

INTERNAL AUDIT REPORT

DATE: August 18, 2022

TO: Linda Gorton, Mayor

CC: Sally Hamilton, Chief Administrative Officer
Glenn Brown, Deputy Chief Administrative Officer
Aldona Valicenti, Chief Information Officer
Nancy Albright, Commissioner of Environmental Quality & Public Works
Erin Hensley, Commissioner of Finance & Administration
Douglas Burton, Director of Engineering
Phyllis Cooper, Director of Accounting
Susan Straub, Communications Director
Urban County Council
Internal Audit Board

FROM: Bruce Sahli, CIA, CFE, Director of Internal Audit
Trey Wilburn, CFE, Internal Auditor

RE: Right Of Way Fee Collection Audit

Background

The Division of Engineering is responsible for collecting Right of Way (ROW) permit fees, including fees for Annual General Permits, Installation Permits, and Surface Cut Permits. The permit fees as stated in Chapter 17C of the Urban County Code of Ordinances are explained below.



Annual General Permit:

Unless otherwise prohibited by law, or otherwise exempted, each registrant that occupies the right-of-way shall obtain an annual general permit. The type of annual general permit that the registrant shall be required to obtain shall be based upon the level of both documented and undocumented maintenance and repair activities the registrant would be anticipated to perform within the rights-of-way; and, as a corollary for such, the extent to which the registrant's facilities occupied the rights-of-way as it existed at the end of the preceding calendar year. The extent of occupation of the registrant's facilities shall be determined by measuring the enclosed surface of the registrant's existing service area as defined by mapping provided annually by the registrant. Registrants with facilities occupying eighteen thousand two hundred seventy-six and three-tenths (18,276.30) acres, the equivalent of ten (10) percent of the area of Fayette County, or less shall pay an annual fee of three thousand dollars (\$3,000.00) in order to obtain a Type I annual general permit. Registrants with facilities occupying more than eighteen thousand two hundred seventy-six and three-tenths (18,276.30) acres, the equivalent of more than ten (10) percent of the area of Fayette County, shall pay an annual fee of fifteen thousand dollars (\$15,000.00) in order to obtain a Type II annual general permit. Any registrant, as determined by the government, with facilities occupying less than one hundred eighty-two and seventy-six one hundredths (182.76) acres, the equivalent of less than one tenth of one (0.10) percent of the area of Fayette County, shall be, if so requested, exempt from obtaining an annual general permit and shall only be required to pay a registration fee annually. Any registrant exempted from obtaining an annual general permit shall be required to obtain either a surface cut permit or an installation permit for each and every occupation of the right-of-way regardless of the scope of the occupation. Facility installation by a non-registrant for a property owner pursuant to a contractual agreement shall not require possession of an annual general permit by either the non-registrant contractor or the property owner.

Installation Permit:

Unless otherwise prohibited by law, every party obtaining an installation permit shall pay a fee of one hundred dollars (\$100.00) for each installation permit.

Surface Cut Permit:

Unless otherwise prohibited by law, every party obtaining a surface cut permit shall pay a fee of two hundred fifty dollars (\$250.00) for each surface cut permit.



Scope and Objectives

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

- Fees are calculated and charged in compliance with related ordinances
- Collections are properly recorded, deposited, and reconciled on a timely basis
- Written policies and procedures exist for the Right of Way collection process, are clearly communicated, and are adhered to
- ROW collection activity is regularly monitored by Division of Engineering management

The scope of the audit included activity for the period July 1, 2020 through December 31, 2021.

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 enhance 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 associated with the process being audited.

Moderate – Represents a finding requiring timely action by management to mitigate risks 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: Proof of Insurance Not Consistently Obtained

Priority Rating: High

Condition:

Proof of Insurance was missing in six out of 21 (29%) AGP packets examined for calendar year 2021. Chapter 17-C of the Urban County Code of Ordinances states: “Each registrant shall maintain in full force and effect a commercial general liability insurance policy reasonably acceptable to the government's division of risk management with a minimum policy limit of one million dollars (\$1,000,000.00) per occurrence and shall provide the government with a certificate of insurance evidencing the insurance policy required by this section.”

Effect:

In the absence of insurance coverage for each AGP client, LFUCG may have limited protection from loss.

Recommendation:

Proof of Insurance needs to be obtained for each AGP client as required by ordinance. A copy of the insurance policy should be filed annually with the ROW department.

