

FISCAL AUDIT

BUREAU OF BUILDING INSPECTION
MICROFILM PERMIT PLANS TRUST FUND (MPPTF)

Report by the
Office of City Controller

MICHAEL E. LAMB
CITY CONTROLLER

Douglas W. Anderson, Deputy Controller

Hadiza Buhari, CPA, MBA, Audit Manager

Michelle Gibbs, Auditor

March, 2015

CONTENTS

EXECUTIVE SUMMARY.....	1
INTRODUCTION.....	2
SCOPE AND METHODOLOGY.....	2
BACKGROUND.....	3
RESULT:	
FINDING #1: LACK OF WRITTEN POLICIES AND PROCEDURES.....	5
FINDING#2: INTERNAL CONTROL OVER TRANSFER OF PLAN FEES	5
FINDING #3: RECONCILIATIONS NOT PERFORMED.....	6
FINDING #4: ACCESS TO SUPPORTING DOCUMENTATION.....	6
FINDING #5: SEGREGATION OF DUTIES AND VOIDED ASSESSED FEES.....	6
RESPONSE FROM DEPARTMENT OF PERMITS, LICENSES AND INSPECTIONS.....	8



MICHAEL E. LAMB

CITY CONTROLLER

First Floor City-County Building • 414 Grant Street • Pittsburgh, Pennsylvania 15219

March 25, 2015

To the Honorables: Mayor William Peduto and
Members of Pittsburgh City Council:

The Office of the City Controller is pleased to present this Fiscal Review of the **Microfilm Permit Plans Trust Fund**, conducted pursuant to the Controller's powers under Section 404(b) of the Pittsburgh Home Rule Charter.

EXECUTIVE SUMMARY

The Microfilm Permit Plans Trust Fund was established in 1986 via resolution #1167 to account for the deposit of plan fees collected by the Department of Public Safety Bureau of Building Inspection (BBI). The fee, set at \$3 per plan page is assessed on commercial and residential permits applications that include building plans with large drawings (11x7 and up). Funds deposited into the trust fund are used to pay for all expenses associated with the scanning of the large drawings onto CD/DVDs by outside vendors. Plans with smaller drawings (8.5x11) are scanned in-house and therefore not assessed the plan fee.

We performed certain procedures to determine whether policies and internal controls relating to the administration of the fund are adequate, plan fees collected are deposited intact, and payments made from the fund are properly supported. We found that there are no written policies and procedures for managing the fund and reconciliations of fees collected and fees recorded on the City's accounting system is not performed. Our findings, recommendations and other opportunities for improving internal controls over management of the fund are further discussed in the Result section of this report.

Prior to the release of our report, a proposal to restructure BBI into a new department (separate from the Department of Public Safety) was approved by City Council on December 9, 2014. The Microfilm Permit Plans TF is now administered under the "*Department of Permits, Licenses and Inspection*."

We appreciate the assistance of the staff involved with the administration of the fund.

Sincerely,

Michael E. Lamb
City Controller

INTRODUCTION

This fiscal review of the **Microfilm Permit Plans Trust Fund** was conducted pursuant to the Controller's powers under Article IV, Section 404(b) of the Pittsburgh Home Rule Charter.

SCOPE AND METHODOLOGY

Our procedures were conducted pursuant to Article IV, Section 404(b) of the City of Pittsburgh Home Rule Charter and covered the period January 1, 2012 through December 31, 2013. A performance audit of the Bureau titled "*Department of Public Safety, Bureau of Building Inspection*" was released by the Controller's Office in November, 2011.

The objective of our procedures is to determine whether policies and internal controls relating to the administration of the fund are adequate, plan fees collected are deposited intact, and payments made from the fund are properly supported. In order to achieve our objectives we performed the following procedures:

- Interviewed personnel involved with the fund to gain an understanding of the funds' processes and related internal controls.
- Reviewed procedures relating to the operation of the fund including the collection and deposit of plan fees.
- Summarized plan fees collected and expenses charged to the fund for the period January 1, 2012 through December 31, 2013.
- Applied procedures to a sample of plan fees to determine if properly recorded.
- Applied procedures to a sample of expenses to determine if properly supported.
- Reconciled BBI plan fees revenue records to the City's accounting system.

BACKGROUND

The Microfilm Permit Plans Trust Fund (MPPTF) was established in 1986 via resolution #1167 to account for the deposit of plan fees collected by the Department of Public Safety Bureau of Building Inspection. The fee, set at \$3 per plan page is assessed on commercial and residential permits applications that include building plans with large drawings (11x7 and up). Funds deposited into the trust fund are used to pay for all expenses associated with the scanning of large drawings onto CD/DVDs by outside vendors. Plans with smaller drawings (8.5x11) are scanned in-house and therefore not assessed the plan fee.

