

Facilities Planning School Impact Fees

Internal Audit Report

April, 18, 2024



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EXECUTIVE SUMMARY

Why We Did This Audit

This report evaluates the internal controls over the assessment, collection, and remittance of School Impact Fees following the 2021 change to a tiered fee structure.

School Impact Fees (SIF) were adopted by Orange County Public Schools to ensure new developments contribute funding for the additional school capacity needed to accommodate growth. This one-time fee is charged to new developments and usually collected when the building permit is issued.

This audit was included in the 2023-2024 Annual Audit Plan.

Observations and Conclusion

Our audit revealed a 24.7% error rate in the sampled permits, indicating a need for improved oversight and formalized procedures for School Impact Fee (SIF) collection and remittance.

Audit Results at a Glance			
	Risk / Impact Rating		
Results and Observations	Significant	Moderate	Minor
<u>Source</u> IA - Internal Audit or M - Management	IA - 0	IA - 2	IA - 1
<u>Observation Category</u> D - Deficiency or O - Opportunity	D - 0	O - 2	O - 1

Results and Recommendations

To enhance accuracy and compliance, we recommend establishing a robust oversight process, ensuring prompt deposit of collected fees, and adopting consistent documentation practices in line with the District's standards.

By addressing the findings of this audit, the District can ensure a more efficient and accurate Impact Fee collection system that supports its educational objectives related to school facilities.

This report has been discussed with management and they have prepared their response which follows.

DEFINITIONS:

Risk / Impact Ratings

Minor	Low risk with a financial impact of less than one percent and/or an isolated occurrence limited to local processes (low impact and low likelihood)
Moderate	Slight to moderate risk with a financial impact between one and five percent and/or a noticeable issue that may extend beyond local processes (low impact and high likelihood or high impact and low likelihood)
Significant	High risk with a financial impact greater than five percent and/or a significant issue that occurs in multiple processes and/ or noncompliance with Florida Statutes or School Board Policies (high impact and high likelihood)

We categorize risk/ impact as:

- *Minor*
- *Moderate*
- *Significant*

Observations Categories

Opportunity	A process that falls short of best practices or does not result in optimal productivity or efficient use of resources
Deficiency	A shortcoming in controls or processes that reduces the likelihood of achieving goals related to operations, reporting and compliance

We categorize our observations as opportunities or deficiencies.

Criteria for Observations Sourced to Management

- Internal audit was informed of the issue prior to starting detailed testing
- Management identified, evaluated, and communicated the issue to appropriate levels of the district
- Management has begun corrective action with clear, actionable plans and targeted completion dates

None of the findings in this audit were sourced to management.

BACKGROUND:

We last audited this function in 2018. The department has since made changes in its processes and experienced staff turnover. There have also been changes regarding school impact fees at the County level. The impact fees were last revised in Ordinance No. 2021-28 effective October 1, 2021. Traditionally, the amount of school impact fees a developer pays depended only on the type of dwelling unit(s). Beginning with Ordinance No. 2021-28, school impact fees are assessed not just by the type of dwelling unit, but also based on the living area size and permitting timeframe (see Appendix A).

According to the district's general ledger, impact fee payments to Orange County Public Schools from Orange County and the 11 municipalities for the last three fiscal years (FY) totaled more than \$238 million:

FY 2020/2021 = \$61,095,416
FY 2021/2022 = \$94,325,395
FY 2022/2023 = \$83,039,410

The Facilities Planning Department (Department) oversees the school impact fee program.

OBJECTIVE, SCOPE AND METHODOLOGY:

Objective

The objective of this audit was to evaluate the adequacy of internal controls over the assessment, collection, and remittance of School Impact Fees.

Scope

The audit focused on school impact fees collected from October of 2021 through October of 2023.

Methodology

Our methodology was similar to the 2018 audit where we reviewed the inter-local agreements and impact fee ordinances and payments from the SAP system, requested supporting documentation from the local governmental entities that collect the fees, and performed tests to

The District received more than \$238 million impact fees from 2020 to 2023.

The Facilities Planning Department oversees the school impact fee program.

We evaluated school impact fees collected from October 2021 to October 2023.

School Impact Fees Internal Audit Report

determine whether the correct amounts of fees were collected by those local governments and remitted timely to the District. We selected and tested a sample of 85 residential building permits from among those issued during the audit period by the 12 local government entities (Orange County and 11 municipalities).

We also considered the Facilities Planning Department's acknowledgement that they do not perform any oversight or monitoring of impact fee collections, and reviewed the annual Impact Fee Report filed with the School Board.

We conducted this audit in accordance with the *International Standards for the Professional Practice of Internal Auditing* of the Institute of Internal Auditors and included such procedures as deemed necessary to provide reasonable assurance regarding the audit objective. Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

We are required to note any material deficiencies in accordance with Florida Statutes, School Board Policy, and sound business practices. No material deficiencies were noted in this audit. We also offer suggestions to improve controls or operational efficiency and effectiveness.

