



Lexington-Fayette Urban County Government

Division of Internal Audit

INTERNAL AUDIT REPORT

DATE May 10, 2004

TO: Teresa Ann Isaac, Mayor

CC: Milton Dohoney, Chief Administrative Officer
Rebecca Langston, Commissioner of Public Safety
Curt Farley, Director of Building Inspection

FROM: Bruce Sahli, Director of Internal Audit

RE: Building Inspection Cash Collection Controls Audit

Background

The Division of Building Inspection is responsible for the collection of permit fees for building permits, mechanical permits, (including fire suppression and HVAC systems), electrical permits, exaction fees, and landscape escrows. It is also responsible for the collection of annual contractor registrations. Collections from the issuance of registrations and permits for the current fiscal year as of May 10, 2004 totaled \$1,207,142. It is estimated that checks comprise approximately 95% of payments made to Building Inspection, with the rest being cash and money orders. Building Inspection is not set up to process credit or debit cards.

Scope and Objectives

The general control objectives of the audit were to determine that:

- Permit fee and registration collections are properly recorded and reported
- Permit fee and registration collections are accurately deposited on a timely basis
- Permit voids are appropriate in nature and properly monitored
- Permit inventories are properly controlled
- The overall fee collection process is efficient

Statement of Auditing Standards

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

Audit Opinion

In our opinion, the controls and procedures provided reasonable assurance that the general control objectives were being met. Opportunities to enhance existing controls are included in the Summary of Audit Findings.

SUMMARY OF FINDINGS

Late Deposit of Collections

We examined deposit activity for seven of the nine months completed during Fiscal Year 2004 through March 2004 and noted significant late deposit activity. While there was no indication of failure to deposit funds, we noted that late deposits for the period reviewed totaled \$225,808 and involved the deposit activity of nine staff assistants. Details of the late deposits have been provided to Building Inspection management. No written procedures exist in Building Inspection addressing deposit activity, but Performance Evaluations for that Division indicate cashiers are evaluated on their adherence to daily deposit requirements. It is important that all deposits be made in a timely manner to provide appropriate safeguarding of assets and to ensure all collections are made available to LFUCG on a timely basis. It is recommended daily deposit procedures be adhered to on a consistent basis.

Division of Building Inspection Management Response: Sixty percent of the late deposits are from two Staff Assistant Seniors who are performing the majority of the work from positions that were abolished last year (Staff Assistant-receptionist and Administrative Specialist). We will talk with each person to see if there is any way that we can alleviate some of the workload making time to do this necessary task.

Written Procedures Should be Established

Building Inspection is responsible for the collection of thousands of payments (checks and cash) budgeted at \$1,345,000 for FY 2004. For the most part, there are no written procedures addressing collection recording, reporting, security, or deposit activity. Written procedures are an important control that provides process instruction, performance standards, and a basis for measuring

compliance with management expectations. A complete set of written procedures should be developed for the Building Inspection fee collection process.

Division of Building Inspection Management Response: Written procedures were being developed prior to the audit and will be completed and placed in the Building Inspection Policies and Procedures Manual.

HVAC and Electrical Permit Collections Controls Need Enhancement

Manual receipts must be used to record collections that are not tracked in the computerized Building Inspection System. This includes all collections for the issuance of HVAC permits and permit stamps and for electrical permits, with total FY 2004 collections from these sales expected to exceed \$350,000. The manual receipts have no pre-numbered system, and act as the sole collection support for these transactions. If any unnumbered receipts are lost or stolen, there is nothing to indicate there are collections to be accounted for. It is recommended a method be developed for tracking and reporting HVAC and electrical permit sales activity on the Building Inspection System. An alternative solution would be to obtain pre-numbered receipts in order to sequentially track collection activity and provide greater accountability of funds.

Division of Building Inspection Management Response: Pre-numbered receipts have been ordered and will be used until budget funds are available to have our software program modified.

