay for the proportionate share of capital improvement needs that are related to growth. Revenues not expended in any fiscal year are carried forward to the next fiscal year. The County considers the fees expended in the order in which they are collected.

The County utilizes a consumption-based impact fee methodology which is commonly used throughout Florida. This method charges new growth the proportionate share of the costs of providing additional infrastructure available for use by the new growth. This ensures the impact fee is set at a rate that does not generate sufficient revenue to correct existing deficiencies, i.e., impact fees are designed to cover the portion of capital costs of infrastructure consumed by the new development.

Impact fees are used to pay for capital improvements to County assets which are needed to address the effects of new residential or commercial development.

Impact fee revenues must comply with the “dual rational nexus” test which requires:

- A study to demonstrate the fees are proportionate in amount to the need created by new development paying the fee, and
- Be expended in a manner that directs a proportionate benefit to new development, typically accomplished through the establishment of benefit districts and a list of capacity-adding projects included in the County’s Capital Improvement Plan, Capital Improvement Element, or another planning document or master plan.

In the last several years, the Florida Legislature has passed changes to Florida Statute 163.31801, also known as the “Florida Impact Fee Act.” Below is a non-exhaustive summary of recent changes and the year the Legislature passed them.

- Impact fees cannot be collected prior to the issuance of building permits (2019),
- Impact fee credits may be assignable and transferable from one developer to another (2020),
- Any new or increase of impact fees are not applicable to any current or pending permit applications submitted prior to the effective date of an ordinance (2020),
- Reporting of impact fee-related data is required within the County’s annual financial audit (2020),
- Local governments may only increase impact fees once every four years, with increases limited to 50%. A clause allowing local governments to exceed this restriction was included if extraordinary circumstances can be demonstrated (2021),

- County must have interlocal agreements by 10/1/25 for the allocation, collection, and distribution of overlapping thoroughfare impact fees, or there will be a 10% reduction (2024).¹

In 2017, the County started entering into proportionate fair share agreements, which are memorialized in Chapter 70 of the County Ordinances that integrate FL Statute 163.3180. To initiate a proportionate fair share agreement, developers are required to provide a Florida Department of Transportation (FDOT) traffic impact assessment (TIA) to demonstrate the development's impact on the thoroughfare (road) network. The TIA identifies intersections and road segments impacted by the proposed development. The developer is required to mitigate the impacts on road segments or intersections affected by the proposed development (i.e., the developer must pay for or construct an improvement so that the road maintains the level of service). Proportionate fair share agreements are typically between the developer, the municipality, and the county. All agreements are approved by the County Council.

On December 6, 2022, the County Council approved amendments to Chapter 70 of the County Ordinances, also known as the "Impact Fee Ordinance." At this meeting, Councilmembers approved an independent fee study conducted by the Benesch firm that justified the extraordinary circumstances to increase the impact fees. This was justified as the County's fire and parks impact fees were last updated in 2002. The road impact fees were last updated in 2018, prior to the 2022 study.

At the same meeting, Councilmembers created a new impact fee for emergency medical services. The fee study is available on the County's website.² In accordance with the statute, the County implemented the fees effective on March 6, 2023.

As previously discussed, impact fee expenditures must convey a proportional benefit to the feepayer. The County created benefit districts where fees collected in that district are spent in the same district. The County maintains separate accounting funds³ for each impact fee by zone to ensure monies collected are spent in the same zone. Maps of the impact fee zones are included in Appendix 1.

In 2022, County Council streamlined the eligibility for impact fee refunds to 10 years. Previously the timeline was 5 years for Parks and Fire and 7 years for Roads.

At the December 6, 2022, meeting, the County Council also approved changes to the impact fee refunds due to the feepayers. The timelines and interest rate were streamlined and set to 10 years with a 6% interest rate per annum. Previously, the County Ordinance stated that any funds not expended or encumbered within a set number of years could be returned to the feepayer with interest upon application of the feepayer. Previously, Parks and Fire impact fees were set for 5 years at the end

¹ As of 5/16/24, the Governor has not yet signed this bill.

² Volusia County Impact Fee Study. Final Report, September 30, 2022. [volusia.org](https://www.volusia.org). Benesch.

³ Fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, that are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. [Government Accounting Standards Board, Cod. Sec. 1300.101]

of the calendar quarter at a 6% annual interest rate [Ordinance 70-38(b) and Ordinance 70-117(b)] with Road impact fees set for 7 years at a 5% annual interest rate [Ordinance 70-78(b)].

Finally, local governments are allowed to collect an administrative charge related to overseeing and processing impact fees. However, the Legislature limited the administrative fee to the actual costs of administering the impact fee program.

Table 1 shows the revenues from the various impact fees by type and fiscal year (FY).

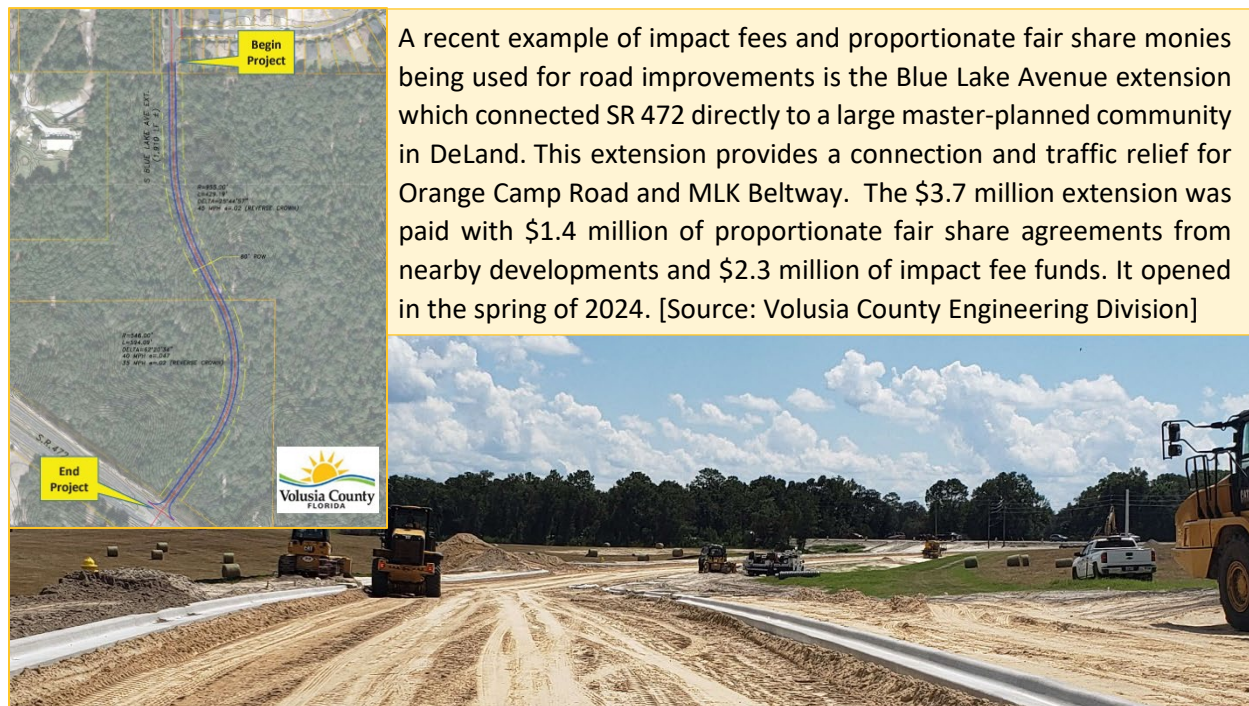
Table 1: County Impact Fee and Proportionate Fair Share Revenues by Type and Fiscal Year

