



CITY OF SAN ANTONIO

P. O. BOX 839966
SAN ANTONIO TEXAS 78283-3966

January 5, 2010

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Mayor and Council Members:

SUBJECT: Building Permits Issuance and Collections Process Audit Report

We are pleased to send you the audit report of the Building Permits Issuance and Collections Process in the Planning and Development Services Department (PDSD). This audit began in February 2009 and concluded with an exit meeting with department management in November 2009. Management's verbatim response is included in Appendix B of the report. PSDS should be commended for their cooperation and assistance during this audit.

The Office of the City Auditor is available to discuss this report with you individually at your convenience.

Respectfully submitted,

Barry Lipton, CPA, DABFA
Deputy City Auditor
City of San Antonio

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CITY OF SAN ANTONIO
OFFICE OF THE CITY AUDITOR



Audit of Building Permits Issuance and Collections Process

Planning and Development Services Department

Project No. AU09-004

January 5, 2010

Executive Summary

As part of the annual Audit Plan, we conducted an audit of the Building Permits Issuance and Collections Process in the Planning and Development Services Department (PDSD). The audit objective, conclusions, and recommendations follow:

Does PSDS have adequate controls in place to effectively issue building permits and collect the related payments?

More effective controls are needed to ensure:

- Collection of appropriate payments for plan reviews and fees related to building and trade permits,
- Refunds made by PSDS are supported and made only within established time limitations, and
- Only appropriate access to the Hansen system is permitted.

Specifically, PSDS:

- Did not charge approximately \$43,000 for plan review and/or permit fees for 47 of 1,879 permits issued during fiscal years 2008 and 2009. This occurred because the PSDS staff did not consistently recalculate fees for permits after they determined that applicants understated the value of projects on permit applications.
- Waived approximately \$13,000 more fees than allowed per the Incentive Scorecard System¹ (ISS). This occurred because PSDS does not have controls in place to ensure fees waived are within ISS limitations for projects with multiple building permits.
- Has no control in place to ensure payment by customers of all applicable fees for trade permits. Our review of 57 statistically selected trade permits identified eight that did not include certain relevant fees related to the work performed on the project and/or per the approved project plans.
- Has not implemented controls over customer refunds in compliance with the PSDS's cash handling policies and procedures. Controls require strengthening in the areas of support documentation, processing of refunds, and management approval.
- Does not have essential access controls in place for the Hansen system. PSDS does not ensure timely revocation of access privileges for individuals that no longer require access to the Hansen system. Some employees have access to system functions outside the scope of their responsibilities. In addition, a PSDS supervisor shares his logon ID and password with vault staff to facilitate workload accomplishment.

¹ The ISS is an incentive program approved by City Council. It provides waivers of plan review and permit fees to encourage business and residential development in specific targeted areas.

We recommend PDSO Director:

- Send bills to customers for the unbilled plan review and permit fees. Also, have the Hansen system configured to automatically assess plan review and permit fees according to Information Bulletin 141.
- Send a bill to the customer for plan review and permit fees erroneously waived. Also, establish procedures for monitoring the amount of fees waived on projects that qualify for the Incentive Scorecard System (ISS).
- Implement controls to ensure that customers pay for all relevant fees associated with trade permits.
- Comply with the Department's cash handling policies and procedures regarding customer refunds. In addition, consider revising the policy to decrease the number of days allowed for a refund.
- Ensure timely revocation of access privileges for individuals that no longer require access to the Hansen system. Ensure employee access to the Hansen system is consistent with assigned job responsibilities. Also, enforce compliance with the City's Administrative Directive 7.6 - Security and Passwords.

Management's verbatim response is included at **Appendix B** on page 9.

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Background

The Planning and Development Services Department (PDSD) is responsible for orderly development of the City of San Antonio. The Department accomplishes this through implementation of the City's Master Plan and regulation of land and building development. The Department issues commercial, residential, trade and other permits to control development. For fiscal year 2008, the Department recognized approximately \$19.8 million in revenue from building/trade permit fees and related plan review fees.