Director of Engineering Response:

We will not allow AGP registrants to acquire any permits if the proof of insurance is not included with AGP packet responses.

Commissioner of Environmental Quality & Public Works Response:

I have reviewed and concur with the Director’s response.



Finding #2: ROW Collection Policies & Procedures Needed**Priority Rating: High****Condition:**

The ROW department has no formal written policies or procedures for their fee collection process. Instead, each ROW employee has his or her own procedures that they refer to when needed.

Effect:

The absence of Division approved ROW collection policies and procedures could result in the inconsistent processing and depositing of ROW collections and the inadvertent failure by ROW employees to meet the performance expectations of Division of Engineering management.

Recommendation:

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 and approved by Division of Engineering management for the Right of Way fee collection process.

Director of Engineering Response:

We have created the attached written SOP for fee collection.

Commissioner of Environmental Quality & Public Works Response:

I have reviewed and concur with the Director's response.

Finding #3: Check Log Needed to Track Payment Activity**Priority Rating: Moderate****Condition:**

Fees paid to the ROW department are typically received in the daily mail. Once received, the payments must be processed, recorded, and delivered to the Division of Revenue for deposit. We noted that ROW does not keep a record of when the payment arrived in the mail. It is therefore impossible to determine if payments are being processed and deposited in a timely manner as required by CAO Policy #40. In addition, if a check is misplaced or stolen, it could be some time before ROW personnel become aware of it (which would likely occur when a client is erroneously informed of late payment).



Effect:

Funds may be lost if not carefully accounted for and deposited in a timely manner.

Recommendation:

The Division of Engineering should create a check log book that is updated daily for checks received in the office. This will help validate that the checks are being deposited in accordance with CAO #40. Use of the check log should be incorporated into ROW policies & procedures.

Director of Engineering Response:

We have created an electronic check log book that will be updated daily and incorporated into the ROW policies and procedures.

Commissioner of Environmental Quality & Public Works Response:

I have reviewed and concur with the Director's response.

Finding #4: Check Copies Retained in Client Files

Priority Rating: Low

Condition:

Checks received by the ROW department are delivered to the Division of Revenue for deposit, and the ROW department makes a copy of each check received and attaches them to a copy of the related Quick Receipt to be retained in the clients' files. The files are stored in a locked filing cabinet and only the employee that inputs the payments had the key to access them. We noted that the check copies on file in ROW dated back to 2016. We verified with Records Retention personnel that there is no requirement for ROW to retain client check copies.

Effect:

The copies contain clients bank routing and account numbers and therefore pose a client risk if they are lost or stolen.

Recommendation:

The Division of Engineering should evaluate if there is any business need for the ROW department to continue retaining check copies that outweighs the risk thereof. If not, the practice of retaining check copies should be discontinued.



Director of Engineering Response:

We have discontinued the practice of retaining check copies.

Commissioner of Environmental Quality & Public Works Response:

I have reviewed and concur with the Director's response.



ROW FEE COLLECTION SOP

- ROW receives check via mail or in person delivery. (Admin. Spec. processes ROW payments unless out of the office for multiple days-then Staff Assistant serves as back-up.)
 - Admin verifies with ROW tech that check should be accepted for deposit (i.e. permit is ready to be issued)
 - Receipt is written out from ROW receipt book
 - White copy is given to customer, if present
- Back of check is stamped “For Deposit only LFUCG”
- Check is deposited into appropriate account immediately
 - Deposit should note what the check is for in description field
 - Accounting coversheet is completed that includes date, check #, amount, remitter and is to be initialed by person delivering to Revenue
 - Check is kept in safe until delivered to Revenue (within 24 hours after deposit in PS).
 - Check delivered to Revenue by mail runner along with 2 copies of the Quick Receipt Report.
 - Revenue will verify the Quick Receipt by stamping
 - File one copy with accounting coversheet
 - File one copy with permit paperwork
 - Once deposit has been verified by Revenue, the ROW receipt book should be verified by another admin by initialing in the left side of receipt
 - Yellow copy of receipt (once verified) is kept on file with permit paperwork if deposit is for performance bond
 - Check/deposit should be recorded on electronic check log- **“ROW Check Log” spreadsheet** which includes date check received and date deposited.
 - Deposit should be recorded on appropriate tracking spreadsheet for Annual General Permits or performance bonds.
 - If deposit is for an Annual General Permit packet-
 - Admin Spec scans deposit slip/packet paperwork and saves in the appropriate utility folder in the following location: