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BUDGET AND PERFORMANCE IMPROVEMENT
Internal Audit Division

INTERNAL AUDIT REPORT

TO: Jorge M. Gonzalez, City Manager
VIA: Kathie G. Brooks, Budget and Performance Improvement Director
FROM: James J. Sutter, Internal Auditor

DATE: July 3, 2008
AUDIT: Building Permit Fees
PERIOD: October 1, 2006 through December 31, 2007

This report is the result of a scheduled audit to assess the reliability and integrity of Building Permit Fees collected, while considering the implementation of a simplified Building Permit Fee structure.

INTRODUCTION

The Building Department provides supervision of construction activities, acceptance of building permit applications, issuance of all building and trade permits, verification of compliance with the Florida Building Code and enforcement of codes promulgated by regulatory agencies such as the Hotel and Restaurant Commission, Miami-Dade Environmental Resources Management, State Department of Health and Professional Regulation, Board of Adjustment and the U.S. Army Corp of Engineers. Plumbing, building, electrical, elevator and mechanical officials inspect new and existing structures for compliance.

A fee for each permit shall be paid as required, in accordance with the fee schedule established and approved by City Commission, on all buildings, structures, electrical, gas, mechanical and plumbing systems or alterations requiring a permit. These fees cover costs incurred by all departments directly involved as well as an allocation of administration and overhead by other supporting departments. In addition, the department is responsible for collecting fire, Miami Dade Compliance, sanitation, zoning, and radon fees in relation to the plan reviews, inspections and code enforcement. Building permit fees collected during fiscal years 2006, 2007, and for the three months ended 12/31/2007 have been included in the following table:

	FY 2005/2006	FY 2006/2007	FY 2007/2008 (1)	Total
Building Permit Fees (2)	\$ 4,564,910.45	\$ 8,134,498.15	\$ 2,233,958.21	\$ 14,933,366.81

- (1) Fee revenues represent three (3) months (10/01/2007 – 12/31/2007)
- (2) Building Permit Fees represent fees assessed for Building permits alone. It excludes Mechanical, Electrical, Plumbing, and any other fees collected with the approval of a permit.

Not only it is the law to obtain a building permit, but obtaining a building permit protects the permit holder as well as the owner of the property. With a building permit the permit holder receives advice from reviewers and inspectors who will approve each phase of the project, checking to ensure that the work is completed in accordance with the approved plans, as well as with state and local laws, rules, and regulations.

Prior to initiation of the audit scheduled for fiscal year 2006/07, Building Department management alerted Internal Audit to concerns surrounding the lack of accountability, procedures, and controls in place impacting the integrity of the permit fees collected. Internal Audit's involvement was more extensive due to the need to address these concerns. Internal Audit utilized an external consultant,

JRD & Associates Inc., to assist in developing the audit plan and approach as well as recommending guidance on how fees are assessed. The consultant also performed a comparison of how permit fees are charged in other municipalities. In addition to the audit, a separate audit staff member was provided to the Building Department on an ongoing basis to review fee calculations for all permits at closeout. Ever since, they have arduously worked to address their concerns improving the reliability, accountability, and integrity of the fees collected.

As a result of Internal Audit's separate review of building permits at closeout, a total of \$761,389 has been recuperated between the 4th Quarter of Fiscal Year 2007 and the 1st Quarter of Fiscal Year 2008. This amount was mainly recovered from building permits for which fees were previously calculated based on inaccurate information provided to the Building Department. Our audit report focuses on results from both our audit procedures performed and our separate ongoing review of building permits at closeout.

OVERALL OPINION

Despite the efforts made by the department to improve the procedures, accountability, and controls over the permit revenue collections, Internal Audit found the following areas that still need to be addressed. As an intermediate control in place, the ongoing review of permits at close out is minimizing any loss of fee revenues.

1. Inaccurate information is being furnished and used for permit fee calculations.
2. System fee calculations for combined projects were not correct.
3. Space is not provided on the application for proper allocation of job values and square footage for projects combining renovations and new construction.
4. Corrections to applications were observed after the application had been signed, notarized, and up-front fees have been calculated.
5. Incomplete building permit applications are being accepted.
6. Original permit applications are not kept in the department's filing system until after the plans have been reviewed and the permit is approved.
7. Insufficient supporting documentation is kept on file as part of the permit application package.
8. The Building Department's adopted fee schedule is complex and lacks regular revisions.
9. Minor discrepancies were noted between the department's fee schedule and currently distribute Mechanical, Electrical, and Plumbing fee sheets.
10. Insufficient and inconsistent use and application of the fee schedule for the calculation of building permit fees.
11. No policies and procedures are written and in place that are well known and consistently followed by department personnel.
12. Inconsistency in data entry to the system.
13. Poor computer system controls in place.

