



CITY OF SAN ANTONIO

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September 29, 2011

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Elisa Chan
Councilwoman, District 9

Carlton Soules
Councilman, District 10

SUBJECT: Follow-up Audit Report of Development Services Department Building Permit Issuance and Collections Process

Mayor and Council Members:

We are pleased to send you the audit report of the Follow-up Audit of Development Services Department Building Permit Issuance and Collections Process. This audit began in June 2011 and concluded with an exit meeting with department management in August 2011. Management's verbatim response is included in Appendix C of the report. The Development Services Department should be commended for its 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,

A handwritten signature in black ink, appearing to read 'Kevin W. Barthold'.

Kevin W. Barthold, CPA, CIA, CISA
Acting City Auditor
City of San Antonio

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CITY OF SAN ANTONIO
OFFICE OF THE CITY AUDITOR



Follow-up Audit of the Development Services Department

Building Permit Issuance and Collections Process

Project No. AU11-014F03

September 29, 2011

Kevin W. Barthold, CPA, CIA, CISA
Acting City Auditor

Executive Summary

As part of our annual Audit Plan approved by City Council, we conducted a follow-up audit of the recommendations made in the Development Services Department's (DSD) Building Permits Issuance and Collections Process audit report dated January 5, 2010. Our audit objective for this follow-up audit follows:

Has DSD management effectively implemented actions to address the prior audit recommendations?

We determined that DSD management and staff have implemented or are working towards implementing five of the six recommendations in the aforementioned report. The audit team reviewed management actions for all six audit recommendations made in the original report with results noted in **Table 1** below (see **Appendix B** on page 5 for a detailed summary):

Table 1: Recommendation Status Summary

Recommendation Status	Number of Recommendations
Implemented	2
In Process	3
Not Implemented	1
Total Recommendations Reviewed	6

DSD has not implemented the recommendation to improve controls to ensure customers pay all relevant fees associated with trade permits. Per discussion with DSD management, it would be too costly and time consuming to reconfigure the Hansen system's programming at this time.

DSD's management verbatim response is in **Appendix C** on page 7.

Table of Contents

Executive Summary	i
Background.....	1
Audit Scope and Methodology	1
Prior Recommendations and Audit Results	2
1. Plan Review and Building Permit Fees	2
2. Incentive Scorecard System Waivers.....	2
3. Trade Permit Fees	2
4. Internal Controls over Refunds.....	3
5. Removal of Unnecessary User Access	3
6. User Roles and Authority	3
Appendix A – Staff Acknowledgement	5
Appendix B – Recommendation Status Summary	6
Appendix C – Management Response	7

Background

In January 2010, the Office of the City Auditor completed an audit of the building permits issuance and collections process in the Development Services Department (DSD). The objective of that audit was as follows:

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

The Office of the City Auditor issued a report that identified the need for increased controls surrounding the collection of building permit fees, as well as increased controls over user access and roles of authority within the Hansen system. In addition, we noted more effective controls were needed to ensure refunds made by DSD are supported and made only within established time limitations.

Audit Scope and Methodology

The audit scope was limited to recommendations made in the original report. The audit methodology consisted of reviewing DSD policies and procedures related to the issuance and collection of building permit fees. Additionally, the audit team conducted interviews with appropriate management and employees and performed test work regarding user access, roles, and authority within the Hansen system.

We performed the follow-up audit in accordance with guidance from the Institute of Internal Auditors' (IIA) Professional Practices Framework (Practice Advisory 2500.A1-1) and other procedures that we considered necessary. IIA standards require that we establish a follow-up process to monitor and ensure that management has effectively implemented actions or that senior management has accepted the risk of not taking actions. We performed our testing between June 2011 and August 2011, and the scope of our testing covered the period January 2010 to May 2011.

Prior Recommendations and Audit Results

1. Plan Review and Building Permit Fees

The Development Services 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.

Status: Implemented

DSD staff invoiced customers for the under billed plan review and permit fees of approximately \$43,000, and \$27,653 has since been collected. The remaining monies (approximately \$15,000) have been deemed uncollectible. In addition, DSD, with the help of Information Technology Services, updated the Hansen system to automatically assess the appropriate plan review and permit fees in accordance with City policy.

2. Incentive Scorecard System Waivers

The Development Services 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).

Status: Implemented

Because DSD replaced the ISS with the Inner City Reinvestment/Infill Policy as of February 4, 2010, we did not review the ISS program for improved procedures; however, DSD staff collected the \$13,000 in erroneously waived fees identified in the prior audit report.

3. Trade Permit Fees

The Development Services Director should implement controls to ensure customers pay all relevant fees associated with trade permits.

Status: Not Implemented

According to DSD management, in order to ensure customers pay all relevant fees associated with trade permits, the Hansen system would need to be reconfigured. Per discussion with DSD, management does not believe this is a cost effective solution at this time.

4. Internal Controls over Refunds

The Development Services 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.