HVAC Permit and Stamp Inventory Controls Need Enhancement

The issuance of HVAC inspection permits and permit stamps is a significant revenue source for Building Inspection, with FY 2004 collections expected to exceed \$300,000. The permits and permit stamps are unnumbered and have a sale value of \$25 apiece. The permits and permit stamps are stored in a locked cabinet with the key available to three employees, and no procedures exist to account for the inventory. It is recommended the HVAC permits and permit stamps be pre-numbered to increase accountability of this inventory. It is also recommended standard inventory procedures be developed to regularly account for their existence and value.

Division of Building Inspection Management Response: Funds that would allow us to purchase pre-numbered permits were not included in the FY05 Budget. Until funds are available, we will institute a manual inventory and tracking system.

Collections Reconciliation Needed

Building Inspection is budgeted to collect \$1,345,000 in registration and permit fees during FY 2004. These collections are comprised of several thousand transactions paid for via check, cash, or money order. The collected funds are picked up daily by armored car service and delivered next day to the Division of Revenue. There is no reconciliation process to ensure agreement between collections reported to Building Inspection management and actual proceeds received by Revenue.

It is recommended Building Inspection personnel with no responsibility for recording or depositing collections prepare a monthly reconciliation to ensure all collections are accurately reported and deposited on a timely basis.

Division of Building Inspection Management Response: We will perform a manual reconciliation on a monthly basis until we can automate this process on our computerized Building Inspection System.

HVAC Collections Report Needs Improved Accuracy

Building Inspection personnel prepare various monthly reports summarizing collection activity for Division management's review. One such monthly report is entitled Residential Permits Sold, which lists the quantity of HVAC permit and permit stamp purchases made during the month. Our review of this report for the months of August 2003, February 2004, and March 2004 determined that sales were underreported by \$575, \$4,750, and \$4,430, respectively. It appears the erroneous reporting occurred when data for the report was obtained from a Residential Permit Log rather than the actual Sales Receipts. The Staff Assistant responsible for the preparation of this report stated that for the month of April 2004 she compiled the report directly from information contained on the Sales Receipts. It is recommended the Residential Permits Sold report be accurately compiled from the Sales Receipts on a consistent basis.

Division of Building Inspection Management Response: HVAC monthly reports are now being compiled from the sales receipts as suggested. We will automate this process as budget funds are available.

Permit Voids Need Systematic Review Process

In any process whereby cash is obtained for services rendered it is important to control void activity. In the Division of Building Inspection, voids are processed at the request of the various Building Inspectors due to inactivity at the construction site or a direct decision by the contractor or homeowner to cease construction work. Voids may also occur when there has been a significant change in the construction plans, in which case the old permit is voided and a new one issued to reflect the updated plans. The audit determined there is no consistent process for the review of void activity. Management should conduct a systematic monthly review of all voids to ensure they are appropriate in nature.

Division of Building Inspection Management Response: We plan to keep all the files/permits in one place that have been voided each month; then run the void report and make a comparison. Each file will be checked for appropriate documentation, i.e. refund requests, void letters, permit marked void.

Check Identification Procedure Needed

It is estimated that payment by check comprises approximately 95% of annual permit collections, indicating Building Inspection will receive checks totaling more than \$1,000,000 during FY 2004. If Building Inspection becomes aware of NSF checks written by a contractor, all future permit sales to the contractor are on a cash basis only until the NSF item is cleared. In discussing NSF activity with Division of Revenue personnel, we were informed that Revenue often has difficulty identifying which Division an NSF check should be applied to due to lack of payment descriptions on the face of the NSF checks. Due to the very heavy volume of check activity in Building Inspection, it is recommended all checks received by this Division be rubber stamped to identify them as a Building Inspection collection. This will increase Revenue's ability to inform Building Inspection of NSF activity on a timely basis.

Division of Building Inspection Management Response: Rubber stamps have been ordered and a process to stamp each check will be put into place as soon as the stamps are received.