14. Insufficient segregation of duties exists within the permit clerks' positions that impact department processes.
15. Long processing cycles for Non Sufficient Fund (NSF) checks.
16. Outdated permit data was found on the department's computer system.

Additional details of our findings and proposed recommendations are included in the "Findings, Recommendations and Management Responses" section of this report.

As recommended by the City's external consultant JRD & Associates, we feel that the City should pursue a simplified fee schedule. Corrective action should be taken on these findings prior to implementing a simplified fee schedule. Once corrected, the department would generate more accurate and reliable information to better establish effective fee levels required to cover the current costs of operations.

Although this report focuses on exceptions, weaknesses, and problems, this should not be understood to mean there are not also various strengths and accomplishments. Furthermore, our testing was limited to determine whether department fees were properly calculated, try to provide a valid estimate of Building Permit Revenues, and to determine any necessary improvements to enhance current controls over revenues. Had we performed additional procedures or testing, other matters might have come to our attention that would have been reported here in.

PURPOSE

The purpose of this audit is to determine whether transactions, adjustments, and processing procedures are established, authorized, and maintained in accordance with laws, regulations, contracts, and management's policy; whether transactions are accounted for, accurately and promptly recorded; whether recorded balances are periodically substantiated and evaluated; and whether City assets, records and files are properly safeguarded and controlled, and access thereto is restricted in accordance with management's criteria.

SCOPE

1. To determine if building department fees are properly calculated and collected.
2. Determine through statistical sampling, a valid estimate of building permit fees.
3. To review processing of fee calculation and determine any improvements necessary for enhancing controls over permit revenue.

FINDINGS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

1. Finding: *Inaccurate information being provided for fee calculations*
As a result of Internal Audit's assistance to the Building Department a total number of seventy-eight (78) permits have been reviewed before receiving their final Certificate of Occupancy (CO) or Certificate of Completion (CC). In all cases (100%) the results from these reviews confirmed the inaccuracy of information provided to the department on the permit application. The reviews consisted of comparing the information provided on the permit application to the values reflected on the construction contract or on forms G702 and G703.

Comparing the square footage and construction estimates provided initially on the applications to the actual figures provided on the plans, the contract, and on forms G702 and G703, showed material differences directly impacting the reliability of the permit fees assessed. These discrepancies prevented Internal Audit from deriving a valid estimate of the building permit fees through statistical sampling.

Recommendation(s):

The department should establish methods to assist the permit clerks in assessing reasonableness of information provided on the permit application. The guidance should be accompanied with proper training in order for them to acquire a complete understanding of such.

Another step could consist of ensuring that value verification review, conducted by the building review discipline, is completed prior to any other review from other disciplines. This step would contribute to ensure that proper permit fees are assessed prior to incurring additional costs for the department. In addition, the department should consider establishing enforcing measures such as penalties or interest for permit fees not paid on time due to misrepresentations on the permit application.

Management Response:

Building agrees with OBPI's findings and has implemented a training plan for the Permit Clerks, however, the Building Plan Examiners are the professionals qualified to review the accuracy of job values and total gross square footages of a project. The Building Plan Examiners review the job value verification (AE Affidavit) when the project is assigned to them by the Chief responsible for the plans review section. As for the suggestion that the Building discipline review the AE affidavit prior to the review of other disciplines, this is just not practical since it would cause a delay in the plan review process.

The new Building Director started his tenure in the City of Miami Beach on March 13, 2006. During the period between mid March and May of 2006 the Building Director, Tom Velazquez, reported to the City Manager's office some of his findings regarding the general lack of accountability and internal controls in the Building Department. Of particular concern was the lack of oversight and procedures that addressed the proper verification, calculation and collection of permits fees / revenue.