Impact Fee Type	FY 21 Actual	FY 22 Actual	FY 23 Actual	FY 24 Budget
EMS-Commercial *	\$ 0	\$ 0	\$ 4,549	\$ 0
EMS-Residential	0	0	35,381	0
Fire-Commercial	8,693	4,291	13,677	7,000
Fire-Residential	153,144	193,984	313,931	190,000
Parks-Residential	285,766	376,709	775,336	516,018
Roads-Commercial	1,616,700	3,218,060	3,577,040	1,287,775
Roads-Residential	14,137,775	18,250,610	15,721,252	7,362,557
Administrative Charges	0	0	352,471	455,186
Proportionate Fair Share ^	5,257,609	10,903,159	8,088,639	0
Total	\$ 21,459,687	\$ 32,946,813	\$ 28,882,276	\$ 9,818,536

Note: For ease of understanding, Table 1 combines the revenues for each impact fee type; however, the County records the financial transactions in separate accounting funds in accordance with state statutes. Previously, administrative charges were combined with regular impact fee revenues; however, with FY 23, a separate accounting fund was created to track and account for the use of these revenues.

^ Proportionate Fair Share agreement revenues are not budgeted until an agreement is approved by the County Council at which time the budget is amended.

** EMS impact fee revenues, applicable for collection in March 2023, were not included in the FY 24 budget.*



Scope and Methodologies

On February 7, 2023, the County Council approved the 2023 Audit Plan, which included an audit of the assessment and collection process for County impact fees. The primary objective was to determine if internal controls related to the assessment and collection of impact fees are operating efficiently, effectively, and in compliance with laws, regulations, and policies.

Specific audit objectives were:

1. To obtain an understanding of internal controls that are significant to the assessment, collection, and recording of County impact fees, including proportionate fair share agreements.
2. To perform procedures that will provide reasonable assurance of detecting instances of noncompliance with laws, resolutions, policies, and established guidelines.
3. To ensure that impact fees are accurately assessed, collected, and recorded.

Audit procedures to accomplish these objectives included the following:

- Obtained and reviewed resolutions, State statutes, County ordinances, policies and procedures, best practices, and other relevant documentation pertaining to impact fees and proportionate fair share agreements.
- Reviewed and understood County internal controls over impact fees and proportionate fair share agreements.
- Interviewed various County staff.
- Reviewed and tested impact fee and proportionate fair share agreement transactions for compliance.

The audit was limited to the accuracy of the assessment calculation and input verification but did not include how these revenue sources are expended. Impact fees and proportionate fair share revenues are spent towards capital improvement projects and are maintained in separate accounting funds within the County's General Ledger. Report 2022-01 Capital Improvement Projects⁴ included an audit of capital improvement expenditures. That recent audit did not reveal any issues with the usage of impact fees or proportionate fair share revenues for capital improvement projects. Therefore, expenditure transactions were not included in this audit. Additionally, school impact fees are established and managed by the Volusia County School District. The County collects these fees on behalf of the School District and submits the monies monthly. Therefore, school impact fees were excluded from this audit.

The audit scope included impact fees assessed and collected during fiscal years (FY) 2021 through 2023 (October 1, 2020, through September 30, 2023). Impact fees are paid upon issuance of the certificate of occupancy (or C.O.) and, therefore, could be years from the initial application until the C.O. is issued. During this time, 16,076 permits were initiated. Auditors selected

Auditors tested 150 impact fee calculations and found no issues or errors in staff's calculations.

⁴ Internal Audit 2022-01 Capital Improvement Projects, volusia.org/auditor February 2, 2022.

150 transactions to test. 96 of the test items were randomly selected, and the remaining 54 were judgmentally selected to ensure all types were chosen. Tables 2 and 3 summarize the impact fee types selected for audit compared to the entire population.

Table 2: Impact Fees by Type for Test Selection

Type of Permit	Count of Population	Count of Test	Percentage of Population Tested
Residential	15,121	108	0.71%
Commercial	891	33	3.70%
Proportionate Fair Share and Credits	64	9	14.06%
Total	16,076	150	0.93%

Residential permits allow developers to commence construction of a residential dwelling, which may include single-family detached and attached dwellings, condominiums, townhouses, apartments, or other residential dwellings that may house families permanently.

Commercial permits are issued to construct, enlarge, alter, repair, move, demolish, or change the occupancy of any building not covered by a residential building permit.

Proportionate fair share agreements are typically entered into between the developer, a municipality, and the County. If a road segment or intersection is scheduled for improvements within the County's CIP plan, the developer pays its proportionate share, which is assigned to the road program.

Table 3: Impact Fees by Status for Test Selection

Status	Count of Population	Count of Test	Percentage of Population Tested
Closed, Cancelled, Expired, Voided	871	11	1.26%
Paid	14,130	83	0.59%
Under Review, Hold, Final Prep.	158	21	13.29%
Issued	853	26	3.05%
Proportionate Fair Share and Credits	64	9	14.06%
Total	16,076	150	0.93%

Findings and Recommendations

1. COUNTY NOT MONITORING UNSPENT IMPACT FEES & MAY BE AT RISK OF ISSUING REFUNDS TO FEEPAYERS

On 9/30/2023, the County had \$47,603 of unspent impact fee monies older than 10 years, which is potentially due to be refunded to the feepayers. Until requested by the auditors, staff did not track the unspent impact fee monies to ensure the County was complying with the Impact Fee Ordinance. Without monitoring controls, the County is at risk of issuing refunds to feepayers on these unspent monies.

Chapter 70 of the County Ordinances states, “any funds not expended or encumbered by the end of the calendar quarter immediately following 10 years from the date of the {impact fee⁵} was paid shall, upon application of the feepayer within 180 days of that date, be returned to such owner with an interest rate of six percent per annum.” On December 6, 2022, the County Council approved increasing the refund timeline to 10 years. The previous refund period was 5 years for parks and fire impact fees and 7 years for thoroughfares, or road, impact fees. Auditors compared the County refund timeline to neighboring counties and cities which is summarized in Table 5.

The County’s Chief Financial Officer was aware of these requirements; however, until auditors inquired, the County had not performed a formal analysis nor had a monitoring system to ensure monies were expended or encumbered. Auditors reviewed the current and recent annual budget documents and did not note any planned or budgeted uses of these unspent impact fee revenues. Auditors questioned County staff and noted there were no procedures documented for processing refunds. There were no transactions or records of feepayer refund requests in the recent past.

Table 4 provides the total of unspent impact fees by type and the average age of impact fees by type. The Parks Zone 3, or the zone in the southwest area of the County, had \$7,828 of unspent impact fees. The average age of these monies is 13.61 years. The Fire impact fees had \$39,775 of unspent impact fees. The average age of these monies is 12.95 years. Table 4 also provides a schedule of the age of these impact fees.