The Building Development Division in PSDS is responsible for the issuance and collection of fees for building/trade permits and related plan review fees. The Division assists customers in complying with various building-related codes, including the 2006 International Building Code². Division employees meet with customers to review plans and provide ideas prior to submittal of the project for formal PSDS approval. This Division also conducts inspections to ensure that buildings, structures, and related equipment are constructed or installed according to standards set by the City based on the 2006 International Building Code.

PDSD implemented the Hansen system in 2003 to manage issuance of permits and collection of related payments.

Audit Scope and Methodology

PDSD issued 84,705 permits from October 1, 2007 through January 31, 2009. We initially selected a judgmental sample of 30 building permits to review the accuracy of plan review and permit fees. After identifying a pattern of issues within these 30 building permits, we expanded testing to include plan review and permit fees for all commercial and residential building permits for new construction. Using Audit Command Language (ACL) software³, we identified 3,819 permits for new construction. We then created a formula using PSDS's schedule of fees⁴ to calculate plan review and permit fees for these building permits. We compared our calculated fees to the plan review and permit fees in the Hansen system for 1,879 of these permits. However, we did not evaluate plan review and permit fees for the remaining 1,940 permits due to the immaterial differences between our calculated fees and the fees charged in the Hansen system, and/or if PSDS's calculated value of the project was higher than the declared value by the customer.

² Building code standards developed by the International Code Council and adopted by City Council on August 31, 2006.

³ ACL is a data extraction and analysis tool that enables comprehensive, independent testing and monitoring of transactional data to help identify irregularities or patterns in transactions that could indicate control weaknesses or fraud.

⁴ The Department's Information Bulletin 141 - Determination of Valuation for Building Permit Applications requires the assessment of plan review and building permit fees based on the higher valuation of the project (i.e., applicant's declared value or PSDS's calculated amount).

Of the 84,705 permits (10,686 building permits, 68,803 trade permits and 5,216 other miscellaneous permits) issued during the audit scope, we selected a random attribute sample of 67 permits (8 building permits, 57 trade permits and 2 other miscellaneous permits) for testing. We reviewed the accuracy of fees charged for the trade permits. We determined that eight of the trade permits tested did not include certain relevant fees related to the work performed on the project and/or per the approved project plans. We are 90% confident that the actual weighted⁵ error rate is between 6.18% and 20.62%. However, we did not review the accuracy of fees charged for the eight building and two other miscellaneous permits from this sample since we performed separate testing on building permits (see previous paragraph).

We evaluated the propriety of fees waived from October 1, 2007 through January 31, 2009 by selecting a random attribute sample of 57 permits from the 373 building/trade permits with fees waived over \$100, valued at \$1.1 million. We determined that fees waived were appropriate for these 57 permits. We also reviewed fees waived for the two projects with multiple building permits issued during our audit scope.

We reviewed controls over customer refunds. Of the 232 refunds processed in the City's accounting system totaling \$89,227, we selected a random attribute sample of 52 refunds for review. Twenty-three or 44% of the refunds were missing required supporting documentation. We are 90% confident that the actual error rate is between 34.25% and 54.21% of refunds missing required supporting documentation. The review also identified three customers who received refunds but were not charged the required \$25 administrative fee and two customer requests for refunds were processed 383 days, and 85 days after the 6-month period allowed per the Department's cash handling policies and procedures. The results of this statistical sample indicate that between 3.69% and 15.54% of refunds had a processing issue as discussed above.

In addition, we reviewed a judgmental sample of 10 other refunds. These refunds included multiple payments to the same vendor, as well as refunds to vendors for the same amount.

We reviewed the appropriateness of employee access, assigned roles and authority in the Hansen system. Of the 512 Hansen system users, we judgmentally selected 85 for testing.

We interviewed PDSO personnel to obtain an understanding of the issuance and collections process for building permits. We reviewed relevant documentation, such as PDSO policies and procedures, departmental Information Bulletins⁶, City

⁵ A weighted rate is based on the proportion of items in the population to the proportion of items in the sample. This is used when the sample was not selected using a proportional or optimum stratification.

