

CITY OF BERKELEY
CONSENT CALENDAR INFORMATION

Council Meeting Date: December 20, 1994

From: ANNA RABKIN, CITY AUDITOR

IT IS RECOMMENDED THAT THE CITY COUNCIL: REQUEST THE CITY MANAGER TO REPORT ON IMPLEMENTATION OF LANDSCAPE AND PARK MAINTENANCE ASSESSMENT FUND REVIEW RECOMMENDATIONS BY MARCH 1994.

1. COMMENTS, CITY ATTORNEY:
2. BACKGROUND AND NEED FOR COUNCIL ACTION:

Although the Landscaping and Park Maintenance Assessment District provides millions of dollars to the Public Works Department each year, procedures are not in place which provide a reasonable assurance all parcels are properly assessed. Problems include an absence of procedures to maintain accurate improvement square footage for each parcel. Additionally, the City does not monitor whether the County is correctly levying the assessment records provided by the City. The City also is not properly reviewing and approving updates to the assessment data base, or documenting this activity. Better coordination between the three divisions involved in the billing and improved procedures are needed.

During FY 1992\93 the Landscape and Park Maintenance Assessment Fund received \$5.6 million in revenue. Three divisions are key to the maintenance and transmission of accurate assessment data to the County for billing purposes. The Planning Department, Codes and Inspections Division provides changes to the data base by giving the Finance Department, Real Estate Division finalized building permit information. The Real Estate Division calculates the new assessment based on square feet of improvements. Information Systems maintains the file which is sent to the County for inclusion in the County's property tax billings.

3. FINANCIAL IMPLICATIONS (include any dollar amount, in-kind services, multi-year commitment) AND SOURCE OF FUNDS (for both cash and in-kind services; indicate if amount is currently budgeted and requirement for budget code). IF SUBMITTAL, AUTHORIZATION OR EXECUTION OF GRANTS IS INVOLVED (includes new grants or modification) AN FN006 (budget modification form) SHOULD BE SUBMITTED WITH ITEM. ITEM WILL NOT BE PROCESSED UNLESS FN006 IS INCLUDED.

Our sample identified that 10.5% of properties were assessed less than documented in building permits. Inaccurate square footage data results in loss of revenue not only from Landscape Assessment, but also Street Lighting, Library and School tax. For the two properties identified in our sample the City did not bill a total of \$26,750 for FY 92\93. These properties should be billed for three years for a total of \$80,250.

Landscape and Park Maintenance Fund Review

Consent
December 20, 1994

4. COUNCIL POLICY AND LEGISLATIVE HISTORY, IF ANY:

Landscape and Park Maintenance Assessment District established 7\27\82
Resolution 51,449 N.S.

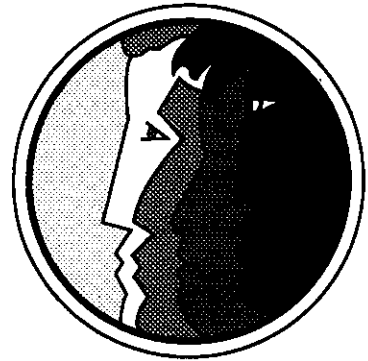
5. COMMUNITY GROUPS AFFECTED:

Property owners

6. NAME, TITLE AND TELEPHONE NUMBER OF PERSON(S), DEPARTMENT(S), BOARD(S),
COMMISSION(S), COMMITTEE(S) TO CONTACT FOR ADDITIONAL INFORMATION:

Anna Rabkin, City Auditor - 644-6440

City of Berkeley



**LANDSCAPE AND PARK MAINTENANCE
ASSESSMENT FUND REVIEW**

NOVEMBER 1994

Prepared by:

Anna Rabkin, City Auditor
Dan Fahrion, CPA, Senior Auditor
Frank Marietti, Auditor II

Office of the City Auditor

2180 Milvia Street, Berkeley, California 94704

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LANDSCAPE AND PARK MAINTENANCE ASSESSMENT FUND REVIEW

I. INTRODUCTION

A. BACKGROUND

The Landscape and Park Maintenance Assessment District 1982-2 (LPMAD) was established on July 27, 1982 through Resolution 51,449 N.S.. The assessment district which identifies all areas to be assessed has been defined as the entire City of Berkeley. Requirements to establish and levy the LPMAD must comply with the California Streets and Highways Code entitled "Landscape and Lighting Act of 1972". The University of California, public schools, federal and state agencies and special districts are exempt from LPMAD under state law.