If fees are left unspent, the County risks losing a revenue source for needed capital projects related to new development.

While the County does have monies older than 10 years, it is noted that out of \$64 million of unspent impact fees as of 9/30/2023, \$62 million, or 97%, are less than 4 years. This demonstrates that the County utilizes the majority of impact fee revenues in a timely manner. While commendable, attention to the age of the revenues remains a concern. Maps of the impact fee zones are included in Appendix 1.

⁵ Fire/rescue services (Sec. 70-38(b)); thoroughfare road (Sec. 70-78(b)); district park and local park (Sec. 70-117(b)); Emergency Medical Services (Sec. 70-218(b))

Table 4: Unspent Impact Fees as of 9/30/2023

Name / Zone	Unspent Impact Fees	Avg. Age of Impact Fees (in Years)	Impact Fees Over 10 Years Old	Impact Fees Over 8 Years Old	Impact Fees Over 6 Years Old	Impact Fees Over 4 Years Old
Road 1-NE	\$ 15,609,882	2.08	\$ -	\$ -	\$ -	\$ -
Road 2-SE	11,330,881	3.09	-	-		
Road 3-SW	17,513,745	2.92	-	-		
Road 4-NW	15,911,178	4.64	-	-		1,395,210
Countywide Parks	1,380,330	3.29	-	-		-
Park 1-NE	329,663	6.74	-	-	26,221	87,326
Park 2-SE	40,466	3.76	-	-	-	-
Park 3-SW	270,078	13.61	7,828	15,524	34,399	74,013
Park 4-NW	228,290	4.28	-	-	-	7,087
Fire	1,436,412	12.95	39,775	92,451	249,035	474,250
EMS	83,387	0.47	-	-	-	-
Total	\$ 64,134,312	-	\$ 47,603	\$ 107,975	\$ 309,655	\$ 2,037,886

Table 5 is a comparison of the refund years with neighboring counties and cities. This information was gathered from their respective websites.

Table 5: Comparison of Impact Fee Years for Refunds with Neighboring Counties and Cities

Entity	Road Impact Fee	Parks Impact Fee	Fire Impact Fee	EMS Impact Fee	Law Enf. Impact Fee	Library Impact Fee	School Impact Fee
Volusia County	10	10	10	10	-	-	6
Orange County	9	6	6	6	6	-	5
Brevard County	6	-	6	6	6	6	6
Seminole County	6	6	6	6	6	6	6
Flagler County	10	10	10	10	10	10	6
Lake County	6	6	6	-	-	6	6
Marion County	7	-	-	-	-	-	6
Polk County	8	8	8	8	8	8	8
City of Deland	6	6	6	-	6	-	-
City of Daytona	6	-	6	-	6	-	-
City of Deltona	5	5	5	-	5	-	-
City of Ormond Beach	10	10	10	-	10	-	-
City of Port Orange	6	6	6	-	6	-	-
City of New Smyrna Beach	8	8	8	-	8	-	-
City of Sanford	6	-	-	-	-	-	-
City of Orlando	5	5	-	-	-	-	-
City of Altamonte Springs	10	10	10	-	10	-	-
Average Years in Refunds	7	7	7	8	7	7	6

RECOMMENDATIONS:

- A. Establish an impact fee analysis to ensure the time usage requirements are tracked and impact fee revenues are encumbered or expended in accordance with County Ordinances. Ensure this analysis is performed periodically, at minimum, during the annual budget preparation.
- B. Create procedures for staff on processing feepayer refunds, including adequate research and approvals needed before processing the refund.

MANAGEMENT'S RESPONSE:

Management agreed, their full response is in Appendix 2.

2. COUNTY DID NOT FOLLOW ITS 2020 PLAN LIMITING ADMINISTRATIVE REVENUES TO ACTUAL COSTS

The County implemented a plan in 2020 to meet changes in the Florida statute, which limited administrative charges to actual costs; however, the County did not follow the plan to calculate administrative costs on an annual basis. Since FY 2020, the County's administrative charges have exceeded estimated costs by \$291,917.

In 2019, Florida Statute 163.31801(4)(c) was changed to "limit administrative charges for the collection of impact fees to actual costs." This change also required an update in Chapter 70 of County Ordinances, which the County Council approved on March 17, 2020. The updated County Ordinance Section 70-77(b) states "the County shall be entitled to collect and retain the actual costs of administering the impact fee program which is in addition to the fee otherwise owed. This fee is collected to offset the costs of administering this article. The administration cost shall be calculated annually and adopted by the County Council by resolution. The total fee paid shall include the actual costs of administration in addition to the impact fee."

In 2020, the County reduced the administration fee from 3% to 1% with plans to update the fee annually to comply with the statute.

Previously, the County charged an administrative fee of 3% on all impact fees to cover the cost of administering them. At the Council meeting on March 17, 2020, the Council approved staff's recommendation to reduce the fee from 3% to 1% and carry out an annual analysis to ensure the administration fee is limited to the actual costs to meet the statute.

At the same meeting, the Council approved Resolution 2020-34, which states that "administrative costs should be updated on an annual basis." Auditors spoke with County staff, and this analysis has not been performed or provided to the County Council since March 17, 2020.

However, for several years, the Impact Fee Coordinator maintained a spreadsheet listing County employees with estimated percentages of staff working, directly or indirectly, with impact fees. Auditors obtained and reviewed the staff and percentages assigned to impact fees and it appeared reasonable. Additionally, for FY 2023 amounts, the Impact Fee Coordinator confirmed with the employees that the percentages allocated were just. Auditors utilized this spreadsheet to estimate

administrative costs starting in FY 2020. Table 6 provides a summary of the number of impact fees processed, the administrative revenues, costs, an allocation of the 2022 Impact Fee Study, and the estimated surplus or deficit by each fiscal year.

Table 6: Administrative Revenues, Estimated Costs, and Surplus from FY 2020 through FY 2023

Fiscal Year	Number of Permits Processed	Admin. Revenues	Estimated Admin. Costs	Allocation of Impact Fee Study	Estimated Surplus / (Deficit)
FY 2020	12,368	\$ 532,840	\$ 279,413	\$ 35,220	\$ 218,207
FY 2021	15,660	334,257	249,381	35,220	49,656
FY 2022	17,738	401,598	294,873	35,220	71,505
FY 2023	19,869	357,724	369,955	35,220	(47,451)
Total	65,635	\$ 1,626,419	\$ 1,193,622	\$ 140,880	\$ 291,917

Auditors brought these calculations to County staff for discussion, resulting in the Chief Financial Officer and Accounting Director updating and recalculating the FY 2023 administrative costs as the fiscal year was not yet finalized. However, prior fiscal years' costs cannot be changed. Therefore, the percentages of staff's salaries and benefits were allocated by the percentages provided by the Impact Fee Coordinator. It is noted these are estimates of the administrative cost for fiscal years 2020 through 2022.

Additionally, the 2022 impact fee study conducted by the Benesch firm cost \$140,880. This cost should be included when analyzing the actual costs of administering the impact fee program. Given that impact fees must be studied at least every four years, it would appear permissible to allocate the cost over a four-year period.

