

Audit of Building Permits

September 2014



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Executive Summary

The Department of Development Services' Building and Safety Bureau (Bureau) is responsible for ensuring construction projects in the City of Long Beach (City) are in compliance with state and local building codes. They assist applicants by providing essential construction plan reviews, permit issuance, and inspection services. Our audit objective was to assess the appropriateness and accuracy of building permit fees within Development Services' Building and Safety Bureau.

The Bureau accepted over 9,700 building permit applications and collected almost \$7 million in revenue from building plan check and permit fees in fiscal year (FY) 13. In addition, they collected \$518,000 in developer fees that were distributed between various departments depending on the department impacted. The Bureau uses the Hansen Building Permits module (Hansen) to track and record all information related to building permit applications, including fee transactions and history, description of projects, and key milestone dates.

We found that overall the Bureau correctly calculated and applied plan check and permit fees in the sample of applications tested. While we did note some exceptions, in comparison to the volume of applications processed, those exceptions were minimal. We do have concerns, however, about the potential for errors or fraud to occur. The use of Hansen is limited in assisting management with adequate supervisory review and controls over user access in Hansen are poor.

Our audit also reviewed whether fees charged by the Bureau were sufficient to cover costs to supply the services. The Bureau's financial transactions are included in the Development Services Fund (Fund), which also houses the Multi-Family Inspections and Planning Bureaus. Through our analysis, we noted there has been no analysis of actual costs since 2005 to determine if fees are appropriate. Although it is impossible to predict economic conditions, the lack of a fee study likely contributed to the Development Services Fund needing to borrow technology surcharge revenue to keep afloat from FY2007 to FY2011. While these technology funds have been paid back, it is unclear how the Department would face similar situations going forward due to the lack of a formal reserve policy to provide guidance and direction on how to handle excess fund balances or possible actions to be taken if/when the Fund is in a deficit position.

Based on our audit, we are recommending that the Department increase its reporting from Hansen or use another report writer product to identify exceptions and improve controls over user access to reduce the risk for errors and to minimize the potential for fraud. In addition, a thorough analysis of actual service costs and fees needs to be completed, along with the development of formal reserve policies.

Unfortunately, this audit took much longer than we anticipated mainly due to our inability to determine employees' access to Hansen. With over 101 active users, we spent many hours trying to assess what data employees had access to and their ability to modify that data. However, due to the manner in which access was granted and an absence of monitoring of employee access, we were not able to meet our audit objective. This raises concerns on the overall integrity of the data in Hansen. This is an issue we have repeatedly seen in our audits of other City departments and raises concerns about the City's ability to adequately secure and safeguard the information collected. In 2006, the City initiated an Information Technology Optimization Study that addressed this issue, but the City did not implement the study's recommendations. We encourage the City Manager to revisit this study and to address the issues identified in that report on a priority basis.

