



**GARLAND**

**INTERNAL AUDIT**

# **Building Inspection - Management controls over collection of fees**

**Jed Johnson, CGAP  
City Auditor**

**Prepared By**

**Marla Hamilton  
Staff Auditor**

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## **Authorization**

We have conducted an audit of Management controls over collection of fees in the Building Inspections department. This audit was conducted under the authority of Article VII, Section 5 of the Garland City Charter and in accordance with the Annual Audit Plan approved by the Garland City Council.

## **Objective**

Assess management controls over the billing and collection of fees in the Building Inspections Department.

## **Scope and Methodology**

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The scope of the audit is permits processed between October 1, 2012 and September 30, 2013 or FY2013. In addition, we expanded our audit from October 1, 2013 to January 15, 2014 since permit fees listed in the Ordinance did not match that which was published by the department (see Finding #2).

In order to meet the audit objectives and to describe the scope of our work on internal controls, IA performed the following:

- Obtained and reviewed City Ordinances 6485 and 6641, approved by the City Council on September 6, 2011 and September 3, 2013, respectively, to familiarize ourselves with Building Inspections Fees.
- Obtained and reviewed the Building Inspections department fee schedules, effective October 1, 2011 and October 1, 2013, to compare to City Ordinances 6485 and 6641, respectively.
- Obtained access to Building Inspections PermitsPlus computer system to review fees and permits processed through the system.
- Obtained and reviewed Policies and Procedures to determine accountability and responsibility for cash processing.
- Obtained and reviewed Paypal's SSAE16 for appropriate controls over credit card collections through PermitsPlus online platform.
- Developed flowcharts to review for segregation of duties within the department.
- Developed Crystal Reports from PermitsPlus to review processed permits for waived fees, timeliness of the permitting process and performed gap analysis on permit numbers to verify that these numbers were sequential and complete.
- Compared fees charged in PermitsPlus with that listed in the department's fee schedules and the Ordinances, to determine if fees were accurately listed.

- Obtained three months of deposit reports processed by the Building Inspections department, three months of bank statement and developed Crystal Reports from the Finance system to ensure that fees were appropriately recorded, deposited and reconciled.
- Reviewed fees collected by other departments to ensure through reconciliation that fees were appropriately deposited and recorded in the Finance system.
- Contacted a sample of businesses and individuals to ensure that fees are not collected in the field.
- Reviewed PermitsPlus user access to determine if access controls were in place regarding waiver of fees, changes to permits, voiding and deletion of permits.
- Reviewed user listing to ensure deactivation due to termination and appropriate user access to the system.
- Conducted a walkthrough at the Fire Marshal's office to review their fee collection/depositing process.

To assess the reliability of the data elements needed to answer the engagement objective, we (1) performed electronic testing of required data elements, (2) reviewed related documentation, and (3) reviewed user access to the PermitsPlus system. As a result of our testing, we determined that the data was sufficiently reliable for the purposes of this report.

Any deficiencies in internal control that are significant within the context of the audit objectives and based upon the audit work performed are stated in the Opportunities for Improvement section starting on page 7.

### **Overall Conclusion**

The Building Inspections department lacks a segregation of duties regarding the responsibilities of the Permit Supervisor. In addition, the Building Inspections Department and the Fire Marshall's Office can improve in the following areas:

- Ensure permit fees published by the Building Inspections Department match fees listed in the City Ordinance.
- Review user access to PermitsPlus on an annual basis to ensure deactivation of terminated users and users who no longer need access to the system.
- Transfer user setup and password management to the IT Department.
- Segregate user logins in the Fire Marshall's office.
- Ensure the Fire Marshall's office endorses checks upon receipt and includes notes in the system regarding voided permits.

Management was also provided additional Opportunities for Improvement to enhance internal controls. These were not considered significant to the objectives of the audit but warrant the attention of management. Consequently, they do not appear in this report.