⁶ PDSO guidelines to assist customers comply with the 2006 International Building Code.

ordinances, and the 2006 International Building Code. We reviewed source documents that included permit applications and project plans.

We relied on computer-processed data in the Hansen system to review the issuance of building/trade permits and collection of the related payments. We obtained direct access to the Hansen system and analyzed data using ACL software. We performed direct tests of the data rather than evaluating the system's general and application controls. We do not believe that the absence of testing general and application controls had an effect on the results of our audit.

We conducted this audit from February 2009 to August 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate information to provide a reasonable basis for the results based on the audit objectives. We believe that the information obtained provides a reasonable basis for our audit results and conclusions based on our audit objectives. Our audit included tests of management controls that we considered necessary under the circumstances.

Audit Results and Recommendations

A. Collection of Fees

A.1 Plan Review and Building Permit Fees.

PDSD did not charge approximately \$43,000 for plan review and/or permit fees for 47 of 1,879 permits issued during fiscal years 2008 and 2009. This occurred because the PDSD staff did not consistently recalculate fees for permits after they determined that applicants understated the value of projects on permit applications. However, the Department's Information Bulletin 141 - Determination of Valuation for Building Permit Applications requires the assessment of plan review and building permit fees based on the higher valuation of the project.

A.2 Incentive Scorecard System Waivers.

PDSD waived approximately \$13,000 more fees than allowed per the ISS for one project that had multiple building permits. Another project requiring multiple building permits is at risk of exceeding the amount allowed per the ISS by approximately \$31,000. This occurred because PDSD does not have controls in place to ensure fees waived are within ISS limitations for projects with multiple building permits.

A.3 Trade Permit Fees.

No controls are in place to ensure payment by customers of all applicable fees for trade permits. Our review of 57 statistically selected trade permits identified eight or 15% that did not include certain relevant fees related to the work performed on the project and/or per the approved project plans. A PDSD Inspector identified some examples of items that were not included in fees charged. One of the eight trade permits did not include fees for switchboards and panel boards. These fees are typically associated with installation of circuit connections, which the customer paid with the permit application. Another trade permit did not include fees for panel boards and/or industrial commercial repair. These fees are typically associated with permit applications that require work with City Public Service. This occurred because there is no control or monitoring procedure in place to ensure that trade permit applications include all relevant fees for projects. Projecting the results of this statistical sample indicates that between 4,252 and 14,187 trade permit applications did not include all relevant fees associated with the work performed on the project.

A.4 Internal Controls over Refunds.

PDSD has not established controls to implement the Department's cash handling policies and procedures. Controls over customer refunds require strengthening in the areas of support documentation, processing of refunds, and management approval. The absence of controls over customer refunds could result in misappropriation of City funds.

Support Documentation

The statistical sample of 52 refunds reviewed, showed that 23 or 44% were missing required supporting documents. Projecting the results of this review indicates that between 79 and 126 refunds did not have required supporting documents on file. Specifically, we noted the following:

- 11 refunds totaling approximately \$7,300 did not have any supporting documents on file
- 12 refunds totaling approximately \$40,000, in addition to the 11 from above, did not have the required refund request form on file

Processing of Refunds

Three customers who received refunds were not charged the required \$25 administrative fee and two requests for refunds were processed 383 days, and 85 days after the 6-month period allowed per the Department's cash handling policies and procedures. Projecting the results of this statistical sample indicates that between 9 and 36 refunds had a processing issue as discussed above.

Our review also showed PDSD processed 20 refunds solely because customers stated they did not perform the work described on the permit. We determined that there is no control to ensure refunds paid up to six months after issuance of permits was appropriate.

Additionally, we reviewed a judgmental sample of 10 other refunds. These refunds included multiple payments to the same vendor, as well as refunds to vendors for the same amount. Based on this review, we identified three duplicate refunds totaling \$295.

Management Approval

A PDSD supervisor did not approve any of the 52 refunds in the City's accounting system. According to PDSD, a department supervisor does not approve refunds in the City's accounting system. Moreover, there is no requirement for the Finance Department to review refunds that are less than \$25,000. We believe that the absence of approval at the Department level creates an unnecessary risk to the City.

Recommendations: PDSD Director should:

A.1 Send bills to customers for the unbilled plan review and permit fees. Also, have the Hansen system configured to automatically assess plan review and permit fees according to Information Bulletin 141.

A.2 Send a bill to the customer for plan review and permit fees erroneously waived. Also, establish procedures for monitoring the amount of fees waived on projects that qualify for the Incentive Scorecard System (ISS).

A.3 Implement controls to ensure customers pay all relevant fees associated with trade permits.

A.4 Comply with the Department's cash handling policies and procedures for customer refunds. In addition, consider revising the policy to decrease the number of days allowed for a refund.

B. User Access, Roles and Authority in the Hansen System

B.1 Removal of Unnecessary User Access.

PDSO does not ensure timely revocation of access privileges for individuals that no longer require access to the Hansen system. Of the 85 Hansen system users judgmentally selected for testing, there were 38 users with unnecessary access. For example, three users still have access after four years since their employment terminated with the Department. Additionally, three interns and contract laborers had access for at least six months after leaving the City. According to CobiT 4.1⁷, user access to systems and data should be in line with job requirements. Consequently, the untimely removal of unnecessary user access places the Hansen system and related data at risk.

B.2 User Roles and Authority.

Employees have access to system functions outside the scope of their responsibilities. Of the 512 Hansen system users, we judgmentally selected 85 for review. We identified 34 system users with access that could override internal controls. For example, Administrative Assistants are able to void transactions, waive fees, and stage progress⁸ projects without supervisor approval. However, we noted no issues with fees voided or waived due to employees having excessive roles and authorities in the Hansen system. We also noted that a PDSO supervisor shares his logon ID and password with vault staff to facilitate workload accomplishment. Since the initial setup of the Hansen system five years ago, PDSO has not reviewed assigned user roles and authorities. However, well-defined roles and authority for employees and secure user passwords is paramount for ensuring proper system controls and data reliability. Additionally, the City's Administrative Directive 7.6 - Security and Passwords prohibits the sharing of user passwords. Granting unnecessary roles and authorities to employees and sharing user passwords, weakens controls and accountability over the Hansen system.

Recommendations: PDSO Director should:

B.1 Ensure timely revocation of access privileges for individuals that no longer require access to the Hansen system.

⁷ Control Objectives for Information and related Technology (CobiT) is a set of best practices for information technology management created by the Information Systems Audit and Control Association and the IT Governance Institute.

⁸ Stage progression is the normal advancement of a project in the permitting process (i.e., application, plan review, permit issuance, inspections, etc.). However, the Hansen system prevents a project from stage progression if there is a hold due to failed inspections, nonpayment of fees, pending documentation, etc.

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B.2 Ensure employee access to the Hansen system is consistent with assigned job responsibilities. Also, enforce compliance with the City's Administrative Directive 7.6 - Security and Passwords.

Appendix A – Staff Acknowledgment

Denis Cano, CPA, CIA, CISA, Audit Manager
Danny Zuniga, CIA, Auditor-in-Charge
Celia Gaona, CIA, CFE, CISA, Auditor