Late March 2007, at the request of the Department Director, a review of the permit fees for a multi-story new condominium and renovation project was performed by the new Assistant Director of Administration, Graciela Escalante. Because of the Department Director's concern regarding permit fee oversight and accountability in general he requested a project accounting review prior to approval of a refund request in the amount of \$256,730 by the Developers of this project for TCO charges. This review of the project accounting revealed that job values and square footage as submitted on permit applications by Owners/Developers/Contractors and/or Expeditors were never verified for accuracy by Building Department personnel. The result of the evaluation of the project disclosed that rather than the City owing a refund to the Developer/Owner, the Developer/Owner owed the City \$1,246,809 in permit fees.

As a result of the findings and process failures discovered by the current Administration, procedures were put in place to properly account for proper revenue collection and verification. Administration developed an AE affidavit form, a three part form executed by the Architect, Owner and Contractor to certify job value and total gross square footage which are necessary values to determine the permit fees as required by ordinance. A directive to Building Staff was

Internal Audit Report
Building Permit Fees
July 3, 2008

issued on April 27, 2007 to implement the new plans review process and procedures which included the required submittal of the AE affidavit form by the applicant. The Building Plan Examiners are made responsible to ascertain that the job values submitted reflect the current industry costs per square foot and that the gross square footages are reasonably accurate.

Permits are not issued unless the AE affidavit is submitted and verified. In addition, the Building Director made the determination that CO's /CC's would not be approved without a permit review of the project.

These new procedures created an extensive amount of work for an Administration which was not equipped with a Finance Section with the expertise required to verify the project accounting requirements generated by the new procedures.

Sometime in May 2007 the Building Director requested an audit of the permit fee and revenue collection process as well assistance with the day to day permit reviews of projects requiring CO/CC.

The result of the ongoing permit review and Building's commitment to address these concerns generated over \$6 million dollars in additional revenue for the fiscal year 06-07.

In addition to these measures, the Building Department proposed to the City Manager's office a re-organization of the Building Department which includes a Finance and Administrative Services Section.

The City Manager also received authorization from the City Commission in May 2008 to pursue an operational audit through a qualified audit firm to more closely examine Building Department processes and procedures. A portion of the scope of work for this company will be to examine the current structure of the Building Department and make recommendations for improvements. In the short term, audit staff from OBPI has been temporarily re-assigned to implement the more immediate internal controls necessary to ensure that the City is properly collecting revenue that is due. The recently hired Building Director will be tasked with closely examining these issues and will implementing appropriate solutions.

2. Finding: *System fee calculation weaknesses*

Although the calculations for most of the fees assessed by the department were found to be correct, contingent to the reliability of the information provided and entered to the system, the following fees were identified as erroneously calculated by the department's system software and are in need of immediate correction:

- a. Fees assessed for permits that combined new construction with alteration remodeling ("Other" sub-type) did not allocate the corresponding portions of the fee to the individual jobs performed. In most cases, the fees were calculated using total construction costs; therefore disregarding the square footage for new construction.
- b. The Miami Dade County Code Compliance fees as calculated by the department's system are based upon the City's Code which states that this fee is calculated upon work valuation. In comparing the City's Code with the Miami Dade County's Code it was noted that there was a discrepancy in language as to how the value of work is calculated. For new construction the City based its valuation on the contractors' submitted costs rather than the County's method of \$65 dollars per square foot.

Internal Audit Report
Building Permit Fees
July 3, 2008

- c) Zoning and sanitation fees are capped to a maximum of one hundred (\$100) and one thousand five hundred (\$1,500) dollars respectively. This means that any individual who applies for a building permit involving only new construction will pay a maximum of \$100 for zoning fees and a maximum of \$1,500 for sanitation. The same applies for individuals applying for a permit that involves alteration and remodeling only. Guidance in how to calculate zoning and sanitation fees can be found on the building fee schedule. However, for projects that combine both, new construction and alteration remodeling, the maximum amount that is being charged is also capped at \$100 and \$1,500 respectively. As a result, the fees assessed for combined projects are not consistent or proportional to those charged for the same services under separate permits.

Out of the 42 sampled building permits, 7 permits (17%) could have been charged additional fees over the cap limitation in the amount of \$6,906.

Recommendation(s):

- a) The department should correct the system in order to calculate the permit fees based on the data allocated to the individual job types within a project instead of the information provided on the general screen for total construction values. Collaboration from the Information Technology (IT) department could be considered for a faster resolution. In addition, fees assessed for projects combining new construction and alteration remodeling should be reviewed in order to ensure the accuracy of the fee calculation at the time of application.
- b) The Building Department should work with the City's Attorney Office to determine the impact of the calculation of Miami Dade County Code Compliance fees and discuss these impacts with Miami Dade County.
- c) Resulting from inquiries to our external consultant, separating the work types in different permits could help to maintain consistency and proportionality. This revision will provide a better fee allocation for the different scopes of work, as well as maintain proportionality for all permit fees assessed.