## Background

The Building Inspections Department regulates Construction Codes within the City of Garland through plan reviews, issuance of permits and inspections to ensure continuity to model codes as approved by the Construction Advisory Boards and City Council. Once permits are issued and project construction begins, Building Inspection inspectors are called to perform inspections of projects throughout the various stages of construction.<sup>(1)</sup>

In addition, the Department coordinates externally with communities to help ensure that safety with construction projects and model codes are appropriately followed. The Department collaborates internally with other departments in the developmental process for Pre-submittal, Technical Review and Pre-construction meetings. These meetings take place on each and every site development within the City to ensure quality construction is taking place and continuity with City Council goals and recommendations are performed.<sup>(1)</sup>

The Building Inspections Department collects the majority of the permit fees. The Fire Marshall's office and the Engineering Department collect fees and issue permits as well. The Fire Marshall's office issues permits and collects fees for fire suppression systems, fire alarms, and other fees relating to hazardous chemicals and State Inspections while the Engineering Department collects fees and issues permits on a limited basis.

All three departments utilize permitting software called PermitsPlus which allows the department to record payments as well as provides a portal for contractors to request and pay for permits over the internet.

Permit revenue for the previous two fiscal years is listed below:

<b><i>Licenses &amp; Permits</i></b>	<b><i>2011-12 Actual</i></b>	<b><i>2012-13 Revised</i></b>	<b><i>2013-14 Budget</i></b>
Building Permits	\$851,972	\$564,700	\$665,201
Electric & Plumbing Permits	\$524,943	\$502,697	\$516,740
Sign Permits	\$134,056	\$126,083	\$120,128
Inspection Fees	\$254,866	\$245,729	\$273,697
Other Permits and Licenses <sup>(2)</sup>	\$1,508,123	\$1,215,445	\$1,397,471
<b><i>Total</i></b>	<b><i>\$3,273,960</i></b>	<b><i>\$2,654,654</i></b>	<b><i>\$2,973,237</i></b>

Source: FY2013-14 Annual Operating Budget

<sup>(1)</sup> COGnet

<sup>(2)</sup> Other Permits and Licenses include solicitor permits, alcohol sales permits, alarm permits and ROW contractor fees not necessarily issued by the departments reviewed in this audit.

## Opportunities for Improvement

During our audit we identified certain areas for improvement. Our audit was not designed or intended to be a detailed study of every relevant system, procedure, and transaction. Accordingly, the Opportunities for Improvement section presented in this report may not be all-inclusive of areas where improvement might be needed.

### Finding #1

#### Condition (The way it is)

The Building Inspections department collects payments for permits issued using the PermitsPlus system. Payments are received via cash, check or credit card.

In our review of internal controls surrounding the collection of fees for permits issued by the Building Inspections department, we found that the department lacked segregation of duties regarding the Permits Supervisor's responsibilities. The Permits Supervisor's responsibilities include the following:

- Perform cash balancing and depositing.
- Enter deposit information into the Finance system.
- Act as backup relief cashier on behalf of the permit technicians.
- Administration of the PermitsPlus system.
- Sets up new users and issues their passwords in the system.

#### Criteria (The way it should be)

- In the normal course of duties, no employee should have custody of assets, authorize or approve related transactions affecting those assets and record or report related transactions.
- IT Department should be responsible for user setup and password management.

#### Effect (So what?)

- A lack of segregation of duties can result in inappropriate activities that could result in a loss to the City.
- Other employee login information could be used inappropriately.

#### Cause (Difference between condition & criteria)

- Management lacked awareness of the risk associated with not ensuring segregation of duties over cash handling and user setup.
- The department is small in size and therefore has fewer resources.

#### Recommendation

Management should consider:

- Conducting a review of activities (including cash handling & Permit Plus) performed by the Permit Supervisor at least on a monthly basis. Any

- irregularities identified shall be researched and documented.
- Shifting user setup and password management responsibilities to the IT department.

