

**Date:** November 24, 2014  
**To:** Harry Black, City Manager  
**From:** Lauren Sundararajan, CFE, Internal Audit Manager *LS*  
**Copies to:** Scott C. Stiles, Assistant City Manager  
William E. Moller, Assistant City Manager  
Charles C. Graves, III, Director of Planning and Buildings  
Pam King, Acting Director of Citizen Complaint and Internal Audit  
**Subject:** **City Planning and Buildings - Permit Center Audit**

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Attached is the Department of City Planning and Buildings – Permit Center audit report. This performance audit examined and evaluated the Permit Center to determine if there were strong internal controls in place for handling monetary receipts, operations were effective and efficient, and performance goals and objectives were reviewed. We have completed the audit in accordance with Internal Audit's current work plan.

We would like to thank the management and staff of the Department of City Planning and Buildings for their assistance and cooperation during the audit.

If you need any further information please contact me.

Attachment

# City Planning & Buildings Permit Center Audit

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November 2014



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Internal Audit Manager

Tamar Mason, CPA  
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## **Table of Contents**

Executive Summary	1
I. Introduction	2
Background	
Audit Selection	
Audit Objectives	
Audit Scope and Methodology	
Statement of Auditing Standards	
Commendations	
II. Audit Findings and Recommendations	4
III. Conclusion	8
IV. Department of City Planning & Buildings Response	9

## **Executive Summary**

Internal Audit (IA) performed an audit of the Department of City Planning and Buildings Permit Center (Permit Center). The audit objectives were: to determine if the Permit Center had a strong internal control structure in place for handling monetary receipts, operations were effective and efficient, and performance goals and objectives were reviewed.

A strong internal control structure for handling monetary receipts involves recording financial transactions as they occur, providing routine monitoring and oversight, and implementing checks and balances. While reviewing the cash handling process, IA found several customer payments for services were not recorded, and controls were not in place to detect the omission. Additionally, after customer payments were received, monetary receipts transferred several hands prior to being deposited. Due to the inherent nature of monetary receipts being highly susceptible to abuse and loss, enforcing stronger cash handling controls is imperative.

In addition to strengthening controls over handling monetary receipts, IA found other areas where the department objectives may not be achieved if stronger controls are not implemented. For example, IA found the department does not have policies and procedures in place for managing trust accounts, and the department's refund policy excludes relevant guidelines for managing the refund process. Additionally, refunds were not properly recorded or reviewed, data inconsistencies were not reconciled, and performance measures were not re-evaluated to ensure performance measures were aligned with the department's goals and objectives. Management review and oversight of key processes are necessary to ensure controls are functioning as intended.

The department has taken steps to enhance some procedures; however opportunities for further improvements exist. To address these findings, IA recommends implementing stronger controls over cash handling, implementing additional policies and procedures for managing trust account transactions and the refund process, increasing management review and oversight, reconciling data inconsistencies, and re-evaluating performance measures.

## **I. Introduction**

### **Background**

The Department of City Planning and Buildings is made up of two Divisions, the Planning Division, and the Building Division. The Planning Division administers the regulation of land use and Historic Conservation. In carrying out its duties, the Planning Division provides professional guidance to property owners concerning certificates of appropriateness and other actions affecting historic resources. The Planning Division also administers zoning codes, subdivision regulations, and other land use regulatory processes. The Planning Division operates out of the Centennial II building and the Permit Center.

The Building Division oversees the issuance of contractor licenses and construction permits. They examine plans to ensure they comply with the requirements of the zoning code and the building code. The Building Division also performs building and elevator inspections, and is responsible for the daily operations of the Permit Center. The Permit Center, located at 3300 Central Parkway, offers a single point-of-contact service for Cincinnati homeowners, small business owners, construction personnel, and others involved in the development and building permit process. To accommodate individuals and the changing needs of development, the Permit Center offers after hours/weekend plan examination, express plan examination, same-day permit issuance and other time-saving services. Additionally, individuals may also apply for permits online via ez-Trak services.

