

DEVELOPMENT IMPACT FEE AUDIT

NUMBER OF RECOMMENDATIONS



*City of Glendale
Internal Audit*

12.14.2017



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Acknowledgment

We would like to thank personnel from Community Services & Parks, Community Development Department, and the City Attorney’s Office for their support and assistance provided to us throughout this project.

For questions regarding the contents of this report, please contact the lead auditor, Sameel Salim, Sr. Internal Auditor, or Jessie Zhang, Internal Audit Manager at ipa@glendaleca.gov
This report is also available online at <http://www.glendaleca.gov>

A. Quick Overview

Key Outcomes

Based on our review, we noted the Development Impact Fees (DIF) were collected and posted to the correct accounts. However, we noted that the DIF contracts were not completed as required. We also noted some DIFs appeared to have been calculated incorrectly due to project scope and/or development type discrepancies between the DIF contracts and CSI records. Furthermore, there were 28 pre-audit period transactions where the second 50% DIFs, totaling approximately \$112,000, was not collected. While there could be a number of contributing factors to the exceptions noted, the primary control weakness was the lack of formalized instructions on how the DIF contracts should be completed, calculated, approved, and notated within CSI.

We identified four improvement opportunities related to risk reduction, compliance, and efficiency. We also recommended the City to attempt to collect any unpaid DIFs and refund any over collections based on the legal opinion obtained from the City Attorney's Office.

Community Development Department (CDD) and Community Services & Parks (CSP) have agreed to work together to develop written instructions and revise the current DIF contract form to improve the consistency and accuracy.

The detailed observations are included in the Observations, Recommendations & Management Responses Matrix beginning on page 5.

Impact Dashboard

This table summarizes the applicable value-added categories (total nine) for the four recommendations based on their priority rankings and one innovation opportunity.

	Value Added Categories				Innovation Opportunities
	Risk Reduction	Compliance	Cost Saving	Efficiency	
Priority 2 1	1	1	0	0	0
Priority 3 3	3	3	0	1	1

(Definitions of Priority Rankings and Value-added impacts are located at Appendix 1)

B. Action Plan and Target Completion Dates

The action plan and target completion dates are summarized in the table below. Internal Audit will perform quarterly status follow-up to provide assurance that management is taking appropriate and timely corrective action to address audit recommendations.

Ref.	Management Action Plan	Completion Date
Priority 2		
1.	Review and validate the incorrect and outstanding DIFs to determine appropriate follow-up actions. <i>Value added:</i> Risk Reduction , Compliance	06/30/2018
Priority 3		
2.	Develop written instructions and research the feasibility of automating the DIF calculation process. <i>Value added:</i> Risk Reduction , Compliance , Efficiency , Innovation	06/30/2018
3.	Define the various development types. <i>Value added:</i> Risk Reduction , Compliance	06/30/2018
4.	Remove the inactive users from CSI and discontinue the use of generic ID's <i>Value added:</i> Risk Reduction , Compliance	03/31/2018

C. Background

In accordance with the fiscal year 2017-18 audit work plan, Internal Audit completed a review of the DIF process of the City of Glendale (City).

The City of Glendale Council adopted the "Public Use Facilities Development Impact Fee Ordinance" on September 11, 2007. According to this ordinance, new residential subdivisions and new development generally increase the demand for public facilities and affect the quality of the community's infrastructure. The City has determined that there is a deficiency in the City's park and recreational facilities and land because the requisite three (3) acres per one thousand (1,000) persons is not provided. Assembly Bill 1600 permits cities to impose DIFs on new residential, commercial and industrial development, not involving the subdivision of land, in order to provide for park, recreation and library facilities to the community.

Currently, 100% of DIFs are collected prior to permit issuance. However, prior to March 29, 2014, the DIFs were collected in two phases: 1) 50% of all DIFs were collected prior to building permit issuance, and 2) the remaining 50% was collected prior to issuance of the certificate of occupancy. It is worth noting that from March 29, 2014 to December 31,

2016, approximately \$20 million in DIFs were collected. CSP is responsible for program policy and oversight, and CDD is responsible for contract processing and the DIF collection.

D. Objective, Scope and Methodology

The objectives of this audit were to: 1) determine if building projects were being properly evaluated for the assessment of the DIF, 2) assess the accuracy of DIFs calculated for building projects, and 3) verify if the DIFs were collected and recorded to the proper funds/accounts.