The Bureau of Building Inspection (BBI) administers and enforces the City's building codes via the issuance of building and related permits for the construction, demolition and occupancy of all existing and new buildings/structures within the City. Applications for permits required under the codes are submitted by individuals, contractors and/or businesses for approval. BBI utilizes the Accela software system to track and process all permit applications including payments received and the Cashier system; a Microsoft Access database for financial reporting.

Submitted permit applications and plans are reviewed and approved by the *Plan Review Engineers* who also assess the appropriate fees payable by check or money order only. Approved applications are entered into the Accela system, payments processed and receipts issued. The \$3 per page plan fee, set within the system is automatically applied to applications that include plans with large drawings; however the number of pages must be manually entered to determine the total fee. In order to complete the process, permits and payment information are also manually entered into the Cashier system and an itemized list of the related charges are printed on the back of each check/money order. All payments collected are securely stored in a locked box pending transfer to the Finance Department for deposit.

At the end of the business day, collections are tallied and prepared for deposit. A daily summary of fees collected for that day is generated from the Cashier system which lists all of the permits and/or business licenses issued and the fees collected. This report is reconciled to totals of collections and the prepared deposit slip. We noted no other reconciliations are performed. The next morning, the daily report, checks/money orders and the summary report are taken to the City's Finance Department for deposit into the General Fund. A validated deposit slip and validated copy of the summary report is returned to BBI for their records. Also, a monthly memorandum of transfer, including a monthly summary of fees report is sent to the Controller's Office-Accounting requesting transfer of the plan fees deposited into the General Fund be made to the MPPTF.

BBI issued a total of 3,504 permits with plan fees assessed during the period January 1, 2012 to December 31, 2013.

A total of \$185,468 in plan fees associated with these permits was transferred into the MPPTF during the same period as shown below:

Table 1 – Microfilm Permit Plans Trust Fund Revenue For the Period 01/01/2012 through 12/31/2013		
<u>Year</u>	<u># of Permits issued with Plans</u>	<u>Amount</u>
2012	1,787	\$ 54,130
2013	<u>1,717</u>	<u>131,338*</u>
Grand Total	<u>3,504</u>	<u>\$ 185,468</u>

*Includes \$75,816 transferred into the fund in error

A total of \$53,581 was paid out of the fund to cover expenses relating to the scanning of plans onto CD/DVDs during the same period, January 1, 2012 through December 31, 2013 as shown on the table below:

Table 2 – Microfilm Permit Plans Trust Fund Expense For the Period 01/01/2012 through 12/31/2013	
<u>Year</u>	<u>Amount</u>
2012	\$ 23,916
2013	<u>29,665</u>
Grand Total	<u>\$ 53,581</u>

RESULT

Finding #1: Lack of Written Policies and Procedures

There are no written policies and procedures governing the operation of the fund other than the resolution establishing it. Written policies and procedures define responsibilities as well as explain processes involved in accomplishing tasks in the administration of the fund. To ensure adequate monitoring and management of the fund, detailed documentation of operating procedures that incorporate appropriate level of internal controls are important. Without written policies and procedures, roles and responsibilities may not be clearly defined thereby making it difficult to establish accountability. Detailed operating policies and procedures should include duties and responsibilities of those involved with the fund, and the process and procedures involved in assessing, collecting and depositing of fees collected.

Recommendation:

Develop written policies and procedures to ensure adequate monitoring and management of the fund that clearly document how procedures/tasks are handled. Best Practices indicates formal written procedures including process descriptions and related internal controls should exist to codify a fund's operations thereby providing a foundation for effective internal controls.

Finding #2: Internal Control over transfer of plan fees

During our examination of revenue records, we noted \$82,338 (instead of \$6,522) was incorrectly entered into the Cashier system and subsequently transferred to the trust fund in August of 2013. Although the correct fee was assessed and collected in Accela, an incorrect fee type/code was selected while manually recording the fees on the Cashier system thereby resulting in the error. As a result these funds are not available to the Bureau to be utilized for general purposes and the trust fund has monies that it may not be authorized to expend. Per resolution establishing the fund, only plan fees are to be deposited into the trust fund. The practice of manually entering charges generated in Accela into the Cashier system is prone to human error that may not be detected especially since the two systems utilized by BBI do not interface and reconciliations are not performed.

Recommendation:

BBI is considering replacing the Cashier System which will eliminate the potential for errors relating to the manual process associated with the Cashier system. In the meantime, we

recommend BBI establish routine reconciliations of records generated between the two systems (Accela and Cashier) to allow for early detection of errors and their timely correction.

Finding #3: Reconciliations Not Performed

There are no reconciliations performed to agree fees collected by BBI to the City's Accounting System to ensure accuracy and/or allow for early detection of errors and/or irregularities. Performing periodic reconciliations to agree BBI revenue records to the City's accounting system is a good management control practice to ensure accuracy and early detection of errors and/or irregularities.

