User Fees Audit

City of Charlotte
Internal Audit Department
600 E. Fourth St.
Charlotte, NC 28202

Staff

City Auditor
   Tina Adams, CPA, CIA
Deputy City Auditor
   Craig Terrell, CPA, CISA
Senior Auditor
   Lynette Stover

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User Fees Audit Executive Summary

Objective

This audit was conducted to determine whether the City evaluated and set fees in accordance with the City's User Fee Ordinance and GFOA recommendations.

Background

User fees are costs charged to those who receive certain governmental services or use governmental facilities. The City has established both regulatory user fees (to recoup costs associated with providing specific services that are required by law) and non-regulatory fees (to recoup costs of services not related to regulations).

Examples of regulatory user fees include land development permits, subdivision reviews, fire permits, and dance hall licenses. Examples of non-regulatory user fees are cemeteries and airport landings. Strategy and Budget provide department's instructions for calculating fees through the User Fee Handbook.

Conclusion

User fees were reported/calculated in accordance with the City's User Fee Ordinance and GFOA recommendations. Additional oversight of time-keeping data in projecting fees is needed.

Highlights

Adequate controls have been established to calculate user fees in accordance with City ordinance.

- The User Fee Handbook provides departments with the methodology necessary for calculating fees.
- Departments followed Strategy and Budget's guidance for:
    - Allocating labor (except as noted in Finding #2)
    - Incorporating indirect costs and overhead
    - Providing explanations for new and increased user fees
    - Submitting user fee templates timely

Labor allocations are not reviewed for accuracy.

- Strategy and Budget does not review departments' user fee calculations to determine whether they are based on accurate timekeeping data.

- Departments do not submit documentation for timekeeping deviations with their user fee projections.

Departments do not compare projected to actual occurrences and revenue.

- Completing a comparison of projected to actuals, allows departments to identify areas where adjustments to the fee structure or occurrence projections are needed.

Actions Planned

Strategy and Budget agrees with the recommendations and will institute an action plan to work with departments and provide new guidance updates to the User Fee Handbook by December 31, 2023.

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Background

User fees are costs charged to those who receive certain governmental services or use governmental facilities. The City has established both regulatory user fees (to recoup costs associated with providing specific services that are required by law) and non-regulatory fees (to recoup costs of services not related to regulations). Effective July 1, 2005, City Council adopted a cost recovery policy in which the rate of each regulatory user fee should cover 100 percent of the fully allocated cost. This policy is continued in the FY 2023 budget year which includes a provision to allow the City Manager to recommend exceptions to the 100 percent regulatory user fee recovery. Non-regulatory fees are calculated using different methods because City Council's ordinance does not require non-regulatory fees to recover a specific percentage of the cost incurred by the city agency in the provision of the service.

Chapter 2, Article I, Section 2-1 (a) of the City's Code of Ordinances requires the City Manager to notify Council of any new or increased fees. Both regulatory and non-regulatory fees are updated during the annual budget process and take effect at the start of the fiscal year. Definition and examples of each type of user fee is listed below:

Regulatory user fees
- Associated with or incident to a regulatory program.
- Examples include land development permits, subdivision reviews, fire permits, and dance hall licenses

Non-regulatory fees
- Fees charged to those who receive government services or use their facilities
- Examples are cemeteries and airport landings

The Government Finance Officers Association (GFOA) supports the use of charges and fees as a method of financing governmental goods and services by establishing six primary recommendations. The following chart details the six recommendations and whether the City of Charlotte has incorporated each of them in its user fee practices.