To levy the LPMAD annually, state law requires the City to complete several requirements. These include:

1. Preparing an engineering report which describes existing and proposed improvements and proposes an assessment rate
2. Holding a public hearing to provide citizens an opportunity to rescind the assessment.
3. Adopting a Resolution authorizing the assessment rate and levy.

Public Works Administration oversees these requirements.

The use of Assessment District funds is restricted by the 1) state law and 2) annual City Council Resolutions which authorize the assessment. In general, use of Assessment District monies is restricted to the cost of:

1. Maintenance and Servicing (including incidental expenses) of existing and future public landscape and parks.
2. Construction, installation and maintenance of improvements (including incidental expenses) for existing and future public landscape and parks.

A Special Revenue fund (450) was established to account for the receipt and use of monies from LPMAD. During FY 92/93 the LPMAD fund received \$5.6 million in revenues. Special Revenue funds are used to account for revenues that are externally restricted or designated by the City Council for specific government purposes.

The Finance Department, Real Estate Division and Information Systems Division maintain the assessment data and annually calculate the assessment to be levied on each parcel. The fee is calculated by multiplying the improvement square footage on each parcel by the Council approved assessment rate. Data on assessments for each parcel are sent annually to the County for inclusion on the County's property tax roll.

To keep improvement square footage current and complete, construction and demolition information from the Codes and Inspections Division is used by the Real Estate Division to update the data base. Codes and Inspections provides Real Estate a list of issued building permits. Real Estate uses the list to identify permits which will change taxable improvement square footage and obtains the approved building plans for these permits from Codes and Inspections. The plans are used to update improvement square footage on building records maintained in Real Estate. These records include a scale drawing of the improvements on each parcel. When construction has been completed, the final inspection is documented on the building permit. Codes and Inspection provides a copy of these permits to Real Estate. Improvements are finalized on Real Estate records and new improvement square footage is entered into the assessment data base. During FY 92/93, improvement square footage was input into the data base by Information Systems. Subsequently, it has been input by Real Estate.

Real Estate and Information Systems use the County Property Tax Roll (received quarterly) to keep parcel numbers in the assessment data base current and complete.

B. PURPOSE AND OBJECTIVES

The purpose of the review of the Landscape and Park Maintenance Assessment District Fund was to determine if the assessment district was properly levied and monies were used for allowable purposes.

The review had the following objectives:

1. Determine if all non-exempt parcels were levied.
2. Establish whether the correct assessment rate was used.
3. Ascertain whether correct improvement square footage was used.
4. Determine whether assessment funds were used for authorized purposes.

C. SCOPE AND METHODOLOGY

The period under review was FY 1992/93. Methodology included a review of operating procedures, legal requirements, accounting, budgetary and assessment records, discussion with City and County staff, discussion with the consultant who prepared the Assessment District Engineering Report, testing of records

pertaining to analysis of assessment rates, improvement square footage and appropriate use of assessment monies. A review is less in scope than an audit. The results of the review are qualified to the extent the additional audit work which would be completed under a full audit may have identified audit findings not identified during the review.

The review was conducted in accordance with the Government Auditing Standards prescribed by the U.S. Comptroller General.

D. SUMMARY

Results for each of the four objectives are summarized below:

Objective 1: Determine if all non-exempt parcels were levied.

The City data base used to calculate LPMAD appears to have a complete inventory of parcel numbers. The number of parcels in the City's Special Assessment data base is close to the number on the County tax roll. However, the City does not have procedures to confirm that the County has accurately levied assessments using the data provided by the City (See Finding 3) or insure new assessment square footage is timely captured (See Finding 2).

Objective 2: Establish whether the correct assessment rate was used.

No exceptions were noted.

Objective 3: Ascertain whether correct improvement square footage was used.

