

MANATEE COUNTY CLERK OF THE CIRCUIT COURT
INTERNAL AUDIT DEPARTMENT

BUILDING DEPARTMENT AUDIT

A U D I T R E P O R T

TABLE OF CONTENTS

I. INTERNAL AUDIT REPORT

A.	Background; Purpose/Objectives; Scope, Methodology	2
B.	Irregularities, Abuse or Illegal Acts; Test of Compliance; Statement of Internal Control Structure Management Team and Management Action Plan	3
C.	Management Summary	4-5
D.	Audit Report Authorization.....	5
E.	Areas of Improvement and Management Action Plans.....	6 - 9

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A U D I T R E P O R T

The Internal Audit Department conducted a financial, compliance, and operational audit of the Building Department for the audit period January 05, 2005 through November 30, 2006. The audit was performed in accordance with *Generally Accepted Governmental Auditing Standards* issued by the Comptroller General of the United States; and the *Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.

BACKGROUND:

The Building Department is composed of the Building Plans Review & Permitting Division and the Building Inspections Division. The Building Plans Review & Permitting Division provides for the protection of the public through contractor licensing, review of building plans, and issuance of permits to ensure compliance with the adopted codes and standards. The Building Inspections Division inspects work in progress to ensure compliance with the approved plans and applicable codes.

PURPOSE/OBJECTIVES:

The main audit purpose/objectives included, but were not limited to, the following:

- To verify expenditures are properly documented, approved, recorded and reported.
- To verify an adequate system of internal control exists to safeguard assets, maintain the integrity of reports on operations, and provide adequate evaluation of the Building Department's objectives and responsibilities.
- To verify compliance with laws and regulations, including Florida Statutes, policies and procedures, and signed agreements or contracts.
- To evaluate overall operational efficiency and effectiveness.

SCOPE:

The scope of the audit included reviewing the overall adequacy of the Building Department's internal controls and the operational efficiency and effectiveness by examining and testing financial and operational records and compliance to the state and county laws for the period ending November 30, 2006.

METHODOLOGY:

Internal control evaluations were accomplished by flowcharting processes, reviewing key operations of this specified area through discussions with management and staff, observations, and analytical and substantive testing of individual internal controls. Risk analysis was used to establish priorities of audit objectives.

IRREGULARITIES, ABUSE, OR ILLEGAL ACTS:

Several ethics investigations requiring employee discipline were conducted based on information obtained during the audit. None of these ethic complaints were considered prosecutable as criminal or civil ethics violations. No other instances were discovered during the audit that indicated any other irregularities, abuse, or illegal acts were committed by Building Department employees.

TEST OF COMPLIANCE:

Internal Audit tested compliance with certain laws and regulations, obtained an understanding of internal controls and assessed control risk. Tests performed were limited to the specific areas included in the Purpose/Objective section of this report and appeared to provide sufficient evidence to support an opinion on compliance and internal controls for the areas tested. Except as noted in our audit report, tested items were in compliance with regulations and other policies established by the Building Department.

STATEMENT ON INTERNAL CONTROL STRUCTURE:

In planning and performing the audit of the Building Department for the twenty-three months ended November 30, 2006, the internal control structure was considered in order to determine the auditing procedures for the purpose of this report. As a result, we noted in the audit report matters involving the internal control structure and its operations that are considered reportable conditions under standards established by the U.S. General Accounting Office, *Government Auditing Standards*. Reportable conditions involve matters relating to deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize and report on data consistent with management's intentions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions, as defined above. In addition, because of the inherent limitations in any internal control structure, deficiencies in the design or operation of the internal control structure may exist and not be detected. We believe the conditions identified in our audit report may constitute reportable conditions as previously defined.

MANAGEMENT TEAM AND MANAGEMENT ACTION PLAN:

A Management Action Plan will be given for each Area for Improvement. Management Action Plans are corrective actions with implementation dates developed in cooperation with the Building Department's management team and the Internal Audit Department. The management team included Jim Lee, Building Department Director; George Devenport, Building Official; Theresa Kersey, Permit Services Supervisor; Tammy Boggs, Fiscal Management Analysis II; C. J. Dupre', Construction Inspections Manager; Art Ricker, Construction Review Coordinator.

MANAGEMENT SUMMARY:

The Building Department is managed by highly trained and dedicated individuals whose priority is to provide quality service to the demanding public construction sector. Based on the audit, the Building Department appears to be providing professional review of building permits, ensuring compliance with adopted codes through construction inspections, and protecting of the public through contractor licensing, and enforcement of code compliance. We were particularly impressed by the Permitting Section's efficiency and effectiveness in processing thousands of permits each year. This core section of employees demonstrated the professionalism that the entire Building Department strives to attain on a daily basis. The audit identified several areas where improvements can be made. These improvements and management action plans are summarized below:

The internal control used to identify permits that have been processed but not paid can be improved by implementing automated controls to improve efficiency, effectiveness, and prevent account manipulation. While testing did not reveal any misappropriations of funds during the audit period examined, the potential for abuse continues to exist for this manual process. The Management Team through its Management Action Plan has requested a programming change to the existing software to automate this manual process.