Audit Report 2023-01 Charges for Services and Fees⁶ recommended the County develop and implement a revenue policy and procedures to include best practices recommended by the Government Finance Officers Association (GFOA). Those best practices⁷ recommend governments calculate the full cost of the different services that are provided. All costs should be known and documented when calculating the cost of a service, including direct and indirect costs relating to the service. Direct costs include salaries and benefits of those working exclusively on delivering the service, materials, supplies, and other potential costs such as utilities, rent, training, and travel. Indirect costs include shared administrative costs, e.g., legal, finance, human resources, facilities, etc. Best practices support including an internal pricing system that defines the levels of costing detail and determines the cost of the service being allocated among other factors. Best practices further state that "cost should not be the sole factor used to determine how a government will provide services. Effectiveness, efficiency, compliance, and other factors are critical components of any service-delivery decision."

⁶ Internal Audit 2023-01 Charges for Services and Fees, February 22, 2023, volusia.org/auditor

⁷ GFOA Best Practice. Measuring the Full Cost of Government Service. gfoa.org

County staff had planned to analyze and ensure compliance with the changes in statutes and ordinances; however, they did not follow through with their 2020 plan. During discussions between staff and auditors, staff suggested mimicking the Building Code program which is based on Florida statute 553.80(7). The recent changes in this statute also limit the fees for administering and enforcing the building code. However, unlike the impact fee statute, the building code statute provides further guidance on the administrative fees collected and carried forward for future years.

The Impact Fee statute lacks guidance for local governments when administrative revenues exceed costs. The Building Code statute provides guidance that may help.

In summary, Florida statute 553.80(7)(a) requires that fees, fines, and investment earnings to carry out and enforce the Florida Building Code not exceed the estimated annual costs of allowable activities. The statute allows any unexpended balances to be carried forward to future years for allowable activities or must be refunded. However, the carryforward amount cannot exceed the average of its operating budget for the previous 4 fiscal years. It further allows local governments to consider direct and reasonable indirect costs associated with reviewing building plans, inspections, reinspection, and other items. It stipulates that local governments must use any excess funds to rebate and reduce fees.

The statute further directs local governments to ensure proper accounting standards are utilized and that the annual “Building Permit and Inspection Utilization Report” financial information agrees with the County’s audited financial statements and is posted on the County’s website. It also dictates certain statistical data, such as the number of building permit applications, the number of permits issued, and other revenue and expenditure information [Florida Statute 553.80(7)(b)].

Mimicking this statute and applying it to the impact fee program appears reasonable and practical. The Auditor consulted with the County Attorney who found no case law or Florida Attorney General opinions to the contrary. This methodology is accountable, transparent, and appears defensible if the County were challenged. However, the Auditor cautions staff to ensure to mimic all the requirements, not just posting a report that agrees to the County’s audited financial statements. Mimicking such a report would include all relevant data, such as the number of impact fee applications submitted and issued. Additionally, staff should ensure it is readily available on the County’s website and include carryforward financial data.

RECOMMENDATIONS:

- A. Develop a plan for implementing and executing the Florida Impact Fee statute where actual revenues cannot exceed the actual costs of administering the impact fee program. If the County decides to mimic the Florida Building Code Statute, ensure all relevant elements are included in the County’s plan (i.e., amounts agree to the audited financial statements), the report is updated annually on the County’s website, provides certain financial data, and provides statistical information such as the number of impact fees submitted, approved, etc.

- B. Ensure direct and indirect costs are documented and reviewed periodically, at least annually, to ensure recoverable administrative costs are accurate and captured in the administrative fee charged.

MANAGEMENT'S RESPONSE:

Management agreed, their full response is in Appendix 2.

3. IMPACT FEE POLICY AND PROCEDURES HANDBOOK CAN BE ENHANCED TO ENSURE COMPLIANCE

Several internal impact fee policies and procedures exist but could be enhanced to include instructions on requiring review and documented approval for impact fee credits, additional yet detailed instructions for processing impact fee transactions in the Amanda software, and how to process transactions for County-managed projects.

Staff started an "Impact Fee User Guide" handbook in March 2023 to assist employees in processing impact fees. While a good start, auditors found the handbook incomplete, and the steps fragmented. The Amanda software, which is utilized to record and track permits among other tasks, is complex, and the handbook contains some screenshots of examples; however, additional processing steps and screenshots will improve its useability.

7 of the 150 (or 5%) impact fee transactions that were tested were paid, at least partially, with impact fee credits that the Impact Fee Coordinator manually calculates. Typically, when a developer performs demolition work and re-building a structure, the developer is entitled to credits for the demolition work. The demolition credits are based on the trip generation rate (TGR) at the time of the application. The TGR is then calculated for the new use of the property, less the demolition credit, to equal the new impact fee to be paid by the developer. The Impact Fee Coordinator is tasked with calculating the credits for all permits. However, another employee or supervisor does not document their review of the calculation.

Auditors re-calculated all credits and found no issues with the calculation. However, to help ensure impact fee credits are calculated correctly, another person who is familiar with impact fee credits and calculations should review and document their approval.

1 of the 150 (or 1%) impact fee transactions tested included impact fees charged for the County Medical Examiner building totaling \$60,247. The internal payment was approved on 8/17/2022 by the County Engineer and the Building and Code Administrator and was processed by the accounting division on 8/30/2022. However, the payment was not entered into the Amanda system. The Amanda system, as of 5/17/2024, shows the impact fees as unpaid. This reconciling item between the two systems was outstanding for over 1.5 years.

Impact Fee credits involve large dollars, having another employee document their review will help ensure accurate calculations.

Processing impact fees requires attention to detail as impact fees oftentimes involve significant dollars. Documentation of policies and procedures is paramount to ensure calculations and processing are performed accurately and optimally. Employees not having an all-inclusive handbook may not understand the policies, which may lead to confusion about their roles and

responsibilities. Additionally, impact fees may be inaccurate, which may lead to inaccurate revenue recognition. A well-designed and properly maintained system of internal controls includes communicating and documenting a set of policies and procedures.

RECOMMENDATION:

Update the policy and procedures handbook to include all steps in each process, including a documented review and approval of impact fee credit calculations, and steps to process interdepartmental charges.

MANAGEMENT'S RESPONSE:

Management agreed, their full response is in Appendix 2.

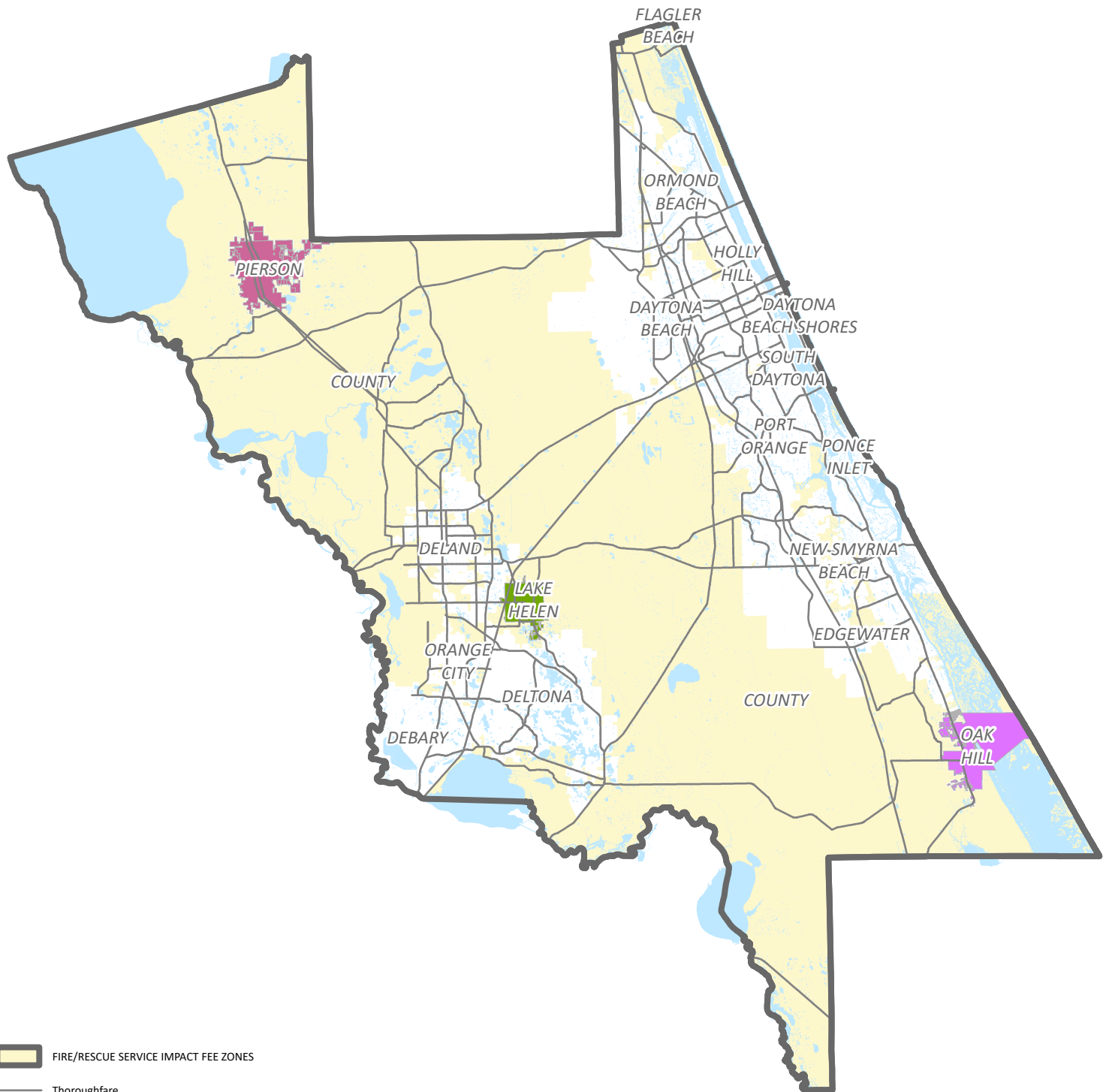
Appendix 1: Impact Fee Maps

The following pages provide maps of the impact fee zones, approved by the referenced ordinance. The Growth and Resource Management Department provided these maps, which are also available on the County's website.⁸

- Fire/Rescue Service Impact Fee Zones, Ordinance 2023-07
- Thoroughfare Impact Fee Zones, Ordinance 2023-08
- District Park Impact Fee Zones, Ordinance 2023-09
- Local Park Impact Fee Zones, Ordinance 2023-09
- Emergency Medical Services (EMS) Impact Fee Zones, Ordinance 2023-10

⁸ Impact Fee Zone Maps updated on 4/2/24 [volusia.org](https://www.volusia.org)

FIRE/RESCUE SERVICE IMPACT FEE ZONES ORDINANCE 2023-07



- FIRE/RESCUE SERVICE IMPACT FEE ZONES
- Thoroughfare
- LAKE HELEN
- OAK HILL
- PIERSON

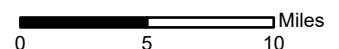
This ordinance applies to Unincorporated Volusia County, as well as Lake Helen, Oak Hill, and Pierson.

DISCLAIMER:
This map is intended only to be a visual representation and should not be used for the making of accurate measurements, or for engineering purposes. The County of Volusia is not responsible for outcomes of decisions made on the basis of this map



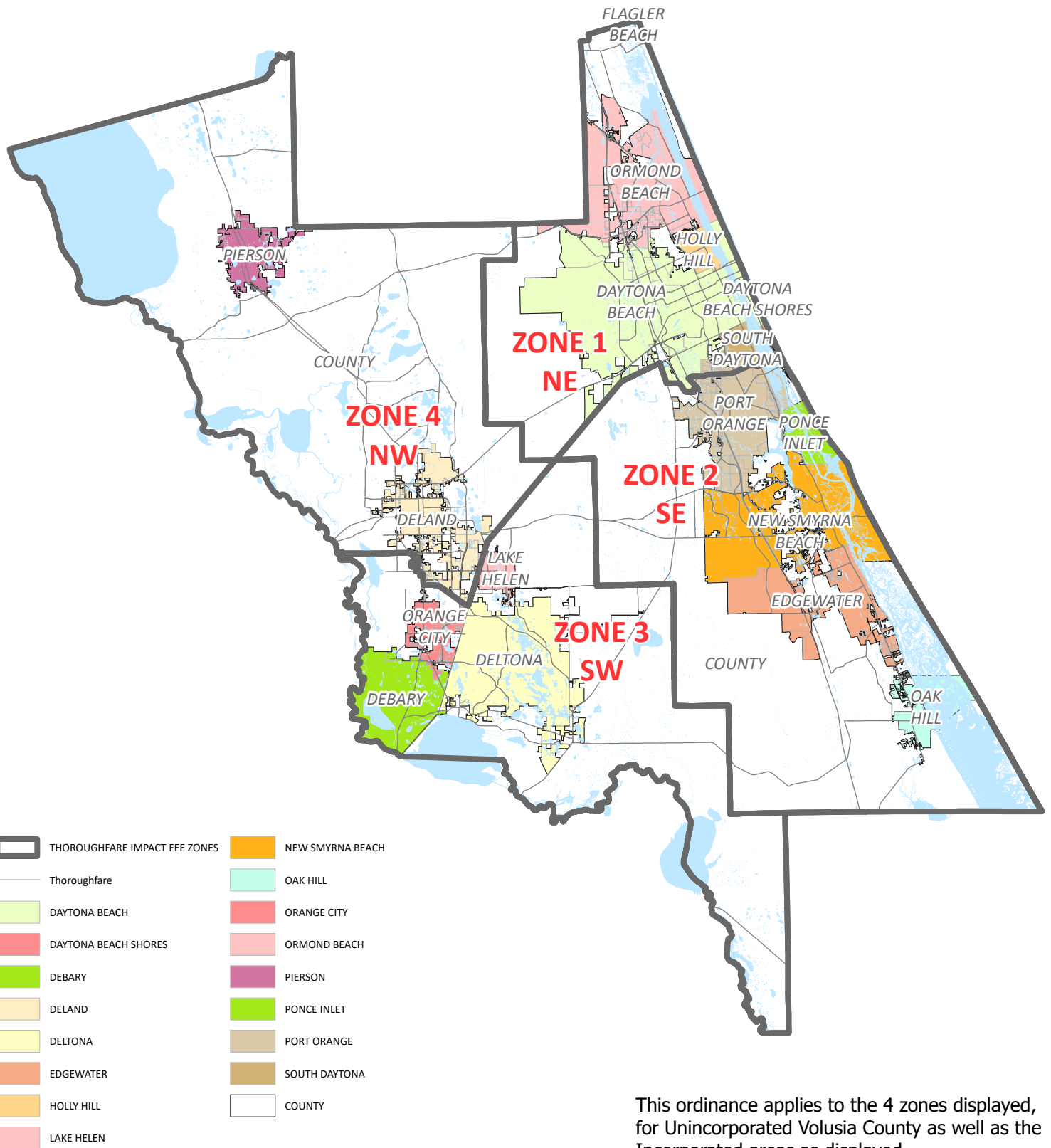
Customized map prepared by:
Volusia County Growth & Resource Management - Mapping and Addressing