Management Response (See Note 1):

The Building Department has been made aware of this Permits Plus software system flaw and is working with IT Department to correct it. Building may need to get a proposal from Accella /Permits Plus Vendor to resolve the problem. It appears that the problem may be more extensive and the staff from the permit counter will have to check permit fee calculations from a different software application until the problem is resolved.

The Building Department is requesting applicants to submit separate permits for separate structures where feasible to provide a better fee allocation for different permit types, however, the permit fee ordinance is mute regarding how to charge permits which contain both new construction and renovation. In cases where it is not feasible to separate a project the system software will have to be corrected to implement the suggested permit fee allocations. In addition the Building Department is in the process of determining the impact of the calculation of the Miami Dade County Code Compliance fees with the City's Attorney's Office and will coordinate with Miami Dade County to address this matter.

3. Finding: *Application does not provide space for proper allocation of job values and square footage.*

Permit fees are generally computed following the department's fee schedule. The rates or amounts charged vary depending on the extent and characteristics of the work being done. For

example: Building Fees assessed for an addition to an existing structure or new construction are primarily based on the Gross Area of the new construction, provided in square feet. Meanwhile, building fees assessed for an alteration or remodeling are primarily based on the job value, also known as the cost of construction paid by the owner. However, the permit application currently used does not allow the allocation of costs or gross areas when two scopes of work are combined into one permit. As a result, Internal Audit noticed occasions in which data provided for fee calculation combined both new construction and alterations or remodeling thereby precluding separate fee calculations.

Recommendation(s):

The department should consider revising the permit application in order to provide additional fields to properly allocate the job value and corresponding gross area to the specific project (new construction, alterations/remodeling, demolitions, etc.). In addition, permit clerks should not inquire, accept values, or data to correct the Permit Application from anyone other than the permit holder. With this recommendation the department would contribute to improve reliability of both, the information provided on the permit application and the fees assessed.

Management Response (See Note 1):

We agree and have made the recommended changes. In addition we have added three check boxes in the permit application for new construction, renovations and revisions in order to differentiate between the type of construction and permit type request.

4. Finding: *Corrections to applications were observed after the application had been signed, notarized, and up-front fees have been calculated.*

Building permit applications are required to be completed in detail and signed by the permit holder. Instances were noted whereby corrections to the information on the Permit Application were accepted without the submission of a Revised Permit Application. Continuing to operate in this manner could result in confusion with respect to which data to use for fee calculation.

Recommendation(s):

No corrections should be allowed on a completed application. If corrections or revisions are necessary, then the permit holder should submit a new "Revised" application once a previous one has been submitted. Accordingly, permit fees should be recalculated based on the updated information in order to account for any balance or credit resulting from the revision. Necessary changes made by the department should be documented and included on a separate section of the application or as an attachment. This should reduce potential confusion and improve audit trails while maintaining a chronological order of events.

Management Response (See Note 1):

We agree with the finding and implemented the recommendation.

5. Finding: *Incomplete applications were being accepted when issuing a permit.*

Building Permit Applications were submitted with incomplete sections. Some of the incomplete sections observed included the gross area of the project and/or job value, which are used to calculate the fees depending on the scope of work, date of application, which contributes to the tracking of when the application or the permit should expire, the type of work, and owner's contact information and signatures to name a few.

The following table helps to illustrate our findings in reference to incomplete permit applications based on our sample of permits tested:

Internal Audit Report
Building Permit Fees
July 3, 2008

Permit Category	# of permits tested	# of incomplete applications	Percentage (%)
Commercial	25	8	32%
Residential	17	5	29%
Totals	42	13	31%

Thirty one percent (31%) of the permits tested were applied for and/or approved with incomplete sections of the application.

Recommendation(s):

Because the Permit Application is a major source of information and reference, all sections should be fully completed. Up-front fees, permit sub-type, among other, are calculated and imputed into the system using the information provided on the application.

Management Response (See Note 1):

We agree with the finding and implemented the recommendation. We are no longer accepting incomplete permit applications. In addition, applicants submitting building permit applications are required to submit an executed AE affidavit with the application.