RESULTS AND RECOMMENDATIONS:

Overall Conclusion:

Our audit revealed a 24.7% error rate in the sampled permits, indicating a need for improved oversight and formalized procedures for School Impact Fee (SIF) collection and remittance.

Our detailed findings and recommendations follow.

We tested samples of impact fees collected by each of the 12 local government entities.

We conducted this audit in accordance with the International Standards for the Professional Practice of Internal Auditing.

No material deficiencies were noted in this audit.

The District needs to improve its oversight and monitoring of impact fee collection and remittance by the local governments.

1) School Impact Fee (SIF) remittances were not reconciled or reviewed by the District. *Moderate Risk, Deficiency (repeat finding) (02049)*

Best Practice:

Revenue critical to the District's construction program should be monitored consistently to ensure compliance with ordinances and agreements. School impact fee remittances should be supported by adequate documentation, which contains sufficient details supporting reconciliation, and facilitates future reviews and audits. Since school impact fee collections require a high degree of assistance among local jurisdictions, routine collaboration with the local jurisdictions should be established to identify and understand gaps and increase remittance accuracy.

Audit Result:

Most jurisdictions had errors in the amount of school impact fees they assessed. The error rate in our sample was 24.7% (21 of 85). We identified underpayments and overpayments. The District does not review or verify impact fee payments received against supporting files, instead accepting what is sent without question or verification.

We noted almost \$31,000 of impact fee errors consisting of both underpayments and overpayments. These errors resulted from using the wrong living square footage assessment, wrong type of living unit, math errors, failure to collect the full impact fee owed, and incorrect application of demolition credits. The results in the table below are from the permits we sampled. There may be more fee calculation errors in the untested population. We are unable to estimate those errors.

Ensuring adherence to Ordinance No. 2021-28 is crucial for maintaining the integrity of the School Impact Fee collection process.

The District does not review or verify impact fee payments received, instead accepting what is sent without question or verification.

The error rate in our sample was 24.7% (21 of 85 tested permits).

Ensuring adherence to Ordinance No. 2021-28 is crucial for maintaining the integrity of the School Impact Fee collection process.

Table 1 – School Impact Fee Errors

Local Government	Underpayments	Overpayments
Apopka	\$2,431.00	\$945.00
Belle Isle	-	-
Eatonville	\$44.00	-
Edgewood	\$1,593.00	-
Maitland	\$2,437.00	-
Oakland	-	-
Ocoee	\$2,401.00	-
Orange County	\$937.00	-
Orlando	\$5,200.00	\$24.00
Windermere	\$9,184.00	-
Winter Garden	\$902.00	\$4,419.00
Winter Park	\$400.00	-
Totals	\$25,529.00	\$5,388.00

Source: Internal Audit analysis of building permit records

Most of these errors could have been detected during a desktop review when the payments were first received.

Jurisdictions send all types of documentation with their impact fee payments, ranging from highly summarized to very detailed and, sometimes, no documentation at all.

The local jurisdictions use a variety of dates to calculate the amount of the impact fee. The District should establish clear and consistent understanding about fee calculation dates with the jurisdictions.

Additionally, collections made by the jurisdictions should be forwarded to the District promptly. The Town of Eatonville forwarded fees for two permits totaling over \$15,000 more than a year after they were issued. The Town of Windermere held multiple permits totaling more than \$50,000 for many weeks and months. The risk of loss or misappropriated funds increases when checks are held for extended periods of time. In addition, interest earnings for these funds are diminished when funds are not deposited promptly.

The dollar impact of the errors we noted was more than \$25,000 in underpayments and over \$5,000 in overpayments.

Most of these errors could be detected during a desktop review.

Adequate supporting documentation was not always provided with school impact fee remittances.

Two local jurisdictions held impact fees for months before forwarding them to the District.

This is a repeat finding from our 2018 audit.

Recommendation:

To enhance accuracy and compliance, we recommend establishing a robust oversight process, ensuring prompt deposit of collected fees, and adopting consistent documentation practices in line with the District's standards.

2) Delays in deposits being forwarded to Finance *Moderate Risk, Opportunity (repeat finding) (02047)*

Best Practice:

A Finance Department memo issued in 2023 states "Departments not located at the Ronald Blocker Educational Leadership Center must remit all cash/checks to Finance within a week of receipt." Sound business practices include prompt deposit and recording of monies received. Delayed deposits can reduce interest revenue, and increase the risk of lost or stolen checks.

Audit Result:

Several school impact fee related payments, such as Concurrency Mitigation Agreement, collected by the Facilities Planning Department were not forwarded to the Finance Department within the required time period. We noted payments held at Facilities Planning Department offices for days, weeks, and months.

This is a repeat finding from our 2018 audit.

Recommendation:

Forward collections to the Finance Department within a week of receipt.

The District should develop and implement a robust oversight process.

Collections made by the Department were not deposited promptly and were held for days, weeks and months.

3) School impact fee transactions' supporting documents are not retained in an organized fashion or attached in SAP *Minor Risk, Opportunity (02050)*

Best Practice:

In 2014 the district adopted a practice of scanning and attaching supporting documentation in the SAP system. This practice saves paper and storage space and protects the documents from loss or damage. It also enhances the review process and accelerates document retrieval.