**Management Response**

We concur , management will look at a plan to better oversee a checks and balance system over the Permit Supervisor

**Action Plan**

Taking the fees collected detail listing at the end of the month and checking them verses the actual income collected for that month. Also, we want to shift the user set up for passwords over to IT.

**Implementation Date**

3-3-2014

**Auditor's Comment**

IA discussed with management to consider conducting the following actions as well:

- Review the PermitsPlus Daily Transactions report against the Daily Balance report and daily bank deposit to ensure the totals match.
- Review receipt numbers in the PermitsPlus Daily Transactions report to ensure they are sequential and no gaps exist.
- Review the PermitPlus Daily Transactions report and verify employee login credentials are not being used inappropriately.

## Finding #2

### Condition (The way it is)

IA compared the Building Inspection fees published online by the department, with the fees listed in the Ordinances and the fees charged in the system. The following conditions were revealed:

- A. IA found that 15 fees differed between City Ordinance 6485 and the department's published fees, both effective October 1, 2011. IA determined that Fees charged in PermitsPlus were the fees listed in the Department's published fee listing. While conducting this audit a new City Ordinance 6641 (effective October 1, 2013) was issued to correct these errors.
- B. Our comparison of City Ordinance 6641 and the new Building Inspection Fee Schedule, both effective October 1, 2013 revealed 4 additional discrepancies (See Exhibit A). Upon IA's notification, the department indicated that going forward they would only charge the fees listed in the City Ordinance 6641.
- C. The following three fees charged by the department are not included in either the City Ordinance or the fees published by the department:
  1. Minor Commercial Repairs - \$75
  2. Major Commercial Repairs - \$175
  3. Commercial Foundation Repairs - \$55

Our review of permits issued in PermitPlus revealed assessment of these fees on several occasions.

### Criteria (The way it should be)

- A. & B. Fees charged and published by the department should match fees listed in the City Ordinance.
- C. Fees assessed by the department should be listed in the City Ordinance and the fees published by the department.

### Effect (So what?)

- A. & B. Lack of compliance with the City Ordinances
- C. Inappropriate fees could be charged.

### Cause (Difference between condition & criteria)

- A. & B. There was a disconnect in what the department's intentions were compared to what was presented to the City Council for approval.
- C. Management did not consider adding the three fees when the City

Ordinance was updated on October 1, 2013.

**Recommendation**

Management should ensure that:

- A. & B. Fees charged and published by the Building Inspections department match the fees approved in the Ordinance by the City Council.
- C. Fees charged in PermitsPlus are included in both the City Ordinance and the fees published by the Building Inspections department.

**Management Response**

We concur;

A&B. Management should make sure that the fees established in the ordinance are the correct fees being charged in Permits Plus.

C. Management is no longer charging these fees. A Fee analysis is currently being performed. Once complete, fees will be updated in the Ordinance.

**Action Plan**

IT has already made the changes in the system to reflect what ordinance has established.

**Implementation Date**

2-5-2014

### Finding #3

#### Condition (The way it is)

In our review of 62 active users in PermitsPlus, we found the following:

- A. The Fire Marshall's Office has 9 users that share a login ID and password to process permits through PermitsPlus.
- B. We noted that one of the 9 has a unique user name and password, however it was not used since November 2005.
- C. 11 active employees had not utilized the system prior to 2011 and 3 terminated employees continued to have access to the system. Out of the 11 active employees, our inquiry with management revealed that 9 no longer needed access to the PermitsPlus system.

#### Criteria (The way it should be)

- A. PermitsPlus users should have individual login IDs and passwords rather than a group login ID and password.
- B. Users should use their unique IDs and passwords, if already provided.
- C. PermitsPlus is a revenue application, therefore user access should be reviewed annually.