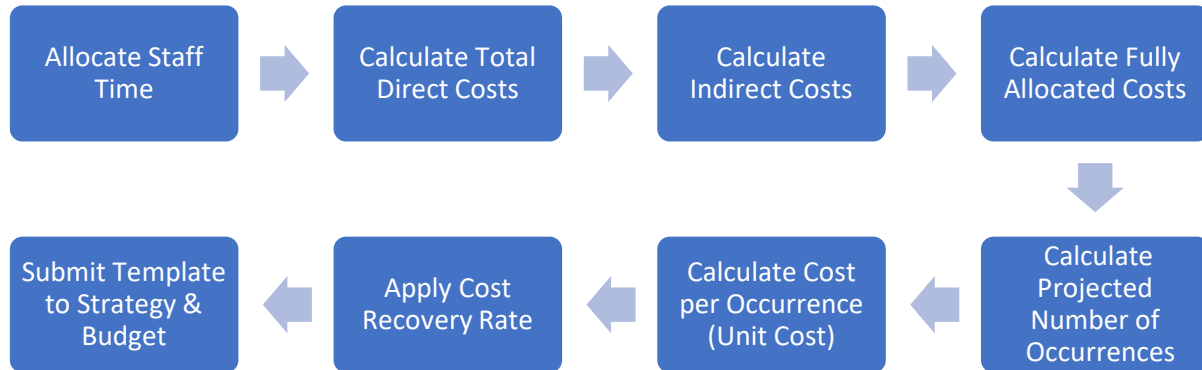| GFOA Recommendation	Included in City of Charlotte's Process?
Consider applicable laws and statutes	Yes
Adopt formal fee policies	Yes
Calculate the full cost of service	Yes
Review and update fees regularly	Yes
Utilize long-term forecasting to anticipate future costs	No
Provide information on fees to the public and create opportunities for feedback	Yes

The table below details which departments charge fees, categorized by type:

Department	Regulatory	Non-Regulatory	Other
Aviation		√	
CATS	√		
Charlotte Water	√	√	√
City Clerk	√	√	
CFD	√		
CDOT	√	√	
CMPD	√	√	
General Services		√	
Planning	√	√	
Solid Waste Services		√	
Storm Water	√	√	√

The chart below summarizes FY2023 regulatory fee revenue by department:

Department (Regulatory)	FY 2023 User Fee Revenue
CATS	$151,587
Charlotte Water	$3,052,771
City Clerk	$81,123
CFD	$4,239,747
CDOT	$1,543,625
CMPD	$327,041
Planning	$8,254,460
Storm Water	$3,192,364
Total	**$20,842,718**