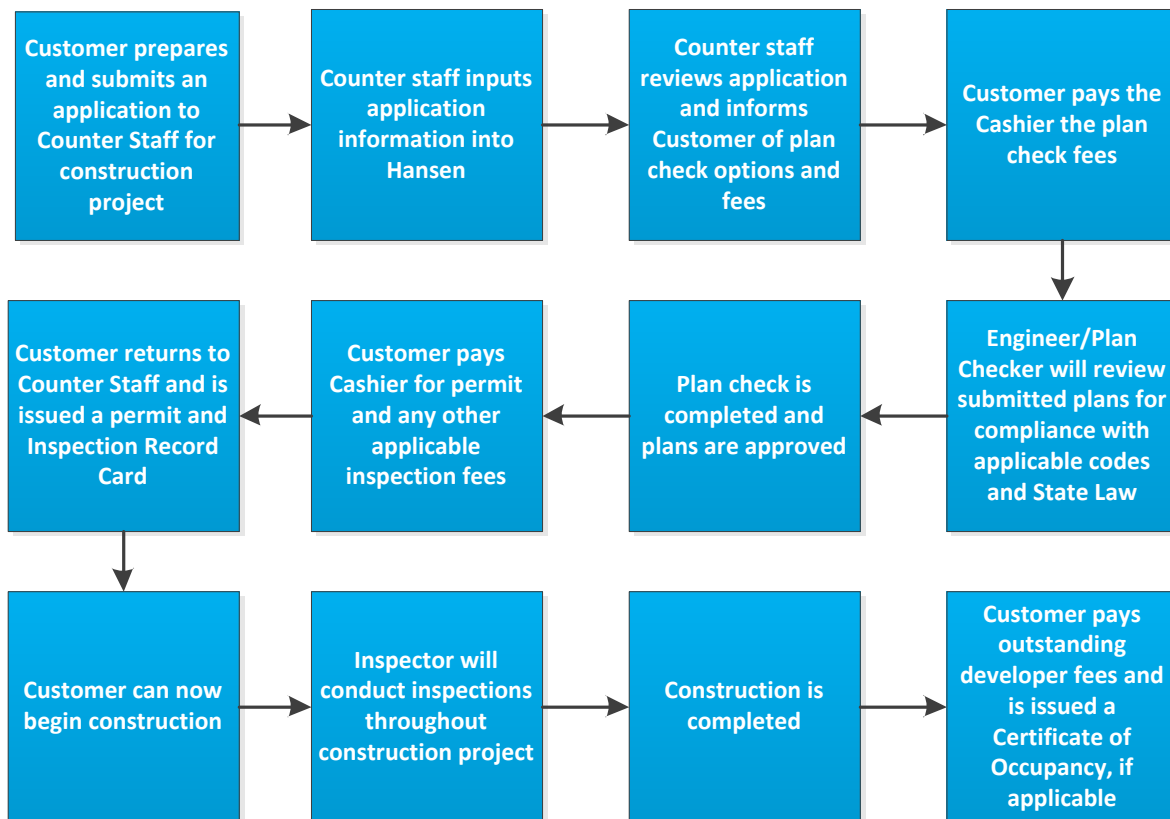
Additional details regarding the above issues and our recommendations can be found in the body of this report. A separate memo, discussing an additional issue of less significance, was distributed directly to Bureau management and not included in this report. We want to thank Bureau staff for their assistance and cooperation during the testing of the building permit applications. We respectfully request an update from management in six months on efforts to implement recommendations detailed in this report.

Background

The *Long Beach Municipal Code*, chapter 18.03, states the Building Official within the Department of Development Services' Building and Safety Bureau (Bureau) "shall receive applications, examine construction documents and issue permits for the erection, addition, alteration, demolition and moving of buildings and structures." These responsibilities are in place to ensure that all buildings meet minimum standards that protect occupants and neighbors. The Bureau fulfills these responsibilities as part of the services they provide during the building permit process. Exhibit 1 below provides an outline of the normal steps and sequence of this process.

Building Permit Process

Exhibit 1
Building Permit Process



The applications submitted by customers are in one of the following main categories: building, electrical, mechanical or plumbing. Electrical, mechanical, and plumbing applications are sub-trades that can have either their own application or for residential projects will be included in combination with a building permit if the project encompasses multiple categories. The building category encompasses various construction projects such as: additions, remodels, re-roofs, etc.

Plan Checks

Plan checks are performed to make sure that construction meets building codes, verifying it will be constructed properly and safely. There are various options regarding plan checks that can be applicable depending on the application and the project's complexity. Some straightforward projects do not require a plan check, simplified projects can be done over the counter, and regular or express plan checks are offered for more complex plans.

Regular plan checks are put on a first-come, first-serve track that are reviewed by Engineers during their scheduled work hours. Therefore, the length of time to complete a regular plan check depends on the workload and volume of plan checks. The Bureau also offers express plan checks for twice the cost of regular plan checks. Express plan checks are to be completed in half the time using overtime hours. Express plan checks are only offered based on the number of Engineers who volunteer to work overtime.

