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CITY AUDITOR'S OFFICE

TO: Mayor and Council Members  
THRU: Margaret L. Krym, City Auditor *MLK*  
FROM: Kathy Magaw, Assistant City Auditor *CSM*  
DATE: March 26, 2013  
SUBJECT: Planning Division Fees Audit

Attached is the final report for the Planning Division Fees Audit engagement. During this work we found that the fees charged in Cape Coral for various types of development projects are lower than those in neighboring communities. We also found that Cape Coral fees do not cover the current cost of providing the associated services related to each fee. We have not made recommendations regarding these findings as any action resulting from this information would be strategic in nature and should reflect the decisions of City Council and Management.

We wish to thank Paul Dickson, Building Official and Derek Burr, Planning Management and Growth Manager, and the Planning Division staff for their assistance and cooperation. In addition, we appreciate the support of Linda Betz, Budget Analyst in the Financial Services Department during the course of our work.

Should you have questions or need clarification, please feel free to contact Kathy Magaw at 242-3381 or Margaret Krym 242-3380.

C: John Szerlag, City Manager  
Dolores Menendez, City Attorney  
Rebecca van Deutekom, City Clerk  
Victoria Bateman, Financial Services Director  
Paul Dickson, Building Official  
Derek Burr, Planning Management and Growth Manager  
Linda Betz, Budget Analyst  
Audit Committee



CITY AUDITOR'S OFFICE

## Planning Division Fees Audit

March 26, 2013

## EXECUTIVE SUMMARY

The 2012 approved audit plan included a review of fees charged in the Department of Community Development (DCD).

The fees currently charged for the services provided by DCD were established based on a study completed in June 2000 by DMG-Maximus. This study was based on the underlying FY1998 costs to provide the related services. The fee structure was approved by City Council in August 2000 and became effective in January 2001. Since this fee structure was implemented new divisions have been created, responsibilities have been reallocated, and processes have changed, significantly impacting the cost basis used by DMG-Maximus to define the fee structure.

The Building Division (a division of DCD) has the responsibility for managing the building fund and relies solely on permit fee revenue to cover 100% of its costs. The Building Division permit fee revenue represents the majority of fee revenue generated within DCD. Because the Building Division has successfully sustained itself on its fee revenue, we determined to focus this engagement on the Planning Division (also, a division of DCD), which has been heavily subsidized by the General Fund.

DCD staff has been concerned for some time that fees charged for Planning Division services do not cover the costs associated with providing these services thus resulting in a burden placed on the General Fund.

The scope of this audit included Fees charged during FY2011 by the Planning Division. The audit's purpose and objectives were to provide assurance to City Council and City Management that these fees were determined using a reasonable methodology, are competitive within our market place, and are consistently imposed.

We found the following:

A judgmental sample of Cape Coral fees compared to those charged in nearby communities for similar projects showed that Cape Coral Planning Division fees were lower.

An evaluation of a judgmental sample of fees showed that these fees do not currently cover the underlying cost of providing the services associated with the related fee.

All the fees that we selected for testing were imposed consistently on all transactions that we examined. We found no exceptions.

## BACKGROUND

The Department of Community Development (DCD) includes ten functions within its organization. They are:

- Permitting
- Plans Review
- Inspections
- Licensing
- CDBG and SHIP Grants, Administrations
- Planning
- Zoning
- Wildlife Protection
- Code Compliance (enforcement)
- Relationships to Planning and Zoning Commission and CRA

The largest of these, the Building Division provides permitting, plans review and inspection services, which ensures the safety, health and welfare of the general public and enforces the Florida and National Building Codes. The Building Division has the responsibility for managing the building fund and relies solely on permit fee revenue to cover 100% of its costs. Building Division permit fee revenue represents the majority of fee revenue generated within DCD.

Because the Building Division has successfully sustained itself on its fee revenue, we determined to focus this engagement on the Planning Division, which has been heavily subsidized by the General Fund.

The Planning Division prepares, monitors and implements the City's Comprehensive Plan including compliance review and annual amendments and revisions. The Division also administers the City's Land Use and Development Regulations and the City's development review programs including the Planned Development Project (PDP) process, site plan review process, as well as requests for rezoning, special exception, variation, vacation of plat and preliminary and final subdivision review.