6. Finding: *Original permit applications are not kept in the department until after the plans have been reviewed and the permit is approved.*

When applying for a building permit, it is required for the permit holder to submit a complete permit application. This application is used as reference to enter the permit holder's information, job descriptions and values to the system. Application information is also used to calculate the up-front fees, and total permit fees for the project. In addition, the information is use to create a work flow in the system identifying the different disciplines required to perform plan reviews depending on the characteristics of the work.

Even though the information on the application is used to calculate up-front fees, total permit fees, and to issue a transaction/permit number among others, neither the original permit application nor a copy is kept by the department until the plans are reviewed and the permit is approved. Any changes to the application prior to the plan's approval, especially changes that could have an impact on the permit's up-front fee calculations and overall fee structure, are not revised on the department's computer system.

Recommendation(s):

Once a permit application is accepted and up-front fees have been calculated, the department should retain the application along with all required documentation from the contractor. This way, any changes to the application can be verified and compared to the initial application. Retaining the initial application will contribute to implement the recommendation for finding number three (3) above. Also, in the event the permit holder abandons the project prior to the permit's approval, then the City would be able to retain the corresponding up-front fees based on the information provided.

Management Response (See Note 1):

We agree with the finding and implemented the recommendation. We are no longer accepting incomplete permit applications. Original permit applications will be filed in as part of a central filing system in process of being implemented.

7. Finding: *Insufficient supporting documentation kept on file as part of the permit application package.*

Internal Audit reviewed the application packages for forty-two (42) sampled permits in order to evaluate their completeness. Of the forty-two (42) application packages reviewed, all were missing two or more of the following required documentation:

- a) Copy of State Certification with an occupational license for the place of business; or Copy of Certificate of Competency with a Municipal Contractors Occupational License;
- b) Certificate of insurance for Liability and Worker's Compensation;
- c) Change of contractor form when it was applicable;
- d) Request for permit extension of time when it was applicable.

Recommendation(s):

Every application should be filed accompanied by all required documentation for the permit's approval. Because the application package is often used as a primary source of information in relation to the permit, it should be kept organized, maintained, and readily available as needed. In addition to effectively maintaining audit trails, well documented records should assist in sustaining effective controls, easing review processes and research.

Management Response (See Note 1):

We agree with the finding and implemented the recommendation. Original permit applications and all supporting documents will be filed in as part of a central filing system in process of being implemented.

8. Finding: *Department's complex fee schedule and lack of regular revisions.*

The Building Department's fee schedule consists of numerous fees for specific scope of works. This complexity leads to inefficiencies and inconsistencies in charging customers. The City's external consultant JRD & Associates performed a comparison of fee structures used at other municipalities and further recommended that the City's fee schedule be modified to a simplified fee schedule. Benefits of having a simplified fee schedule cited by the consultant include having a more efficient way to charge customers, a streamlined process, an appropriate feeing mechanism and less congestion in the waiting areas.

In addition, the Building Department Fee Schedule was last revised on October 1, 2003 and fees currently charged may or may not be sufficient to cover the City's costs of operation and enforcement of the Florida Building Code. These costs include those incurred by all departments directly involved as well as an allocation of administration and overhead by other supporting departments.

Recommendation(s):

The City should pursue a simplified fee schedule. Prior to revising any fees, the City should create a cost analysis of all direct and indirect costs associated with the operations and enforcement of the City's building codes. This analysis can be used to determine the sufficiency of the fees being charged to cover them.

The department needs to establish a base line of total fees earned by fiscal year after implementing recommendations to ensure that the currently approved fees are being properly corrected. Fees collected resulting from the close-out reviews presently conducted should be separated from total fees to more clearly reflect actual fees collected for the fiscal year.

Going forward, revisions of the fee schedule should be completed periodically to reflect any

changes, if any, resulting from cost increases and new industry conditions.

Management Response (See Note 1):

We agree and are going to implement recommendation. OBPI and the Building Department are working on a Request for Proposal for a Consultant to analyze the current fee schedule and make recommendations for simplification.

9. Finding: *Poor correlation between the department's fee schedule and currently distributed fee sheets.*

After reviewing the department's fee schedule and comparing it to the Mechanical, Electrical, and Plumbing fee sheets (M.E.P.s), currently distributed by the department, Internal Audit found minor discrepancies on the fee structure between the M.E.P. fee sheets and the Department's Fee Schedule.