Fees

The *Long Beach Municipal Code*, through various chapters in Title 18, requires the payment of permit application fees for examination of construction documents (plan check) and issuance of permits. These fees are established each year by the City Council's adoption of the Master Fee and Charges Schedule. This document establishes service fees and charges for various departments and sets fees and charges at full cost recovery levels, except where a greater public benefit demonstrates the need to impose a lesser fee or charge. Building fees are collected prior to the services being rendered; for example, permit fees are required to be paid by the customer prior to the issuance of a permit.

Table 1 shows the revenue received by the Bureau for building plan checks and permits in fiscal year (FY) 13.

Table 1
Building Revenue
October 1, 2012 – September 30, 2013

| Fee Type | Type of Construction | FY13 Revenue |
|--------------|-----------------------------|------------------------|
| Plan Check | Building | \$ 1,788,593.61 |
| | Electrical | 272,662.99 |
| | Mechanical | 109,413.83 |
| | Plumbing | 79,766.00 |
| | Express | 221,273.07 |
| | Total for Plan Check | 2,471,709.50 |
| Permit | Building | 3,475,421.38 |
| | Electrical | 697,730.13 |
| | Mechanical | 147,927.66 |
| | Plumbing | 196,407.21 |
| | Total for Permits | 4,517,486.38 |
| Total | | \$ 6,989,195.88 |

Developer fees are applied to certain projects for new buildings and some additions. Developer fees are collected by Bureau cashiers on behalf of the other agencies that are receiving the fee. In some cases, Development Services keeps an administrative charge, but the rest is revenue for another department. See Table 2 below for the amount of developer fees collected. The amounts include both what was collected for other departments as well as the portion retained by Development Services.

Table 2
Developer Fee Revenue
October 1, 2012 – September 30, 2013

| Developer Fee Type | FY13 Revenue |
|----------------------------------|----------------------|
| Transportation Improvement Fee | \$ 187,534.24 |
| Park & Recreation Facilities Fee | 151,511.25 |
| Police Facilities Impact Fee | 111,068.15 |
| Fire Facilities Impact Fee | 68,369.05 |
| Total | \$ 518,482.69 |

Building Permits System

Hansen Information Technologies Inc. (Hansen) is the supplier of software that comprises multiple functionalities, including Building Permits. The Land Management module of Hansen “tracks commercial and residential construction permits, and corresponding plan checks and inspections as needed.” It maintains information about each project, including description of work, fees assessed and paid, important timeline dates, and employee notes regarding special information. For plan check and permit fees, Hansen automatically calculates the fees based on application information input by staff. However, other fees, such as developer fees, require a portion of manual prompting or calculation by staff in order to be charged. Hansen is also used by multiple City departments for other functionalities such as Code Enforcement and Business Licenses. Our audit covered only the information related to Building Permits and the staff that have access to that information.

Another software, iNovah, is used to collect the assessed fees that were calculated in Hansen. It functions as a point of sale system. iNovah interfaces with Hansen in order to extract the fee information so it can determine the amount to be paid and once the transaction is complete to update fee payment status in Hansen. Our review of iNovah was limited to determining if staff could modify fee amounts that were originally calculated in Hansen.

Objective & Methodology

Our audit objective was to assess the appropriateness and accuracy of building permit fees within Development Services' Building and Safety Bureau. Our audit scope covered Building Permit applications submitted from October 1, 2012 through September 30, 2013 and a review of the fees in relation to the Development Services Fund's financial position. During our audit, we performed the following procedures:

- Reviewed applicable regulations relating to building permit fees including Municipal Code Title 18 and the City's fiscal year (FY) 2011-2014 Master Fee and Charges Schedules;
- Interviewed personnel and gained an understanding of the internal controls related to our audit objectives;
- Evaluated access to the building permits system, Hansen, for appropriateness; and performed a limited review of iNovah to determine ability to modify fees;
- Analyzed applications during the audit period and selected samples of records for further review; and
- Reviewed fund balance amounts and corresponding fee schedules and increases.

