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**A Report to the
City Commission**

Mayor

Lauren Poe

Mayor-Commissioner

Pro Tem

Adrian Hayes-Santos

Commission Members

David Arreola

Gail Johnson

Gigi Simmons

Harvey Ward

Helen K. Warren

**City of
Gainesville Office
of the City
Auditor**

Carlos L. Holt – City Auditor

**Annexed Property Fee Collections
Audit**

August 2, 2018

EXECUTIVE SUMMARY

August 2, 2018



Why We Did This Audit

The audit was included in the City Auditor's 2018 Fiscal Year Audit Plan due to the anticipated increase in annexation activity.

What We Recommend

Key actions General Government and Gainesville Regional Utilities should:

- Implement policies and procedures to verify that revenues resulting from annexations were billed and received.
- Review property tax rolls to ensure that City parcels are coded as being in the City.
- Identify and correct stormwater billing issues. Management should enhance the stormwater processes to ensure proper communication and coordination.

Annexed Property Fee Collections Audit

BACKGROUND

The City of Gainesville annexes properties outside the City limits either voluntarily or by voter referendum. An annexation occurs when a property owner or neighborhood becomes part of the City. Citizens annexing into the City receive increased voting rights and expanded City services. City expenses are impacted as the City provides these additional services for the newly annexed properties; and, revenues are impacted as additional city property taxes and fees are received.

The City's Department of Doing administers the annexation process from beginning to end, including the City Commission's adoption of the ordinance. Proper coordination is essential for ensuring that properties slated for annexation are processed according to laws, rules, and regulations. Several departments play an integral part of the annexation process by providing impact analyses for inclusion in the Urban Services Report. The report details the annexation's impact on City services provided to the newly annexed area such as police and fire protection, solid waste disposal, water/wastewater extension, utilities, transportation, street lighting, housing, parks, and more.

OBJECTIVES

The objectives of the audit were to determine the following:

- Were properties annexed by the City included in the City's collection process for fees, charges, or taxes owed?
- Were collections accurate and timely?
- Were claimed fee exemptions allowable and accurately calculated?

WHAT WE FOUND

- No formal process existed to verify that revenues due were collected, as required for newly annexed properties.
- Three annexed City parcels categorized for government use were coded as county properties on the property appraiser website.
- Some City properties were not billed for stormwater services.

GOVERNANCE

The Department of Doing oversees the City's annexation process. Annexation activities are governed by Florida Statute Chapter 171; promulgating that amongst other requirements, properties considered for annexation must be adjacent to the City limits, meeting three eligibility criteria prior to approval.

1. Compact – Properties must be close together
2. Contiguous – Property must touch the boundary of the City
3. Enclave – Property does not create an enclave

The City Commission reviews all applications for annexation. Once approved, the City Commission holds two readings of the annexation ordinance, and the ordinance is advertised twice in the local newspaper. The City Commission discusses the matter, takes public input, and then either rejects or adopts the ordinance to complete the process. Approval of annexations by referendum require a citizen vote within the area approved for annexation.

SCOPE AND METHODOLOGY

The audit scope covered City processes in place to collect fees, charges, and taxes acquired after annexations. Our scope included an analysis of past annexations.

During the engagement, we interviewed management and key personnel, attended meetings, performed data analysis of past annexations, mapped processes, and reviewed information systems.

OBJECTIVES AND CONCLUSIONS

1. Were properties annexed by the City included in the City's collection process for fees, charges, or taxes owed?

Generally Yes.

We determined that not all properties annexed by the City were assessed applicable fees, such as storm water fees. Since the City recently contracted a billing consultant to clear up these exceptions, we will withhold our recommendations and conduct future analysis of stormwater revenue fee collections (see Observation C). We also determined that three City properties were not coded as such on property tax rolls. However, the properties were for government use, which is exempt from City fees, charges, and taxes (see Observation B).

2. Were collections accurate and timely?

Generally No.

We determined that City annexation processes did not include verification that revenues resulting from annexations were collected. These revenues include utility service taxes, property taxes, local business taxes, fire assessment fees, landlord licensing fees, among others. A financial analysis process would provide assurance that new annexation revenues are collected (see Observation A).

