



To Honorable County Council Members
Honorable Steve Ehlmann, County Executive

January 11, 2017

The Community Development – Development Review Division examination opened August 29, 2017 has been completed, and the final report is being issued today. The scope of the review covered January 1, 2015 – July 31, 2017. Fieldwork for the review was completed on October 12, 2017, and our report reflects the results of work performed through that date. Responses were requested for by December 30, 2017 and received on January 11, 2018.

The objectives of the review were to determine whether internal controls were adequate and effective, operations and records were in compliance with established standards, regulations, policies and procedures, and resources were being used efficiently.

The examination covered plan reviews, storm water reviews, NID procedures, and related activities. We reviewed the internal control environment surrounding those activities, as well as performed an evaluation of the effectiveness and efficiency with which department objectives are being achieved. In addition, reviews for compliance with the County Charter and Ordinances, Missouri Statutes, and internal policies and procedures were performed.

This audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, and consisted of examining, on a test basis, sufficient evidence to afford a reasonable basis, for our opinion.

In our opinion, except for the opportunities included in this report, internal controls were adequate and effective and operations and records were in compliance with established standards.

The issuance of this report completes the formal examination process. However, if you wish to discuss any aspects of the audit or report, please contact me

Brent Statler

Brent R. Statler, CPA, CGAP
County Auditor

Attachment

Copy To Jennifer George, Assistant Director of Administration
Mike Hurlbert, Community Development Director
Rich Gnecco, Development Review Division Director



**Community Development – Development Review Division
Examination Report
Opened August 29, 2017**

Scope January 1, 2015 – July 31, 2017

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BACKGROUND AND INTRODUCTION

Authority and Activity:

The Development Review Division provides engineering reviews for all new development plans in unincorporated areas of St. Charles County to ensure that site improvements, including grading, erosion control, storm water facilities, and street design comply with the Unified Development Ordinance (UDO), design standards, and prudent engineering design practices. The review process is designed to minimize the impact of new development on properties outside of the development area and to ensure that all publicly dedicated facilities meet the County's standards for public maintenance. Development Review ensures that the UDO, Design Criteria for the Preparation of Improvement Plans, tree preservation, streambank protection, and flood plain encroachment regulations are adhered to when reviewing a proposed development.

The Development Review Division administers the County's storm water program and general state operating permit as a Small Municipal Separate Storm Sewer System (MS4). This permit also serves as the County's federal National Pollutant Discharge Elimination System (NPDES) Permit in compliance with the Federal Water Pollution Control Act (Clean Water Act).

The Development Review Division administers the Neighborhood Improvement District (NID) Program. The Division assists property owners with public improvements within a defined area of the community, established as a NID. Improvements to streets, sewers, sidewalks and other community enhancements can be accomplished through a cooperative effort between the County and residents within the NID area. The Division coordinates improvement efforts and provides engineering and inspection support to the project. Residents in NID neighborhoods can choose to pay for the improvement in one lump sum or through special assessments financed either directly by the County or by bonds over a period of 10 or 20 years.

The Development Review Division also oversees the Sanitary Sewer Lateral Emergency Repair program approved in 2016 by coordinating with participating sewer providers, providing information to unincorporated county residents about the program and maintaining assessment records.

The Division has received additional responsibilities over the past few years that were previously handled by other departments/divisions: Managing/Coordinating the MS4 program in conjunction with Clean Water Act, the NID program, Inspection of Storm Water Detention Basins & Management Facilities, and Management of Sanitary Sewer Lateral Program.

The Development Review Division's program mission as stated in the 2017 budget is as follows:

Foster a good working relationship with developers, engineers, property owners, HOAs, and public agencies in reviewing improvement plans, inspecting construction projects and detention and storm water management facilities, and managing NID, storm water, and sewer programs in the County, while meeting County development regulations and prudent engineering practices in a fast and efficient manner. 2017 budget, pg. 97.
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Funding:

The primary funding for the Development Review Division is provided by the general revenue fund. The historical funding for the Division is presented below.

