The City of Lynchburg
Department of Community Planning and Development
Review of Building and Miscellaneous Permit Fees

Report & Management Responses

September 15, 2005

Prepared by the Department of Internal Audit

The City of Lynchburg
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September 16, 2005

TABLE OF CONTENTS

Introduction…….2

Review Objectives…….. 2

Scope of Work……..…3

Opinion on Internal Controls……. .3

Review Conclusions…….3

Observations, Suggestions & Management Responses ….…….4

Other Comments ..…….10

Report Distribution List ……11

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Introduction

The City issues Building and Miscellaneous Permits for building, repair, renovation, electrical, mechanical, gas, plumbing, new elevators, plan reviews, manufactured housing, tents and membranes, demolitions, moving, asbestos removal, amusement devices, and signs. Fees are collected for each type of permit requested based on the "CP&D – Inspections – Code Enforcement Fee Schedule." Permit issuance is handled in Community Planning and Development in compliance with the City's Code and the Virginia Uniform Statewide Building Code (VUSBC).

A permit can be obtained by submitting a completed application, and other required documentation, to Community Planning and Development. Once the necessary reviews have been completed, and the required fees are paid, a permit will be issued. The Community Planning and Development division uses TrakIT software to maintain the data and monitor the inspection process. TrakIT software was purchased from CRW Associates in San Diego, California and implemented in July 2003.

Permit fees paid by check may be accepted by employees within the Community Planning and Development division. These check payments are then taken to Billings and Collections for further processing. All permit fees paid by cash must be taken directly to Billings and Collections for processing. The TrakIT system is updated to denote "paid" for all permit fees collected in Billings and Collections and Community Planning and Development. Once the payments are processed in Billings and Collections, the Revenue Accounting interface module records the payment information in the City of Lynchburg's financial records.

This review was performed as a regularly scheduled review with the approval of the Audit Committee.

Review Objectives

The purpose of the review was to determine that:

- Controls are adequate over the TrakIT System;
- Permit fees are collected as required by City Ordinance;
- Fees collected for permits agree with the authorized fee schedule;
- Fees are accurately recorded on TrakIT;
- Fees are accurately deposited in a timely manner;
- Revenue from permit fees is accurately recorded on the financial records;
- Written requests are on file for refunded fees in compliance with VUSBC and City Code; and
- The 1.75% state levies are collected, are accurate and properly remitted to the state.

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Scope of Work

The review covered the period of July 1, 2004 through March 31, 2005 and included a review of a sample of permit numbers obtained from the TrakIT system. We traced the permits to the applications and issuance documents on file, and confirmed plan reviews, where applicable. We recalculated fees charged and traced them to the posting on the TrakIt system and to the recording on the financial system. State levies collected were recomputed and traced to the financial records and proper remittance to the State and permit fee refunds were reviewed for accuracy and appropriateness. In addition, we performed a review of the TrakIt system's controls over data reliability.

The audit was conducted in accordance with professional internal auditing and generally accepted governmental auditing standards specified in the City's Internal Audit Charter and, accordingly, included such tests of records and other audit procedures as were considered necessary in the circumstances.

The Internal Audit Department is free from organizational impairments to independence in our reporting as defined by government auditing standards. We report directly to an audit committee and, administratively to the city manager and are organizationally outside the staff or line management function of the areas we audit.

Opinion On Internal Controls

The objectives of a system of internal control are to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and are properly recorded.

It is our opinion that controls over receiving and processing payments in Community Planning and Development need to be strengthened to ensure proper safeguarding from loss or misuse. Additionally, the TrakIT system's levels of access do not adequately prevent transactions from being recorded improperly and allows deletions and system overrides. Furthermore, a lack of reconciliation between TrakIT data and the financial records of the City do not assure reliance that these transactions are properly recorded.

Review Conclusions

Based on the results of our review, we conclude that:

- Controls are not adequate over the TrakIT System;
- Permit fees may not be collected as required by City Ordinance;
- Fees collected for permits agree with the authorized fee schedule;

- Fees are accurately recorded on TrakIT, *except where noted in the Observations and Suggestions section of this report;*
- Fees are not always deposited in a timely manner;
- We were unable to determine if revenue from permit fees is accurately recorded on the financial records;
- Written requests from the applicants are not in the file for three out of five files for refunded fees in compliance with VUSBC and City Code;
- The 1.75% state levies appear to be accurate and are properly remitted to the state.