Recommendation:

Establish procedures to periodically reconcile BBI receipt records relating to the fund to the City's accounting system. This will also minimize the occurrence of issues noted in the finding noted above.

Finding #4: Access to Supporting Documentation

BBI was unable to provide us with supporting documentations for expenses charged to the fund. Per conversation with their staff, records could not be located due to the retirement of the staff responsible for the records. Auditors were able to verify a sample of expenses charged to the fund selected for testing using alternative procedures except for one invoice that was missing. Although expenses appear valid, retention of supporting documentations not only provides audit trail and evidence of the validity of the expense but also proper authorization thereby reducing risk of any misappropriation.

Recommendation:

Establish policy and procedure ensuring adequate supporting documentation relating to the activities of the fund is maintained.

Finding #5: Segregation of Duties and Voided Assessed Fees

Inadequate Segregation of Duties - The practice of the Permit Counter Clerk collecting and processing payments, preparing deposits and also recording the information into the Cashier system does not provide for proper separation of duties. Effective internal controls dictates proper separation of duties should be maintained within the functions of collection, recordation and custody of assets.

Lack of Management Review of Voided Transactions - There is no management review of the report of edited/voided transactions generated from the Accela system that shows changes made to fees assessed by Plan Review Engineers. Although the \$3 Plan Fee is set within the Accela system, the total number of pages that is entered to calculate the total fee may be edited or voided. In order to ensure transactions are properly recorded and to minimize the potential for misappropriation, changes made to assessed fees should be properly reviewed and approved.

These issues were also noted by the firm Gleason & Associates, Certified Public Accountants and Consultants engaged by the Intergovernmental Cooperation Authority (ICA) to conduct a city-wide assessment of cash management practices in their report "*Review of City of Pittsburgh Cash Management Practices-Department of Public Safety, Bureau of Building Inspection*".

Recommendations:

- Establish policy and procedures to properly segregate the functions of collection, recordation and custody of assets.
- Implement management review and approval of all changes made to assessed fees by Plan Review Engineers. This review/approval should also be properly documented. This recommendation will also assist in monitoring any revisions that are made to plan fee charges.



William Peduto
Mayor

Maura Kennedy
Director

March 16, 2015

Controller Lamb:

Thank you for your audit of the Microfilm Trust Fund. While it is important to note that the period audited is prior to Mayor Peduto's and my tenures, the report raises several important issues. The Department of Permits, Licenses, and Inspections (PLI) has taken steps to address all of the concerns cited, as well as improve the administration of the Microfilm Trust Fund in other ways.

The Department worked with City Council to pass legislation repurposing the fund to support more modern technologies instead of storing records on microfilm and CD-ROM. Technology is a key step to creating a more modern, accountable, and transparent Department and we are using this Trust to help fund this transformation.

The cashiering system that is the focus of much of this audit will be replaced entirely by May 1, 2015. The cashiering function will now be built into Accela. This change greatly reduces the amount of potential human error in the system and increases accountability and transparency by more closely linking the permits and licenses issued with a payment received.

Finally, the Department is working to accept credit card payments. This should significantly reduce the number of licenses and permits purchased with a check. The goal of accepting credit cards is to provide better service to our customers, reduce the amount of work it takes to process payments internally, and improve the integrity of the cashiering system by further automating it.

Below is a response to list of problems and suggested solutions identified in this audit:

Finding #1: Lack of Written Policies and Procedures

Now that the Department can use the Trust Fund for more modern forms of technology, PLI will draft use policies. Since Microfilm was not a technology PLI wished to continue investing in, the Department thought it was a better address how the fund could be used first, rather than writing regulations for how to use outdated technologies.

Finding #2: Internal Control over transfer of plan fees

The Department is in the process of consolidating the cashiering function into Accela so that fees will be calculated automatically. This removes the room for error since staff will not be doing a

second set of data entry. This consolidation effort should be completed by May. The change will result in greater operational efficiency in the cashiering process by reducing redundant records and automating the system.

Finding #3: Reconciliations Not Performed

Directly linking the payment with the permit or license issued in Accela will greatly improve the accuracy and the speed of the auditing process.

Finding #4: Access to Supporting Documentation

The personnel responsible for the records during the period in question retired before the start of this Administration and the records from this period could not be located. The new leadership at PLI has since established storage procedures for such records.

Finding #5: Segregation of Duties and Voided Assessed Fees

Inadequate Segregation of Duties – Improving the process of accepting payment will allow us to redeploy staff and better segregate tasks.

Lack of Management Review of Voided Transactions – Once the cashiering system is moved into Accela, the ability to void fees will be limited to supervisors and record of the void will be directly linked to the license or permit record.

Again, thank you for the audit. We appreciate your review of our processes.

Best wishes,



Maura Kennedy
Director
Department of Permits, Licenses, and Inspections