Community Development – Development Review Division General Revenue Fund – Expenditures Fiscal Years 2012-2017								
Fiscal Year	Salaries & Benefits	% Increase	Operating Expenditures	% Increase	Capital Expenditures^	% Increase	Total Expenditures	% Increase
2012	\$460,381	N/A	\$17,599	N/A	\$0	N/A	\$477,980	N/A
2013	\$482,612	4.8%	\$17,242	-2.0%	\$0	N/A	\$499,854	4.6%
2014	\$433,257	-10.2%	\$17,324	0.5%	\$383	N/A	\$450,964	-9.8%
2015	\$485,355	12.0%	\$17,827	2.9%	\$136	-64.5%	\$503,318	11.6%
2016	\$503,032	3.6%	\$17,821	0.0%	\$1,356	897.1%	\$522,209	3.8%
2017*	\$521,184	3.6%	\$12,400	-30.4%	\$250	-81.6%	\$533,834	2.2%

Revenues generated by the Development Review Division are deposited in the general revenue fund. The historical funding is presented below:

Community Development – Development Review Division General Revenue Fund– Revenues Fiscal Years 2012-2017				
Fiscal Year	Fees	Transfer In	Total Revenue	Fees Collected by the Dev. Review as a Percentage of Expenditures
2012	\$41,413	\$548,675	\$590,088	123.5%
2013	\$43,487	\$518,668	\$562,155	112.5%
2014	\$33,234	\$485,719	\$518,953	115.1%
2015	\$33,513	\$138,769	\$172,282	34.2%
2016	\$41,893	\$136,994	\$178,887	34.3%
2017*	\$41,500	\$218,571	\$260,071	48.7%

NID funds are accounted for separately in the Neighborhood Improvement District Fund (241). This fund accounts and pays for all projects.

Community Development – Development Review Division NID Fund (241) – Expenditures Fiscal Years 2012-2017								
Fiscal Year	Salaries & Benefits	% Increase	Operating Expenditures	% Increase	Transfer Out	% Increase	Total Expenditures	% Increase
2012	\$0	N/A	\$618,041	N/A	\$12,500	N/A	\$630,541	N/A
2013	\$0	N/A	\$1,048,559	69.7%	\$12,500	0.0%	\$1,061,059	68.3%
2014	\$0	N/A	\$759,432	-27.6%	\$12,500	0.0%	\$771,932	-27.2%
2015	\$0	N/A	\$492,592	-35.1%	\$12,500	0.0%	\$505,092	-34.6%
2016	\$0	N/A	\$488,963	-0.7%	\$12,500	0.0%	\$501,463	-0.7%
2017*	\$0	N/A	\$919,449	88.0%	\$12,500	0.0%	\$931,949	85.7%

Community Development – Development Review Division NID Fund (241)– Revenues Fiscal Years 2012-2017				
Fiscal Year	Fees	Transfer In	Total Revenue	Fees Collected by the Dev. Review as a Percentage of Expenditures
2012	\$534,141	\$0	\$531,141	84.2%
2013	\$486,329	\$0	\$486,329	45.8%
2014	\$907,750	\$195,000	\$1,102,750	142.9%
2015	\$701,562	\$0	\$704,976	139.6%
2016	\$493,039	\$0	\$493,039	98.3%
2017*	\$522,689	\$0	\$522,689	56.1%

* These are the approved budget amounts from the 2017 budget.

^ Includes funding from Capital Projects Fund (301).

Staffing:

The number of full-time equivalent authorized positions for the Development Review Division decreased (33.3%) from 9.0 full-time positions in 2012 to a total of 6.0 full-time budgeted employees in 2017.

II. STATUS BOARD

The status board provides a summary of the Development Review Division’s functions and processes. Each cell located under a function represents an activity that is to be completed to ensure that the process is performed in an effective and efficient manner. The color of the cells represents the assessment regarding completion of the activity. The legend below gives a description of the definition of each color.

- Red indicates management's immediate attention is required.
- Yellow indicates an opportunity for improvement exists.
- Green indicates there is no action necessary at this time.
- Blue indicates a process that was not included in the scope of the review.
- Grey indicates a County issue that should be addressed by management, but is not necessarily a direct responsibility of the audited department/office.