#### Effect (So what?)

- A. & B. Without individual login IDs and passwords, there is no audit trail or individual accountability.
- C. Without periodic user access review, management cannot verify that appropriate access has been granted and that the application is utilized accordingly. User access should be based on least privilege.

#### Cause (Difference between condition & criteria)

- A. The IT department does not manage user access rights to the PermitsPlus system and unique user login IDs and passwords are not setup.
- B. The individual was not aware of his/her user name and password.
- C. PermitsPlus is not listed on the Annual User Entitlement Review.

#### Recommendation

Management should consider:

- A. Transitioning user and password administration to the Helpdesk and ensure that the 8 users have separate user IDs and unique passwords.
- B. Requesting a reset of the user's ID and password and require its use on a

regular basis.

- C. Add the PermitsPlus application to the Annual User Entitlement Review and ensure that terminated employees and users no longer need access are deactivated.

**Note:** Upon notification to the Permits Supervisor, the 9 users who no longer needed access to the system and the 3 terminated employees were immediately deactivated.

**Management Response**

We concur with the request to transfer user ID's access to the Helpdesk of IT. In addition, we will ensure the PermitsPlus application is added to the Annual User Entitlement Review.

**Action Plan**

Transitioning user and password administration to the Helpdesk and ensure that users have separate user IDs and unique passwords. Building Inspections will request that IT add PermitsPlus to the Annual User Entitlement Review.

**Implementation Date**

Have to check with the IT department on a date.

## Finding #4

### Condition (The way it is)

IA reviewed the permit process at the Fire Marshal's Office and found the following:

- A. Checks collected for permits are not endorsed upon receipt. They are endorsed when the deposits are processed on a weekly basis.
  
- B. Permits are voided for various reasons. In our review of voided permits, we found 5 permits which were voided in the system. Of the 5 voided permits, 2 showed that funds were collected, then later voided. There were no notes in the PermitsPlus system to indicate why the permits were voided. Our inquiry with the department revealed that funds would not be refunded if work had already been performed.

### Criteria (The way it should be)

- A. Finance Directive 1 - Cash Handling Procedures 1.4 states "Upon receipt, all checks shall be properly endorsed." and "Each day's receipts will be deposited no later than the following business day."
  
- B. Notes should be input in the system to explain why permits are voided whether fees are refunded or not.

### Effect (So what?)

- A. The Fire Marshal's Office is out of compliance with Finance Directive 1. An immediate endorsement prevents check fraud from a third party if the check is lost or stolen.
  
- B. There is no audit trail. Inappropriate activities could go undetected.

### Cause (Difference between condition & criteria)

- A. Personnel were unaware of the directive.
  
- B. The Fire Marshal's office was unaware that they could include notes in the system for voided and refunded permits.

### Recommendation

Management should consider:

- A. Ensuring checks are endorsed immediately upon receipt.

B. Input notes into the system to indicate why permits are voided and refunded.

**Management Response**

Concur.

**Action Plan**

- A. We have purchased an endorsement stamp and checks are now endorsed immediately.
- B. Notes are now added to the notes section to indicate why a permit or check is voided or a refund issued.

**Implementation Date**

- A. January 30, 2014
- B. November 2013

**Exhibit A**  
**City Ordinance 6641**  
**vs. Building Inspection Fee Schedule**

<i>City Ordinance Category and Description</i>	<i>City Ordinance 6641 Effective 10/1/2013</i>	<i>Building Inspections Fee Schedule Effective 10/1/2013</i>
<b>Multi-Family New</b>		
Per structure for electrical on garages/carports	\$70.00	\$90.00
<b>Multi-Family Miscellaneous Permit Fees:</b>		
Mechanical	\$70.00 (per unit, minimum \$140.00)	\$90.00 (Minimum \$180)
Electrical	\$70.00 (per unit, minimum \$140.00)	\$90.00 (Minimum \$180)
Plumbing	\$70.00 (per unit, minimum \$140.00)	\$90.00 (Minimum \$180)