The department implemented a fee increase for services on July 1, 2014. The Customer Service section of the Building Division, records all payments received by the department. Occasionally, the Planning Division's Centennial II office receives customer payments. The Planning Division monetary receipts are transferred to the Building Division to be deposited. Both divisions utilize the Permits Plus database system to enter and track daily activity, such as customer payments, permits issued and other pertinent data.

As a courtesy to customers, the department established trust accounts in efforts to speed up the permit process. Trust accounts are prepaid accounts created in Permits Plus. The customer deposits money into the account, and is given a receipt. As the customer submits permit applications, the permit fee is deducted from the customer trust account balance.

In FY2014 the Department of City Planning and Buildings reported approximately \$7 million in revenue.

### **Audit Selection**

IA conducted this audit as part of the current audit agenda.

### **Audit Objectives**

The audit objectives were to determine if the Permit Center had a strong internal control structure in place for handling monetary receipts, operations were effective and efficient, and performance goals and objectives were reviewed.

### **Audit Scope and Methodology**

This audit encompassed pertinent city staff, records, and IT systems related to the Permit Center. Events occurring between January 1, 2013 and July 31, 2014 were reviewed.

To accomplish the objectives of this audit, IA used the following methodologies: interviewed city staff, reviewed policies and procedures, analyzed data, examined cash recap reports and various daily cash receipts documentation.

### **Statement of Auditing Standards**

As required by Article II, Section 15 of the City of Cincinnati Administrative Code, this audit was conducted in accordance with the Generally Accepted Government Auditing Standards (GAGAS), except for standard 3.96 pertaining to external peer review requirements. This exception did not have a material effect on the audit. Audit fieldwork was performed between August and September of 2014.

### **Commendations**

Internal Audit commends the staff of the Department of City Planning and Buildings on their cooperation throughout the audit.

## II. Audit Findings and Recommendations

### *Internal controls over cash handling needs strengthening.*

Strong internal controls over monetary receipts are necessary to minimize the risk of loss and abuse. IA found the Planning Division was not recording customer payments in Permits Plus upon receipt, and monetary receipts collected by the Planning Division transferred hands several times before being included in the daily deposit. Additionally, records of the transfers were not documented.

IA randomly selected 25 receipts issued to customers in 2014 to verify the transactions were properly recorded in Permits Plus. Only 2 (8%) of the transactions were recorded. IA conducted further testing by randomly selecting 25 receipts issued to customers in 2013, and found that none of the payments were entered into the system. IA inquired with management, and confirmed that customer payments received by the Planning Division Centennial II office were not routinely entered into Permits Plus. However, the customer payments were included in the daily deposit. Strong internal controls require daily checks and balances to ensure all monetary receipts are properly and accurately recorded.

Additionally, the appropriate tools were not in place to properly handle customer payments. For example, the Planning Division was not utilizing a cash register or credit card machine. Customers had to either write a check or pay with cash. Without a sufficient internal control system in place for handling monetary receipts, management will not detect errors or omissions in a timely manner.

Other areas observed during the audit where controls should be strengthened involves documenting transfers of monies from employee to employee, making timely bank deposits, establishing procedures to minimize the risk of accepting checks from non-contractors who have previously issued a bad check, documenting checks received through the mail, and restrictively stamping checks upon receipt. Implementing stronger controls in these areas would help safeguard City assets.

**Recommendation 1:** The Planning and Buildings Department should consolidate their cash handling function and direct customers to the Permit Center.

**Department Response:** The Department does not agree with this recommendation. Planning & Buildings feels requiring customers who do business with the Planning Division at Centennial II to drive to the Permit Center to pay for those services would create an undue hardship while providing poor customer service. The Department will train a staff member to enter the payment in Permits Plus at the time of the payment. All checks will be endorsed immediately upon receipt. Staff will continue to track all payments on paper as well. Checks will be delivered to Customer Service at the Permit Center and deposited within 24 hours. Planning will not have a credit card machine or cash register. A signature will be required when checks are delivered to the Permit Center.