City procedures do not capture all changes in assessable square footage. See Finding 1. Additionally, there is also a concern that taxable improvement square footage identified by Real Estate staff is not reviewed for accuracy. See Finding 4. Construction plans were not available to evaluate whether or not staff was accurately computing taxable improvement square footage.

Objective 4: Determine whether assessment funds were used for authorized purposes.

No significant instances were found where monies were used for purposes other than those authorized in the Landscape and Lighting Act of 1972.

II. FINDINGS AND RECOMMENDATIONS

Finding 1 City procedures do not capture all changes in assessable square footage.

The City's method for maintaining improvement square footage in the assessment data base allows improvement square footage not to be captured. This occurs because:

- a. building permits are not properly used to capture increases or decreases in improvement square footage
- b. there is no procedure to capture changes in improvement square footage made without a building permit

To ascertain whether correct square footage was used, square footage on the building permits was compared to the square footage on the assessment roll. Of the nineteen (19) properties reviewed, two (10.5%) were assessed for less improvement square footage than documented in the building permits. Findings are summarized below:

	Square Footage		
	Assessed	Per Audit	Difference
Public Warehouse, 1124 2nd St	34,810	94,954	60,144 (1)
Public Warehouse, 600 Cedar St	64,605	81,750	17,145
	=====	=====	=====
	99,415	176,704	77,289

(1) Improvement square footage involving three (3) building permits was not properly captured.

The loss of revenue from these two properties (based on 77,289 square feet extended by the .0724 assessment rate) is \$5,596 for the Landscape and Park Maintenance Assessment. However, since the same data is used for the Street Lighting Assessment, as well as the Library and School tax, the total revenue loss is **\$26,750 for FY 92/93.**

An additional test of twenty properties (20) compared the improvement square footage they were levied with their improvement square footage in scale drawings (scale drawings used to support square footage assessed). Thirteen (13) of these properties were visually inspected and observations were compared with the scale drawings in Real Estate. Of the twenty properties, improvement square footage assessed for four (20%) was incorrect or questionable. For example:

One property, a language school located on two parcels, was assessed for significantly less than actual square footage. Two errors were identified. A wing of this building (approximately 4480 sq. feet per floor per Real Estate records) was observed to be two stories, but assessed and reflected in Real Estate records as only one story. It is unclear if Real Estate records identify the Building Permit for the addition. Some permits for additions were not on the Real Estate Card and some were. Additionally, another wing of this building was assessed for 2990 square feet. The Real Estate records and a visual inspection of the building support square footage of at least 7106 square feet. However, Real Estate records show a permit issued 9/9/85 for a large addition to this wing was not yet completed as of the audit date (late 1994). The permit indicates that a final building inspection was provided on June 12, 1987. The director of the school told the auditor all construction projects at the school had been completed many years ago.

It was not possible to identify the specific reason(s) why improvement square footage was not always properly captured in the assessment data base. No written procedures were available and therefore the process could not be evaluated.

There is no procedure to capture increases in improvement square footage when a building permit is not obtained. According to the Supervising Inspector in Codes and Inspections, the City does not actively seek out construction performed without a permit, and only follows up on complaints.

The overall result is tax payers are not always levied the correct fee because incorrect improvement square footage is used. Most errors found during the survey (5 of the 6 errors found) resulted in parcels being levied for less than actual square footage. The above procedural problems are an even greater concern because there is no system for checking the accuracy of the data base and incorrect assessments will continued to be levied year after year. Additionally, the significance of this finding is increased because the same improvement square footage data is used to calculate the Library and School taxes and the Lighting special assessment each year.

Recommendations:

1. Each year, assessment square footage for a sample of parcels should be compared with actual square footage. Parcels with large structures should be checked first. If significant errors are identified, the number of parcels examined should be increased.
2. Procedures should be implemented to capture improvement square footage constructed without building permits. All Building Inspectors and other select city staff should verify construction they observe while in the field that does not have a visible building permit.

3. Written procedures should be developed for the maintenance and updating of the assessment data base. Procedures should identify who is to do what, how to do it, and when it is to be done. Procedures should also provide for the periodic review of each employees work to make sure it is being properly completed.