The current fees for the Planning Division services were established based on a study of the fee structure for DCD that was completed in June 2000 by DMG-Maximus. This study was based on FY1998 costs. The fee structure was approved by City Council in August 2000, and became effective in January 2001. Since this fee structure was implemented new divisions have been created, responsibilities have been reallocated, and processes have changed, significantly impacting the cost basis for the DMG-Maximus fee structure.

In February 2005, the Financial Services Department prepared an *"Activity Based Costing Analysis of Permit Fees"* employing the same methodology used by the DMG-Maximus study. The various components of the fee structure were evaluated. The components examined the annual units of service, time per task requirements, and related costs (i.e., direct labor, operating expenses, and indirect costs). The results of the 2005 analysis indicated that Planning Division fees were not covering the current 2005 Planning Division costs. Although significant work was done to complete this analysis it was ultimately abandoned.

Ordinance 23-09 (Section 1. Section 5-4 of the City of Cape Coral Code of Ordinances) authorizes a schedule of fees to be collected by DCD. The ordinance was last updated on May 21, 2009, however; many of the Administrative Review and Public Hearing fees were not included in the revision.

In 2009 the Site Development Review Division prepared an analysis and determined a basis for allocating DCD fee revenue to the various departments involved in providing the related services. We did not review or verify the allocation methodology used and we did not review the cost factors in departments outside of DCD. The complexity of this multi-department cost structure underlying the various fees may no longer reflect the actual cost relationships in place today.

Not only have the costs in providing the services changed since 2000, but the activities performed by the various divisions within DCD, Public Works, and Fire (all of whom participate in providing the related services) have changed.

DCD staff has been concerned for some time that fees charged for the Planning Division services do not cover the costs associated with providing these services thus resulting in a burden placed on the General Fund.

### **STATEMENT OF AUDITING STANDARDS**

This audit was conducted as an Attestation Review and therefore does not include broad examination and testing in order to draw a conclusion on an entire population. A review engagement enables us only to reach conclusions on items we sampled and examined. The primary purpose of an Attestation Review is to provide a report on a subject matter or an assertion about a subject matter that is the responsibility of another party.

This Attestation Review was conducted in accordance with generally accepted government auditing standards. These 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.

### **SCOPE and OBJECTIVES**

The scope of this audit included Fees charged during FY2011 by the Planning Division (a division of DCD).

The audit's purpose was to provide assurance to City Council and City Management that these fees were determined using a reasonable methodology, are competitive, and are consistently imposed.

The objectives included:

- Providing assurance that fees are competitive within our market place.
- Providing assurance that fees determined were based on a reasonable methodology, which was consistently applied.

- Providing assurance that fees are imposed consistently.

## METHODOLOGY

Our audit methodology included:

- One-on-one interviews of City personnel,
- Meetings with Planning Division staff in other nearby communities,
- Real-time observations of work processes, and
- Analysis and testing of staff prepared schedules and available data.

## RESULTS OF AUDIT

**Audit Objective One: Provide assurance that fees are competitive within our market place.**

For the purpose of benchmarking and comparison we selected three nearby communities from a copy of the “*Florida Population: Census Summary 2010*”. We verified their relevance with DCD management and Planning Division staff. These communities were the City of Ft. Myers, the City of Bonita Springs and Lee County Government.

We interviewed two communities and we corresponded with one via email. During our interviews and correspondence it became apparent that the various fee structures and framework were not easily comparable. Fees were called by differing names and covered a variety of differing services. Based on this, we were not able to match like fees and perform a competitive analysis.

We then worked with DCD management and Planning Division staff to identify projects in Cape Coral that were similar to projects in Lee County Government and to calculate and compare the total fees charged for each project. DCD staff prepared four project comparisons. Each of the comparisons was based on actual parcel size and requested approvals required. The results of the fee comparisons were significant. All four Cape Coral projects that were examined were lower in total fees charged than those similar projects in the Lee County Government.

Project Description	Total Cape Coral Fees	Total Lee County Fees	Difference	
			Dollars	Percentage
Shopping Center	\$ 12,812	\$ 17,040	\$ 4,228	33%
Subdivision	\$ 12,172	\$ 69,656	\$ 57,484	472%
Commercial Park-81+ Acres	\$ 10,864	\$ 12,445	\$ 1,581	15%
Commercial Park-29+ Acres	\$ 5,797	\$ 10,911	\$ 5,114	88%

Some of the differences causing Cape Coral's lower fees were that Cape Coral does not charge for re-submittal fees for project reviews and that there are "maximum" caps that limit the fees in Cape Coral. Lee County Government does charge re-submittal fees for each review. These differences were significant in the Subdivision example presented above.