Note: Collected annual City revenues due to annexations were approximately \$44 million dollars in fiscal year 2017.

3. Were claimed fee exemptions allowable and accurately calculated?

Yes.

We reviewed a sample of exempt taxes and determined that the exemptions were allowable and accurately calculated.

AUDIT OBSERVATIONS

Internal control helps entities achieve important objectives and sustain and improve performance. The Committee of Sponsoring Organizations of the Treadway Commission (COSO), *Internal Control – Integrated Framework (2013 Framework)*, enables organizations to effectively and efficiently develop systems of internal control that adapt to changing business and operating environments, mitigate risks to acceptable levels, and support sound decision making and governance of the organization. The audit observations listed are offered to help management fulfill their internal control responsibilities.

Observation A: City Revenue Verifications of Annexed Properties Not Conducted

Condition: (Describes what we found)

City financial processes did not include steps to verify that revenues were collected as a result of annexed properties. City revenues are impacted when properties are annexed into Gainesville City limits based on several factors, including occupancy, tax status, and land-development status. Possible revenue impacts include real property taxes, stormwater fees, utility taxes, business taxes, and more. While the Planning Department conducted financial impact analyses of some revenues during the annexation process, post-annexation verifications of revenues received were not conducted at the department level to ensure completion.

Cause: (Explains why the condition occurred)

Since properties annexed during the last few years were undeveloped lands that had limited to no-revenue impacts for the City, management did not conduct a financial impact analysis or post-annexation revenue verifications. Thus, no procedures were developed or implemented.

Criteria: (Describes what “should be” based on principles, policies, procedures, etc.)

- The Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control – Integrated Framework (2013 Framework)*, Control Activities – Principle 10 - “The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.”

Effect: (Describes the potential impact and any adverse results)

The potential effect is the City will have uncollected revenues from significant revenue sources, such as property taxes.

Recommendation: (Corrective action needed to resolve the condition and the cause)

Management should implement policies and procedures to include verifications that revenues resulting from annexations were billed and received.

Risks: (Explains the major risks or exposure to City)

- Incomplete revenue billing/collections
- Lost revenue

Observation B: City Parcels Coded as County Parcels

Condition: (Describes what we found)

We noted that three previously annexed parcels located within the City of Gainesville were coded as Alachua County properties in the Alachua County Property Appraiser website. Although the identified properties were exempt government properties with no City of Gainesville revenue or expense implications, all parcels annexed into the City of Gainesville should be accounted for.

Cause: (Explains why the condition occurred)

Communication breakdowns at the annexation process level caused the properties to be mislabeled. These properties were annexed into the City of Gainesville in 1961, 1999, and 2002.

Criteria: (Describes what “should be” based on principles, policies, procedures, etc.)

- The Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control – Integrated Framework (2013 Framework)*, Control Activities – Principle 13 - “The organization obtains or generates and uses relevant, quality information to support the functioning of internal control.”
- The Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control – Integrated Framework (2013 Framework)*, Control Activities – Principle 15 - “The organization communicates with external parties regarding matters affecting the functioning of internal control.”

Effect: (Describes the potential impact and any adverse results)

The omission of legitimate City parcels on property tax records may have potential negative effect on revenue collections.

Recommendation: (Corrective action needed to resolve the condition and the cause)

Management should work with the Alachua County Property Appraiser's Office to ensure that the three remaining parcels are coded correctly and to identify any other parcels that may need re-coded.

Risks: (Explains the major risks or exposure to City)

- Inaccurate accounting of City parcels
- Lost revenue

Observation C: City Residents or Businesses Not Billed for Stormwater Services

Condition: (Describes what we found)

After reviewing a small number of property accounts in GRU's customer billing system, we noted that GRU electric customers within Gainesville City limits were not billed stormwater fees. Several exceptions noted were previously identified by the City's contracted billing consultant, but were not yet corrected in the system.

While recognizing there are issues with identifying and billing stormwater effectively, we are withholding recommendations until after management and their billing consultant have the opportunity to correct any issues. Additional auditor reconciliations would have been redundant and timely.

