



MIAMIBEACH

BUDGET AND PERFORMANCE IMPROVEMENT
Internal Audit Division

INTERNAL AUDIT REPORT

TO: Jimmy L. Morales, City Manager
VIA: John Woodruff, Budget and Performance Improvement Director
FROM: James J. Sutter, Internal Auditor

DATE: January 24, 2014
AUDIT: Building Mechanical, Electrical, and Plumbing (M.E.P.) Permit Fees
PERIOD: October 1, 2011 through September 30, 2013

This report reflects the results of a regularly scheduled audit of fees charged by the City's Building Department and collected for Mechanical, Electrical, and Plumbing Permits (M.E.P.) between October 1, 2011 and September 30, 2013.

INTRODUCTION

A permit is the document that issues consent to move forward on a building project. Qualified professionals examine the impact a project is likely to have on available resources and infrastructure, while ensuring compliance to established construction standards. The permitting process begins with the review of plans. Then a number of inspections are performed by City Inspectors to ensure compliance to the scope of work approved through the plan review, as well as to ensure that work is performed in accordance to Building Code requirements. The process then finalizes with the issuance of a Certificate of Occupancy (C.O.) or a Certificate of Completion (C.C.) once all work is completed and all inspections are passed and approved.

The Building Department records all permit and certificate information (inspection results, fees, violations, etc.) in the Permits Plus System, which is expected to be upgraded during the 2013/14 fiscal year to Accela Automation. Once customers have obtained all final inspections on its permits and sub-permits attached to their master permit or as stand alone permits, they are to submit a completed Certificate of Occupancy/Completion Request Form to the Building Department. When approved and all fees paid, the certificate's status in the Permits Plus System is changed from "approved" to "final" for temporary certificates, and from "applied" to "approved" for C.O. (s) and C.C.(s) signifying that the project is finished and the permitting process is complete.

The corresponding customer payments can be received by one of the Finance Department's cashiers located on the first floor of 1700 Meridian Avenue or City Hall, at one of the designated kiosks in City Hall or via the internet through Velocity Hall. The payments are recorded in the Permits Plus System and are independently reconciled to the monies received before the entries are posted to the applicable general ledger accounts in the City's Financial System.

This audit focuses on Trade or sub-permits, also commonly known as M.E.P.s, which stands for Mechanical, Electrical, and Plumbing permits; and their corresponding fees assessed by the Building Department. Fees associated to these permits are found on sections 14-63, 14-64, and 14-65 of Appendix A of the City Code. Such reasonable permit fees are authorized under Section 553.80 of the Florida Statutes (F.S.), as well as in section 109 of the Florida Building

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Code. These fees are established to cover incurred costs by the City for carrying out its responsibilities in enforcing the Florida Building Code.

In 2009, the City utilized a consultant, MAXIMUS Consulting Services, Inc. (Maximus), to analyze the City's costs of providing the services associated with the different permit types, and compare them to similar fees charged by other municipalities and Miami-Dade County. As a result, a different fee structure was recommended across the board subjected to additional increases or decreases where necessary, to better reflect the level of effort associated with the permitting aspect of the Building Development process. Such changes were approved January 13, 2010 through the approval of Ordinance No. 2010-3670 with an effective date of February 1, 2010.

Subsequent to implementation, a series of refinements to such fee structure were identified in trying to clarify and bring equity to certain types of permit applications. Such refinements were approved and implemented with the passage of Ordinance No. 2011-3732 on September 14, 2011, with an effective date of October 1, 2011. Not all fees established under Ordinance No. 2010-3670 were affected by these refinements.

Additional refinements were identified in the course of daily operations that were implemented later on September 27th, 2012 by the adoption of Ordinance No. 2012-3776, with an effective date of October 15th, 2012. Once again, not all fees and/or provisions established in Ordinance No. 2010-3670 were affected by the new refinements. No additional changes or refinements have been made effective since.

OVERALL OPINION

Enforcing the building code in reference to building trade permits or sub-permits, also known as M.E.P. permits are part of the responsibilities of the Building Department. Although fees assessed for these permits are significantly smaller than those assessed for construction projects, they may vary depending on the scope of work and project size. Responsibilities of the Building Department not only include plan reviews, approvals, and corresponding inspections, but also the calculation and assessment of the applicable fees. The focus of our audit is compliance to rules and regulations and the accuracy of assessed fees.