Our population of building permit applications included 9,758 building, electrical, mechanical and plumbing applications that had a submittal date from October 1, 2012 to September 30, 2013. Some applications within the Building Permits module are related to oil well permits, deputy inspector licenses, business licenses, and citations that were not related to our audit objectives and were not considered as part of our population. We selected 1,075 applications (11%) for our sample. Type and percentage of applications selected was representative of the population. In addition, we included applications from each plan check type.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Results & Recommendations

Our audit focused on the appropriateness and accuracy of building plan check and permit fees to assess whether fee amounts were adequate to cover related Building and Safety Bureau (Bureau) expenses for the services rendered, fees were calculated correctly, and process oversight and controls were effective.

Based on our sample, we found that overall the Bureau correctly calculated and applied plan check and permit fees during the period audited. While we noted some exceptions, in comparison to the volume of applications processed, those exceptions were minimal.

While the processing of building permit applications appears to be consistent, opportunities exist for errors or fraud to occur due to limited review and controls over system access. In addition, the lack of formal reserve policies for the Development Services Fund (Fund) limits transparency and provides no specific direction on handling excess or deficit Fund balances.

1. Oversight of Fee Process Could be Improved

We found that the majority of building plan check and permit fees were appropriately calculated and applied. However, we also found situations where fees could be changed, waived or calculated incorrectly and would likely go undetected.

According to the Bureau, they are performing a spot check review of the building permit applications submitted on a daily and weekly basis. This spot check involves an examination of the information on the manual application and in the system (Hansen) to identify anomalies or inconsistencies. Since this process is not documented, we could not verify it was occurring or how many applications had been evaluated.

The Bureau receives over 9,700 building applications annually. Due to the high volume of applications, the likelihood of finding an exception by spot checking is statistically low. A much more efficient approach would be to use exception-based reporting from Hansen that could identify unusual transactions, such as fees incurred but not paid. According to the Bureau, Hansen's Ad Hoc Reporting function is not able to facilitate the creation of these types of exception reports, and they are exploring other types of report writer products.

The following items are areas where the potential for error or fraud could easily occur:

a. Developer Fees

Developer Fees are only assessed on projects that will have an impact on the level of services provided by various City departments: Police, Fire, Public Works, and Parks, Recreation and Marine. Developer fees apply to a small number of applications such as new buildings and some additions. However, when applicable, these fees can be a significant portion of a customers' total dues. On the applications in our sample, developer fees were an average of 35% of those applications' total fees, with one having developer fees that were 64% of their total bill.

Hansen does not automatically calculate developer fees since they are only assessed for some applications. Instead, staff must determine necessary information required and calculate part of the fees manually. These additional steps require staff to be knowledgeable of whether these fees are to be applied and how they are calculated. Although the sample size we reviewed for developer fees was small, there was a high number of errors in the fee calculations.

Examples:

- *Of the 11 applications assessed developer fees in our sample, 4 of these (36%) were calculated incorrectly. These errors were due to staff either indicating the incorrect square footage or using the wrong occupancy type. One of these errors resulted in the City losing \$8,297 in revenue, while another error resulted in a \$10,550 overcharge to the customer, which was corrected when brought to management's attention.*
- *One application should have been assessed developer fees but was not, resulting in \$6,937 in lost revenue to the City.*

b. Fee Waivers

Fee transactions can have a status of “waived”, indicating the customer is not obligated to pay the amount assessed on that item. Per the Bureau, there should not be any fees waived for services that were provided. However, we identified seven instances in our sample where \$3,351 in fees were waived even though the services had been rendered. There was no documentation in Hansen to indicate why these waivers were awarded. Without reporting that would easily identify waived fees, there is the potential for fraud to occur.

c. Manual Application Input

Hansen automatically calculates fee amounts based on information that is input by Bureau staff. As part of our test work, we reviewed the manual applications to determine if the information supplied by the customers agreed to the data input into Hansen by staff. It is this information that is used to calculate and assess initial fees.