Note: The fees in question could be only a fraction or small percentage of the total (but, could also be a material amount), stormwater revenues totaled \$8,082,600, during fiscal year 2017. The City Auditor's Office will consider including Stormwater analysis on the annual audit plan in the near future, after the contractor (billing consultant) has completed their work.

Cause: (Explains why the condition occurred)

Stormwater billing processes, including communication and coordination, were not effective to ensure proper billing.

Criteria: (Describes what "should be" based on principles, policies, procedures, etc.)

- The Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control – Integrated Framework (2013 Framework)*, Control Activities – Principle 13 - "The organization obtains or generates and uses relevant, quality information to support the functioning of internal control."
- The Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control – Integrated Framework (2013 Framework)*, Control Activities – Principle 14 - "The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control."

Effect: (Describes the potential impact and any adverse results)

The City of Gainesville has forgone revenues.

Recommendation: (Corrective action needed to resolve the condition and the cause)

Public Works management should continue to work with the billing consultant to identify and correct stormwater billing issues. Management should enhance stormwater processes to ensure effective communication and coordination.

Risks: (Explains the major risks or exposure to City)

Customers are not billed for stormwater services and revenues are lost.

GOVERNMENT AUDITING STANDARDS COMPLIANCE

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

AUDIT TEAM

Carlos L. Holt, CPA, CFF, CIA, CGAP, CFE, City Auditor
Eileen M. Marzak, CPA, CFE, Assistant City Auditor
Brecka Anderson, CIA, CFE, CGAP, Senior Auditor
Ronald Ison, IT Staff Auditor, PMP

Gainesville.
Citizen centered
People empowered

Budget & Finance

Memo

To: Carlos Holt, City Auditor

Via: Anthony Lyons, City Manager *AL*

From: Christopher Quinn, Finance Director *CQ*

Date: 7/18/2018

Re: Annexed Property Fee Collection Audit Response

Thank you for the opportunity to comment on the recently completed audit of the Annexed Property Fee Collection process. We appreciate the time and effort expended by the City Auditor's office in conducting the audit.

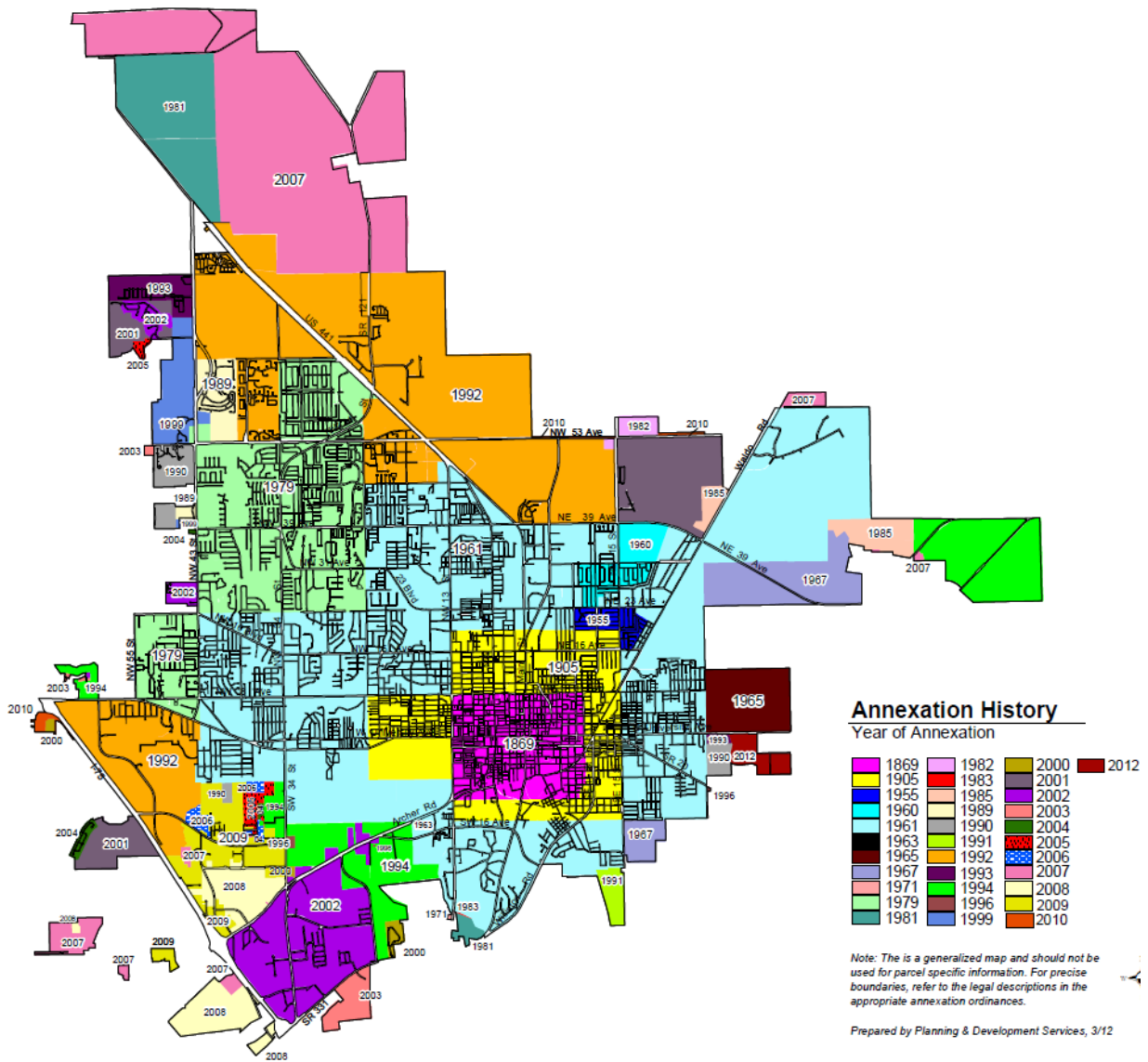
We have reviewed the recommendations provided to General Government and offer the attached response to the City Auditor's recommendations.

