

Internal Audit Report

**DEPARTMENT OF INSPECTIONS,
LICENSES AND PERMITS
REVENUE COLLECTION AND
PERMIT ISSUANCE
SEPTEMBER 2015**

Office of the County Auditor





OFFICE OF THE COUNTY AUDITOR

Craig Glendenning, CPA
County Auditor

September 2015

The Honorable Members of the County Council
The Honorable Allan Kittleman, County Executive

Pursuant to Section 212 of the Howard County Charter and Council Resolution 22-1985, we have conducted an audit of the Department of Inspections, Licenses and Permits (DILP) revenue collection and permit issuance processes. The body of our report presents our findings and recommendations.

Our audit disclosed that internal controls over the collection process were not adequate for certain payments received directly by DILP, and that DILP did not reconcile revenue received and processed according to Accela to SAP. We also found that a number of Accela users had access to critical processes that were not necessary for them to perform their job duties. The audit also disclosed that DILP did not always obtain plans or drawings when required or retain certain documents in Accela.

Our findings have been reviewed with the Chief Administrative Officer and we have included the Administration's responses. We wish to express our gratitude to the Department of Inspections, Licenses and Permits for the cooperation and assistance extended to us during the course of this engagement.

Craig Glendenning, CPA
County Auditor

EXECUTIVE SUMMARY

We conducted a performance audit of the Department of Inspections, Licenses and Permits' (DILP) revenue collection and permit issuance processes. The audit included building, electrical, plumbing, and grading permits and their related applications. The objectives of our audit were to:

1. Determine the adequacy of DILP's internal controls over collections and permit issuance.
2. Ensure that DILP adheres to the County Code and its policies and procedures when issuing permits.
3. Determine that DILP assesses and collects the proper fees in accordance with fee schedules proposed annually by the County Executive and adopted by the County Council, and that payments made are correctly posted in the County's financial records (SAP).

Conclusions

Regarding our first objective, we noted the following:

- Although permit applicants generally make payments directly to the Department of Finance, DILP can receive and process payments directly. While all permit related payments should be reflected on DILP's automated system (known as Accela) and SAP, DILP did not periodically reconcile revenues to amounts recorded in SAP.
- DILP did not periodically review user access to Accela. We found that certain users had access that was not necessary for them to perform their job duties. For example, we found that 19 of 26 employees who had access to payment and/or void transaction screens had incompatible access or did not require such access to perform their job duties.

For our second objective, we found that DILP did not always issue permits in compliance with the Code and its policies and procedures. Our test of 100 permits issued (and the related applications) disclosed that in two instances plans or drawings to support the application required by the Code were not on file. In addition, we found 8 instances where Accela did not include a copy of the application. In these instances Accela contained the application information required by the Code, but DILP did not maintain a scanned copy of the application as required by its procedures.

With regards to our third objective, we determined that the assessed permit fees we tested agreed with the amounts proposed by the County Executive and approved by the County Council. All payments we tested were recorded in SAP.

BACKGROUND

The Howard County Code provides that the Department of Inspections, Licenses and Permits (DILP) shall issue all licenses and permits on behalf of the County. To accomplish this, DILP receives permit applications, reviews those permits for compliance with Code requirements, and obtains approvals from other County departments (when required). DILP also assesses fees for applications and permits. Applicants generally make payments directly to the Department of Finance's (DOF) cashier's office or by credit card on-line using the County's third party credit card processor. Application and permit fees are based on annual schedules proposed by the County Executive and approved by the County Council. DILP enforces codes, laws, and regulations related to the areas it issues permits for, and inspects facilities covered by the codes, laws, and regulations it administers.

According to SAP, DILP's application and permit revenue totaled \$8.2 million in fiscal year 2014. Additionally, as part of the permit process, DILP assessed and collected other revenue as required by the Code (school surcharges and excise fees) totaling \$13.9 million. According to DILP's records, it issued 20,800 permits in fiscal year 2014.

To assist in performing its mandated duties, DILP uses Accela, an automated record keeping system. Accela maintains information related to the entire application and permit process, including application data, review and approval information, invoicing, payments, and inspection information. Accela also includes documentation supporting the process such as scanned applications, copies of permits, and drawings. Payments made to the DOF or through the on-line credit card processor are automatically updated on Accela via an interface with SAP.

FINDINGS AND RECOMMENDATIONS

Finding 1

Internal controls over amounts collected by DILP were not adequate.

Internal controls over the permit collection process were not adequate. Specifically:

- Although most payments were made directly by applicants to the Cashier, DILP personnel often accepted application fee payments. These payments were not taken to the Cashier for processing by DILP personnel until the related applications were processed and accepted in Accela, which sometimes took staff one or more days to process. This occurred when applicants dropped off multiple or complex applications that took staff one or more days to process. In order to negate the risk of theft, all payments should be made directly to the Cashier.
- DILP did not reconcile payments reflected in Accela to amounts recorded in SAP. As previously commented, payments are recorded in both SAP and Accela. Reconciling the two sets of records would help DILP ensure that all payments are processed and accounted for.
- DILP did not generate periodic reports of voided transactions to ensure that the transactions were proper and justified. Voided transactions do not require supervisory approval prior to processing. Accela has the capability to generate void transaction reports, including the name of the employee who processed the report. Our test of all voided transactions exceeding \$5,000 processed in fiscal years 2014 and 2015 (through February 2015) disclosed that these transactions appeared proper. As part of this test, we verified that Accela and SAP accurately reflected that proper payment was subsequently received.