Recommendation(s):

All fees assessed by the Building Department should be included and detailed on the Department's Fee Schedule. At the same time, the fee schedule should be reviewed to include the language and fee structure approved by the City Commission and reflected on Appendix A of the City Code. These annual reviews should verify and ensure correlation and consistency with the Florida Building Code, State Statutes, The Florida Administrative Code, and other fee structures established by those departments involved in the approval of the building permit (Ex: Fire Department, Zoning, Sanitation, etc.). Having one established reference source to document all permit fees should eliminate confusion to department personnel, as well as to the public.

Management Response (See Note 1):

We agree with the finding and are in the process of making sure that the fee sheets, and permit plus computer software are consistent with the Department's fee schedule.

10. Finding: *Insufficient and inconsistent use and application of the fee schedule on building permits*

Results from Internal Audit's testing and interviews with department's personnel showed an inconsistent application of the permit fee schedule, thus having a direct impact on the fees collected by the department. The following is a list of those inconsistencies found:

- a) Plan re-review fees are not always charged.
- b) Re-inspection fees are not always charged.
- c) Permit extension fees are not always charged.
- d) Applicable fees and credits for expired permits were not always applied correctly.
- e) Reviews and approvals issued for sub-permits with expired master permits. Re-instatement fees were not paid on the expired permit at the time of review.

This finding is correlated to finding #11 and finding #12. Because of the lack of written and known policies and procedures accompanied by poor system notations and referencing, it is very hard to track re-revisions and re-inspections on most permits.

Recommendation(s):

The department should closer track "re-reviews" and "re-inspections". This can be accomplished by noting the system and following up on plan review notes not addressed as instructed by the inspectors. Also, more descriptive notations should be taken by the inspectors on the field in reference to repeated violations or inspections due to incomplete work at time of

inspection. Moreover, permit extension fees should be charged once a "Permit Extension Form" has been submitted, prior to the permit expiration date, and approved by the building official. Not filing the extension of the permit prior to the permit expiration date should result in an expired permit and applicable fees should be assessed following page No. 12, section 2 of the permit fee schedule. Lastly, incorporating the recommendations for findings #11 and #12 should contribute to an improvement of the use and application of the fee schedule, as well as an increase of the applicable fees.

Management Response (See Note 1):

In response to a and b above, Building Department is in the process of implementing inspection and plan review checklists that are automated and integral to the permits plus software. This will not only alleviate the problems with inconsistent plan reviews but will allow staff to track and monitor which plan review comments were not addressed repeatedly by the Architect. Currently, the electronic software (Permits Plus) is not set up to accurately track and substantiate claims by Architects specific to comments that are not addressed in the plan review.

The same would apply to the inspection checklists which are currently being tested by the Inspection staff. Reports can be generated on repeat failed inspections and the Customer charged accordingly.

In response to c, d, and e above we agree with the findings and have implemented the changes according to the permit fee schedule.

11. Finding: *Lack of policies and procedures in place that are well known and consistently followed by department personnel.*

Although Management Staff has recently instructed new operational guidelines to be followed, no standard policies and procedures are written and in place to be consistently followed by permit clerks and other personnel. Employees currently operate following traditional methods of operations that have been established by prior administrations and/or employees. As a result, deviation in methods used by different employees was noted for transactions such as a change of contractor, permit revisions, change of use permits, among others.

Recommendation(s):

The department should establish written policies and procedures to be known and followed by all departments' personnel. The procedures should be accompanied by proper training so that employees can acquire a full understanding of the same. Adopting this recommendation will contribute for a standardization of the department's operations and improve audit trails.

Management Response (See Note 1):

Currently, the new Administration has a draft "Manual of Policies and Procedures" which we plan to publish for our employees and customers on the department's new website. The new website is scheduled to be launched in June / July 2008.

12. Finding: *Inconsistency in data entry to the system*

Results from our review showed that not all data is being consistently entered into the department's computer system. The following data entry shortcomings were observed:

- a) There were instances noted where the job value entered to the system's general screen did not coincide with the job value entered on the fee calculation screen.
- b) Projects that were supposed to be marked as "City projects" were not marked accordingly.
- c) Erroneous permit subtypes were selected occasionally.

- d) Notes entered to the system were often very hard to follow, as they were abbreviated and extremely shortened.

Shortcomings like the ones mentioned above represent a challenge to the department's internal communication, often resulting on inefficiency, inaccurate permit fees, poor audit trails, and diminished review and supervision.