Plan Review	Preliminary Plat Review	Final Plat Reviews	Flood Plain Reviews	Building Permit	Highway Inspection Estimates	Performance Guaranty (PG)	Detention Basin Inspections
Development Review receives plans for residential, commercial, and private developments and reviews them for interim grading and/or site improvements.	A preliminary plat is received by Planning & Zoning and forwarded to Development Review through Citizenserve.	Developer submits the final plat to Planning and Zoning.	Planning & Zoning Flood Plain Manager requests a study of a flood plain area.	Citizen applies for a Building Permit with Building Code Enforcement (BCE) Division in CitizenServe.	Development Review uses approved plans as the basis for inspection estimates.	Escrows can be established for subdivision improvements, erosion control, or both depending on the project.	The Division identifies and inspects detention basins and storm water management facilities.
Plans are reviewed for compliance with all applicable ordinances and regulations, specifically the UDO.	Development Review and other entities make a site visit.	P&Z sends the plat to Development Review through Citizenserve.	Development Review uses specialized software to perform the review.	Building permit is reviewed by Development Review and documented in CitizenServe.	Details from the plans are entered into a worksheet developed by the Highway Dept.	Before Development Review will approve site plans, an escrow account must be established.	Inspections occur at least every 5 years. Owners are notified of inspections at least 10 days prior.

Plan Review	Preliminary Plat Review	Final Plat Reviews	Flood Plain Reviews	Building Permit	Highway Inspection Estimates	Performance Guaranty (PG)	Detention Basin Inspections
A separate review for sediment and erosion control is performed by the Plan Review Engineer.	Using information gathered, the preliminary plat is reviewed for compliance with County regulations, specifically the UDO.	Development Review performs a review of the plat.	Results are noted in Citizenserve.	Development Review performs a review, documented in Citizenserve.	The sheet calculates estimated inspection time based on size quantity of improvements.	The developer provides a project cost estimate and Dev. Review determines if the amount is appropriate.	Owners are notified of failed inspections.
A checklist is used to ensure that all parts of the review are completed.		The review is documented in Citizenserve.		BCE has the citizen make the necessary corrections before continuing to process the permit.	The calculated time is multiplied by the hourly inspection rate to arrive at the estimated cost.	PG accounts are established by certified checks (less than \$5,000), letter of credit, and escrow or lenders agreement.	Owners submit a corrective action plan to address the failure within 20 days of notification.
Review comments are documented in a memo that is sent to the developer.	A checklist is used to ensure that all parts of the review are completed.	Any issues noted during the review are addressed by the developer.			The estimate is given to the Chief Inspector in the Highway Dept. and Highway performs the inspections and collects/refunds difference between estimate & actual. (C1)	The Standby Letter of Credit (same with Escrow/Lenders Agreements) is to be prepared on forms approved by the financial institution on which it is drawn (drafts must be drawn at offices in St. Charles County, St. Louis County, or the City of St. Louis.	The Division Director must approve the plan or request an amendment within 14 days of receiving the plan.

Plan Review	Preliminary Plat Review	Final Plat Reviews	Flood Plain Reviews	Building Permit	Highway Inspection Estimates	Performance Guaranty (PG)	Detention Basin Inspections
Any review comments are addressed by the developer and the plan is resubmitted for review.	Comments compiled in CitizenServe and P&Z sends compiled comments.	The plat is resubmitted and the process continues until the plat is given final approval.				Certified checks are deposited in a bank account and paid back to the applicant when released. Letters of Credit, Escrow Agreements, and Lenders Agreements are established with a 3 rd party financial institution that is notified by the county when the PG amount can be released. (B2).	Owner's not complying face fines of \$1,000 per day and court injunction.
The process continues until Development Review has approved the plan.	Any problems are resolved by the developer and the plat is resubmitted for review.					Erosion and Sediment Control PG's released by Dev. Review while Highway releases Subdivision Improvement PGs.	The Division may also have the corrective work done with the costs assessed on the owners as a lien.
A fee is collected for reviews based on the type and size of the development.	The process continues until P&Z has approved the plat.					Copies of PG agreements are kept in project files.	Notification and inspection documentation are kept on file.