Of the 1,075 applications in our sample, 365 (34%) had information listed on the manual application that was in some way different than what was input in Hansen. For these applications, we could not determine the reasons for the differences due to a lack of documentation either on the manual application or in Hansen. Just over 40 of these applications had differences that could have affected the fee calculation. Without supporting documentation explaining the differences, we could not confirm that fees were calculated correctly on these applications.

Recommendation: In order to deter and identify errors and minimize the potential for fraud, the supervisor should develop exception reports that would target high risk (i.e. developer fees, waivers, adjustments, etc.) or known areas of concern. Review of exception reports would be a mitigating control to provide more assurance that all fees were applied appropriately. This type of information should be standard reporting used in all Hansen applications.

2. Lack of Monitoring and Oversight of System User Access

The increased usage of technology requires organizations to establish policies that clarify roles and responsibilities for procurement, security, usage, and maintenance of technology. These policies are usually initiated at an organization’s highest level such as a steering committee comprised of critical positions throughout the organization or a Director of Information Technology. Without these policies or strategies, departments

do not know or are confused as to their role in managing technology and securing data. Unfortunately, the City does not have these types of policies even though the establishment of them was strongly recommended in a 2006 Information Technology Optimization Study initiated by City management.

Our audit looked at employee access to the Building Permits module of Hansen and the functionality assigned to each user. According to the Committee of Sponsoring Organizations (COSO), a joint initiative that provides guidance on internal controls, and the International Standards Organization's Electrotechnical Commission (ISO-IEC), which defines the mandatory requirements for an Information Security Management System, it is the user department that should be responsible for determining the appropriate access for their employees. This access should be limited to the most restrictive authority needed by users to accomplish their duties. However, without specific guidance on assigning, monitoring, and termination of user access, we found that system access was neither controlled nor documented appropriately.

a. Granting and Monitoring Access

The most common method for assigning access to a software system is to develop system profiles where functionality is tied to a job description (i.e. inspector, supervisor, counter staff). Using this method, there would be limited profiles with multiples users in each profile. For Hansen, similar profiles were developed; however, as an employee's duties changed over time, the department requested increased/decreased functionality that was not tied to a particular profile. As a result, each employee's access became individualized with each change, basically creating a "profile" for each person.

We were able to identify 101 active users in the Building Permits module of Hansen. Some of these users were not Development Services employees. With this many users, most with access not tied to a group profile, monitoring each employee's access is extremely difficult, if not impossible. We attempted to identify access levels for employees assigned to the Building Permits module of Hansen to determine if functionality fit their job duties, but we were unable to do so because:

- The Hansen access report provided to us was voluminous, 120,260 pages, and had not been nor could be used by management as a tool to determine levels of access. The report was not structured in a way that made it possible to easily assess which users had access to specific functionalities in Hansen.

- Access changes for users are usually requested through email, but the emails are not retained. There is not a standard form documenting access requests which would allow easy tracking of an employee's system user status.

As a result, we were unable to identify which fields each user could modify, such as being able to change fee amounts or waive fees for a customer. The combination of not being able to determine which processes each user could perform and the large number of active users puts the integrity of the data in Hansen at risk. It is crucial that edit capabilities for key fields are restricted and monitored based on who should have access in order to perform their basic job duties.

b. Terminating Access

Once an employee's access is determined to no longer be needed, a request is sent to Technology Services to remove access. Access to Hansen is terminated by Technology Services in one of two ways. One way is to expire their Hansen user name and password so they can no longer log on to Hansen itself. The second way is to remove their mainframe access, which takes away their ability to log on to their City profile from a network computer and access Hansen and all other City programs. Both of these methods are performed manually by Technology Services. Although some systems have the capability for automated expiration after a specified period of non-usage, such as 60 to 90 days, Hansen does not have this feature. With the large number of Hansen users, an automated expiration function could be an effective tool in managing unnecessary access.