Observations and Suggestions

I. Weak Internal Control System

During our review, we noted the following areas that are indicative of a weak internal control system:

a) Checks received in payment for building permits in Community Planning are not stamped with a restrictive endorsement upon receipt. Prompt endorsement ensures that checks are safeguarded between the time of receipt and the time of deposit. Without immediate endorsement, checks could be altered if lost or misplaced.

b) Items paid by check and collected in Community Planning are not logged on a control sheet (Payment Received Log) as required by the City's procedures. Nor is a Report of Collections prepared prior to submitting the checks to Billings and Collections for further processing. Therefore, there is no assurance that all payments received are deposited and recorded in the City's financial records.

c) Data entered into the TrakIT system is not reviewed for accuracy. We noted a fee refund that was granted due to an inaccurate valuation entered into the TrakIT system. Fees are assessed based on valuation. Therefore, an inaccurate valuation would cause the fee to be inaccurate. Additionally, we found an instance where the permit fees appeared to be entered twice. This may have been caused by an error occurring at the time the valuation was input.

d) We were unable to tie permit fees marked as paid in TrakIT to general ledger activity in the City's financial system. Reconciliations are not performed between fees collected per TrakIT and fees posted as revenue by Billings and Collections.

e) The Risk Management Department was not aware that payments are accepted by some employees in Community Planning and Development. The required

background verifications for these designated employees are currently being performed to bring that area into compliance with City policy.

Suggestions:

We suggest that checks received in Community Planning and Development be immediately endorsed with the appropriate deposit stamp when accepted from the permit applicant.

Additionally, we suggest that all checks received in payment for permit fees be recorded on a "Payment Received Log" and that a "Report of Collections" be prepared as required by the Department of Financial Services. Specific requirements can be located in the Department of Financial Services' "Report of Collections Policies and Procedures."

In the event management decides these requirements can not be met, we suggest that all permit applicants be required to make payments directly to Billings and Collections.

We suggest that management consider establishing controls regarding the input and review of data into the TrakIT system. This could be performed by considering segregation of duties amongst the involved employees. Some employees could input the data, while others could review the data using reports generated from the TrakIT system.

Additionally, we suggest that a reconciliation be performed which ensures that permit fees recorded in TrakIT agree with fees received in Billings and Collections.

Management Response:

CP&D's previous policy required that citizens make payments directly to B&C. However, citizens complained that the waiting lines at B&C were too long at times (tax season and end of month payment deadlines). In an effort to be business friendly, CP&D began in 2003 to accept payments directly.

All checks received in payment for building permits in Community Planning & Development (CP&D) are now stamped with a restrictive endorsement upon receipt [policy enacted July 28, 2005].

Items paid by check and collected in CP&D are logged on a TrakIT report entitled Payment by Method. This has been our policy since July 2003 when the TrakIT system was installed. CP&D now provides a copy of this report daily to Billings & Collections (B&C) along with the checks received for that day [policy enacted July 28, 2005]. B&C reviews CP&D's checks received and Payment by Method report, then reconciles any discrepancies with B&C's fees posted as

revenue. The report is then filed with B&C's daily work. Please note that CP&D does not handle actual deposits nor recordation in the City's financial records. This is done through B&C in their accounts receivable system.

Additionally, B&C processes all checks received in payment for permit fees into New World Revenue Accounting as required by the Department of Financial Services. Staff in Financial Services believes that the City obtains more utility by posting individual payments through New World than through the suggested "Payment Received Log" or a "Report of Collections." They believe that recording on these would be redundant and ineffective. Processing individual payments is the only way to update TrakIT.

Data entered into the TrakIT system is reviewed for accuracy, however TrakIT has had software programmatic problems (i.e., duplicate listing of permit fees) which are beyond CP&D's control to correct. IT has corrected the duplication problem. CP&D continues to monitor for accuracy (nearly 2,200 building permits per year). In the case listed above (Item 1.c.), the inaccurate valuation was entered based on the valuation provided by the contractor. The customer returned to CP&D with a revised valuation figure and asked for a refund based on this new figure.

