

Internal Audit Report 17-07
Waiver of Fees and Fines
January 2018



City of Sioux Falls
Internal Audit Department
Carnegie Town Hall
235 W. 10th Street
Sioux Falls, SD 57117-7402
www.siouxfalls.org/council/internal-audit

WAIVER OF FEES AND FINES INTERNAL AUDIT REPORT 17-07

INTRODUCTION

The purpose of this audit was to identify how much revenue is foregone annually due to fees and fines being waived and to determine how those decisions are made.

This audit did not include fees or fines generated from the Falls Community Health Center (FCHC) as it is a federally funded health care program offering services to all patients regardless of their insurance or financial status. Patients will not be turned away based on their ability to pay.¹ Also, this audit did not include fees or fines generated from areas that operate through a management or partnership agreement with the City; for example, the City golf courses, Great Bear Recreation Park, Great Plains Zoo & Delbridge Museum, Washington Pavilion, Denny Sanford Premier Center, Sioux Falls Baseball Stadium, Sioux Area Metro, etc.

BACKGROUND

As part of the City budget process, the City Council approves a fee schedule to establish the charges for various goods and services that are offered to the public. These goods and services include building permits and inspections, recreational activities, water and sewer services, public parking, etc. The City Council also approves the amounts set for various fines and penalties that are charged to the public for violations of City Ordinance.

In 2016, the City generated approximately \$99 million in various fees and fines.

Revenue Source	Governmental Funds	Enterprise Funds
Licenses and Permits	\$ 6,454,811	\$ -
Charges for Goods and Services	\$ 7,593,729	\$ 83,456,856
Fines and Forfeitures	\$ 603,324	\$ 528,926
Grand Total		\$ 98,637,646

Along with charging the fees and fines comes the potential for fees and fines being waived. Revenue derived from fees and fines is important for the City's financial stability, and therefore, it is crucial that the City is mindful of how much revenue is lost due to waiving fees and fines. If the process of waiving fees and fines is not appropriately administered, the potential for lost revenue increases and it may be difficult to make accurate budget projections.

¹ Fees at the FCHC are charged using a sliding fee scale that is based on the federal government's poverty guidelines. FCHC also accepts most insurance, Medicare, and Medicaid.

The following table shows revenue from the ten largest revenue accounts for fees and fines in 2016 which makes up approximately 90% of the total fee and fine revenue collected in 2016.

Fund	Item	Revenue
Water	Charges for Water Services	\$ 35,057,569
Water Reclamation	Charges for Sewer Services	\$ 27,348,819
Sanitary Landfill	Charges for Landfill Usage	\$ 10,789,048
Electric Light	Charges for Electrical Services	\$ 8,150,024
General	Building Permits and Inspections	\$ 2,719,697
Public Parking	Charges for Public Parking	\$ 2,111,396
General	Liquor Licenses	\$ 806,390
General	Parks & Recreation Aquatic Services	\$ 701,754
Public Parking	Parking Violations	\$ 524,566
General	Electrical Permits and Inspections	\$ 414,941
Total		\$ 88,624,204

OBJECTIVES

The objectives of this audit were to:

1. determine how much City revenue is foregone annually due to fees and fines being waived,
2. determine if the City effectively administers fee and fine waivers, and
3. determine if adequate internal controls are in place to prevent unwarranted waivers of fees and fines.

SCOPE AND METHODOLOGY

The scope of this audit included fees and fines waived during 2016 and 2017 that were applicable to the top ten largest revenue accounts for fees and fines (see table above). To complete this audit, we performed the following steps:

- analyzed the City’s revenue streams and determined which departments or divisions collect the most revenue in fees and fines,
- interviewed directors and management within those departments, which included Public Works, Planning and Building Services, Public Parking Facilities, Licensing (Attorney), and Parks and Recreation,
- analyzed fee and fine waiver data received from those departments,
- reviewed applicable City Ordinances and policies relating to the waiver of fees and fines for those departments, and
- evaluated internal controls around the process of waiving fees and fines within those departments.

RESULTS

Through our interviews with department directors and management, we determined that there is not an excessive amount fees and fines being waived. In fact, we found that it is not a common practice for departments to waive fees and fines, except under management approval or under instances that are allowed by City Ordinance or Executive Order. For example, management may approve the waiver of late fees charged on an account where payments are otherwise always made on time or management may approve the reduction of fees for water usage charges in the event of a substantial leak. City Ordinance also gives department directors and management the authority to waive fees and fines or offer reduced rates under certain circumstances or for specific programs including:

- fee waivers for building, electrical, plumbing, and mechanical permits and inspections for specific non-profit organizations, City buildings, and the Community Development departments Neighborhood Revitalization Program projects,
- fee waivers for usage of the Sanitary Landfill or services they provide for community enhancement projects or for projects that will be substantially replaced by a grant or other funding source,
- fees waived due to a free annual Sanitary Landfill pass distributed to single-family homeowners residing within City limits,
- fees waived by Public Parking for the issuance of a courtesy (warning) ticket in lieu of a parking ticket for a vehicle that is licensed somewhere other than Minnehaha, Lincoln, Turner, or McCook Counties or for a vehicle that has not received a courtesy ticket in the prior 60 days,
- discounts offered for usage of public parking facilities based on existing agreements with the City, and
- fees waived or discounts provided to low income families for usage of City indoor or outdoor aquatic facilities or for services they provide.

We estimate the amount of revenue foregone due to authorized waivers and reduced rates of fees and fines to be \$863,000 during 2016 and \$776,000 during 2017.² This information provides us with assurance that department directors and managers have an appropriate system in place to track and oversee waivers and reduced rates of fees and fines as allowed by City Ordinance and management approvals. We determined that departments maintain proper support and approvals in order to justify the circumstances leading to the waivers or reductions. Based on the oversight provided by management and the various tracking systems in place over waivers and reduced rates of fees and fines, we do not have reason to believe that there are unwarranted waivers of fees and fines.

² Internal Audit did not validate the fee and fine waiver data or reduced rate data received from the departments.

CONCLUSION

In conclusion, we determined that approximately one percent of the total amount of revenue generated from fees and fines is foregone annually due to authorized waivers and reduced rates. City departments have an appropriate system in place to effectively administer waivers and reduced rates of fees and fines that are allowed by City Ordinance and management approvals. Knowing the amount of fees and fines waived or reduced allows the City to see the impact of waivers and reduced rates to the budget and whether those waivers and rates are effectively adding value to the City. We would like to thank the various City staff for their cooperation and assistance provided during the audit.

AUTHORIZATION

The Sioux Falls City Council approved this audit by resolution in April 2017 as part of the 2017 Annual Audit Plan. The Internal Audit Division operates under the authority of an Internal Audit Charter adopted by City Council resolution 11-13.

AUDIT STANDARDS

This audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

STATEMENT OF INDEPENDENCE

Internal Audit is administratively and operationally independent of the programs and departments it audits, both in appearance and in fact. The Internal Audit Manager is accountable to an Audit Committee appointed by the City Council per section 32.022 of the Code of Ordinances of Sioux Falls, SD.

DISTRIBUTION OF REPORT

This report is intended for the information and use of the Mayor and City Council, management, and others within the City of Sioux Falls. However, the report is a matter of public record and its distribution is not limited.

PERFORMED BY

Ashley VanDeBerg
Internal Auditor