Strategy and Budget provides instructions to departments through the User Fee Handbook (updated annually) on the calculation of user fees. The handbook outlines the seven-step cost recovery methodology for calculating regulatory user fees. The process which includes the final submission is outlined below:

```
┌──────────────┐     ┌──────────────┐     ┌──────────────┐     ┌──────────────┐
│ Allocate Staff │ ──▶ │ Calculate Total │ ──▶ │   Calculate   │ ──▶ │ Calculate Fully │
│     Time       │     │  Direct Costs   │     │ Indirect Costs │     │ Allocated Costs │
└──────────────┘     └──────────────┘     └──────────────┘     └──────────────┘
                                                                         │
                                                                         ▼
┌──────────────┐     ┌──────────────┐     ┌──────────────┐     ┌──────────────┐
│ Submit Template │ ◀── │  Apply Cost   │ ◀── │ Calculate Cost │ ◀── │   Calculate    │
│ to Strategy &   │     │ Recovery Rate │     │ per Occurrence │     │   Projected    │
│    Budget       │     │               │     │  (Unit Cost)   │     │   Number of    │
│                 │     │               │     │                │     │  Occurrences   │
└──────────────┘     └──────────────┘     └──────────────┘     └──────────────┘
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Although the above diagram depicts a simplified version of the process, each step requires departments to analyze the best approach and provide backup documentation to support the user fee template submission. The template should only reflect changes for fees that were submitted in the prior fiscal year. If departments are significantly increasing or decreasing existing fees, a memo discussing the rational for the changes must be included. Also, any new fees established by departments must be submitted separately with a memo describing the purpose and justification for the fee. Strategy and Budget reviews the submitted information and discusses any concerns with departments.

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Scope, Methodology, and Compliance

Scope

This audit focused on regulatory user fees projected for Fiscal Year 2023. A review of non-regulatory fees was excluded because there are no specific requirements established by the City's ordinance or guidance provided by Strategy and Budget.

Methodology

To achieve the audit objectives, auditors:

- Reviewed user fee methodology for compliance with city ordinances and GFOA best practices.
- Reviewed department budget submissions for user fees.
- Documented selected departments user fees processes.
- Conducted department user fee surveys.

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 findings and conclusions based on our audit objectives.

Government auditing standards require that we determine which internal controls are material to the audit objective and obtain an understanding of those controls. To evaluate internal controls, the City Auditor's Office follows the Committee of Sponsoring Organizations of the Treadway Commission's Internal Control – Integrated Framework (COSO Framework) as included in Standards for Internal Control in the Federal Government (GAO Green Book).

In planning and performing the audit, auditors obtained an understanding of Strategy and Budget's user fees processes and the associated internal controls; assessed the internal control risks; and determined the following internal control components were significant:

- Control Environment – The set of standards, processes and structures that provide the basis for carrying out internal controls.
- Control Activities – The actions management establishes through policies and procedures to achieve objectives and respond to risks.

The internal control deficiencies that are significant within the context of the audit objective are discussed in the Findings and Recommendations section of this report. For additional information regarding internal control components and the related principles of internal control, please see Appendix A.

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Findings and Recommendations

1. *Adequate controls have been established to calculate user fees in accordance with City ordinance.*

Auditors verified that Strategy and Budget (S&B) performs the following key controls which provide departments with the methodology necessary for establishing user fees and incorporates any new guidance. S&B communicates with departments throughout the user fee process and has the following controls in place:

- Updates the User Fee Handbook annually
- Creates and updates user fee templates as necessary
- Reviews department user fee submissions
- Verifies that user fees don't exceed 100% recovery cost (regulatory)
- Collaborates with departments on proposed user fee submissions for inclusion in the annual budget book

The User Fee Handbook provides departments with the methodology necessary for calculating fees. Auditors reviewed department user fee submissions and found that departments:

- Submitted user fee template timely to S&B
- Followed S&B guidance for
    - Labor allocations (except as noted in Finding #2)
    - Incorporating indirect costs, including department and City overhead
    - Estimating occurrences
- Explained new and increased user fees

2. *Labor allocations are not reviewed for accuracy.*

The User Fee Handbook (written and updated by S&B), requires departments to use a timekeeping system to record labor associated with user fees. Departments can use the automated time management system that best fits their unique needs. S&B guidance does not require the review of departments' user fee calculations to determine whether they are based on accurate timekeeping data. Resource limitations would likely hinder the ability for S&B to annually reperform labor calculations for all departments. However, periodically reviewing detailed timekeeping data for selected departments based on risk (new fees, new timekeeping system) could help departments consistently comply with published guidance.

Generally, supporting documentation submitted to S&B lists the employees' task percentages but often omit how the percentages were determined. In some instances, departments intentionally adjust allocation percentages calculated using timekeeping data to reflect actual

experience or to reflect plans to utilize an employee in a different capacity in the future. These changes to the allocation percentages are not explained in the user fee submission.

Auditors judgmentally selected two departments (Planning and Fire) to illustrate the difficulties in determining whether labor hours are accurately allocated in the calculation of user fees:

Planning

