



INTERNAL AUDIT REPORT

DATE: October 23, 2018

TO: Jim Gray, Mayor

CC: Sally Hamilton, Chief Administrative Officer
Glenn Brown, Deputy Chief Administrative Officer
Aldona Valicenti, Chief Information Officer
Derek Paulsen, Commissioner of Planning, Preservation & Development
Dewey Crowe, Director of Building Inspection
Phyllis Cooper, Director of Accounting
Susan Straub, Communications Director
Urban County Council
Internal Audit Board

FROM: Bruce Sahli, CIA, CFE, Director of Internal Audit

RE: Building Inspection Collections Audit

Background

The Division of Building Inspection provides plan reviews and inspections for commercial and residential construction projects within Lexington and Fayette County. Building Inspection's primary responsibilities include enforcing the uniform Kentucky Building Code to ensure safe minimum levels of construction, zoning ordinance enforcement, and the issuance of building permits and certificates of occupancy. The Division of Building Inspection is also responsible for the collection of permit fees for building permits, mechanical permits (including fire suppression and HVAC systems),



electrical permits, exaction fees, landscape escrows and the collection of annual contractor registrations. In July 2016, the Accela software system went live in Building Inspection, resulting in the automation of much of the collection process.

The Division of Building Inspection is budgeted to collect \$1,610,000 in permit fees during FY 2019.

Scope and Objectives

The general control objectives for the audit were to provide reasonable assurance that:

- Permit fee and registration collections are properly assessed, recorded, and reported
- Fees are deposited in a timely manner
- Collections and change fund are properly safeguarded
- Voided permits and refunds are appropriate and sufficiently monitored by management
- Accela is functioning properly in the area of collections

Audit results are based on observations, inquiries, transaction examinations, and the examination of other audit evidence and provide reasonable, but not absolute, assurance controls are in place and effective. In addition, effective controls in place during an audit may subsequently become ineffective as a result of technology changes or reduced standards of performance on the part of management.

The period of review for our audit included transactions from July 1, 2016 through May 31, 2018.

Statement of Auditing Standards

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. 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 most of the general control objectives were being met. Opportunities to improve controls are included in the Summary of Audit Findings.

Priority Rating Process

To assist management in its evaluation, the findings have been assigned a qualitative assessment of the need for corrective action. Each item is assessed a high, moderate, or low priority as follows:

High - Represents a finding requiring immediate action by management to mitigate risks and/or costs associated with the process being audited.

Moderate – Represents a finding requiring timely action by management to mitigate risks and/or costs associated with the process being audited.

Low - Represents a finding for consideration by management for correction or implementation associated with the process being audited.

SUMMARY OF AUDIT FINDINGS

Finding #1: Single Point of Failure Within the Accela Support Structure **Priority Rating: High**

Condition:

An Administrative Officer Senior in the Department of Planning, Preservation, and Development is Building Inspection's only active Accela support person. He provides some Accela technical support and is the liaison between Accela and Building Inspection when credit card payment issues arise. From time to time, a situation will arise where a client's on-line credit card payment via Official Payment will not properly interface with Accela, causing Accela not to record the payment. When this occurs, this Administrative Officer Senior must work with Accela and/or Official Payments to remedy the situation. In one such instance, the Administrative Officer Senior was on vacation, and therefore Building Inspection had no one to resolve the issue.



Effect:

Sole reliance on the Administrative Officer Senior to work with Accela and Official Payments to resolve software problems represents a single point of failure in the Accela support process.

Recommendation:

Redundancy should be built into the in-house Accela support process, and for a liaison between Building Inspection and Accela and/or Official Payments. The back-up in-house support should be someone within Information Technology in order to augment the expertise of the Administrative Officer Senior.

Chief Information Officer Response:

Agree. Information Technology will create a role for in-house Accela support and designate an individual to function in that capacity. Cross training will occur, as time and staffing permit, to ensure that at least two people within Information Technology have familiarity with Accela in order to provide support as needed.

Commissioner of Planning, Preservation, & Development Response:

I concur with the CIO.

Finding #2: Late Deposits Noted

Priority Rating: High

Condition:

Our testing of a random sample of Building Inspection deposits noted that 32 of 65 deposits (49%) were deposited at least one day late. This is based on the date deposits were delivered to Revenue.

Effect:

Late deposits are a violation of CAO Policy #40 and increase the risk of misappropriated funds.

Recommendation:

Building Inspection deposits should be delivered to Revenue on the next business day, as required by CAO Policy #40.