Results from testing to our randomly selected sample of electrical, mechanical, and plumbing permits helped to verify the existence of adequate controls and segregation of duties with respect to the billing and payment of permit fees, as it involves two departments, the Building Department and the Finance Department. It also helped to verify that amounts paid for the sampled permits were correctly recorded on the City's financial system, as intended. However, there were areas identified in need of attention and/or corrective action that have been listed as follows:

1. Multiple changes to fee structure in short periods of time provided little time for proper implementation, testing, and personnel training resulting in incorrect and/or inconsistent fee calculations and assessments.
2. Having different fee structure changes with different effective dates and applicability has contributed to increased complexity and added challenges to software scripting.
3. Permit application formatting has not been updated to reflect required system field

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information for proper permit fee calculation and assessment under current fee structures.

4. Mechanical permit fees assessed to permit number BM120064 were posted to the wrong account.
5. Descriptive narratives entered to Permits Plus by department personnel were often incomplete and/or insufficient making them difficult to understand as well as verify.
6. Refunds due to permit holders have not been processed in a timely manner.
7. Software limitations continue to contribute to inefficiencies resulting in an adverse impact on operations as well as the administration of the same.

Additional information and details regarding these areas can be found in the "Findings, Recommendations, and Management Responses" section on this report.

To conclude, we want to express our appreciation to the Building Department administration and staff for their assistance and cooperation throughout the course of the audit. Also, we want to thank them for facilitating all requested information promptly allowing for a smooth audit process.

PURPOSE

The purpose of this audit is to verify the Building Department's compliance with the relevant City Code, State Statutes and Florida Building Code sections; whether proper internal controls have been implemented and sufficient documentation maintained; whether correct fees were charged based on the corresponding permit application information and consistent Permits Plus System entries; and whether all tested payments received were accurately recorded in the City's financial system.

SCOPE

A total of seventy-one (28 electrical, 22 mechanical, and 21 plumbing) permits were randomly selected from a report generated by the Building Permit Information Analyst II, which was relied upon as being complete and accurate. The analysis performed on these sampled permits and their corresponding payments were designed to satisfy the following audit scope:

1. Confirm that comprehensive policies and procedures exist, are known and are followed by staff.
2. Confirm that the money received is correctly recorded in the City's financial system.
3. Confirmed that scope of work is correctly approved by the building department.
4. Confirm that all permit requirements are met per the City Code.
5. Confirm that the correct amount is being calculated for the permit fees, in accordance with building code.

6. Confirm that the internal control process is adequate and that a proper segregation of duties exists.

FINDINGS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

1. Finding: *Multiple changes to the fee structure in short periods of time provided little time for proper implementation, testing, and personnel training resulting in incorrect and/or inconsistent fee calculations and assessments.*

As stated in the introduction section of this report, the building permit fee structure, including fees assessed for Mechanical, Electrical, and Plumbing Permits, underwent a major overhaul in 2010, with additional refinements in 2011 and 2012. Meanwhile, the time allowed between the approval of the changes and their effective dates was significantly short. Therefore, proper system testing and employee training did not take place to ensure a smooth transition to the new fee structure.

Changing the fee structure requires software scripting, as well as training for employees to get familiar with new requirements and information needed to properly calculate and assess the applicable fees for every permit type and scope of work. Both of these steps require time prior to live implementation. Information Technology personnel need time to follow control procedures established by their department prior to getting authorized to initiate any change to the software system. Then time is needed to make those changes through software scripting. Once done, adequate time should be taken to significantly test the accuracy and effectiveness of the software to properly accommodate and compute the new changes prior to a final production implementation. Concurrently, proper employee training should take place, which could require multiple scheduling times, to minimize any impact on service level and daily department operations.

Not having the time to properly prepare for and test the new fee structure, the different components, and the effective dates of the changes made prior to implementation resulted in erroneously charging permit fees. Amount of undercharged fees observed in our sample of 71 permits totaled \$3,347.

Recommendation(s):

Considering that permit fee structures and/or rates are reviewed at least annually, adequate planning and consideration should be given to allow sufficient time for implementing, testing, and provide sufficient training to employees before changes become effective and are placed into production. Proposed changes should be brought to the Mayor and Commission with sufficient time in advance to allow a smooth transition and implementation of the new changes, once approved. This will help to reduce confusion, system glitches, loopholes etc. that ultimately adversely affect the departments operations, as well as the customers.

Management Response(s):

Any proposed fee changes will be brought to the Mayor and Commission with sufficient time in advance to allow a smooth transition and implementation of the new changes, once approved.

2. Finding: *Having different fee structure changes with different effective dates and applicability has contributed to increased complexity and added challenges to software scripting.*

Multiple fields have been created on Permits Plus making the screens look crowded and confusing to users. Those different fields have been added in order to accommodate multiple fee amounts and fee structures in effect concurrently depending on permit application date, master building permit application date, and scope of work. As a result, different color scheme fields were added to the software screens to differentiate applicable fees. Blue font was used for new fee items required to calculate applicable permit fees, green was used to identify old fee items that may still be applicable depending on the master permit application date, while black was used for those fee items not affected by the different fee structure changes.

In addition, anyone including, but not limited to, permit clerks would have to refer to at least three different ordinances in order to verify the accuracy of the fees being assessed, as well as the required information to be inputted into the system for proper calculation depending on the date of application. This provides opportunities for confusion and inadvertent mistakes that can result in miscalculations and inaccurate charges.

Recommendation(s):

In order to prevent similar scenarios from reoccurring, the Building Department should recommend to the Mayor and Commission to make any changes and/or updates to permit fees applicable to all permits applied for after the effective date without regard to application date of prior permits still open. This way all new permits would be bound by only one fee rate and structure. This will also help to maintain fees in line with the current level of effort exercised by the department in enforcing the Building Code.

Management Response(s):

The Building Department is currently preparing to recommend to the Mayor and City Commission the implementation of a new fee ordinance in which all permits applied for after the effective date be evaluated and fees assessed accordingly as prescribed in Appendix A of the City Code or the minimum permit fee, whichever is greater. All new permits will be bound to the new proposed fee rate and structure as stated in the recommendation. It is anticipated that the new fee ordinance will be considered by the City Commission either in February or March, 2014.

3. Finding: *Permit application formatting has not been updated to reflect required system field information for proper permit fee calculation and assessment under current fee structures.*

Despite changes to fee structures and enhancements, permit applications have not been reformatted to better correlate to the applicable fee structure to ensure that corresponding information needed for the accurate calculation of permit fees is provided. Properly formatting permit applications will further reduce ambiguities and incomplete information often provided, not by architects or contractors, but by third party contracted individuals in charge of the project's permitting process.

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Recommendation(s):

Permit applications should be revised to ensure correlation and inclusion of all required information to accurately and consistently calculate and assess corresponding fees. Such revision should consider the different fee structures and scope of work for the different sub-permits.

Management Response(s):

We are in agreement with this recommendation. The Building Department is currently preparing to recommend to the Mayor and City Commission the implementation of a new fee ordinance. The revised fee structure will simplify the fee calculations to provide for a uniform calculation for the different sub-permits.

4. Finding: *Mechanical permit fees assessed to permit number BM120064 were posted to the wrong account.*

Due to the distinctive State regulation exercised on Elevator Permits delegated to the City through Resolution No. 2000-23986, the Building Department has been recording revenues generated from the assessment of elevator permit fees to a different account (Acct. # 011-8000-32260) separate from the regular building permit fees account used for all other permits. However, during our testing we observed that a total of \$610.00 corresponding to elevator fees had not been posted to the correct account. Upon notification to the Building Department's Quality Assurance Coordinator of our finding, a journal entry was prepared to reclassify the revenues to the proper account. No further action is needed regarding this finding.

Recommendation(s):

Although no additional action is required, and this error was not frequently or widely found during our testing, the Building Department should consider establishing a review process in their daily or monthly reconciliations to ensure that revenues are posted to the proper accounts.

Management Response(s):

The Building Department currently makes corrections on a monthly basis through journal entries when errors are discovered when reconciling GL accounts at the end of each month or quarter. We will continue to conduct reconciliations to ensure that revenues are posted to the proper accounts.