Recommendation(s):

In order to improve the department's internal communication and eliminate existent barriers, minimal descriptive criteria necessary when entering information into the system should be established. In addition, a series of training sessions informing employees of the importance of such descriptive criteria when entering notes, as well as potential repercussions from not writing them should be implemented. This way the department won't have to depend on an individual's ability to remember the particulars of a specific permit. With this implementation, the department will be securing improved audit trails, easing review and supervision, and contributing to the reliability of the permit fee calculations.

Management Response (See Note 1):

The Permit Clerks have never received proper training for their specific job responsibilities as well as the technical training required for proficiency in the permit fee ordinance and application of ordinance with Permits Plus system. We are in the process of developing a training plan and giving "one on one" training to the Permit Clerks.

The issue of proper professional and technical training and mentoring was non-existent in the previous Building Administration. It is the intention of the current Administration to hire an outside Consultant to develop a curriculum of training classes for the professional and non-professional personnel.

13. Finding: *Poor computer system controls in place*

Testing performed to Permit Plus, the computer software currently used by the department, revealed the following deficiencies in need of correction:

- a) Data entered into the system can be overwritten by anyone that has edit privileges without leaving any trails. The only fields currently protected are the Job value, occupancy type, the fields related to client's information, and square footage, on the "General" screen only.
- b) Payments or adjustments for outstanding fees can be posted to a prior date. Consequently, payments or adjustments that are backdated to a prior date or period would not be included on the current daily activity report. Therefore, backdated transactions would not be noticed unless prior reports were re-printed and reviewed.

These deficiencies represent significant weaknesses that if not corrected could negatively impact the integrity of permit fees, opening a great window of opportunity for unscrupulous behavior.

Recommendation(s):

- a) The system should prevent any changes to existing information without proper authorization and without identification of the individual making the changes. In addition, every authorization should be accompanied by a brief, but sufficient explanation for the changes. Although the department may be considering upgrading their computer system, sufficient testing should be performed before its full integration in order to assure that adequate

controls are implemented.

- b) The department should correct the system in order to prevent the backdating of transactions currently taking place. Implementing this control will contribute to a higher integrity of permit fees and an improved reliability of daily reconciliations.

Management Response (See Note 1):

The previous Building Department Administration did not have any written policies and procedures nor did it have a well organized or documented business process and flow. This is evident in the application of the permit plus software which does not reflect the actual needs of the department in its functionality. Permit Plus has some features in its software that were not activated and thus the software was not utilized to its maximum efficiency. For example, all users have access to make entries and changes to all fields and compositions. The system has the capability to restrict access to users that are not required to make data entries in areas they are not responsible for. The previous administration did not restrict access to users by job function, thus creating a system with potentially extensive security breaches.

Currently, we are working with IT to restrict access to users by their job functions and have implemented the latest upgrade to the system which contains an audit trail. In addition, we are actively pursuing a new system whose software has security controls in place to ensure system integrity.

We are working with IT to get the most out of the system we currently have. We agree that Permits Plus has serious security issues.

14. Finding: *Insufficient segregation of duties on department processes.*

The building department in an effort to maximize efficiency, engaged in training sessions during which, every permit clerk was trained as a plan router and granted system access accordingly. In addition, permit clerks are responsible for the calculation and collection of permit fees for every permit. Clerks also reconcile the daily permit revenues collected at the end of the day. They handle the cash register, the safe, and have system clearance to make adjustments and apply payments. Considering these facts, Internal Audit opines that insufficient segregation of duties exist on these functions. Inadequate segregation of duties can contribute to a deterioration of controls, supervision, and a window of opportunity for unscrupulous behavior.

Recommendation(s):

Responsibility for the daily revenue reconciliation should be assigned to an individual with no relation to the collection, application, or adjustments of payments on the system. The combination for the safe should be changed, granting access to the individual in charge of the reconciliation and management only. The reconciliation should be completed, signed by the preparer, and taken to the cashiers no later than the next business day.

Management Response (See Note 1):

We have implemented the recommendations. The daily revenue collection and processing will be directly under the supervision of the Building Finance and Administrative Services Manager.

