

# **Audit Follow-Up**

*As of September 30, 2017*



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City Auditor

## **Audit of Growth Management Revenues**

(Report #1710, Issued May 11, 2017)

**Report #1802**

**November 28, 2017**

### **Summary**

*Twelve of the 12 action plan steps established to address issues identified in audit report #1710, Audit of Growth Management Revenues, were due for completion as of September 30, 2017. Of the 12 steps due for completion, five steps have been completed, three steps are in progress, and four steps have been deferred. We will follow-up on efforts to complete the seven action plan steps not yet completed in our subsequent follow-up engagements.*

In audit report #1710, issued May 11, 2017, we concluded that, overall, adequate controls were in place to provide reasonable assurance that Growth Management Department (Growth Management) permit and others fees were properly assessed, collected, safeguarded, recorded, and deposited into the City of Tallahassee's (City) bank account. However, we identified several areas for improvement relating to: (1) an incorrectly calculated permit fee, (2) insufficient documentation supporting permit fee adjustments, (3) an inadequate segregation of employee duties, (4) an inappropriate physical location of a safe, (5) the need for consistency of data in the permitting system (Permits Plus), (6) the need to update and clarify the *Growth Management Department Schedule of Permit and Review Fees* (Fee Schedule), and (7) the need to document the validation of certain fee amounts. We made several recommendations to enhance and strengthen Growth Management's existing permitting practices. We also determined Growth Management should develop a formal policy that establishes the portion of costs intended to be recovered by permit and other fees.

Twelve action plan steps were developed to address the identified issues. For this first audit follow-up,

conducted as of September 30, 2017, all 12 action plan steps were due for completion. Our follow-up shows five steps were completed, three steps are in progress, and four steps have been turned over to management to ensure completion at a future date. The status of the five action plan steps completed during the period covered by this follow-up engagement is as follows:

- The importance of ensuring accurate data is entered into Permits Plus (and the anticipated replacement system CityWorks) was re-emphasized to applicable Building Inspection Division (Building Inspection) staff.
- Building Inspection issued a refund to the customer that was overcharged for a permit.
- The safe used to store cash and check permit payments collected from Building Inspection customers was relocated to a more secure location.
- Appropriate justification is now documented within Permits Plus by Land Use and Environmental Services (LUES) staff whenever permit fee adjustments are made.
- LUES internal policies and procedures related to concurrency, environmental management permits, subdivisions, site plans, and refunds were amended to require that justification for permit fee adjustments be documented within Permits Plus (and the anticipated replacement system CityWorks), as well as the project file.

The three action plan steps determined to be in progress but not yet completed include the following:

- Growth Management will implement additional controls to address the risks resulting from the incompatible duties assigned to/performed by Applicant Services supervisors.

- Growth Management will continue efforts to standardize the terminology used to document permit status in CityWorks (the system being implemented to replace Permits Plus).
- Growth Management will develop a standardized method for Plans Examiners and Inspectors to validate the accuracy and/or reasonableness of estimates used in calculating Building Inspection permit fees.

With regard to these three action plan steps in progress, substantial efforts have been made by management toward completing the required actions with the implementation of CityWorks (the permit tracking system to replace Permits Plus), with completion anticipated by January 1, 2018. We will follow-up and report on management's efforts to complete the three action plan steps determined to be in progress in a subsequent follow-up audit.

The four action plan steps that have been deferred include the following:

- The Growth Management Fee Schedule will be reviewed and revised to make the calculation of permit fees more transparent and understandable to customers.
- City management will establish a formal policy that provides the portion of costs that is intended to be recovered by both LUES and Building Inspection permit and other fees.
- After the formal policy is established pursuant to the aforementioned step, rate studies will be conducted on a periodic basis to ensure current fees are adequate to meet the policy goals/targets. In the event the rate studies show the current fees are not adequate or efficient, appropriate adjustments will be made to those fees.
- In conjunction with future rate studies conducted to determine the extent costs are recovered by fees, Growth Management will ensure that all appropriate costs are identified and analyzed for each function, including applicable administrative and indirect costs.

Due to funding limitations associated with the acquisition of services to perform the rate studies addressed in, or pertaining to, the four above-mentioned action plan steps, the completion date for

these steps has been amended to March 31, 2019. Accordingly, actions to complete these steps have been deferred.

We appreciate the cooperation and assistance provided by Growth Management staff and management during this audit follow-up.

### ***Scope, Objectives, and Methodology***

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

### ***Original Report #1710***

The scope of the original audit (report #1710) included a review of revenues and related processes for both the LUES and Building Inspection Divisions, as well as the Administrative Services Division. The Code Enforcement Division (Code Enforcement) was excluded from the scope of our audit as that function had been recently transferred to Growth Management. For the three divisions audited, activity during the four-year period fiscal year (FY) 2013 through FY 2016 was reviewed, with an emphasis on activity in FY 2016.