As noted, Technology Services is notified when an employee's access needs to be terminated, either by the user department or Human Resources, or both. Access removal should occur shortly after termination to prevent unauthorized access to Hansen and other City applications. We identified occurrences when access to either Hansen, the mainframe, or both was not terminated timely.

Example:

- *We found four ex-City employees in the Hansen Building Permits module that had both active Hansen profiles and active mainframe access over one year after leaving the City. Furthermore, two of those four employees still have active mainframe access at the time of our audit.*

- One employee retired from City employment in May 2010, was expired from Hansen access in July 2013 (over three years later), and still has active mainframe access.

Recommendation: The City needs to establish policies governing the procurement, security, usage, and maintenance of technology in order to provide direction to all departments on their roles and responsibilities. These policies would provide direction on setting the appropriate system access levels, requirements for monitoring access, and timely termination. These policies are critical to ensure the City is adequately safeguarding and using its data along with related revenue and expenditures.

3. Need for Periodic Fee Analysis and Development of Formal Fund Reserve Policies

Cost Recovery

The Bureau's building plan check and permit fees are included in the City's Master Fee and Charges Schedule approved annually by the City Council. Fees included in the City's Master Fee and Charges Schedule are reviewed annually by a consultant to ensure the fee fully recovers the cost of providing the related service.

Each year a consultant provides a report recommending the appropriate fee changes to be included in the City's Master Fee and Charges Schedule. Fee changes are based on an analysis of the Consumer Price Index (CPI) and increases to budgeted personnel costs for the departments affected, which together represent the City Cost Index (CCI). This approach does not take into account the actual cost of the services provided. According to the FY13 consultant report, a comprehensive review of user fee costs has not been completed since 2005.¹ Without this analysis, the Department would not know the appropriate fees to charge to fully cover their operations or how much operations could be expanded with current revenues.

Technology Funds

¹ In 2011, the Department benchmarked the City's fees to other comparable cities and found Long Beach was in the middle to lower range for all categories reviewed. However, this study does not review the City's costs for supplying the services.

The revenue and expenses of the Bureau are recorded in the Development Services Fund, which also includes the operations of the Planning and Multi-Family Inspection Bureaus. A technology surcharge added to each building application by the Bureau was adopted in 2002 to assist with a one-time purchase of a new permit software system. The surcharge was made permanent by the City Council in 2007, as management determined there would be ongoing costs associated with the new software and additional technology needs in the future.

When we looked at the technology revenues' effect on the Fund balance, we found that the Fund appeared to "borrow" money from the excess technology revenues over a five year period in order to meet Planning Bureau needs and keep the Fund from a deficit position as shown in Table 3 below. According to the Bureau, the General Fund did not have the capacity to transfer revenue into the Development Services Fund, and it was decided that the technology funds would be used temporarily to sustain minimum service levels within the Department.

Table 3
Technology Related Fund Balance
FY07 – FY13

| Fiscal Year | Fund Balance Total | Technology Surcharge Portion | Adjusted Fund Balance |
|--------------------|---------------------------|-------------------------------------|------------------------------|
| FY07 | \$ 539,889 | \$ 649,904 | \$ (110,015) |
| FY08 | 753,196 | 1,219,794 | (466,598) |
| FY09 | 35,754 | 1,683,757 | (1,648,003) |
| FY10 | 853,046 | 2,262,993 | (1,409,947) |
| FY11 | 1,742,284 | 2,524,639 | (782,355) |
| FY12 | 4,176,353 | 2,890,753 | 1,285,600 |
| FY13 | 7,115,569 | 3,004,906 | 4,110,663 |

All of the technology revenue "borrowed" between FY07 and FY 11 was eventually recovered in FY12 and FY13. In FY 13, these funds were officially accounted for as designated reserves in the Fund only to be used for future technology purchases.

Formal Reserve Policies Do Not Exist

As shown in Table 4 below, the balance in the Fund has increased from \$1.7 million in FY 11 to \$7.1 million in FY 13. This is due to increased fee revenue, assumption of inspection services from the Fire and Health departments and an improved economy.