The scope of this audit primarily covered all DIFs collected from March 29, 2014 to December 31, 2016.

In order to accomplish the audit objectives, Internal Audit performed the following procedures:

- Reviewed the Public Use Facilities Development Impact Fees Ordinance (GMC 4.10).
- Conducted interviews and walkthroughs with key personnel from both CSP and CDD.
- Obtained a complete listing of all DIFs for the audit period and judgmentally selected 20 transactions which represented 82% of the total DIFs collected.
- Performed detailed testwork on selected transactions to ensure contracts were completed, DIFs were calculated correctly, and DIFs were posted to the correct accounts.
- Consulted with the City Attorney's Office on the options the City has for the outstanding DIFs brought to our attention during the audit. Internal Audit did not conduct detailed review on these transactions.

As a result of these audit procedures performed, four observations have been identified and are detailed in the Observations, Recommendations & Management Responses Matrix starting on the next page.

E. Observations, Recommendations & Management Responses

Ref	Observation	Recommendation	Management Response
1.	Incorrect and Outstanding DIFs		
<p>Priority 2</p>	<p>Based upon testwork performed on the 20 sample DIF contracts, we noted seven (or 35%) contracts had incorrect fees assessed. The anomalies consisted of either scope (units or square footage added/removed) and/or development type (“Commercial” vs. “Office”) discrepancies between the contract and CSI records. After consulting with CDD, five of the seven appear to be miscalculations that resulted in an approximate net overcharge of \$28,888. The DIF amount for the remaining two could not be determined due to lack of supporting information within CSI.</p> <p>CSP also self-identified 28 transactions totaling approximately \$112,000 (prior to the audit period) in which the second 50% payment was not collected.</p> <p>Based on the legal opinion obtained from the City Attorney’s Office, the City should attempt to collect any unpaid DIFs and refund any over collections.</p>	<p>CDD/CSP perform the following:</p> <ul style="list-style-type: none"> a. CDD review, validate, and finalize the exact DIFs related to the seven identified contracts. Once the final amounts have been calculated, CSP work with the City Attorney’s Office on how best to attempt collection from and/or provide refunds to applicants. b. CDD review the 28 transactions with the City Attorney’s Office to determine how best to attempt collection of the second 50% DIF from owners/applicants. 	<p>Agree and will implement by June 30, 2018.</p> <p>CDD/CSP will work with the City Attorney’s Office on how best to address the identified discrepancies and outstanding DIFs.</p>

Ref	Observation	Recommendation	Management Response
2. Formalized Instructions			
<p style="color: green; font-weight: bold;">Priority 3</p>	<p>There are no formal instructions on how DIF contracts should be completed, calculated, approved, and notated within CSI. Additionally, there are no clear instructions on how or if DIFs can be collected or refunded, due to scope changes or any other discrepancies, once the DIF has been received. As a result, many inconsistencies were noted from the sample testing of 20 transactions:</p> <ul style="list-style-type: none"> • 1 of 20 (5%) contracts could not be located. The physical transfer of the paper contracts from CDD to CSP may have contributed to its misplacement. • 14 of the 20 (70%) contracts were not filled out completely. • 10 of 20 (50%) contracts had no supporting documentation to substantiate the demolition credit. As a result, extensive time was expended by CDD in gathering supporting documentation from CSI. 	<p>CDD/CSP perform the following:</p> <ol style="list-style-type: none"> a. CDD work with CSP to formalize instructions and provide training to employees on how contracts should be completed, calculated, approved, and notated within CSI. b. CSP 1) require proper documentation to support the numbers for calculating the DIF based on additions, removals, or plan check revisions. 2) revise the DIF contract to require sign-off by the responsible CDD plan checker. 3) decide if and how DIFs should be collected or refunded, due to scope changes or any other discrepancies, once final payment has been received. c. CDD upload signed contracts to a central repository. Once the repository is created, CDD discontinue sending original hard copy files to CSP. The written instructions should address the naming conventions of these files. d. CDD/CSP evaluate the feasibility of creating an automated tool, such as an online PDF form, to ensure accuracy and completeness. 	<p>Agree and will implement by June 30, 2018.</p> <p>Management will perform the following:</p> <ol style="list-style-type: none"> a. CDD will work with CSP to develop written instructions. b. CSP will revise the contract to include: 1) requirement of permit numbers or supporting documentation for all additions and removals, 2) CDD plan checker sign-off, and 3) language clarifying post payment fee adjustments. c. CDD will upload the DIF contracts, along with supporting documentation and/or permit numbers, to either a shared drive or FileNet. d. CDD/CSP will evaluate the feasibility of creating an online tool to automate the DIF calculation. CDD/CSP may request the assistance of the Innovation, Performance and Audit Department for assistance.

Ref	Observation	Recommendation	Management Response
3. Development Types Definition			
Priority 3	<p>The DIF contract (effective 3/29/14) established different rates based on the type of development added and/or removed. The development types are Residential, Commercial, Office, and Industrial. The DIFs related to these development types may be reduced or eliminated based upon exemptions and credits outlined in both the contract and GMC 4.10.</p> <p>However, the development types are not defined in either the contract or in GMC 4.10. Therefore, it is unclear when a development should be classified as "Office" or "Commercial."</p> <p>Also, the complete listing of exemptions and credits outlined in GMC 4.10 is not listed in the contract, nor is there any reference to the applicable section of GMC 4.10.</p>	<p>CSP implement the following:</p> <ul style="list-style-type: none"> a. CSP update GMC 4.10 and/or the DIF contract to define Residential, Commercial, Office, and Industrial developments. b. CSP also revise the contract to either include the complete listing of exemptions and credits outlined in GMC 4.10 or include a general reference to the applicable GMC 4.10 section. 	<p>Agree and will implement by June 30, 2018.</p> <p>CSP will make the necessary corrections to the contract and/or GMC 4.10.</p>

Ref	Observation	Recommendation	Management Response
4.	CSI User Assess Controls		
Priority 3	<p>CDD does not regularly monitor the CSI user access for appropriateness. As a result, Internal Audit noted 14 inactive employees who still have access to CSI. Internal Audit also noted the existence of eight generic user ID's.</p>	<p>CDD implement the following controls:</p> <ul style="list-style-type: none"> a. Remove inactive users from CSI. Additionally, in order to maintain accountability and visibility to user activities, discontinue the use of generic user ID's. b. Assign CSI monitoring responsibilities and perform periodic ongoing reviews to ensure appropriate CSI access. 	<p>Agree and will implement by March 31, 2018.</p> <p>CDD will implement the following:</p> <ul style="list-style-type: none"> a. Remove the inactive users from CSI and discontinue the use of generic ID's. b. Perform ongoing reviews of the CSI user listing to ensure only active employees with the need for CSI have access.

Appendix 1: Definitions of Priority Rankings and Value-Added Categories

Definitions of Priority Rankings

The priority rankings are assigned by internal auditors based on their professional judgment. They are also agreed upon by management based on their evaluation of the alignment with the strategic goals, priorities and available resources. A timeline has been established based on each priority ranking:

- a. **PRIORITY 1** - Critical control weakness that exposes the City to a high degree of combined risks. Priority 1 recommendations should be implemented within **90 days** from the first day of the month following report issuance or sooner if so directed.
- b. **PRIORITY 2** - Less than critical control weakness that exposes the City to a moderate degree of combined risks. Priority 2 recommendations should be implemented within **180 days** from the first day of the month following the report issuance or sooner if so directed.
- c. **PRIORITY 3** - Opportunity for good or better practice for improved efficiency or reduce exposure to combined risks. Priority 3 recommendations should be implemented within **270 days** from the first day of the month following the report issuance or sooner if so directed.

Definitions of Value-Added Categories

The four value-added impact categories are defined based on their impact from the audit recommendations:

- a. **COMPLIANCE** - adherence to laws, regulations, policies, procedures, contracts, or other requirements.
- b. **COST SAVING** - lower the costs related to conducting City business.
- c. **EFFICIENCY** - ability to avoid wasting resources (money or time) in achieving goals.
- d. **RISK REDUCTION** - lower the risks related to strategic, financial, operations and compliance.

In addition, the **INNOVATION OPPORTUNITY** tag indicates the assistance and consulting services that may be provided by the Innovation and Performance Team.