The objectives of the audit were to determine:

- The adequacy of controls established to provide reasonable assurance that Growth Management fees were properly assessed, collected, safeguarded, recorded, and deposited into the City's bank account; and
- The extent that Growth Management fees recovered the costs of the Growth Management function.

## ***Follow-Up Report #1802***

This is our first follow-up on action plan steps identified in audit report #1710. The purpose of this audit follow-up is to report on the progress and status of efforts by Growth Management to complete action plan steps due for completion as of September 30, 2017. To determine the status of these action plan steps, we interviewed applicable staff and obtained and reviewed relevant documentation.

### ***Background***

The Tallahassee, Florida Land Development Code (Code), which incorporates the Florida Building Code, provides land development (use) and building construction requirements for the City. As the land development regulatory agency of the City, Growth Management is primarily charged with enforcement of the City's land use and building codes. Growth Management meets that responsibility through site and building plan reviews and the permitting and inspection processes. Growth Management consists of several divisions responsible for ensuring compliance with those codes. Two of those divisions include the Land Use and Environmental Services Division (LUES) and the Building Inspection Division (Building Inspection).

To proceed with a land development and/or building project, a developer (e.g., contractor or owner-builder) must submit an application for a particular permit or approval either manually or online using the City's online permitting portal. The issuance of a permit (or approval) serves as representation that Growth Management has reviewed and approved the project as planned. LUES, which is chiefly concerned with concurrency (i.e., that adequate capacity exists in public infrastructure to accommodate the impact of a new project) and environmental impacts, approves all aspects of projects related to the land development portion of the Code; and issues project approvals in the form of certificates, determinations, approvals, or permits. Building Inspection, on the other hand, is primarily concerned with the portion of the Code related to building construction and issues project approvals in the form of permits.

Growth Management currently uses a system known as Permits Plus (also referred to as the Permits and

Enforcement Tracking System, or PETS) to track projects and related permits and to manage the associated workflow, including plan reviews and inspections. Considered outdated by City management, Permits Plus, though still functional, is being replaced (in phases) by a new system known as CityWorks. Full implementation of CityWorks is anticipated by January 1, 2018.

Numerous fees are assessed and collected by Growth Management in connection with its permitting and related activities. Permits Plus is programmed to automatically calculate the majority of applicable fees based on project attributes, permit type, and the established Fee Schedule. Remaining fees are manually calculated by appropriate Growth Management staff and then recorded in Permits Plus. Fees for Growth Management permits and activities are paid by customers and collected by the City in multiple ways, with options varying according to division and permit category (e.g., residential or commercial).

### ***Previous Conditions and Current Status***

In report #1710, we identified areas for improvement to enhance and strengthen existing Growth Management permitting practices. Growth Management Department management developed 12 action plan steps to address the identified issues and recommendations. All 12 action plan steps were due for completion no later than September 30, 2017. As shown in Table 1 that follows, as of that date, five of the twelve steps have been completed, three of the steps are in progress, and four of the steps have been deferred.

**Table 1**  
**Action Plan Steps from Audit Report #1710**  
**Current Status as of September 30, 2017**

Action Plan Steps Due	Current Status as of September 30, 2017
<p><i>Objective: Ensure adequate controls are established to provide reasonable assurance that Growth Management fees are properly assessed, collected, safeguarded, recorded, and deposited into the City's bank account.</i></p>	
<ul style="list-style-type: none"> <li>• The importance of ensuring accurate and correct data is entered into Permits Plus (and any subsequent replacement system) will be re-emphasized to applicable Building Inspection staff.</li> </ul>	<ul style="list-style-type: none"> <li>✓ <b>Completed.</b> In response to a recommendation in our original audit report, Building Inspection management promptly met with applicable supervisors to address the importance of entering accurate data into Permits Plus. Building Inspection management informed us that, during this meeting, supervisors were instructed to re-emphasize to staff the importance of ensuring accurate data is entered into Permits Plus (and its anticipated replacement system CityWorks). According to management, supervisors communicated this information to staff during subsequent Plans Examiner and Inspector meetings. Accordingly, this step is considered completed.</li> </ul>
<ul style="list-style-type: none"> <li>• Building Inspection will issue a refund to the customer that was overcharged.</li> </ul>	<ul style="list-style-type: none"> <li>✓ <b>Completed.</b> Building Inspection management properly refunded the customer that was overcharged permit fees. The refund was issued in April 2017, prior to issuance of our original audit report. As such, this step is considered completed.</li> </ul>
<ul style="list-style-type: none"> <li>• Appropriate justification will be documented within Permits Plus (and any subsequent replacement systems) by LUES staff whenever permit fee adjustments are made.</li> </ul>	<ul style="list-style-type: none"> <li>✓ <b>Completed.</b> Appropriate justification is now documented within Permits Plus by LUES staff whenever permit fee adjustments are made. Accordingly, this step is considered completed.</li> </ul>
<ul style="list-style-type: none"> <li>• Applicable LUES internal policies and procedures will be amended to require documented justification for permit fee adjustments within Permits Plus (and any subsequent replacement system).</li> </ul>	<ul style="list-style-type: none"> <li>✓ <b>Completed.</b> LUES internal policies and procedures related to concurrency, environmental management permits, subdivisions, site plans, and refunds were amended to require that justification for permit fee adjustments be documented within Permits Plus (and its anticipated replacement system CityWorks), as well as the project file. Accordingly, this step is considered completed.</li> </ul>
<ul style="list-style-type: none"> <li>• To address the risk resulting from the incompatible duties assigned to/performed by Applicant Services supervisors, Growth Management will implement one of the following additional controls: (1) remove the two supervisors' capability to record fee adjustments within Permit Plus; (2) require a higher</li> </ul>	<ul style="list-style-type: none"> <li>○ <b>In Progress.</b> Growth Management reported the risks resulting from the incompatible duties assigned to/performed by Applicant Services supervisors are anticipated to be addressed with the implementation of CityWorks (the system to replace Permits Plus). As the completion of this step is contingent upon the</li> </ul>

<p>level Growth Management supervisor to review any fee adjustments recorded in Permits Plus by the two supervisors; or (3) require customers paying by cash to remit their payments directly to the Revenue Office.</p> <p>In determining which alternative action to implement, Growth Management will consider the impact on customer service and the impact that the planned replacement of Permits Plus with CityWorks will have on this process.</p>	<p>implementation of CityWorks, management has amended the completion date for this action plan step to January 1, 2018. We will address the status of this step in a subsequent follow-up engagement.</p>
<ul style="list-style-type: none"> <li>• Growth Management will continue to maintain the safe used to store cash and checks collected from Building Inspection customers in the more secure location.</li> </ul>	<ul style="list-style-type: none"> <li>✓ <b>Completed.</b> In response to a recommendation from our original audit, proposed to mitigate the risk of loss or theft of permit revenues, Building Inspection promptly relocated the safe used to store cash and check permit payments collected from Building Inspection customers to a location more secure than the previous location (adjacent to a window). As an added security measure, the safe is now housed in a cabinet enclosure (concealed from view) that is locked at the close of business each day. Notwithstanding the relocation of the safe to the more secure location, we note that management expects cash and check collections will be substantially reduced as a result of management’s recent change to allow for electronic payments (through ProjectDox). Accordingly, this step is considered completed.</li> </ul>
<ul style="list-style-type: none"> <li>• Growth Management will continue efforts to standardize the terminology used to document permit status in CityWorks (the system being implemented to replace Permits Plus).</li> </ul>	<ul style="list-style-type: none"> <li>○ <b>In Progress.</b> Growth Management has continued efforts to standardize the terminology used to document permit status in CityWorks (the system to replace Permits Plus). Management reported that the implementation of CityWorks, expected to occur by January 1, 2018, will address the current lack of standardization in permit status nomenclature. Additionally, in conjunction with the implementation of CityWorks, management has initiated the development of a glossary of definitions, currently in draft form, to be published on the Growth Management website. According to management, such a glossary is intended to help make permit status information more understandable to the public. As the completion of this step is contingent upon the forthcoming implementation of CityWorks, management has amended the completion date for this action plan step to January 1, 2018. We will address the status of this step in a subsequent follow-up engagement.</li> </ul>

<ul style="list-style-type: none"> <li>• The Growth Management Fee Schedule will be reviewed and revised to make the calculation of permit fees more transparent and understandable to customers.</li> </ul>	<ul style="list-style-type: none"> <li>❖ <b>Deferred.</b> Management anticipates revision of the Growth Management Fee Schedule will be completed as part of changes resulting from the completion of a rate study to be conducted to assess the adequacy of current fees to recover the costs incurred by LUES and Building Inspection. However, due to the time required to obtain funding for such a rate study, hire a consultant, and complete the work, management now anticipates the rate study will not be completed prior to March 31, 2019. Accordingly, completion of this action plan step has been deferred.</li> </ul>
<ul style="list-style-type: none"> <li>• Growth Management will develop a standardized method for Plans Examiners and Inspectors to document their work performed to validate the accuracy and/or reasonableness of estimates used in calculating Building Inspection permit fees. Such documentation will include, but not be limited to, the methods or procedures used in the validations and the conclusions as to the accuracy and/or reasonableness of the applicable estimates.</li> </ul>	<ul style="list-style-type: none"> <li>○ <b>In Progress.</b> Growth Management reported the development of a standardized method for Building Inspection Plans Examiners and Inspectors to document work performed to validate the accuracy and/or reasonableness of permit fee estimates is anticipated to be addressed with the implementation of CityWorks (the system to replace Permits Plus) by January 1, 2018. As the completion of this step is contingent upon the forthcoming implementation of CityWorks, management has amended the completion date for this action plan step to January 1, 2018. We will address the status of this step in a subsequent follow-up engagement.</li> </ul>
<p><i>Objective: Ensure that fees recover the appropriate portion of costs of the Growth Management function.</i></p>	
<ul style="list-style-type: none"> <li>• City management will establish a formal policy that provides the portion of costs that is intended to be recovered by both LUES and Building Inspection permit and other fees.</li> </ul>	<ul style="list-style-type: none"> <li>❖ <b>Deferred.</b> Management anticipates the development of a formal policy that provides the portion of costs intended to be recovered by LUES and Building Inspection will be completed as part of changes resulting from the completion of a rate study. However, due to the time required to obtain funding for such a rate study, hire a consultant, and complete the work, management anticipates the rate study will not be completed prior to March 31, 2019. Accordingly, completion of this action plan step has been deferred.</li> </ul>
<ul style="list-style-type: none"> <li>• After the formal policy is established pursuant to the step above, rate studies will be conducted periodically to ensure current fees are adequate to meet the policy goals/targets. In the event the rate studies show the current fees are not adequate or efficient, appropriate adjustments will be made to those fees.</li> </ul>	<ul style="list-style-type: none"> <li>❖ <b>Deferred.</b> Management plans to hire a consultant to conduct a rate study to assess the adequacy of current fees to recover costs incurred by LUES and Building Inspection when funding becomes available. The FY 2018 City budget did not include such funding. Accordingly, management has revised the completion date for this action plan step to March 31, 2019, as funding for the rate study is anticipated to be</li> </ul>

	included as part of the FY 2019 budget. Accordingly, completion of this action plan step has been deferred.
<ul style="list-style-type: none"> <li>• In conjunction with future rate studies conducted to determine the extent costs are recovered by fees, Growth Management will ensure that all appropriate costs are identified and analyzed for each function, including applicable administrative and indirect costs.</li> </ul>	<ul style="list-style-type: none"> <li>❖ <b>Deferred.</b> As described in the preceding action plan step, management has developed a plan to retain a consultant for the purposes of conducting a rate study to assess the adequacy of current fees to recover costs incurred by LUES and Building Inspection. The rate study is anticipated to ensure that all appropriate costs are identified and analyzed for both functions to include applicable administrative and indirect costs. However, as previously noted, the rate study is not anticipated to be completed until March 31, 2019. Accordingly, completion of this action plan step has been deferred.</li> </ul>

**Table legend**

- Issue to be addressed from original audit.
- ✓ Actions to address the issue have been completed.
- Actions to address the issue are in progress.
- ❖ Actions to address the issue have been deferred.

**Conclusion**

Of the 12 total action plan steps established to address issues identified in the original audit, all 12 steps were due for completion as of September 30, 2017, and were therefore addressed in this first audit follow-up. As shown in Table 1 above, five of those 12 steps have been successfully completed, three steps are in progress, and four steps have been deferred.

We will follow-up on the status of the seven action plan steps deferred or not yet completed in our subsequent follow-up engagements. We appreciate the cooperation and assistance provided by Growth Management staff and management during this follow-up engagement.

**Appointed Official's Response**

**Acting City Manager:**

We have reviewed the City Auditor's Follow-Up Report on the Growth Management Audit and are pleased to see that five of the twelve action plan steps identified in the audit report have been completed. Additionally, three action plan steps are in progress and expected to be addressed through the implementation of CityWorks by January 1, 2018. Completion of the four remaining action plan steps has been deferred to March 2019, due to funding limitations associated with the acquisition of services to perform the rates studies. We have taken note of the current status of the action plan items and will continue to work on addressing the recommendations. We would like to thank the City Auditor's staff for their time and effort on this audit and follow-up.

Copies of this Follow-Up Audit Report #1802 or the initial audit report #1710 may be obtained from the City Auditor's website (<http://www.talgov.com/transparency/auditing-auditreports.aspx>), via request by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail ([auditors@talgov.com](mailto:auditors@talgov.com)).

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