Table 4
Fund Balance
FY11 – FY13

| | FY11 | FY12 | FY13 |
|---------------------|--------------|--------------|--------------|
| Fund Balance Amount | \$ 1,742,284 | \$ 4,176,353 | \$ 7,115,569 |

We attempted to obtain information from the Bureau on future plans for using the excess fund balance, but were denied this information by management. After our audit was completed, the City's FY15 proposed budget was released providing a summary of new staffing and technology purchases for the Department that appear to be financed by a portion of the excess Fund balance. Since this information was obtained after we had completed our audit, we did not review any detailed analysis of the numbers. Exhibit 2 includes the proposed changes for the Development Services Fund as shown in the proposed FY 15 Budget Book.

Exhibit 2
Extract from FY15 Budget Book

| DEVELOPMENT SERVICES FUND | Impact on Fund | Positions |
|---|-----------------------|------------------|
| Increase revenue for construction inspection services to reflect actual activity. | \$ (768,000) | - |
| Restructure the Permit Counter to improve customer service by replacing Customer Service Reps and Combination Building Inspector with Permit Technicians I and II. The restructuring will improve customer service and increase efficiency in completing reviews. This is FTE neutral across all funds. | \$ 465,676 | 4.00 |
| Add new Civil Engineering Associate to assist with increased workload and customer volume at the Plan Check Counter. New FTE will allow senior staff to complete review of larger projects thereby reducing customer review/wait time and increasing workload capacity of Plan Check staff. | \$ 112,948 | 1.00 |
| Implement various organizational, staffing, and materials budget changes to assist with operational and budget management, including adjusting budget for actual rent at 100 W. Broadway. | \$ 214,044 | 1.05 |
| Convert Deputy Director of Development Services to a Manager of Planning in the Planning Bureau, which results in saving across all funds. | \$ 115,831 | 0.66 |
| One-time funding for Computer Monitor Upgrades for use with the Electronic Plan Review System. | \$ 56,308 | - |
| One-time funding for the Long Beach Boulevard Plan for the City's required match towards the completion of this project. | \$ 95,000 | - |
| One-time funding for Land Use and Urban Design elements and the Environmental Impact Reviews related to the General Plan. | \$ 350,000 | - |
| One-time transfer to General Services Fund for the FY 15 Development Services portion of Financial / Human Resources System costs. | \$ 792,321 | - |
| Subtotal: Development Services Fund | \$1,434,128 | 6.71 |

Based on the information in Exhibit 2, it appears additional staffing will be added to the Building and Safety and Planning Bureaus, along with one-time costs for Planning Bureau projects and technology purchases, including almost \$800,000 toward the replacement of FAMIS and the City's payroll system. The increased revenue noted in Exhibit 2 does not appear to be generated through fee increases, but from the additional inspection services the Department assumed during FY 13. Since we were not provided the analysis for these figures, we could not verify how long these additional costs can be sustained without increasing fees.

While there is nothing in writing or approved by the City Council, the Bureau informed us they have created an informal reserve to cover costs should there be another downturn in the economy or any future financial hardships that may affect the Fund. Under the Department's informal policy, the goal is for reserves to equal 50% of labor costs, which in FY13 amounted to approximately \$4 million Department-wide. Table 3 previously indicated the Department ran into a deficient position (which required the borrowing of technology funds) from 2007 to 2011 that amounted to \$4.4 million. While the Department could not provide a methodology behind why 50% of labor costs was chosen as the goal, the \$4 million potential reserve balance appears reasonable. According to the Department, the goal is to reach the \$4 million reserve by FY 2016. However, the Bureau has allocated \$1.4 million of the reserves in its FY15 proposed budget as discussed previously.

The Bureau does not have a formal reserve policy to provide guidance for handling deficit or excess fund balances. A formal reserve policy would be written and approved by City Council. It would increase transparency and provide direction on issues such as the appropriate reserve balance needed and why, what actions should be taken if the reserve balance is exceeded or falls into a deficit position, and handling of transfers to/from the General Fund.