15. Finding: *Long processing cycles for Non Sufficient Fund (NSF) checks.*

Not only are Non-Sufficient Fund checks an eminent risk to the collection of permit revenues, but also a contributing factor to incur additional costs and generate processes to the department. Often a check is accepted for payment of multiple permits for which the department provides plan reviews, inspections etc. Once a check is identified as NSF, the department places a hold

Internal Audit Report
 Building Permit Fees
 July 3, 2008

on all permits paid by the identified check. At that point all work and inspections for those permits are put in a hold status preventing any additional services until all corresponding fees are paid. This is why timing is very important on this process. The longer it takes for the department to identify a NSF check, higher costs will be incurred by continuing to render services, and the collection process will become more difficult.

With this in mind, Internal Audit sampled sixteen (16) different checks identified as Non-Sufficient Fund (NSF) in order to estimate the average number of business days it took the department to identify them as NSF checks from the day they were accepted. The results are reflected on the following table:

STAGE OF THE CYCLE	AVERAGE # OF BUSINESS DAYS TO COMPLETE CYCLE
FROM DATE POSTED BY CLERKS TO DATE PROCESSED BY CASHIERS	1.87
FROM DATE PROCESSED BY CASHIERS TO DATE NSF NOTICE WAS MAILED BY BANK	7.81
FROM DATE NSF NOTICE MAILED BY BANK, TO DATE BUILDING DEPARTMENT IS NOTIFY	5.62
OVERALL BUSINESS DAYS TO COMPLETE ENTIRE CYCLE	15.31

The average time for the department to identify the checks as NSF checks was 15.31 business days. As a result from the long NSF processing cycle, a representative responsible for the City's bank accounts was also contacted in order to find ways to improve the length of time it takes to complete the cycle.

Recommendation(s):

Subsequent to inquiries made to the bank representative, it was agreed that copies of NSF checks would be faxed to the Finance Department on a daily basis. This should contribute to reduce the amount of time to complete the cycle. Nonetheless, the Building department should create and maintain a list of bad accounts for individuals or contractors that have issued two or more NSF checks. Once a bad account is identified, no additional checks should be accepted. Only cashier checks, money orders, credit cards, or cash should be accepted from these bad accounts.

In order to facilitate identifying the NSF checks corresponding to the building department, the clerks should write the name of the department on every check that is accepted. In addition, the Building Department should maintain direct communication with the Finance Department to ensure that NSF notices are forwarded as soon as they are received.

Management Response (See Note 1):

We agree and will implement procedures.

16. Finding: *Outdated permit data was found on the department's computer system.*
 Internal Audit requested a list of all building permits with "applied" and/or "approved" status from the department in order to select a sample of permits to analyze as part of our audit. As a result,

we were provided with multiple lists of permits adding up to 25,331 among them all. Subsequent inquiries about the volume of permits in applied or approved status for different permit categories and sub-types reflected an overflow of outdated permits and permit information as a result of data transferred from an older system to the one currently in use. The excessive amount of outdated permits included permits that should have been expired, but were still in applied or approved status; permits that work has been completed and CC and/or CO has been issued, still on "approved" or "applied" status, among others.

Recommendation(s):

Even though the department is well aware of this situation and is currently working to correct the data overflow, additional consideration and efforts should be invested in order to expedite the process. A cleaner database should contribute with more reliable information for analysis and decision making, and also would provide a better estimate of revenues that should have been collected, if any, on the remaining permits. Collaboration from the Information Technology (IT) department could be considered for a faster resolution.

Management Response (See Note 1):

We agree and are currently actively working with IT to clean-up database.

Management Response - General Comment (Note 1):

It is important to note that the Building Department requested this audit because Administration had many items of concern regarding the integrity and accountability of the enforcement of the City's Permit Fee Ordinance and Revenue collection process and procedures. Many of the findings of OBPI's audit were the initially items of concern to the Building Department Administration. Thus, the OBPI audit confirmed many of Building's initial findings. During the course of the audit, Building has been actively working on implementing internal controls to address these findings.

EXIT CONFERENCE

A meeting was held on March 11, 2008 to discuss the audit report and to solicit management responses noted above. Attendees were Thomas Velasquez, Building Director; Grace Escalante, Assistant Building Director; Alexis Givings, Building Services Coordinator; James Sutter, Internal Auditor; Laura Rubines, Assistant Internal Auditor; and Fidel Miranda, Auditor. Management responses were subsequently received and incorporated within the report. All were in agreement with the contents of this report.

(Audit performed by Fidel Miranda, Auditor)

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cc: Tim Hemstreet, Assistant City Manager
Jorge Gomez, Acting Building Director
Graciela Escalante, Assistant Building Director
Patricia Walker, Chief Financial Officer