Auditee's Response:

1. Concur. The new Geographic Information System (GIS) will be used to periodically validate the City's property records.

2. Concur.

3. Concur.

Finding 2 Changes in improvement square footage are not always entered into the assessment data base timely.

The Real Estate Division is not following up on outstanding building permits in a timely way and follow-up steps taken were not always adequate to identify the status of permits. There are no written procedures as what steps should be taken.

In several instances Real Estate waited more than a year to follow-up on whether a building permit received a final inspection or had been canceled. Building permits expire in six months unless renewed. One of the two Real Estate employees who maintains the assessment data stated follow-up was a problem because permits could not always be located in the property file or permit status was unclear. The employee stated that it is not the practice to contact Building Inspectors to locate or determine the status of a building permit. Site visits are not performed for this purpose. It is a concern that in some instances Codes and Inspection documents in Codes and Inspection files did identify permits had received a final inspection or were canceled, and follow-up by Real Estate had not captured this information.

At the time of the review, Real Estate records identified three hundred and one (301) building permits had not received a final inspection or been canceled. Seven (7) issued prior to July 1992 were reviewed. They were for increases in square footage ranging from 447 to 6,591 sq. ft.. Construction for three (43%) had been completed. Increased improvement square footage had not been added to the assessment data base. One permit identified a final inspection had been completed nineteen months prior to the auditor's August 1994 review. In another instance, the auditor confirmed with tenants the completion of the largest project reviewed, a second floor office building addition of 6,591 square feet. The tenant stated the project had been completed during 1992. In addition to these three, the status of two of the seven could not be determined by the auditor through visual inspection or a review of the building permits.

Two additional properties which Real Estate records identified had outstanding building permits were also reviewed. In one instance, Codes and Inspection records identified a permit issued August 1989 for a 184 square foot addition had been canceled July 1991. Real Estate records showed Real Estate staff had found the permit was still active as of June 27, 1992, and still active as of July 1994 when audit fieldwork was completed. In the other instance, (the 2,990 square footage addition discussed in finding 1), the permit was issued September 1985 and construction was given a final inspection on June 12, 1987. However, after two follow-ups by Real Estate on June 19, 1990 and August 1991, their records still showed construction was not completed as of July 1994 when audit fieldwork was completed.

As a result of these shortcomings, not all improvement square footage is being assessed.

Recommendation:

1. Employee work should be reviewed on a sample basis to provide a reasonable assurance work is being properly and timely completed. This review should be documented.
2. Finance and Codes and Inspections should develop written operating procedures which clarify responsibility and methodology for ensuring that changes in square footage improvements are timely entered in the assessment data base.

Auditee's Responses:

1. *Concur.*
2. *Concur.*

Finding 3 The City does not know if all assessment data sent to the County is levied.

Neither the Finance nor the Public Works Departments confirm that the City assessment information provided to the County was properly levied. The City does not reconcile the assessment information (initial assessment file and subsequent adjustments) sent to the County with County records to determine if the City assessments are levied properly. In fact, Finance - Real Estate Division had not obtained a copy of the County assessment confirmation which the County provides the City prior to sending out the tax bills. The County does not provide the City with a confirmation for changes the City requests after the initial tax bills have gone out. It is not uncommon for the City to request changes after tax bills have been sent out. Additionally, the County does not provide a confirmation for Utilities.

The auditor was unable to reconcile the County confirmation with the City's assessment file records for FY 92/93 and FY 93/94. The difference for FY 93/94 was about \$3,900. For FY 92/93, it appears the county may have levied an assessment which was as much as \$98,000 less than City records suggest was to be assessed. The Real Estate Officer stated there was no procedure to perform such a reconciliation.

Without a reconciliation, the City has no way of knowing if the County has received and levied assessments. As a result, parcels which are not properly assessed by the County may go undetected, resulting in lost revenue to the City and incorrect assessments.

Recommendation:

Real Estate should obtain and review the County assessment confirmation to ensure that the assessment data was received and correctly input. A method for confirming Utilities are properly assessed should be developed and implemented. Also, they should establish procedures for confirming that subsequent adjustments to data sent to the County for inclusion on the tax bill are received and input. Finally, there should be an end of the year reconciliation between the City's assessment data base and County tax billings.