NID Establishment	NID Construction	NID Funding	NID Assessment	NID Accounting	Lateral Sewer Insurance
Residents initiate improvement district request.	Engineering firm is used to design the NID.	County pays for project costs upfront and is reimbursed by resident payments or bond proceeds.	Cost for each property is calculated using an accounting of project costs and financing costs.	Per RSMo 67.473, each NID must be accounted for separately.	Program to provide insurance coverage for St. Charles County citizens who use City of St. Charles and St. Peters sewer service.
Dev. Review and residents collectively decide on project scope and boundaries of proposed district.	Public Bids are requested for contractors to build the designed improvements.	Residents can pay costs in a lump-sum or an annual property assessment.	Dev. Review determines method of assessment, then approved by resident petition or election.	Finance Dept. sets up separate income/ balance sheet accounts for each NID.	County residents voted by referendum to participate in city later sewer insurance in 2016.
Dev. Review estimates construction and financing costs for project based on engineer preliminary estimate.	Construction is monitored by the engineers, Dev. Review and Highway inspectors.	Financing: Issue General obligation Bonds or County Financed through NID Fund. (A1)	Residents who make lump-sum payment do not have an additional assessment.	Revenue from lump-sum payments, bond proceeds, and assessments are pooled into a cash account.	Unincorporated residents receiving sewer service from City of St. Charles or City of St. Peters pay annual insurance fee added to their real estate property tax bill.
A petition to create the NID is circulated by property owners.	Dev. Review and engineers conduct a final inspection of construction.	For bonds, the Council enacts an ordinance for issuance.	Residents who finance the projects costs will be assessed on their property tax bill.	Funds are used to pay back County or pay bond principle and interest.	Dev. Review prepares assessment bill for County Executive approval.
If 100% sign, NID moves forward. If 2/3 but less than 100%, an election is held. If less than 2/3, no NID is created.	Contractor completes a punch list of final actions needed to finish the project.	Underwriter and Bond Council are selected.	Annual assessment amount is based on the construction costs, interest and any bond issuance costs divided by the life of the bond.	Payments continue for the life of the NID.	County charges the County Collector to charge and collect the insurance fee.
Ordinance establishes the district boundaries, specifications, etc.		Dev. Review Dir. submits project costs to Bond Council.	Per year amount is submitted to Executive by Dev. Review.		Collector submits collections to the County once collected.

NID Establishment	NID Construction	NID Funding	NID Assessment	NID Accounting	Lateral Sewer Insurance
Public hearing is held to accept NID plans, specifications, proposed assessment roll and interim financing.		Bond Council determines the issue amount of the bonds.	Executive charges Collector with collecting payments.		County sends collections to the applicable cities.
Ordinance accepts plans, specs, proposed assessment roll, interim financing.		Underwriter sets the interest rate based on the market rate.	NID assessments are collected with their property tax bill.		The Cities administer the program (accept applications; approve/deny claims, etc.)
Construction bids are advertised and approved by Council.		Bond proceeds go to County to pay off construction costs.	Dev. Review updates list of applicable properties based on annexations, new construction and any demolitions. (B1)		
Construction work is started and County orders special assessment on affected properties.		Principle and interest are paid by assessments from property owners.			

III. EXECUTIVE SUMMARY

Following is a summary of opportunities for improvement which were noted during our review of the Community Development - Development Review Division:

A. Compliance Opportunities

1. NID Funding: Based on the size of the NID projects, the County funded the last five projects rather than issuing bonds; however, the NID final actual cost included a 4% fee to issue bonds and a set established interest rate (6%).

B. Control Opportunities

1. Sewer Lateral Insurance Program: There is no periodic reconciliation between the County's list of residents included in the lateral sewer program assessments and the city lists of county residents included in the program.
2. Sediment/Erosion Control Escrow Reconciliations: Quarterly reconciliations do not appear to include reconciling the MUNIS balance to the spreadsheet.