When we noted fees in our fee schedule with similar names as those in other communities and compared them we found that those in Cape Coral were lower.

Based on this limited review, we found that the Cape Coral Planning Division fees we examined were lower than those in neighboring communities.

**Audit Objective Two: Provide assurance that fees determined were based on a reasonable methodology, which was consistently applied.**

We interviewed staff in the Planning Division, in DCD, and in the Financial Services Department in an effort to determine the costing methodology, which underlies our current fee structure. As was previously stated, the current fees were put in place over 10 years ago. Current staff members did not participate in their determination and were unaware of the methodology used to determine them. The planning fees have many variables and there can be multiple fees applied for one Planning Division application. Current staff therefore cannot provide justification to support the basis of the current fee structure.

In 2005, the Financial Services Department developed an "Activity Based Costing Analysis of Permit Fees". The focus of the 2005 analysis was on identifying the staff activities necessary to provide a particular service and the costs associated with those activities. The hours and costs were based solely on specific services provided. The results of their analysis indicated that the fees did not cover the 2005 cost of providing the related service. The results of this analysis were rejected (internally and externally) and fees were not adjusted at that time.

For a few sample selected fees, the chart below illustrates the comparison between the 2005 fee calculations and the current existing fees:

Fee Name	Current Fee	2005 Fee Calculations
Administrative Review – Sub Division with PDP	\$2,085	\$2,480
Administrative Review – Rezoning	\$1,345	\$1,585
Public Hearing Variance / Deviation within a PDP	\$1,250	\$1,280

We then attempted to select a judgmental sample of fees and reconstructed the 2005 methodology used by the Financial Services Department to recalculate the selected sample using today's activity based costs. We learned that the *Activity Based Costing* model could not be applied to a sample; therefore we were unable to make these calculations for a sample selection only. However, we did note that the underlying hours

associated with some fees had increased and the cost per Full time equivalent (FTE) hours had also increased as illustrated below. Therefore, current fees did not cover 2005 cost and they also do not cover 2011 costs.

An example of the changes in labor costs associated with the Planning Division is illustrated here:

Items	FY2005	FY2011
Salaries	1,182,524	669,313
Benefits	461,774	365,029
Total Compensation	1,644,298	1,034,342
FTE Count	29.5	14.05
Average Cost/FTE	55,739	73,619

Planning Division's salary, benefits, total compensation and FTE count has decreased. At the same time the average labor cost per FTE has increased from \$55K to \$74K (or 32%). Therefore the activity based cost per hour has also increased by 32%.

We requested from the Planning and Growth Management Manager the number of labor hours associated with the services covered by the fees selected in our sample. We did not verify these reported labor hours. We used the provided labor hours to complete an analysis and evaluation comparing the 2011 hours and costs to the 2005 calculations performed by the Financial Services Department.

The evaluation of the selected fees we reviewed showed that the fees currently in place are less than the Planning Division cost of providing the service associated with the related fee and do not contribute to any of the related costs from the Public Works, Transportation, Fire or Utilities Departments.

Based on our assessment of the fee comparisons we reviewed, we believe that the current fees do not cover the underlying associated costs of providing the fee related services.

**Audit Objective Three: Provide assurance that fees are imposed consistently.**

We observed and interviewed City staff accepting payments from DCD Customers. We reviewed Customer Service Representative (CSR) transactions and documentation relating to the controls in place. Credit cards are the only payment that the DCD CSRs accept; all other methods of payment are processed at the City Hall Cashier's Office after the related fees are determined by DCD CSRs.

We interviewed Financial Services staff and documentation was provided to ascertain that all credit card transactions being accepted were processed and reconciled. We also found the DCD CSR's jobs to be very technical in nature and we did not find that their job descriptions accurately reflected this complexity.

We searched the building permit reports in *Trackit* from a detail selection report for review and examination. We selected a judgmental sample for testing from 77 various fees and 486 units sold for the period in review. Each selection recorded the actual fees paid for the project. For each permit we deconstructed the fees charged and verified the correct charge to the fee schedule. We also obtained detailed documentation that corresponds to the generated permit to verify related project scopes. We did this for the purpose of determining that fees were imposed consistently.

All the fees that we examined were consistently imposed. We found no exceptions.