(See Area for Improvement #1 at page 6.)

The Building Department's permitting software allows for the input of credits for impact fees, Permits By Affidavits, and corrections due to processing error. All employees with access to the permitting software have the ability to issue credits without additional approval. While our testing did not reveal any misappropriations of funds during the audit period examined, the potential for abuse continues to exist. The Management Team through its Management Action Plan has implemented a supervisory review of credits.

(See Area for Improvement #2 at page 6.)

The Building Department has many open and expired permits that lack final inspection and/or payments for re-inspections. Management has made progress in closing these open and expired permit files, however; many open files remain. Unclosed permit files represent a potential risk to public health and safety, loss of revenue to the County, and the possibility of illegal work performed by unlicensed contractors. The Management Team through its Management Action Plan will continue to close open and expired permit files.

(See Area for Improvement #3 at page 7.)

The Building Department offered contractors the ability to hire plans reviewers and inspectors at a time when permit growth outpaced the Department's ability to meet the demand for these parts of the permitting process. Internal Audit discovered a significant internal control weakness in processing discounts on these Permits By Affidavits (PBA). Internal Audit performed a survey of other counties and cities and found no other county or cities gave similar discounts from permitting fees. During the audit, Management eliminated the PBA discounts, which should recover approximately one million dollars of revenue and eliminate the processing internal control weakness.

(See Area for Improvement #4 at page 8.)

MANAGEMENT SUMMARY: (Continued)

The Building Department's process for enforcement of the Unsafe Structure Ordinance can be improved to assure property owners are properly noticed, billed timely for repairs or demolitions, collections are attempted and liens are timely filed on the properties when owners do not pay within the 30 days required under the Ordinance. The Management Team through its Management Action Plan is in the process of developing new procedures that will ensure notification to property owners, that property owners are billed timely and that collections and liens are processed timely.

(See Area for Improvement #5 at page 8.)

The Building Department's current Policies and Procedures manual needs improvements in several key areas to serve as guidance to new and existing employees in the performance of their duties. The Management Team through its Management Action Plan is in the process of developing and updating their Policies and Procedures manual to adequately guide their employees in the performance of their duties.

(See Area for Improvement #6 at page 9.)

The findings listed in this report were discussed with Jim Lee, Building Department Director. Other minor findings noted during the audit were discussed and/or corrected during the audit, and were not included in this report. We would like to thank the Building Department's management and staff for the cooperation and courtesy afforded to our auditors throughout the audit. We appreciate the efforts and timeliness in addressing the issues raised during the audit and aggressively seeking solutions to these matters. We look forward to the continued effort on monitoring controls and maintaining accountability over all of their operations.

AUDIT REPORT AUTHORIZATION:

This audit report has been reviewed and authorized by:

Richard J. Orienti, CIA, CFE
Director of Internal Audit

R. B. "Chips" Shore
Clerk of the Circuit Court & Comptroller

AREA FOR IMPROVEMENT #1.....

The internal control used to identify permits that have been processed but not paid can be improved by implementing automated controls to improve efficiency, effectiveness, and prevent account manipulation.

The permitting software prematurely lists permits as paid prior to actual payment by the customer. Permitting personnel rely on a daily interface report that lists outstanding permits that were processed but not paid. A manual system is in place to reverse the paid status for unpaid permits. This manual process is inefficient, ineffective, and has the potential of being abused. Internal Audit reviewed the manual transactions for the audit period and found no abuse of this corrective process. While Internal Audit did not find abuse, the potential for abuse continues to exist. The automation of this process could substantially reduce this risk as well as providing improved efficiency and effectiveness.

Management Action Plan: Management has requested a programming change to the permitting software to automate this manual process. Management anticipates that this programming change will be implemented by December 31, 2007. In the interim period Building Department supervisors will continue to review the daily interface report to ensure the proper payment status of unpaid permits.

AREA FOR IMPROVEMENT #2.....

The permitting software allows for the input of credits for impact fees, Permits By Affidavits (PBA discounts which were discontinued during the audit, See Area for Improvement #4 on page 8), and corrections due to processing error. All employees with access to the permitting software have the ability to issue credits without additional approval. These credits are not currently reviewed or approved. Internal Audit obtained and tested a report of credits issued during the audit period, and did not find abuse of this corrective process. While testing did not find abuse had occurred, the potential for abuse continues to exist. A supervisory review of credits issued can reduce the risk of improper credits being applied to customer accounts.