Director of Building Inspection Response:

It is our intention that all deposits are delivered to Revenue on the next business day, in compliance with CAO Policy#40. The late deposits are attributable to two factors: intermittent staffing issues in the customer service section and the new Accela software program. Since the implementation of the Accela program, deposit reconciliation time has significantly increased due to the lack of proper fee tracking and reporting capability within the program. In addition, Accela does not interface with PeopleSoft for online payments by credit card, which requires multiple separate reconciliations and deposits for those transactions. This has caused deposits to be delivered to Revenue late in the day, especially during periods of low staffing and high workloads. We believe these deposits are not recorded until the next day which shows up as a late deposit. To verify when deposits are delivered we are now requiring a time stamped receipt from Revenue upon delivery to accurately track deposit times. However, there will be times when multiple employee absences and high workloads will cause deposit delays.

Commissioner of Planning, Preservation, & Development Response:

While there is currently no interface between PeopleSoft and Accela, one has been available since the launch of the Accela software in 2016. At the time of implementation the Division of Building Inspection opted not to employ this interface and to handle daily deposits independently. In addition, prior to the implementation of the Accela software system, subject matter experts for each Division reviewed and signed off on all reports necessary for daily uses.

I will work with the Division of Building Inspection staff to determine if it is best to implement this interface between the PeopleSoft and Accela. Furthermore, I will work with the subject matter experts in Building Inspection to review the daily reports and their capabilities to develop new reports in an ad hoc manner. If they are incapable of creating the necessary reports I will work with them to ensure they have the resources necessary to do so.

Finding #3: Segregation of Duties Issue
Priority Rating: High

Condition:

The Administrative Specialist Senior responsible for conducting the daily deposit reconciliation and preparing the daily deposit also occasionally processes Building Inspection transactions and collects payments. Building Inspection management stated this occurred on occasion when there was insufficient staff to cover front counter



activity. Individuals responsible for preparing collection reconciliations and their related deposits should not process collection transactions or receive their related funds.

Effect:

The risk of misappropriated funds is always increased when collection based duties are not properly segregated. CAO Policy #40 states that all Divisions must maintain clearly defined separation of duties for the deposit process.

Recommendation:

The Administration Specialist Senior should not be involved in the processing of transactions or collection of payments. Another person not involved in the daily reconciliation and deposit preparation should be trained to be a backup for the cashiers at the Building Inspection front counter.

Director of Building Inspection Response:

It is our intention that no employee who has acted as a cashier be involved in preparing the divisional deposit. However, staff vacancies and absences sometimes cause the Administrative Specialist Senior to act as a cashier. To address this, a second employee who is not a cashier has been designated as a backup to process the daily deposit when the primary has had to act as a cashier.

Commissioner of Planning, Preservation, & Development Response:

I will work with the Director of Building Inspection to ensure they have adequate staffing necessary for this duty.

Finding #4: Building Inspections Collections Manual Needs Updating
Priority Rating: High

Condition:

Significant changes occurred in the Building Inspections collection process when Accela went live in July 2016. The Building Inspections Collections operations manual does not incorporate the changes that have occurred as a result of the implementation of Accela, and is therefore outdated.

Effect:

Policies and procedures increase employee accountability and are an important component of quality control. Outdated procedure manuals represent an operational



risk. By failing to address new systems and technology such as Accela, these may result in inconsistent practices.

Recommendation:

The operations manual should be updated to reflect the operation process currently in place, and to specify processes used in Accela.

Director of Building Inspection Response:

I concur with the finding. The operations manual has been updated to reflect the current process in place. Implemented 9/27/2018.

Commissioner of Planning, Preservation, & Development Response:

I concur with the Directors response.

Finding #5: Some Transactions Not Properly Recorded in Accela

Priority Rating: High

Condition:

The Administrative Specialist Senior responsible for conducting the daily reconciliation stated that Accela allows a permit payment transfer from one address to another if both permits cost the same, but that the transfer of activity does not show up on the Accela daily report she uses to conduct her reconciliation, requiring her to note the transfer manually. She also noted that refunds do not show up on the daily reports, and therefore she has to search through the daily detail to identify them when conducting the daily reconciliation. It was also noted that Accela will allow Building Inspection staff to collect a payment before the transaction is invoiced. When this occurs, the transaction does not show up on the Fees Paid by Account Code report and has to be researched manually.