**Internal Audit Response:** *The controls that the Department is looking to implement are steps in the right direction; however, it does not fully address all the short comings found during the audit. This in turn still leaves the City at risk. If consolidating the Planning Division with the Permit Center is not an option, then the only way to rectify the situation would be to duplicate the existing controls from the Permit Center. This process would not be efficient or cost*

*effective; however, it will ensure consistency across all departments citywide with regards to cash handling.*

**Recommendation 2:** The Planning and Buildings Department should ensure that all of the Planning Division customer payments are properly recorded in Permits Plus. A reconciliation of the Planning Division receipts to the Daily Balance Sheet report should be performed on a routine basis to ensure financial data is accurate and reliable. Any errors or discrepancies should be resolved.

**Department Response:** The Department agrees. As noted above payments will be recorded by Planning in Permits Plus. Customer Service will reconcile the Planning receipts on the Daily Balance Sheet.

**Recommendation 3:** The Planning and Buildings Department should consult with the Finance Department to implement procedures that address documenting monetary transfers, verifying the reason for bank deposit delays, flagging non-sufficient fund accounts, documenting checks received through the mail and restrictively endorsing checks upon receipt.

**Department Response:** Planning & Buildings agrees to consult with the Finance Department. The Department will endorse all checks upon receipt.

*Comprehensive policies and procedures are needed for managing trust accounts and refunds.*

Policies and procedures are a key component of internal controls. Policies are designed to provide direction to staff on how to properly manage a particular function. Procedures provide employees with instructions on how to carry out the day to day activity. IA found the department did not have documented policies and procedures in place for managing trust accounts. Department management indicated that the process of creating a trust account policy is underway; however, guidance from the Finance Department may be needed to ensure the policy covers all aspects of managing trust accounts. Implementing and enforcing policies and procedures for managing trust accounts would provide guidance to staff and ensure that they are being managed responsibly.

The department's refund policy did not include procedures for recording refunds in Permits Plus, analyzing refund activity, or guidance on obtaining proper authorizations. IA found refund transactions were not properly captured in the system, account balances did not reflect refund adjustments, and the same person who authorized refunds also entered refund data into Permits Plus. Additionally, refunds exceeding a specified amount did not necessitate senior management approval. IA also found refunds were manually calculated, increasing the risk of errors, and refund data was not maintained in a concise, readable report. Implementing comprehensive policies and procedures provides guidance to the staff and ensures that processes are operating efficiently.

**Recommendation 4:** The Planning and Buildings Department should work with the Finance Department to implement comprehensive policies and procedures for managing trust accounts.

**Department Response:** Planning and Buildings concurs. The Department is in the process of implementing an audit procedure for trust accounts and expects this to be in place by July 1, 2015. The Supervisor of Customer Service will have refunds over \$1,000 approved by the

Director or Deputy Director. The Supervisor will no longer authorize refunds initiated by her. The Department is currently unable to enter refunds in Permits Plus and will work with Cagis regarding this issue.

**Recommendation 5:** The Planning and Buildings Department should work with the Finance Department to implement comprehensive policies and procedures for managing the refund process. At a minimum, refund policies and procedures should include processes for recording refunds in the system, procedures for analyzing refund activity, obtaining proper refund authorizations, specifying refund amounts necessitating senior management approval, and preparing refund reports.

**Department Response:** Planning and Buildings concurs. In addition it will work with Cagis regarding the recording of refunds in Permits Plus. A \$1000 refund limit has been instituted as indicated in Recommendation 3. The Customer Service Supervisor will create and check a monthly refund report.

*Management review and oversight was lacking.*

Management review and oversight is another key component of internal controls. Management oversight is necessary to ensure processes are functioning as intended and errors or irregularities are detected. IA found trust account coding discrepancies, trust account balances were not reviewed, multiple trust accounts were created for the same owner, and a refund was incorrectly refunded to the wrong trust account. When brought to management's attention, the refund issued to the wrong trust account was immediately corrected. Without proper oversight in place errors or irregularities will not be detected.