5. Finding: *Descriptive narratives entered into Permits Plus by department personnel were often incomplete and/or insufficient making them hard to understand as well as verify.*

Reviewed system notes entered by staff were often observed to be incomplete. Uses of acronyms and abbreviations were also observed. No detailed explanations were observed in instances where system entries deviated or were different from information provided on permit applications. Not providing sufficient narratives and references on the system diminishes the verifiability and audit trails of actions and fee assessments in relation to the permit, particularly when entries on the system differ from information provided on the permit application.

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Recommendation(s):

It should be required from all Building Department personnel to properly and sufficiently document actions, objections, references, etc. on the system software. Such notes should be legible and sufficiently complete for anyone to be able to read and understand them. This should provide operational efficiencies by not requiring employees accessing permit information to perform additional research and inquiries to try to understand actions and notations taken in relation to the permit. In addition it will enhance audit trails.

Correcting application information by plan reviewers, as they find differences between information provided on the permit applications and the plans examined, is not unusual. However, such changes should be sufficiently documented and substantiated in the system and recommended by the plan reviewers. Then such recommended changes should be reviewed and approved by supervisors prior to effectuating them. Providing references to plan reviews and additional actions or communications as needed, should be required for better verifiability and audit trails.

Management Response:

Building Department personnel will be instructed to continue providing relevant detailed notes in the Permits Plus System.

6. Finding: *Refunds due to permit holders have not been processed timely.*
Refunds pending for relatively small amounts ranging in the hundreds were observed for Electrical Permits in which fire fees had been assessed for low voltage equipment in error. Upon correcting the error and updating the permits, a refund (negative balance) was created in those permits that were updated after the correction. However, no efforts have been done to process and expedite those refunds. As a result, negative balances continue to be displayed on the Permit Plus system.

Recommendation(s):

The Building Department should establish and document a process that includes a review of any permit for which a credit or refund is owed. Once the permit is review and the refund confirmed as valid, pertinent steps should be taken to process the refund as soon as possible. In addition, if a system glitch or for any other reason is found resulting in overcharges or refunds owed to permit holders, an update should be performed for all applicable permits affected and any refunds should be processed as soon as possible. For example, this should be done for those applicable electrical permits for low voltage equipment installed to which fire fees were assessed in error. A report listing all the affected permits and corresponding refunds should be created in order to further document and better assess the extent and magnitude of corrective actions needed.

Management Response(s):

We are in agreement with this recommendation. The Building Department's staff will develop a report for credit balances on permit records. In addition, we will develop a review process and refund process if the review deems one is warranted. If the review reveals that a correction is required to the permitting system, an update will be performed as soon as possible.

7. *Finding: Software limitations continue to contribute to inefficiencies resulting in an adverse impact on the operations as well as the administration of the same.*

Software limitations that have been identified over time through different means continue to pose operational and administrative challenges for the Department. Some of the challenges include, but are not limited to:

- Inability to generate reports from the system, requiring additional software and report customization and writing to extract information.
- Inability to synchronize with the City's financial system, thus requiring additional reconciliations using reports generated from different sources as referenced above.
- Poor controls and audit trails
- Poor detail lists and fee itemizations

Although The Building Department is in the process of changing and implementing the use of a new software system, no definitive date has been assigned for the complete and full implementation of the software. It is the Department's expectation that the new software would appropriately address the current system's shortcomings.

Recommendation(s):

Sufficient testing and parallel implementation should be considered to ensure the efficient and effective operability of the new software system. In addition, customized case testing should be exercised to verify the effectiveness in addressing prior system shortcomings. Lastly, the implementation process should be expedited as much as possible in order to mitigate possible inefficiencies and risks that continue to be present by prolonging, whether directly or indirectly, the use of the current system.

Management Response:

We are in agreement with this recommendation. However, the City administration is currently reassessing the implementation of the new software system due to existing challenges with current operations and users.

EXIT CONFERENCE

An exit meeting was held on January 22, 2014 to discuss the audit report and to solicit management responses noted above. Attendees included Building Department Director Mariano Fernandez, Deputy Director Stephen Scott, Administrative Services Manager Raquel Aieta, Quality Control Coordinator Linda Blanco, Internal Auditor James Sutter, and Auditor Fidel Miranda. Management responses were received prior to this meeting and were included therein. All parties were in agreement with the contents of this report.

(Audit performed by Fidel Miranda, Auditor)

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cc: Joe Jimenez, Assistant City Manager
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