Recommendation: The Department should perform an updated analysis of all corresponding fee revenues and service-related expenses to ensure all cost recovery fees are set at the appropriate amount to adequately cover costs. This analysis should be done at least every 5 years or more frequently if the fund balance is in or expected to enter a deficit position. In addition, a comprehensive policy on fund balance reserves needs to be created to provide transparency and guidance on actions that should be taken depending on the Fund's financial position.

Appendix A

Management's Response



Date: September 25, 2014
To: Laura Doud, City Auditor
From: Amy J. Bodek, Director of Development Services
Subject: Response to Audit of Building Permits

Thank you for the opportunity to have a third-party evaluate the appropriateness and accuracy of the Department of Development Services' building permit fees and development process. We appreciate the professionalism shown by your staff, and their respect of the Building Bureau's time commitments to serving the public; particularly your staff's willingness to pull the nearly 1,000 hard copy records. As discussed below, the Department will be implementing the recommendations that are within the Department's control. The Department will report back to the City Auditor's Office in late April 2015.

Oversight of Fee Process

The Audit notes some differences between the hard copy application the Department retains and the information entered into the Hansen system. These differences are primarily the result of an applicant filling out an application to the best of his or her abilities prior to speaking with the Development Services Center staff person. The changes between the written application and the entries into the Hansen system commonly result from the conversation between the applicant and the counter staff as the project is discussed and the applicant becomes better informed. The Department will put procedures in place to document the reason fees have been waived or vary from the written application. In addition, the Department will develop a policy regarding the daily and weekly spot checks of the manual applications compared to the information entered in the Hansen system to identify anomalies and inconsistencies.

Regarding the potential for errors in calculating fees, the Department prefers a system with less manual entry than the Hansen system currently requires. The Department is in the process of developing a new portal that works with the Hansen system that should address some of the concerns regarding data entry and calculation of impact fees. As part of the new portal's development process, the Department will work on reports to assess the accuracy of impact fees and identify waivers and adjustments.

Monitoring and Oversight of System User Access

The Department has procedures in place to disable system access for employees who are no longer with the Department. Specifically, the Department's Administrative Bureau submits a Technology Services Request for termination of access. The Administrative Bureau will work with the Technology

Services Department to establish a process for determining if system access has been terminated. In addition, security and access controls will be established in developing the new portal and electronic processing of projects including termination due to disuse after a specified period.

Formal Reserve Policy

Prior to Fiscal Year 2007, the activities of the Planning and Building Bureaus were accounted for in the General Fund. As a result of significant deficits in the General Fund, the City adopted a cost recovery model for its services citywide. Based on a 2005 study, fees were established for the Development Services Center and the Development Services Fund was created as a special revenue fund. The Development Services Fund commenced in Fiscal Year 2007. Given that the fund was created right before the Great Recession, the fund did not have an adequate period during which to create a balance for periods when development activity declined substantially. In Fiscal Year 2011-2012, the Development Services Fund became an enterprise fund. At that time the economy was experiencing improvement, leading to increased revenues while expenses had decreased by approximately \$2 million since the fund's inception, creating a fund balance. With the turnaround in the fund, the Department set a reserve target of 50 percent of the Development Services Center's labor costs. This reserve will allow the Department time to respond to substantial shifts in the economy without decimating the ranks of trained staff, running a deficit or burdening the General Fund.

The reserve policy is known to the Director of Financial Management and the City Manager's Office. During the FY15 budget process, this reserve was taken into consideration while budget decisions were being made. The fund's expenditures are generally approved by the City Manager as part of the budget process. The Department did not share the proposed budget for the Development Services Fund with City Auditor's Office because it had not been approved and publicly released.

The Department will work with Financial Management to establish a reserve policy for the Development Services Fund that is formally approved by the City Council. The Department will conduct a study of its fees for the Development Services Fund at least every five years.