CP&D management has established controls regarding the input and review of data into the TrakIT system. This is performed by segregating duties amongst the involved employees. Sharon Lewis (Permit Technician) inputs the data, while Denise Donigan (Codes Administrator) reviews the data using reports generated from the TrakIT system.

The Risk Management Department contacted CP&D on May 20, 2005 to perform background checks on all employees who receive payments. This was completed on June 8, 2005 and the information is on file at CP&D.

II. <u>Weak System Controls</u>

a) The original permit expiration date can be altered in TrakIT once an extension of time has been granted. While system access to specific types of transactions is restricted dependent on the user, TrakIT does not appear to have any override reporting capabilities. Therefore, it is impossible to ensure that all changes to TrakIT data have been reviewed for accuracy and appropriateness.

b) The software interface between TrakIT and the cash register system in Billings and Collections alters the date paid in TrakIT. The paid date is changed to reflect the date processed in Billings and Collections rather than the date posted in Community Planning and Development at the time the check was originally received.

c) We found instances of permit fees which remained uncollected at the time of our review. A bypass flag will appear in TrakIT when someone attempts to record inspection information to a file where the fee remains unpaid. However, the flag is easily overridden. There are no reviews performed to ensure permit fees are paid.

Suggestions:

We suggest that management consider contacting the TrakIT vendor, CRW Associates, to determine if override reports can be obtained from the software. If so, we suggest these reports be reviewed on a regular basis by someone in a supervisory position.

We suggest that management consider changing the programming of the software interface so that it does not change the date paid if a paid date already exists in TrakIT. (In the event management decides to discontinue receiving payments in Community Planning, this precaution will no longer be necessary as the date of payment will always reflect the date input by Billings and Collections.)

We suggest that a TrakIT report of Outstanding Fees be reviewed periodically to ensure permit fees are paid as required by City Ordinance. Furthermore, we suggest TrakIT reports already available be generated and reviewed on a regular basis in an effort to verify data for accuracy.

Management Response:

IT has confirmed that TrakIT does not have override reporting capabilities. In CP&D, only the Building Official (Bob Drane), the Property Maintenance Official (Wayne Craig), and the Codes Administrator (Denise Donigan) have the authority to grant an extension of time. TrakIT automatically documents who made the extension and this cannot be deleted or altered. None the less, the Building Official now runs a monthly report of any overrides for the Director's review [policy enacted July 28, 2005].

IT will be adding another "date payment received" column in TrakIT and another "date payment processed" column in Financial Services' cash register system

The Building Official and Codes Administrator are the only staff authorized to override the bypass flag. There are certain situations when fees are not collected (i.e., Public Works projects, Public School projects, etc.) and therefore the override is necessary. As mentioned above, the Building Official now runs a monthly report of any overrides for the Director's review [policy enacted July 28, 2005].

III. Inconsistent Practices

a) Within our sample, there were inconsistencies in assessing the Plan Review Fee. The Building category consists of renovation, new construction, additions and repairs. In the new construction and renovation categories, we noted that in some instances the Plan Review Fee was assessed while not in others.

b) The published "CP&D Inspections Code Enforcement Fee Schedule" does not include the fees required for Commercial Land Disturbance and Agreements in Lieu (residential land disturbance). Therefore, we can have no assurance that fees for these items are being assessed properly.

c) Documentation of written requests (either scanned image or hard copy) from permit holders for refunds of permit fees were not available in all cases where fees were refunded. The VUSBC requires permit fee refunds to be requested by the applicant in writing. Departmental practice is to scan the document into the TrakIT system. Of the five refunds granted during our review period, four TrakIT files did not contain a scanned image of the written request. Additionally three out of five had no hard copy of the refund request document in the refund file.

d) There are no written Policies or Procedures governing the use of the TrakIT system. Although the software provider provided a Software Functions Manual and an Administrator Manual, the City has not established written guidelines for the use of the system or for the procedures used within the department.