Planning uses the City's Peoplesoft system to determine staff time based on employees' tasks and activities related to user fees. During review of Planning's PeopleSoft data, the staff labor percentages based on task and activity codes did not always agree with the percentages used to project user fees. The chart below shows the breakdown of PeopleSoft percentages by task compared to the percentages used to calculate user fees for one employee. In the example, 85% of the employee's time was allocated to the rezoning fee although only 2% of the employee's time was charged to the PeopleSoft task associated with rezoning. Planning did not provide a specific explanation or any documentation for the variance in the user fee submission, making it difficult to determine the validity of the labor allocation.

Employee A

Project/Grant	Activity ID	Task	Total hours	Peoplesoft %	Allocation %
NON-Project Time			-	-	-
COMP PLAN	PLACE TYPES	PLACETYPES	1.00	-	-
PROJECT & ADMIN			1.00	-	-
	MISC ADMIN	MISCELLANE	33.50	2%	-
	TRAINING		32.00	2%	-
REGULATORY		REG (MIN)	18.50	1%	-
	FINAL PLATS	SUBDIV NST	454.50	26%	-
		OTHER MISC	473.50	27%	-
	NON-USER FEE	PRE-SUBMIT	27.00	2%	-
	PLANND MF REV		638.75	37%	15%
	RZ COND	MAJOR	40.50	2%	85%
	SUBDIVISION	VARIANCES	3.00	-	-
Employee A Total			**1,723.25**	**100%**	**100%**

Charlotte Fire

Charlotte Fire tracks time using a system called Fire Data Management (FDM). The type of service performed and building location is tracked daily but all (non-user fee time, administrative time) employee time is not recorded in the system, making it difficult to calculate (and document) accurate labor allocation percentages. Utilizing PeopleSoft capabilities along with the FDM system to record all time would allow Charlotte Fire to calculate and support user fees based on actual experience.

Recommendation: Departments are required to record all employee time. Strategy and Budget should periodically review department's user fee submissions, including labor allocations, to ensure compliance with published guidance. The results of the review should be documented and used to update guidance when necessary.

   Value Added: Compliance; Efficiency; Risk Reduction

S&B Response: Strategy & Budget agrees with this recommendation and will regularly review departments' time management practices and systems to ensure compliance with published guidance. Strategy & Budget will use the results of these reviews to update the City's User Fee methodology as needed. A formal action plan of departments' review will be developed by December 31, 2023.

3. *Departments do not compare projected to actual occurrences and revenue.*

Comparing actual to projected revenue totals is necessary for financial oversight and planning. By monitoring the revenue generated against projected figures, department staff can assess the accuracy of their assumptions and forecast models, identifying any discrepancies or deviations. This enables them to make informed adjustments to fees, budgets, and resource allocations to ensure financial sustainability and optimal service delivery. The User Fee Handbook does not require departments to compare projected user fee revenue to actual revenue and expenses for a given period. Without this comparison, departments cannot determine compliance with cost recovery percentage requirements. Analyzing the gaps between actual and projected revenue facilitates the identification of trends and potential areas of improvement while enhancing the department's ability to respond effectively to fluctuations in demand and expenditure.

Recommendation: Strategy and Budget should develop guidelines requiring departments to compare projected user fees with actual fees collected at fiscal year-end. The user fee handbook should be updated to incorporate this process.

   Value Added: Compliance, Efficiency; Risk Reduction

S&B Response: Strategy & Budget agrees that a year-end reconciliation comparing actual revenue collected to actual obligations incurred should be completed annually. Strategy & Budget will develop guidelines for departments to follow to complete an annual reconciliation and will incorporate this guidance into the User Fee Handbook. The guidance will be updated by December 31, 2023.

Conclusion

User fees were reported/calculated in accordance with the City's User Fee Ordinance and GFOA recommendations. Additional oversight of timekeeping data in projecting fees is needed.

Distribution of Report

This report is intended for the use of the City Manager's Office, City Council, S&B and departments that are responsible for calculating user fees. Following issuance, audit reports are sent to City Council and subsequently posted to the Internal Audit website.

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Appendix A
The Five Components and 17 Principles of Internal Control

Control Environment

1. The oversight body and management should demonstrate a commitment to integrity and ethical values.
2. The oversight body should oversee the entity's internal control system.
3. Management should establish an organizational structure, assign responsibility and delegate authority to achieve the entity's objectives.
4. Management should demonstrate a commitment to recruit, develop and retain competent individuals.
5. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.

Risk Assessment

6. Management should define objectives clearly to enable the identification of risks and define risk tolerances.
7. Management should identify, analyze, and respond to risks related to achieving the defined objectives.
8. Management should consider the potential for fraud when identifying, analyzing and responding to risks.
9. Management should identify, analyze and respond to significant changes that could impact the internal control system.

Control Activities

10. Management should design control activities to achieve objectives and respond to risks.
11. Management should design the entity's information system and related control activities to achieve objectives and respond to risks.
12. Management should implement control activities through policies.

Information & Communication

13. Management should use quality information to achieve the entity's objectives.
14. Management should internally communicate the necessary quality information to achieve the entity's objectives.
15. Management should externally communicate the necessary quality information to achieve the entity's objectives.

Monitoring

16. Management should establish and operate a monitoring mechanism that monitors both internal and external activities that impact the control system and evaluate the results.
17. Management should remediate identified internal control deficiencies on a timely basis.