Effect:

Accela is an automated transaction recording system that is relied upon in Building Inspection to determine the accuracy of daily collections. Failure to record all transactions represents a compromise to the integrity of Accela's data and weakens the internal control within the system.



Recommendation:

The daily reports should be programmed to identify transfers and refunds in order to improve the reconciliation process and increase the accuracy and completeness of the daily reports. Accela should be programmed to not allow a payment to be posted until an invoice is created.

Director of Building Inspection Response:

I concur with the findings. However, the Division of Building Inspection does not have the technical resources to modify the Accela programming to implement the recommendations. Until these modifications are made we cannot address this finding.

Commissioner of Planning, Preservation, & Development Response:

Subject matter experts in all Divisions have been trained to develop Accela ad-hoc reports necessary to accommodate their business practices. In addition, a contract currently exists with sCube Enterprises should the Division require the use of Crystal Reports for development of needed reports. I will work with the Director of Building Inspection to ensure they get the training or resources necessary to facilitate the needed changes to the reports.

Finding #6: Refunds, Voids, and Fund Transfers Should be Monitored by Management

Priority Rating: High

Condition:

The Accela System is designed to allow Refunds, Voids, and Fund Transfers to be posted without requiring prior management review or approval. Any issues with these types of transactions must be detected during the daily reconciliation process.

Effect:

Refunds, Voids, and Fund Transfers should be properly managed to ensure they are used appropriately and only when necessary. CAO Policy #40 states that refunds and voids are to be reviewed and authorized by a supervisor.

Recommendation:

A daily exception report listing all Refunds, Voids, and Fund Transfers should be created in Accela and provided to the Director of Building Inspection for his review.



Any anomalies should be promptly investigated. This will improve the monitoring of such transactions and provide evidence of possible training opportunities.

Director of Building Inspection Response:

I concur with the finding. However, the Division of Building Inspection does not have the technical resources to modify the Accela programing to implement the recommendation. Until these modifications are made we cannot address this finding.

Commissioner of Planning, Preservation, & Development Response:

Subject matter experts in all Divisions have been trained to develop Accela ad-hoc reports necessary to accommodate their business practices. In addition, a contract currently exists with sCube Enterprises should the Division require the use of Crystal Reports for development of needed reports. I will work with the Director of Building Inspection to ensure they get the training or resources necessary to facilitate the needed changes to the reports.

Finding #7: Date Stamped Quick Receipts Should be Retained with Daily Reconciliation Files

Priority Rating: High

Condition:

Building Inspection does not obtain a date stamp on their copy of the Quick Receipt to verify when a deposit is delivered to Revenue. As a result, there is no record within Building Inspection verifying the receipt of deposits by Revenue. For the purposes of this audit, deposit verification had to be obtained via a query generated by the Division of Revenue.

Effect:

CAO Policy #40 states that duplicate PeopleSoft receipts must accompany all funds to be deposited by the Division of Revenue, and that the original verified copy of the receipt will be returned for the collecting Division's records at the time of deposit delivery.

Recommendation:

A date stamp on the Quick Receipt should be obtained from Revenue and included with the daily reconciliation paperwork in order to comply with CAO Policy #40.



Director of Building Inspection Response:

I concur with the finding. The Division of Building Inspection has implemented this recommendation as of 09/25/2018.

Commissioner of Planning, Preservation, & Development Response:

I concur with the Directors response.

Finding #8: Ticketing System Needed to Track and Resolve Accela Issues

Priority Rating: Moderate

Condition:

From time to time Accela will experience a processing issue, typically regarding the interface of credit card payments via Official Payments with Accela transaction records. However, there is no formal logging or ticketing system to track Accela issues or their resolution. As a result, there is no systematic process to track, isolate, and address Accela processing issues.

Effect:

Accela issues, to the extent they occur, cannot be comprehensively identified and addressed without a formal process to document such issues and track their resolution.

Recommendation:

An Accela issues ticketing or logging system should be created in Building Inspection to provide a comprehensive record of any processing issues experienced by Accela. This will be instrumental in correcting any such issues. We were informed by the Office of the Chief Information Officer that Building Inspection can use Cherwell, the same ticketing system used by the LFUCG Help Desk.

Director of Building Inspection Response:

I concur with the finding. The Division of Building Inspection has implemented this recommendation as of 9/26/2018. We have arranged with Computer Services to send all Accela related problems and requested modifications to the LFUCG Help Desk where they will be entered into and tracked by the Cherwell ticketing system.

Commissioner of Planning, Preservation, & Development Response:

I concur with the Directors response.