Status: In Process

DSD has improved controls over the refund process by successfully revising its policy to decrease the number of days allowed for a refund; however, there do not appear to be departmental cash handling policies and procedures in place that specifically address the refund process. Instead, the Fiscal Operations Manager drafted a refund policy as of June 30, 2011 specifically for the Permit and Licensing Division. This policy should be reviewed and approved by the Development Services Director and implemented across all DSD sections. Without consistent, department-wide policies and procedures that dictate the appropriate process in which to execute a refund, this process becomes less controlled and, therefore, increases the risk of misappropriation and/or errors.

5. Removal of Unnecessary User Access

The Development Services Director should ensure timely revocation of access privileges for individuals that no longer require access to the Hansen system.

Status: In Process

On March 18, 2011, DSD implemented a policy that addressed the revocation of access privileges for terminated employees in the Hansen system; however, as of May 31, 2011, two terminated DSD employees were still active in the system. DSD has since remediated this exception, but it should continue to monitor the timely removal of user access.

6. User Roles and Authority

The Development Services 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.

Status: In Process

DSD staff is working towards adjusting user profiles in the Hansen system to improve segregation of duties. During the course of our audit, we identified circumstances where assigned roles in the Hansen system gave way to improper segregation of duties. For example, two employees involved in the refunding process had access to functions that allowed the employee to alter customers' applications, process and override stage progression, as well as issue refunds. Without appropriate segregation of duties, an employee or group of employees

can be in a position both to perpetrate and to conceal errors or fraud in the normal course of their duties.

Although user profiles require more analysis, we found no evidence of password sharing identified in the prior audit.

Appendix A – Staff Acknowledgement

Andre DeLeon, CPA, MSA, Audit Manager
Kimberly Weber, CIA, CFE, CGAP, Auditor in Charge

Appendix B – Recommendation Status Summary

No.	Original Report Recommendation	Current Status
1	A.1 The Development Services 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.	Implemented
2	A.2 The Development Services 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).	Implemented
3	A.3 The Development Services Director should implement controls to ensure customers pay all relevant fees associated with trade permits.	Not Implemented
4	A.4 The Development Services 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.	In Process
5	B.1 The Development Services Director should ensure timely revocation of access privileges for individuals that no longer require access to the Hansen system.	In Process
6	B.2 The Development Services 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.	In Process

Appendix C – Management Response



CITY OF SAN ANTONIO

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September 22, 2011

Kevin W. Barthold, CPA, CIA, CISA
 Acting City Auditor
 San Antonio, Texas

RE: Management's Corrective Action Plan for the Development Services Department and Building Permits Issuance and Collections Process Follow-Up Audit

The Development Services Department has reviewed the follow-up audit report and has developed the Corrective Action Plans below for the one "not implemented" and the three "in process" recommendations.

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
	The Development Services Director should implement controls to ensure customers pay all relevant fees associated with trade permits.	2	Accept	Terry Kannawin	Residential – 10/12 Commercial – 10/13
<p>Action plan: Development Services' trade permits are based upon the number of inspection items, such as the number of electrical outlets, water heaters, etc. Currently, the department's inspectors will turndown inspections if they notice the permit does not have the correct number of inspections items. This inspection turndown requires customers to amend their permits to add the additional items. This control works well for easy to identify permit items such as water heaters but not for items such as electrical outlets. In order to implement better controls, the department will:</p> <p>Residential Permits</p> <ol style="list-style-type: none"> 1. Develop a new fee structure for new residential permits 2. Work with the department's stakeholders to explain new fee structure 3. Configure Hansen land management software for the new fees <p>Commercial Permits Developing a new fee structure for commercial projects is more complex than residential due to the wide-range of construction and occupant load. As a result, the department would need to:</p> <ol style="list-style-type: none"> 1. Hire a consultant to develop the new fee structure 2. Work with the department's stakeholders to explain new fee structure 3. Configure Hansen land management software for the new fees 					

Development Services Department
Follow-up Audit of the Building Permits Issuance and Collection Process

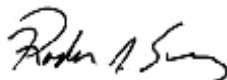
The Development Services Director should comply with the Department's cash handling policies and procedures for customer refunds. In addition, consider revising the policy to decrease the number of days allowed for a refund.	3	Accept	Terry Kannawin	11/30/2011
Action plan: In progress. Development Services' decreased the number of days allowed for a refund from 120 days to 30 days for trade permits and 90 days for building permits. In addition, the department will expand its permit refund policy across all sections in the department.				
The Development Services Director should ensure timely revocation of access privileges for individuals that no longer require access to the Hansen system.	3	Accept	Terry Kannawin	On-going
Action plan: Development Services implemented an SOP to ensure timely revocation of access privileges. In addition, the department will continue to monitor the timely removal of user access.				
The Development Services 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.	3	Accept	Terry Kannawin	1/12
Action plan: The department will work with ITSD staff to fully understand the permissions granted within each role. In addition, the department will work with ITSD staff to make changes to Hansen that will reduce the need for staff to have conflicting roles.				

For the remaining two completed actions plans from the original audit, our comments are as follows.

- Fully Agree (provide detailed comments) – Development Services agrees with all of the recommendations.
- Agree Except For (provide detailed comments).
- Do Not Agree (provide detailed comments)

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

Sincerely,



Roderick Sanchez, Director
Development Services Department

September 22, 2011



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

September 22, 2011
Date



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