4/3/2024



Note: Due to variations in printer settings, this scale may not provide accurate measurements.

THOROUGHFARE IMPACT FEE ZONES ORDINANCE 2023-08



DISCLAIMER:
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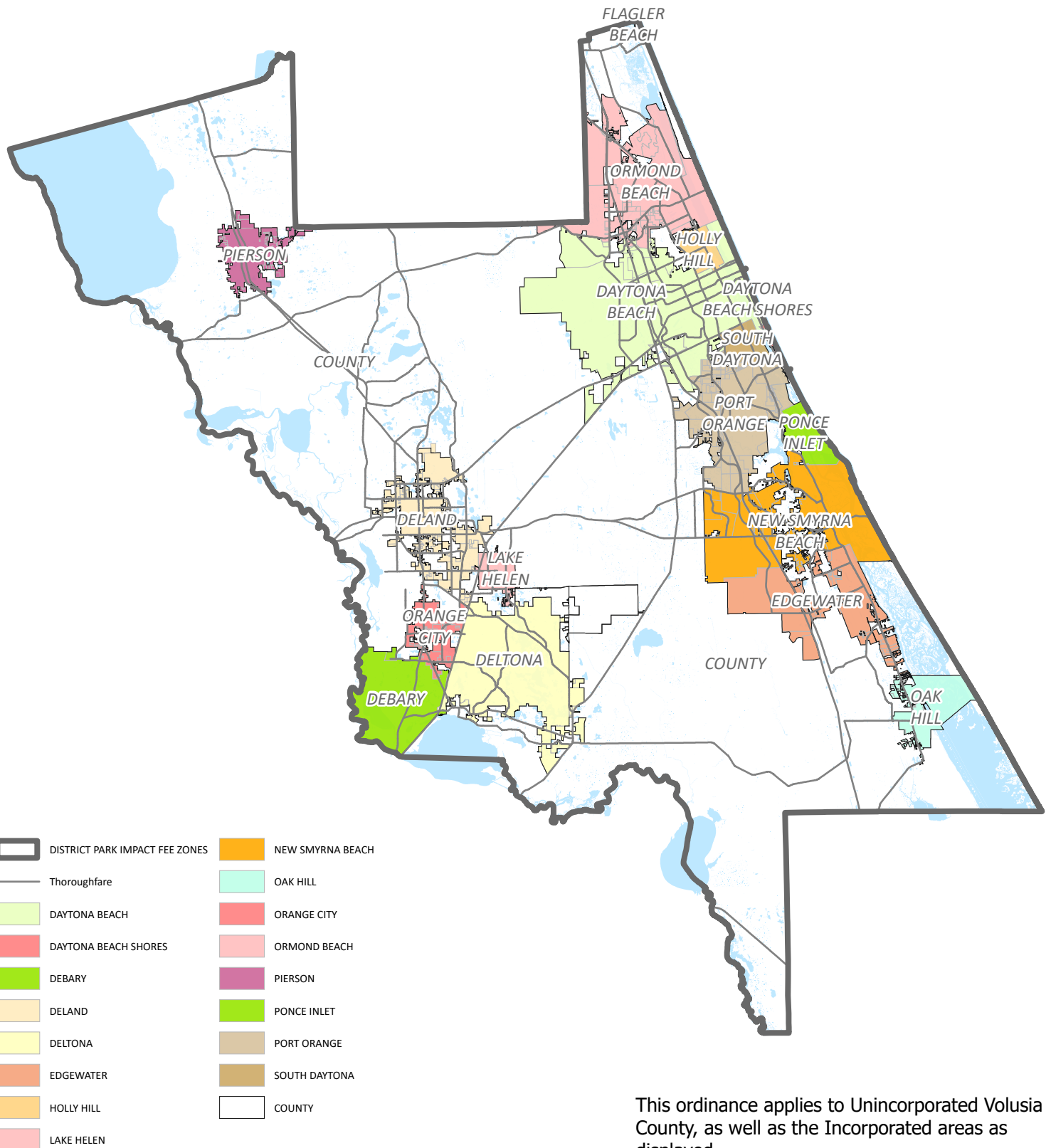
Customized map prepared by:
Volusia County Growth & Resource Management - Mapping and Addressing

4/3/2024

0 5 10 Miles

Note: Due to variations in printer settings, this scale may not provide accurate measurements.

DISTRICT PARK IMPACT FEE ZONES ORDINANCE 2023-09



This ordinance applies to Unincorporated Volusia County, as well as the Incorporated areas as displayed