The department implemented a fee increase effective July 1, 2014. IA found instances where the fee increase was not enforced on deed stampings, certificate of appropriateness, and historic conservation board hearings. These irregularities may warrant additional management review.

**Recommendation 6:** The Planning and Buildings Department should thoroughly review trust account balances on a routine basis to ensure accuracy.

**Department Response:** Planning & Buildings agrees.

**Recommendation 7:** The Planning and Buildings Department should review fees charged to customers since July 1, 2014, and clarify any issues or misunderstanding concerning the fee schedule. Additionally, any exceptions to the current fee schedule should be approved by management and documented.

**Department Response:** Planning Buildings agrees to review fees and exceptions will be noted. Fee variances must be approved by the Director and reason noted in the record.

*Data inconsistencies were found.*

Reliable internal reporting provides management with useful information concerning operational performance. Information must be accurate and verifiable; however, IA found inconsistencies in reporting data. Monthly reports summarizing daily fees received did not match other monthly fee reports used for year-end reporting purposes. Historical data reports generated for a specific time frame reported different totals. Another report included amounts for the Vacant Building Maintenance License section which is no longer managed by the Building Division. Department management was unable to provide a thorough explanation as to what caused the differences because reconciliations were not prepared. Preparing reconciliations is a control activity that assists management with detecting irregularities and omissions. Without having controls in place to ensure data is accurate, errors or inconsistencies will go unnoticed and data will lack integrity.

**Recommendation 8:** The Planning and Buildings Department should reconcile reporting data to identify the causes of these inconsistencies and work with IT to resolve the issue.

**Department Response:** Planning and Buildings concurs and will consult with Cagis on the reporting issues.

*Performance measures were not re-evaluated.*

Management uses performance measures to gauge an operation's effectiveness and efficiency. Generally, performance measures should be aligned with the department's goals and objectives, and be refined on a routine basis to maintain relevancy. IA found the department did have a system in place for reviewing performance measures; however, they have not been re-evaluated to align with the department goals and objectives. Implementing a system to re-evaluate performance measures could improve the assessment process.

**Recommendation 9:** The Planning and Buildings Department should re-evaluate performance measures on a routine basis and determine if they are relevant and aligned with the department's goals and objectives.


**Department Response:** Planning and Buildings concurs.

### **III. Conclusion**

The Department of City Planning and Buildings provides valuable services to the public. Internal controls must operate effectively to ensure the department's objectives are met. The audit revealed key processes were not functioning appropriately and controls were not in place to detect errors. Several of the issues pertained to unrecorded customer payments, refund processing limitations, trust account discrepancies, and data inconsistencies. The department has taken steps to enhance some procedures; however opportunities for further improvements still exist. To address these findings, IA recommends implementing stronger controls over cash handling, implementing additional policies and procedures for managing trust account transactions and the refund process, increasing management review and oversight, reconciling data inconsistencies, and re-evaluating performance measures.

#### **IV. Department of City Planning & Buildings Response**

**Date:** November 21, 2014  
**To:** Lauren Sundararajan  
**From:** Charles C. Graves III, Director, Department of Planning & Buildings  
**Subject:** AUDIT RESPONSE



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Attached is the response to the audit of the Department of Planning and Buildings.

## Department of Planning and Buildings Response

**Recommendation 1:** The Planning and Buildings Department should consolidate their cash handling function and direct customers to the Permit Center.

**Response:** The Department does not agree with this recommendation. Planning & Buildings feels requiring customers who do business with the Planning Division at Centennial II to drive to the Permit Center to pay for those services would create an undue hardship while providing poor customer service. The Department will train a staff member to enter the payment in Permits Plus at the time of the payment. All checks will be endorsed immediately upon receipt. Staff will continue to track all payments on paper as well. Checks will be delivered to Customer Service at the Permit Center and deposited within 24 hours. Planning will not have a credit card machine or cash register. A signature will be required when checks are delivered to the Permit Center.

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