Auditee's Response:

Concur.

Finding 4 The City does not document the review and approval of the assessment information (initial assessment and subsequent adjustments) sent to the County. Corrections often do not state why adjustments were made and documentation to support the adjustments are not on file.

The Real Estate Officer stated her unit tested the Special Assessment file sent to the County was properly prepared. However, no record of the tests performed, or who performed them was available. Written procedures for this process were also not available. The Planning and Resources Manager in Public Works Administration stated they receive a copy of the assessment file but there is no policy to review it and it was not generally reviewed.

Additionally, when Real Estate sends adjustments and corrections to the County so changes on the tax roll can be made, the basis for these corrections are often not identified, back-up documentation is not referenced or attached to the correction, and review and approval are not documented in Real Estate files.

The current condition could allow errors and irregularities to go undetected resulting in the City receiving less revenues than it should and incorrect assessments continuing on the roll.

Recommendation:

Written procedures should be developed for the preparation, review and approval of all assessment information sent to the County. Review and approval should be documented. Supporting documentation should be maintained on file for all adjustments for a reasonable period of time.

Auditee's Response:

Concur.

III. CONCERNS

In addition to the above findings and recommendations, several conditions were observed which were of enough concern that we bring them to the attention of management.

Assistant Property Clerks in Real Estate currently identify assessable square footage, maintain assessment records in Real Estate and enter improvement square footage and parcel number changes in the assessment data. These activities are not reviewed or approved.

Calculation of improvement square footage by Assistant Property Clerks is not checked for accuracy. Building plans generally were not available so the assessment square footage could be checked for accuracy. Additionally, Codes and Inspection personnel reviewing the plans do not provide Real Estate with square footage which can be used to validate Real Estate's computation. Computer software for checking assessment square footage for accuracy is also not available.

The City used the unapproved 1991/92 indirect cost plan as the basis for charging departments indirect costs for fiscal year 1992/93. As of late 1994 when work for this report was completed, the 1991/92 plan is still the most current.

There are no written policies regarding the retention of Public Works Payroll Distribution records (distribution detail) and daily employee work reports. There were several instances where these records could not be provided to the auditor.

The City's Landscape and Park Maintenance Assessment Report identifies special assessment information sent to the County which is to be included on the tax roll. The reports for fiscal year 1992/93 and 1993/94 did not include the total number of parcels and total dollars to be assessed for LPMAD because they were never produced or were lost.

The Parks Division staff does not monitor to make sure only the charges they have approved for equipment rental are posted to their expense account. The analyst for the Parks Department acknowledged there is no monitoring procedure in place. For the month of June 1993, \$10,723 was charged twice in error and included \$159 (also charged twice) for a piece of equipment Forestry said they had not rented.

Assessment funds were inappropriately used to pay for 100% of the salary for the Parks Division Sr. Management Analyst and the Secretary for the Parks Manager. This allocation is not equitable because both these employees have several job duties assigned to them which only benefit the Marina.

Documents which authorize the creation and annual levy of the LPMAD do not define improvement square footage for the purpose of calculating the assessable square footage. The definition of improvement square footage applied is from the Library Relief Act of 1980.

The City does not maintain records and written procedures which document the annual matching of parcel numbers in the County Tax Roll with parcel numbers in the City data base. This makes it difficult to determine if identified differences are properly entered in the City's data base. Statements from Information System and Real Estate personnel and analysis of available records support such a match is taking place.

IV. CONCLUSION

Although the Landscaping and Park Maintenance Assessment District provides millions of dollars to the Public Works Department each year, procedures are not in place which provide a reasonable assurance all parcels are properly assessed. Problems include an absence of procedures to maintain accurate improvement square footage for each parcel. Additionally, the City does not monitor whether the County is correctly levying the assessment records provided by the City. The City also is not properly reviewing and approving updates to the assessment data base, or documenting this activity.

Since Public Works is the recipient of the assessment funds, it is in their best interest to make sure assessment procedures are in place and followed.