DISCLAIMER:
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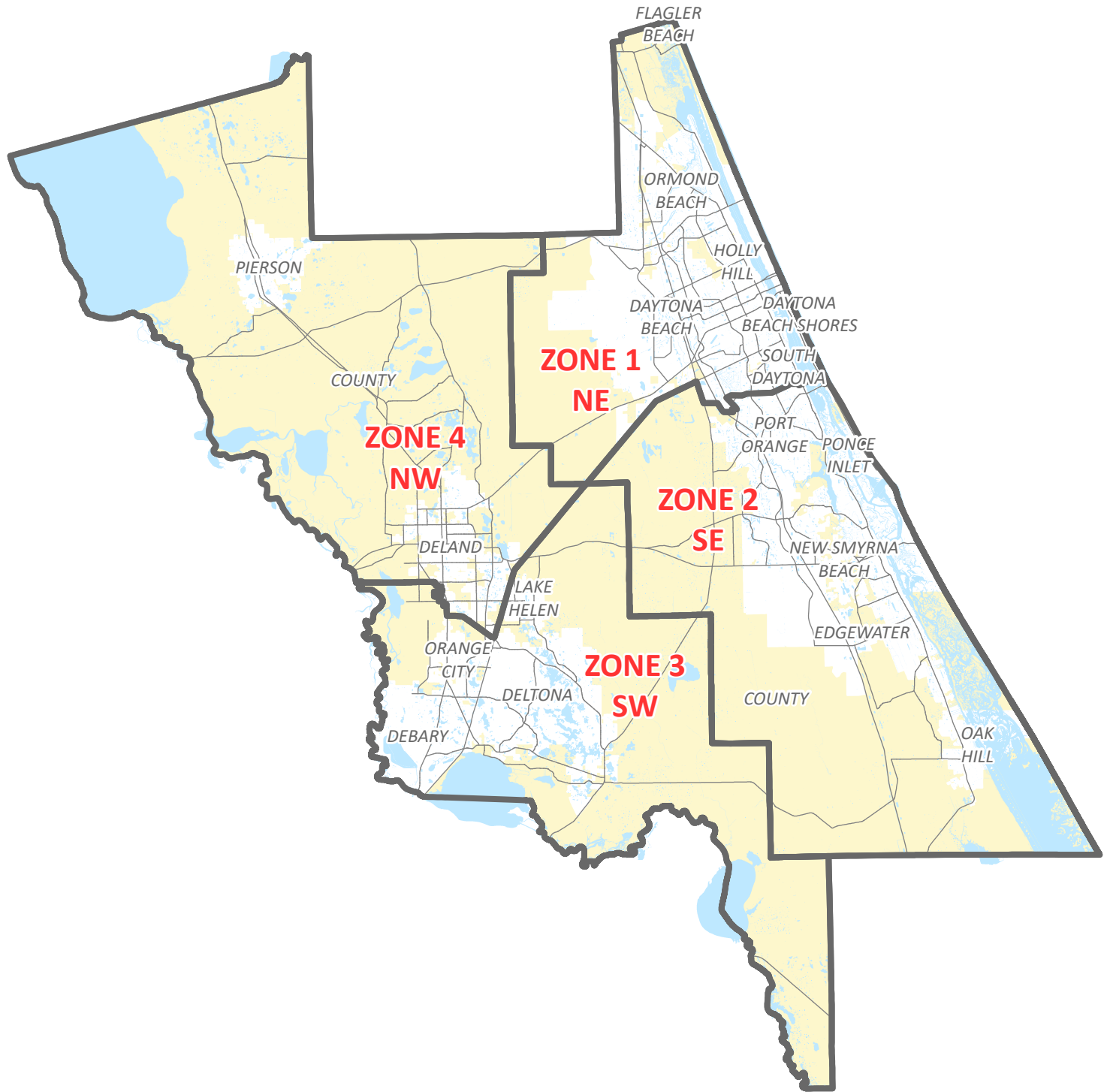
4/3/2024


0 5 10 Miles


Note: Due to variations in printer settings, this scale may not provide accurate measurements.

LOCAL PARK IMPACT FEE ZONES

ORDINANCE 2023-09



 LOCAL PARK IMPACT FEE ZONES

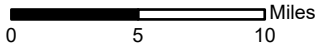
 Thoroughfare

This ordinance applies to the 4 zones displayed, for Unincorporated Volusia County only.

DISCLAIMER:
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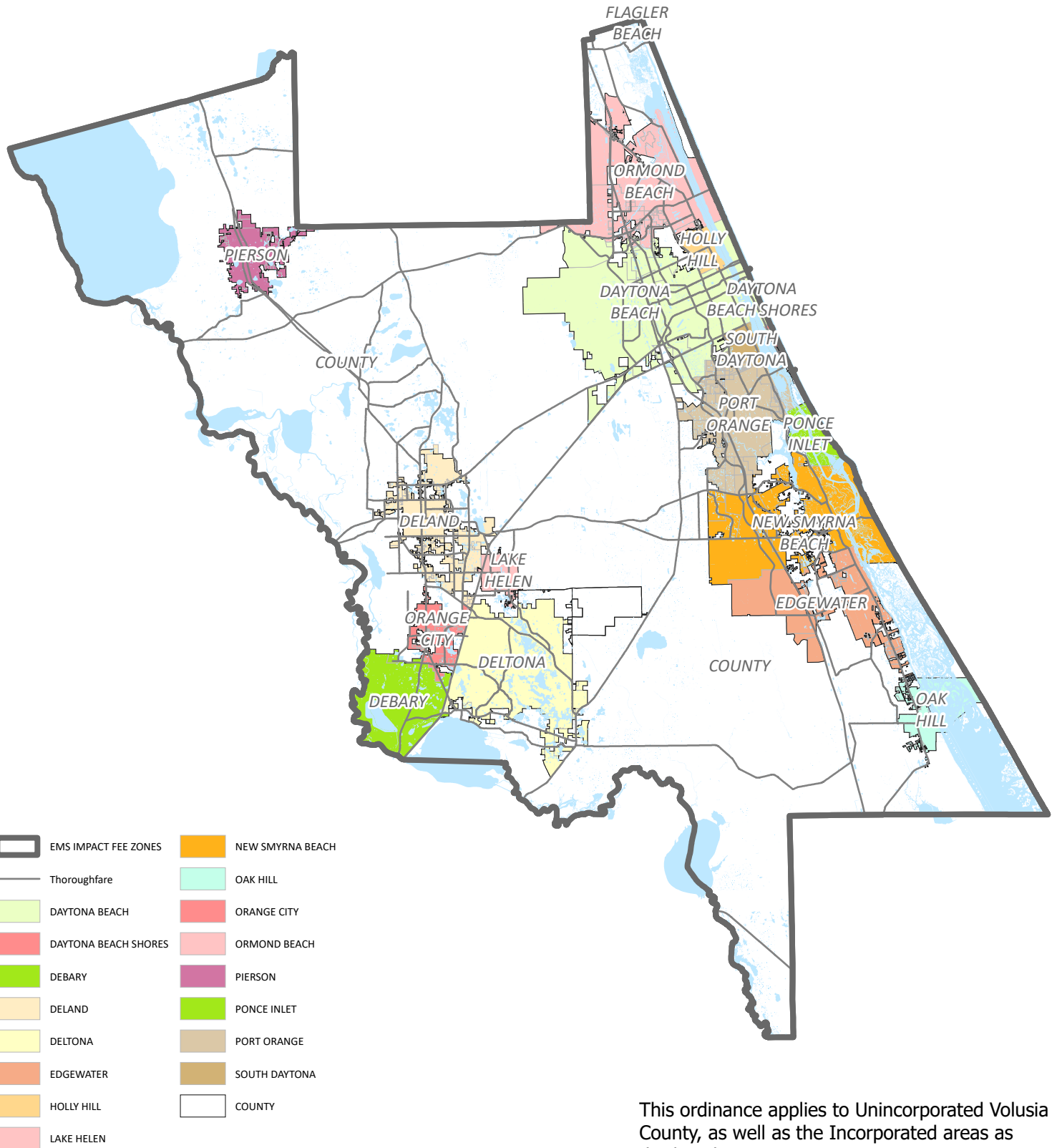


4/3/2024

 Miles

Note: Due to variations in printer settings, this scale may not provide accurate measurements.

EMERGENCY MEDICAL SERVICES (EMS) IMPACT FEE ZONES ORDINANCE 2023-10



This ordinance applies to Unincorporated Volusia County, as well as the Incorporated areas as displayed

DISCLAIMER:
This map is intended only to be a visual representation and should not be used for the making of accurate measurements, or for engineering purposes. The County of Volusia is not responsible for outcomes of decisions made on the basis of this map



4/3/2024

0 5 10 Miles

Note: Due to variations in printer settings, this scale may not provide accurate measurements.