C. Interdepartmental Opportunities

1. Subdivision Inspection Estimates: The Highway Department had no record of invoicing a developer or receiving payment for two (28.6%) out of seven inspection estimates reviewed.

Compliance – NID Funding

Discussion and Background	Cause	Risk/Effect	Recommendation	Management Response
<p>Authorized by State Statute, residents can request the creation of a Neighbor Improvement District (NID) through the County to fund improvements in their neighborhoods, such as, streets, sewers, sidewalks, etc. Once a NID is considered/ requested, the Development Review Division gives a presentation to the affected property owners explaining the process and estimated cost of the project. Residents must sign a petition supporting the NID and, based on the level of support; it will move to either the County Council for approval or to a ballot measure. The County Council must authorize the creation through ordinance based on the petition and/or election result. All costs of the NID, bonds, construction, interest, etc. are paid for by the residents within the NID.</p>	<p>Since 2011, there have been five constructed and two planned NID projects. Based on the size of the projects, the County funded the projects rather than issuing bonds; however, the NID final actual cost included a 4% fee to issue bonds and a set established interest rate (6%).</p>	<p>Residents may be charged fees not incurred for NID projects.</p>	<p>The County should determine if the bond issuance cost (or alternative administrative fee) and use of a pre-established interest rate is an allowable expense/method when the County finances the project.</p>	<p>On all self-funded NID projects, the 4% administrative fee has been charged only to NID residents who take the option of financing their assessments. Given the scope of services provided by Development Review to NID projects, the Director of Finance believes 4% is equitable and has recommended a 4% administrative fee be charged to all future NID projects as a project cost and be charged proportionately to all NID residents regardless of the method of payment.</p> <p>Since the first self-funded NID project, Development Review has used 6% as the applicable interest rate applied to financed NID assessments. This rate was intended to capture interest rate fluctuations during the 20 year financing term. The Director of Finance will consult with the County Counselor’s Office to</p>

Discussion and Background	Cause	Risk/Effect	Recommendation	Management Response
				<p>pursue a financing option that can be reviewed periodically to adjust interest payments by NID residents to the County's actual cost of financing, applying any interest overpayments to NID resident principal balances.</p>

Control – Sewer Lateral Insurance Program

Discussion and Background	Cause	Risk/Effect	Recommendation	Management Response
<p>County residents approved a ballot issue in August 2016 allowing residents who receive sewer service from the City of St. Peters and City of St. Charles to participate in the city lateral sewer insurance program. The Development Review Division maintains the list of participating properties and annually prepares the assessment roll which is certified by the County Executive. The County provides the certified assessment roll to the County Collector who adds the fee to the applicable parcel real estate tax bills. Residents for each property included in the program pay an annual fee of \$28 to the City of St. Peters or \$20 to the City of St. Charles. The County disburses collections to the applicable city. The cities administer the programs, including receiving applications, making payments, and determining if repair meets the program requirements.</p>	<p>There is no periodic reconciliation between the County’s list of residents included in the lateral sewer program assessments and the city lists of county residents included in the program.</p> <p><u>Note:</u> The first year of assessments were for tax year 2016.</p>	<p>Opportunity for improved documentation and accuracy of property tax assessments.</p>	<p>The County should perform a periodic reconciliation of program participant listings with the City of St. Peters and City of St. Charles.</p>	<p>The Division has established a procedure to annually review and reconcile our assessment roll with the cities’ customer lists on August 1 (we have done this in year one of the program, but we have now established an annual periodic review date & process). We will also conduct an annual review of the collected assessments, expenditures for sanitary sewer lateral projects, the number of projects applied for and the number approved, and the number of Division of Building and Code Enforcement permits issued in conjunction with this program (see attached spreadsheet) on February 1 with St. Charles and St. Peters. These reconciliation reviews have been programmed in Outlook.</p>