Suggestions:

We suggest that a written policy and procedures be developed to govern the appropriate use of TrakIT. This would assist users by providing guidelines for use as well as documentation of specific departmental procedural requirements. While it appears that procedures have been established, these procedures are committed to memory and are not in writing. This can lead to inconsistency in data and general confusion within the department.

We suggest that management determine when it is appropriate to perform a plan review, and ensure these fees are assessed uniformly for each type.

Additionally, procedures regarding requests for refunds of permit fees should be addressed and steps taken to ensure compliance with the VUSBC.

Additionally, we suggest that the published Fee Schedule be revised to include all applicable fees.

Management Response:

CP&D has discussed the possibility of written Policies and Procedures with IT since they are the owners of the TrakIT system. We will help them in anyway we can and expect written policies and procedures by October 2005.

In certain cases, Plan Review Fees, are not required and therefore not assessed. For example, a contractor pays a fee for the review of one "spec house" plan. The builder may build one house or one hundred houses using this particular spec house plan, but is only charged once for the plan review. In the case of renovations, certain renovations do not require plans review because the floor plan is not changing – instead the contractor may be putting in a new electrical, plumbing, and/or heating system. While a building permit is required for system upgrades, a plan review is not. Management has determined when it is appropriate to perform a plan review and ensure these fees are assessed uniformly for each type.

The fees required for Commercial Land Disturbance and Agreements in Lieu are listed electronically in TrakIT and are automatically calculated when a permit is issued. CP&D has added these fees to the written document, "CP&D Inspections Code Enforcement Fee Schedule" [revision enacted July 28, 2005].

Written requests for permit refunds are available and kept in the files of our Office Manager, Melva Walker. They are kept in her files because she is the one who is responsible for processing the refund request through Financial Services. Written requests for permit refunds are also kept on file in Financial Services. We do not issue refunds without a written request from the applicant and we comply with VUSBC requirements in this regard. We now keep a third copy of the refund request in the Inspections Division files. We now also scan the written refund request for our TrakIT files [policies enacted July 28, 2005]. Therefore, four copies of the written request are on file.

IV. <u>Inaccuracy of System Data</u>

TrakIT files are not always updated to reflect accurate data when changes occur.

a) A refund was paid due to an incorrect valuation entered at the time a permit was obtained. The TrakIT system automatically calculates the fee based on the valuation. This permit was originally issued for a valuation of $3,650,573.00; however, the correct valuation should have been $3,065,573.00. While a refund was given for the excess value, the TrakIT data was not revised, nor was a notation made in the TrakIT file concerning the incorrect value or fees.

b) Checks from applicants which have been returned due to insufficient funds are not recorded as unpaid in TrakIT. Returned items are invoiced to the customers by Billings and Collections; however, the permits remain unpaid. Applicants could inadvertently be issued additional permits in conflict with City Ordinance which states, "No permit shall be issued until the required fees shall have been paid, nor shall an amendment to a permit be approved until the additional fee, if any, due to an increase in the dimensions or size of the building or structure, shall have been paid." (Sec.11-211 Code enforcement fees.)

Suggestions:

We recommend that management take measures to ensure TrakIT data is accurate.

Additionally, we suggest that management consider implementing a procedure to identify permits paid with checks that are subsequently returned due to insufficient funds. These items should be indicated as unpaid in TrakIT and monitored accordingly.

Management Response:

This incorrect valuation was submitted by the contractor and then revised and resubmitted by the contractor. CP&D promptly provided him a refund when we were provided with the revised documentation. This was a one time situation where the Plans Reviewer approved the refund in lieu of the Codes Administrator to expedite the process in her absence. He went directly to the Office Manager, Melva Walker, to expedite the refund. The Plans Reviewer did not log in the change on TrakIT because this was the first and only time he has ever handled a refund. He thought the paper documentation that he placed in the project file was adequate and will now additionally log any paper documentation into TrakIT through the Codes Administrator.

The Delinquent Collections Coordinator for B&C now notifies the Building Official and the Codes Administrator if a check has been returned for insufficient funds. Upon this notification, a stop work order is issued [policy enacted July 28, 2005].

Other Comments

We appreciate the cooperation and assistance we received from the employees in Community Planning and Development and Billings and Collections while conducting this review. We are available to discuss this report should there be any questions or concerns.

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