Appendix 2: Management Responses

1.A. Management Response: We agree that there are funds that may be subject to a refund, but it is not due to staff ignoring the issue. The statement that staff is “not monitoring impact fee usage and may be at risk of issuing refunds” oversimplifies a complicated issue. First, the actual amount of fees collected in 2013 to 2017 were not sufficient to fund capital projects for parks or fire services. Also, the overall growth in the county and cities did not require immediate expansion of the public infrastructure necessary to address the impacts from new development. The staff believes that the capital improvement programming process will provide a better use of the impact fees to ensure that the timing of needed infrastructure is in place to address the impacts from development. This is reflected in the fact that only .07% of the total impact fees collected exceed the 10-year period eligible for refund.

In regard to establishing an analysis and tracking system, as noted in the auditor’s finding, management has already created the detailed spreadsheet requested to track the precise age and exact composition of the impact fees on hand at any date and time.

However, management disagrees with some of the auditor’s positions reported in the finding. First, management notes that an approximation of the potential amount of impact fees subject to refund has been prepared in the past, however, it was informally tracked. Because the informal analysis was high-level and done on a calculator, no documents were created to perform this calculation for review by the auditor. The Chief Financial Officer used these high-level calculations to monitor and report the status of impact fees ages to management. The Chief Financial Officer’s discussions with management regarding the age of the impact fees has been corroborated by other members of management, including corroboration in the presence of the auditor during discussions during this audit.

Furthermore, an in-depth, precise “any date and time” spreadsheet was not previously believed to an efficient use of staff time or taxpayer resources unless a refund request was received. More specifically, only upon receipt of a refund request is it necessary to verify the precise age and exact composition of the impact fees on hand, otherwise an approximate amount for planning purposes is believed sufficient. No impact fee refund request has been received by the County in recent history, for at least 8 years. Staff further notes that Chief Financial Officer prepared the referenced analysis for the auditor to demonstrate the exact age of the impact fees for this audit in a period of a few business days, therefore, it would be completely reasonable, and possible to perform such analysis on an ad-hoc basis upon the receipt of a refund request.

1.B. Management Response: We agree that a system for processing refunds is important and necessary. Given the importance, management created this procedure in response to the questions raised by the auditor during this audit. Also important is memorializing the process in standard operating procedures used by Growth and Resource Management staff. It is important to point out that there have not been any refund requests in recent history.

2.A. Management Response: We agree that the state law requires the administrative fee to be based on actual costs. The County ordinance provides that the cost of administering the Impact Fee

ordinance be calculated on an annual basis and adopted by the county council by resolution. The accounting of the actual costs to administer the impact fee program is correct, but there has been in prior years a pre-existing estimate of 3% rather than the actual cost of 1% for FY 2021 that is still being factored into the discussion. Additionally, the resolution approving the administrative fee was not done in a separate resolution but the expected revenue was incorporated into the annual budget approved by Council. The process used by the county is similar to how other counties in Florida are addressing the estimation of actual costs for administration. The issue is that there will be fluctuations in the amount of the fees paid to the county that is a result of the growth rate. When the economy is booming, then there is a strong chance for a surplus in the administrative fee. When the economy is not strong then there will be deficits in the administrative fee. This is similar to collection of the building permit fee, as in any given year the administrative costs and administrative revenues do not match up. The Florida Impact Fee Act is silent on how that goal is to be achieved and is silent on how to handle surpluses or losses from year to year so it is reasonable to assume that this would be addressed in a similar fashion as building permit fees. The Florida Building Code has the same goal of ensuring that charges do not exceed costs, however it provides a mechanism to handle collected surplus. Building permit fees may be carried forward but may not exceed the average for the previous four fiscal years, and placed in reserve during periods of intense development with the understanding that there will be years where there are deficits in reserves due to slowed or inactive construction and providing a plan for expenditure of carry-forwarded administrative fees for large costs and for large market swings. This will be addressed as part of the annual analysis of the impact fee costs and will result in a reliable and stable methodology for administrative costs that mitigates for any drastic swings in the market as well as large upfront administrative costs for the 4-year impact fee study. Estimated administrative revenues may flatline while costs may increase. The County Impact Fee ordinance specifically calls for a resolution authorizing the actual costs of the impact fee system. The Growth and Resource Management staff review these costs as part of the annual budget and use that document to support the establishment of the administrative fee. This will be discussed with the County Council to ensure that the staff are following the direction of the elected officials.

2.B. Management Response: We agree and as part of the fiscal year 2022-2023 adopted budget, management created the impact fee administration fund for the purpose of tracking collections and expenditures related to the administration of impact fees. Management has and will continue to utilize this fund in future fiscal years to account for the administration of the impact fee system, including all direct and indirect costs.

3. Management Response: We agree that there can be improvements to the policy procedures handbook to ensure consistency and accountability. The staff is in the process of updating the existing documentation to address the concerns raised in the audit. The issue of annual review and updating of staff engagement in the administration of the impact fee system is accurate, but there is a need to memorialize the process required in the 2022 ordinances for the approval of the administration fee. Procedures for the processing of interdepartmental charges are in place and will be continued.

Internal Audit

Our Values and Ethics

Values

Public Interest. Internal audit work is performed to benefit the public and improve the way government operates.

Integrity and High Ethical Conduct. Auditors conduct themselves with integrity and honesty, which are the foundations on which trustworthiness is built.

Objectivity. Auditors maintain objectivity in performing services.

Organization and Hard Work. Auditors endeavor to make efficient use of their time. Valued is a safe work place and one in which we are honored and recognized for our talents and accomplishments. Encouraged are fresh ideas and teamwork among employees and between county government and the community we serve.

Professionalism and Manner. Auditors are committed to the highest level of competence and professional conduct. We expect honest and respectful interactions with each other and the public. We handle resources provided, access to information and the position in a professional manner and when appropriate, protect the confidentiality or restricted information our roles may allow us access.

Auditee Relations. Auditors make themselves accessible and communicate openly and frequently. Communications are friendly, non-threatening, fair, and objective.

Audit Reports. Reports focus on significant, timely, and useful information for our constituents. Audit staff strive to make reports accurate, clear, convincing, objective, fair, and constructive.

Professional Development. Auditors strive to improve their knowledge, skills, and abilities through training, work experiences, and related outside activities.

Code of Ethics

Integrity. Establish trust. This provides the basis for reliance on judgment.

Objectivity. Exhibit highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. This will make a balanced assessment of all relevant circumstances not unduly influenced by own interests in forming judgments.

Confidentiality. Respect the value and ownership of information received and do not disclose information without appropriate authority unless there is a legal or professional obligation.

Competency. Apply knowledge, skills and experience needed in performance of internal audit services.

Producing Results for My Community. Be informed and knowledgeable. This can produce results my community expects to build trust.

Treating People Fairly. Treat people fairly and develop processes and procedures that are fair.

Diversity and Inclusion. Embrace diversity and inclusiveness to cultivate and promote policies that reflect the community we serve.

Reliability and Consistency. Consistently apply standards and honor the commitment to the community to make it easier to do the right thing even when faced with challenging circumstances.