Control – Sediment/Erosion Control Escrow Reconciliations

Discussion and Background	Cause	Risk/Effect	Recommendation	Management Response
<p>Performance guarantees required for sediment/erosion control are posted by certified check, letter of credit, escrow agreement, or lender agreement based on the estimated cost of the improvement/project. Escrow amounts may be established by the engineer or developer or based on ordinance and are approved by the Development Review Division Director. The Division releases portions of the guarantee throughout a project based on completion of work and inspections, and fully once all improvements and inspections have been completed. The Development Review Division maintains a spreadsheet of all performance guarantees and the Community Development Department periodically reconciles activity with MUNIS balances.</p>	<p>Quarterly reconciliations do not appear to include reconciling the MUNIS balance to the spreadsheet.</p> <p><u>Note:</u> When reconciling the open performance guarantees on hand to MUNIS (cash on hand), there was a \$558.08 difference. The Community Development Department recently became aware of the difference and believes the item relates to a 2013 project.</p>	<p>Assets may not exist to cover existing liabilities. Opportunity to prevent over/under payments.</p>	<p>The Development Review Division should review and reconcile the Performance Guarantee spreadsheet to the MUNIS account balance on a periodic basis. This review and any differences should be documented and maintained.</p>	<p>The Division has established a quarterly review process on the last working day of March, June, September and December to reconcile the Division’s spreadsheet balance to the Finance account for Performance Guaranty funds deposited with the County. The results will be documented quarterly in the existing spreadsheet (see attached). These reconciliation reviews have been programmed in Outlook.</p>

Interdepartmental – Subdivision Inspection Estimates

Discussion and Background	Cause	Risk/Effect	Recommendation	Management Response
<p>After approving a Subdivision Improvement Plan (County Code 425.020), the Development Review Division prepares an inspection fee estimate for the Highway Department based upon the submitted plan. The Division enters data from the plan into a Highway-developed spreadsheet that computes the estimated inspection hours needed for the project. The prepared estimate is then provided to the Highway Department (Projects Engineer, Chief Engineering Inspector, and a clerk) for review and billing. The project developer must pay the estimated amount before beginning the project. If actual inspection hours exceed the estimate, and second invoice is sent to the developer. If actual hours are less than the estimate, then a refund is processed.</p>	<p>The Highway Department had no record of receiving the prepared estimate, invoicing the developer or receiving payment for two (28.6%) out of seven inspection estimates reviewed.</p> <p><u>Note 1:</u> Although not invoiced, the two projects are on the Highway Department's active list; therefore, the developer should be invoiced for actual inspections fees before final project approval.</p> <p><u>Note 2:</u> Development Review had copies of the prepared estimates (totaling \$3,047) on file.</p>	<p>Potential loss of revenue. Opportunity for improved billing procedures and documentation.</p>	<p>The County should review the process of creating subdivision improvement estimates and/or notification of plans and determine if any changes could improve the process.</p>	<p>The Highway Department identified that these two instances of inspection fee estimates not being billed at the start of work were the result of clerical error. Invoices were filed instead of being sent. The developers have since been billed in both instances. The oversight would have been noticed at the completion of work when a reconciliation of actual inspection hours was tabulated and sent to developer. Greater attention will be given to the tracking of these inspection fees to avoid a repeat of this oversight.</p> <p>The Division will: (1) Complete the inspection estimate spreadsheet and document their name as the estimator and the date that the estimate was completed. (2) Email a .pdf and send the paper copy to Highway Projects Engineer and Account Clerk in Highway (so Highway can review the estimate, complete the “Checked By” information at the bottom of the form and bill the developer). (3)</p>

Discussion and Background	Cause	Risk/Effect	Recommendation	Management Response
				<p>Document that the Division has sent the estimate to Highway by saving a copy of the email.</p> <p>The Division and the Highway Department will evaluate the merits of shifting the inspection fee estimate duties to the Highway Department to keep the process entirely within the Highway Department and explore with the Department utilization of Citizenseve’s inspection capabilities and its abilities to estimate inspection fees, track actual inspection hours used and reconcile reimbursement / billing for unused / additional inspection hours.</p>