APPENDIX A – GENERAL GOVERNMENT CORRECTIVE ACTION PLAN

We believe that management is in a unique position to best understand their operations and may be able to identify more innovative and effective approaches, and we encourage them to do so when providing responses to our recommendations.

Recommendation	Concurrence and Corrective Action Plan	Proposed Completion Date
<p>Observation A: City Revenue Verifications of Annexed Properties Not Conducted</p>		
<p>General Government management should address the lack of a financial impact analysis in the Annexation process by:</p>		
<p>1) Management should implement policies and procedures to include verifications that revenues resulting from annexations were billed and received.</p>	<p>Concur. The Finance and Budget Department has added a position whose duties will include performing a verification of revenues resulting from annexations.</p>	<p>9/30/18</p>
<p>Observation B: City Parcels Coded as County Parcels</p>		
<p>General Government management should address the accuracy of City parcel coding by:</p>		
<p>2) Management should work with the Alachua County Property Appraiser's Office to ensure that the three remaining parcels are coded correctly and to identify other parcels that may need re-coded.</p>	<p>Concur, with the below reservation. Management is researching the documentation required by the Alachua County Property Appraiser's Office to support the re-coding of the three incorrectly coded parcels. Management's ability to ensure the parcels are re-coded is dependent upon our ability to produce sufficient record of the dated transactions to satisfy the Property Appraiser. It is management's understanding that these three parcels represent the only miscoded parcels in the City of Gainesville. Management is implementing a policy to confirm that all parcels annexed in the future are properly coded by the Alachua County Property Appraiser.</p>	<p>In process</p>
<p>Observation C: City Residents or Businesses Not Billed for Stormwater Services</p>		
<p>General Government management should address the stormwater billing process by:</p>		
<p>3) Public Works management should continue to work with the billing consultant to identify and correct stormwater billing issues. Management should also enhance stormwater processes to ensure proper communication and coordination.</p>	<p>Concur. Public Works management is continuing to work with GRU and the billing consultant to correct stormwater billing. The Finance and Billing Department will work with Public Works to enhance processes to ensure proper billing going forward, upon completion of the consulting engagement.</p>	<p>9/30/18</p>

APPENDIX B – CITY OF GAINESVILLE ANNEXATIONS BY YEAR



Source: Department of Doing