Audit Result:

We noted school impact fee remittance support files were not retained by the Department in an organized or consistent way.

The Department maintains electronic copies of supporting documentation related to school impact fees in a manager's email inbox. Email files can be time-consuming to organize and difficult to locate and retrieve. Additionally, the Department is an outlier to the District practice of scanning supporting documents and attaching them to the corresponding transaction in SAP or saving them in files on a department server. Virtually every other district department follows this practice.

Recommendation:

Adopt the District's practice of attaching supporting documents in SAP to protect documents from loss, enhance review processes, and accelerate document retrieval.

We wish to thank the staff of Facilities Planning for their cooperation and assistance during the audit. We also wish to acknowledge the cooperation and assistance of Orange County and the various municipalities.

The Department should adopt the district's document scanning and retention practices.

Some supporting documents are maintained in a manager's email inbox.

Appendix A

School Impact Fee Rate Schedule					
Land Use	Current Impact Fee Effective June 22, 2021 - September 30, 2021	Installment #1 Effective October 1, 2021 – January 31, 2022	Installment #2 Effective February 1, 2022 – May 31, 2022	Installment #3 Effective June 1, 2022 – September 30, 2022	Installment #4 Effective October 1, 2022
Single-Family Detached					
< 2,000 sq. ft.*	\$8,784.00	\$8,806.00	\$8,806.00	\$8,806.00	\$8,829.00
2,000 – 2,499 sq. ft. *	\$8,784.00	\$9,148.00	\$9,148.00	\$9,148.00	\$9,513.00
2,500 – 2,999 sq. ft. *	\$8,784.00	\$9,438.00	\$10,093.00	\$10,747.00	\$11,402.00
3,000 – 3,999 sq. ft. *	\$8,784.00	\$9,591.00	\$10,399.00	\$11,207.00	\$12,015.00
> = 4,000 sq. ft. *	\$8,784.00	\$9,184.00	\$9,184.00	\$9,184.00	\$9,584.00
Townhouse	\$6,930.00	\$7,398.00	\$7,867.00	\$8,336.00	\$8,805.00
Multi-Family (High Rise)	\$307.00	\$307.00	\$307.00	\$307.00	\$307.00
Multi-Family (Non High Rise)	\$5,919.00	\$6,335.00	\$6,335.00	\$6,335.00	\$6,751.00
Mobile Home	\$6,088.00	\$6,849.00	\$7,610.00	\$8,371.00	\$9,132.00

** square footage shall include the heated/cooled living area*

Source: OCPS Facilities Planning Department website



Department / School Name	Facilities Planning
Administrator / Department Head	Christopher Mills, Sr. Administrator/Jad Brewer, Staff Attorney III
Cabinet Official / Executive Leader	Rory A. Salimbene, Chief Facilities Officer

Audit Result / Recommendation	Management Response Acknowledgement/ Agreement of Condition	Responsible Person (Name & Title) And Target Completion Date (MM/YYYY)	Management's Action Plan
<p>1) School Impact Fee (SIF) remittances were not reconciled or reviewed by the District. <i>Moderate Risk, Deficiency (repeat finding) (02049)</i></p>	<p>Acknowledged and agreed that condition exists. The district relies on data provided by each of the various jurisdictions responsible for collections. In some cases, the information provided with the payments by the local jurisdiction is insufficient for reconciliation.</p>	<p>Jad Brewer, Staff Attorney III Target Completion: July 1, 2025</p>	<p>Assess resource requirements for review and reconciliation of School Impact Fee remittances, determine strategy (in-house or outsource), and accomplish reorganization (in-house) or execute contract (outsource). Continue to solicit the information needed for reconciliation from the individual jurisdictions.</p>



<p>2) Delays in deposits being forwarded to Finance. <i>Moderate Risk, Opportunity (repeat finding) (02047)</i></p>	<p>Acknowledged and agreed that condition exists. However, delays resulted from a deliberate decision to hold checks where the jurisdiction responsible for the collection failed to provide sufficient information to properly credit the check.</p>	<p>Christopher Mills, Senior Administrator, Facilities Planning</p> <p>Target Completion: September 30, 2024</p>	<p>Based on guidance from the Chief Financial Officer, Facilities Planning staff will copy checks received for the District and forward the original to Finance, in lieu of waiting to collect adequate supporting documentation. Any checks received by Facilities Planning intended for other jurisdictions without sufficient documentation to determine how to credit the check, will be returned to the sender.</p>
<p>3) School impact fee transactions' supporting documents are not retained in an organized fashion or attached in SAP. <i>Minor Risk, Opportunity (02050)</i></p>	<p>Acknowledged and agreed that condition exists.</p>	<p>Christopher Mills, Senior Administrator, Facilities Planning</p> <p>Finance department</p> <p>Target Completion: September 30, 2024</p>	<p>Facilities Planning staff will forward all supporting documentation provided by jurisdictions to Finance for upload into SAP upon receipt.</p>