To improve controls over cash receipts, we recommend that DILP:

- *Work with the DOF to establish a mechanism to allow all payments to be made directly to the DOF.*
- *Periodically (for example, monthly) reconcile payments received according to Accela to amounts recorded in SAP. This reconciliation should be documented and retained for future audit and verification purposes.*
- *Generate reports of void transactions for supervisory review and approval. The reviewer should not have the capability to void transactions in Accela.*

Administration's Response

To improve controls over cash receipts, we recommend that DILP:

- *Work with the DOF to establish a mechanism to allow all payments to be made directly to the DOF.*

The Administration concurs with this finding. DILP will work with County Administration to find the best way to allow all payments to be made directly to the DOF.

- *Periodically (for example, monthly) reconcile payments received according to Accela to amounts recorded in SAP. This reconciliation should be documented and retained for future audit and verification purposes.*

The Administration concurs with this finding. An additional reconciliation report is being developed and will be deployed.

- *Generate reports of void transactions for supervisory review and approval. The reviewer should not have the capability to void transactions in Accela.*

The Administration concurs with this finding. DILP will generate and review this report periodically. We will keep a copy of this report for future audit and verification purposes.

Finding 2
Users had unnecessary or incompatible access to certain critical functions in Accela.

DILP did not adequately restrict or review employees' capabilities to perform certain critical functions, such as processing payment and void transactions. Our review of all 26 active users with access to these two functions disclosed that 19 employees could perform incompatible functions or had unnecessary access. Specifically:

- Eleven employees could access both payment processing and void functions which allowed them to perform incompatible job functions. As a result, these employees could receive and process payments and subsequently void the related transaction in Accela, thereby misappropriating funds.
- Eight employees could access one or both functions but did not require such access to perform their routine job duties.

- Seven of the 26 employees, including the Director, were assigned Administrator rights which allow the user access to all components of Accela. Such access allows users unlimited system access to make modifications to user access and process any system allowed transaction, among other capabilities.
- Our test of all 106 users with system access as of February 2015 found 2 users whose employment had been previously terminated.

We recommend that DILP perform a review of system access and make the necessary changes to provide adequate restriction of employees' capabilities. We also recommend that DILP periodically generate system security reports and use these reports to:

- *Restrict access to critical system functions to only those employees who require such access to perform their job duties.*
- *Consider restricting administrator access to only employees responsible for system oversight.*
- *Periodically ensure that all users still require system access.*

Administration's Response

We recommend that DILP perform a review of system access and make the necessary changes to provide adequate restriction of employees' capabilities. We also recommend that DILP periodically generate system security reports and use these reports to:

- *Restrict access to critical system functions to only those employees who require such access to perform their job duties.*

The Administration concurs with this finding. We will review and restrict access only to those necessary.

- *Consider restricting administrator access to only employees responsible for system oversight.*

The Administration concurs with this finding. The number of "administrators" will be reduced from seven (7) to three (3).

- *Periodically ensure that all users still require system access.*

The Administration concurs with this finding.

Finding 3**DILP did not always retain documentation to support the permit issuance process.**

Our testing disclosed that DILP did not always retain documentation to support the permit application and issuance process. We tested 100 permits issued in fiscal years 2014 and 2015 (including the related applications) and found:

- The County Code requires plans or drawings to accompany applications for plumbing and electrical permits. Our testing of 60 applications for plumbing and electrical permits (included in the 100 tested overall) disclosed that plans or drawings were not in the file for 2 items tested.
- In 8 items tested, Accela did not include a copy of the original application. DILP scans applications into Accela in addition to entering the related application information.

We recommend that DILP retain documentation to support the application and permit issuance process.

Administration's Response

The Administration concurs with this finding and will retain documentation as required and better document any code-allowed exemptions.

Additional Comments

Our testing including determining if application and permit fees assessed by DILP agreed with the amounts specified by the Council approved fee resolutions. Our test of 100 permits and related applications disclosed that DILP properly calculated and invoiced fees for all of the cases tested. In each of these 100 test items, we traced the related payments to recording in SAP.

DILP processes refunds for various reasons, such as changes in plans after initial permit issuance and to return surety payments to contractors (the Code requires surety payments for grading permits). Our test of 20 refunds processed in fiscal years 2014 and 2015 found that refunds were accurate, properly supported and approved.

AUDIT SCOPE, OBJECTIVES AND METHODOLOGY

We conducted a performance audit of the Department of Inspections, Licensing and Permits' (DILP) revenue and permit process. We included building, plumbing, electrical and grading permits issued during the period July 1, 2013 through December 31, 2014. The audit did not include other types of permits issued by DILP or the DILP inspection and enforcement process.

We conducted our audit in accordance with generally accepted government auditing standards prescribed by the Comptroller General of the United States. Those standards require us to 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 we obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of our audit were to:

1. Determine the adequacy of DILP's internal controls over collections and permit issuance.
2. Ensure that DILP adheres to County Code and its policies and procedures when issuing permits.
3. Determine that DILP assesses and collects the proper fees in accordance with fee schedules proposed annually by the County Executive and approved by the County Council, and that payments made are correctly posted in the County's financial records (SAP).

To accomplish our objectives, we met with DILP personnel to document the internal controls and procedures over the processing of permit applications and issuance of permits. We tested compliance with established internal controls and procedures by reviewing supporting documentation for applications and permits. We also reviewed data from SAP and Accela. We performed various tests of the relevant data and determined that it was sufficiently reliable for the purposes the data was used for during the audit.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

We conducted our field work from January to March, 2015. The DILP responses to our findings and recommendations are included in this report.

AUDIT TEAM

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Senior Auditor