Appendix B – Management Response

 <b style="font-size: 1.2em;">CITY OF SAN ANTONIO <small>SAN ANTONIO TEXAS 78283-3966</small>					
December 14, 2009					
Barry Lipton, CPA, DABFA Deputy City Auditor San Antonio, Texas					
RE: Management's Corrective Action Plan for the Audit of Building Permits Issuance and Collections Process					
The Planning and Development Services Department reviewed the audit report and developed the Corrective Action Plans below corresponding to report recommendations.					
Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
A. A.1	Collection of Fees Plan Review and Building Permit Fees Recommendation: PDSD Director should send bills to customers for the unbilled plan review and permit fees. Also, have the Hansen system configured to automatically assess plan review and permit fees according to Information Bulletin 141.	5	Accept	Terry Kannawin, Fiscal Operations Manager	4-2010
<u>Action plan:</u> Unbilled plan review and permit fees <ol style="list-style-type: none"> 1. Identify customers with unbilled plan review and permit fees. In-Progress 2. Send invoice and allow 30 days for payment. In-Progress 3. After 30 days accelerate collection efforts (hold on license, stop work orders) Hansen configuration <ol style="list-style-type: none"> 4. Work Order completed on 11-25 2009. 					

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A.2	Incentive Scorecard System Waivers Recommendation: PDSD Director should send a bill to the customer for plan review and permit fees erroneously waived. Also, establish procedures for monitoring the amount of fees waived on projects that qualify for the Incentive Scorecard System (ISS).	5	Accept	Terry Kannawin, Fiscal Operations Manager	2-2010
<u>Action plan:</u> 1. Unpaid Fees - PDSD sent contractor a bill for plan review and permit fees erroneously waived and fees have been paid in full. – Completed: 7-2009 2. Develop a tool for intake staff to use to track fee waivers – In Progress					
A.3	Trade Permit Fees Recommendation: PDSD Director should implement controls to ensure customers pay all relevant fees associated with trade permits.	5	Accept	Terry Kannawin, Fiscal Operations Manager	10-2010
<u>Action plan:</u> 1. Research new fee structure for trade permits 2. Meet with stakeholders to discuss new methods to assess fees 3. Configure Hansen 4. Obtain City Council approval of new fee structure 5. Provide notice and implement new fee structure					
A.4	Internal Controls over Refunds Recommendation: PDSD Director should comply with the Department's cash handling policies and procedures for customer refunds. In addition, consider revising the policy to decrease the number of days allowed for a refund.	6	Accept	Terry Kannawin, Fiscal Operations Manager	3-2010
<u>Action plan:</u> 1. Meet with stakeholders to discuss limiting the number of days allowed for refunds to 30 days after the permit was issued. 2. Retrain staff on the refund process – In Progress 3. Establish monthly audit procedures for refunds - Completed 4. Establish refund reporting system to include error rate for issuing refunds - Completed					
B.	User Access, Roles and Authority in the Hansen System		Accepted	Terry Kannawin, Fiscal Operations Manager	2-2010
B.1	Removal of Unnecessary User Access Recommendation: PDSD Director should ensure timely revocation of access privileges for individuals that no longer require access to the Hansen system.	6			

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Action plan: 1. Review of all user access, roles and authority in Hansen – In Progress 2. Ensure staff has the appropriate access – In Progress 3. Develop a "Security Request Form" to assist IT staff for assigning security roles for new employees 4. Establish process for HR Specialist to notify IT staff when an employee separates from the department 5. Develop program to perform a semi-annual audit of user access, roles and authorities in Hansen.					
B 2	User Roles and Authority	7	Accept	Terry Kanriwin, Fiscal Operations Manager	2-2010
Recommendation: PDSD Director should ensure employee access to the Hansen system is consistent with assigned job responsibilities. Also, enforce compliance with the City's Administrative Directive 7.6 - Security and Passwords.					
Action plan: 1. Grant three employees the correct Hansen permissions to perform their job duties. Completed 10-30-2009. 2. Upon completion of B-1, this action will also be completed.					

We are committed to addressing the recommendations in the audit report and the plan of actions presented above.

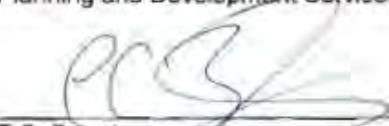
Sincerely,



 Rodenck Sanchez
 Director
 Planning and Development Services Department

12-16-09

 Date



 T.C. Broadnax
 Assistant City Manager
 City Manager's Office

12/15/09

 Date