Management Action Plan: During the audit, management has implemented a process where periodic reports are being generated of all credits issued and these reports are being reviewed by Building Department supervisors to ensure credits appear reasonable.

AREA FOR IMPROVEMENT #3.....

The Building Department has many open permit files that remain open beyond permit expiration dates. These permit files lack final inspections and/or payments for re-inspections. Unclosed permit files represent a potential risk to public health and safety, loss of revenue to the County, and the possibility of illegal work performed by unlicensed contractors.

A small number of open permits require Certificate of Occupancy, which normally serves as an incentive for permit holders to close out their permits. The majority of open permits require a Certificate of Completion and these require inspections to close the files. Examples of these latter types of permits include roofs, swimming pools, aluminum structures, air conditioning, sheds, etc.

Permits can be issued to Licensed Contractors and also to Homeowners. Licensed Contractors make up the majority of permits issued and are required by their licensing code to complete the permitting process and close out permits. Homeowners comprise a small percentage of permits issued, have no licensing incentive to close out permits, and sometimes hire unlicensed contractors. Homeowners who hire unlicensed contractors are less likely to call for inspections to close out the permit.

Management has been aware of the problem represented by open and expired permits and has systematically been dedicating staff to close permit files. Management has been successful in closing most files prior to 1998 and is currently concentrating on closing open files from 1998 through 2004. Management is attempting to contact the homeowners and licensed contractors involved. In addition, Management is working with the Construction Trade Boards to pressure licensed contractors to close out permit files or face revocation of their licenses. Management also anticipates obtaining a Board of County Commissioners' Ordinance in the next year to prevent contractors from opening new permits if they have outstanding open and expired permits. Another enforcement mechanism available includes forwarding open permits to the Code Enforcement Board who has the ability to place liens on the properties of homeowners who refuse to pay for re-inspections of work performed on their properties.

Management Action Plan: Internal Audit supports management's plan to close open and expired permit files, which will reduce the risks to public health and safety, and collect amounts owed Manatee County. Internal Audit also supports Management's intent to obtain an Ordinance by December 31, 2007, that will restrict licensed contractors from applying for new permits until open and expired permits are closed.

AREA FOR IMPROVEMENT #4.....

At a time when the number of permits exceeded the ability of the Building Department to efficiently process those permits, Manatee County allowed developers to contract privately with firms to expedite permitting and inspection work for development permits. These Permits By Affidavits (PBA) allowed the developers utilizing them to receive a 50% discount on permit fees. PBA discounts in 2005 amounted to approximately \$1,000,000.

Internal Audit found that significant internal control weaknesses exist in the processing of discounts for the PBA's on the Community Plus software used by the Building Department. Credits are input into the system for these PBA discounts and could be entered by anyone having access to the permitting system (as discussed in more detail in Area of Improvement #2, at page 6). Non-qualifying discounts could be given without adequate detection.

Internal Audit surveyed 25 counties and 5 cities regarding the use and discounts for similar PBA programs. We found that none of the other counties and cities that offered PBA's to developer/contractors gave discounts of permitting fees.

Management Action Plan: During the audit, Management eliminated PBA discounts. By eliminating PBA discounts the Building Department has increased revenue and removed the internal control weakness in processing of the discounts. Internal Audit supports management's decision to end these discounts.

AREA FOR IMPROVEMENT #5.....

The Unsafe Structure Ordinance (01-69) provides for repair or demolition of unsafe structures by Manatee County and requires the property owner to reimburse the cost of these services. The Ordinance also provides the authority to place a lien against the property if the costs are not reimbursed within 30 days. Our audit found that the follow-up, owner notification and collection processes need improvements to assure property owners are properly noticed, billed timely for repairs or demolitions, collections are attempted and liens are timely filed on the properties when owners do not pay within the 30 days required under the Ordinance.

Management Action Plan: Management is in the process of developing new procedures that will ensure notification to property owners, that property owners are billed timely and that collections and liens are processed timely. Management anticipates improvements in these processes to be complete by December 31, 2007.

AREA FOR IMPROVEMENT #6.....

Cross-trainings, promotions and reassignments of employees within the Building Department have resulted in many employees performing tasks that are new to them. An up-to-date Policies and Procedures manual can greatly assist employees new to their duties in correctly and knowledgeably performing those job assignments. The Building Department's current Policies and Procedures manual for the following areas needs improvements to serve as guidance to employees in the performance of their duties:

- Floodplain Investigator's investigation procedures to meet compliance deadlines.
- Zoning, including plan reviews required
- Investigations Section
- Licensing Section

Management Action Plan: Management appreciates the value of adequate policies and procedures to guide employees in the performance of their duties and is in the process of developing this guidance. Management anticipates this control to be strengthened by December 31, 2007.