

**PUBLIC WORKS DEPARTMENT
LAND DEVELOPMENT OFFICE
INSPECTIONS OFFICE CASH COLLECTIONS
AUDIT 07-13
February 8, 2008**



City of Chattanooga

INTERNAL AUDIT

City Hall

Chattanooga, Tennessee 37402

Stan Sewell
Director

Ron Littlefield
Mayor

March 20, 2008

Honorable Ron Littlefield
Mayor, City of Chattanooga
City Hall
Chattanooga, TN 37402

RE: Inspections Office Cash Collections, Audit 07-13

Dear Mayor Littlefield:

Attached is the Internal Audit report on Inspections Office Cash Collections.

We thank the management and staff of the Land Development Office for their cooperation and assistance during this audit.

Very truly yours,

Stanley L. Sewell, CPA, CGFM
Director of Internal Audit

cc: Dan Johnson, Chief of Staff
Gary Hilbert, Director of Land Development
Daisy Madison, City Finance Officer
Steve Leach, Public Works Administrator

**PUBLIC WORKS DEPARTMENT
LAND DEVELOPMENT OFFICE
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Auditor



Director

**PUBLIC WORKS DEPARTMENT
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INTRODUCTION

The Inspections Office receives payments and processes applications for items such as Building Permits, Electrical Permits, Plumbing Permits, Gas Permits, Mechanical Permits, Street Cut Permits, Sign Permits, and Land Disturbing Permits. Building Permits are the single greatest revenue generator in the category of Licenses and Permits.

STATEMENT OF OBJECTIVES

The objectives of this audit are to determine if:

1. There are adequate written policies/procedures for Inspections Office cash collections.
2. Controls are in place to ensure that all collections are properly accounted for and receipts are turned in to the Treasurer's office within the required three (3) day period.
3. Licenses/permits were issued without any fees being received.

STATEMENT OF SCOPE

The audit period was FY07 (July 01, 2006 through June 30, 2007).

STATEMENT OF METHODOLOGY

IA reviewed information from BANNER and Accela to obtain information about the Inspections Office cash collections. IA also reviewed Collection Reports and the related supporting documentation. IA also met with staff from the Inspections Office to obtain an understanding about their cash collection process.

STATEMENT OF AUDITING STANDARDS

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity, or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions. In addition, we abide by the standards of professional practice established by the Institute of Internal Auditors.

AUDIT CONCLUSIONS

Based upon the testwork performed and the audit findings noted below, we conclude that:

1. There are no written policies/procedures in place for Inspections Office cash collections.
2. Controls are not in place to ensure that all collections are properly accounted for and receipts are not always being turned into the Treasurer's office within the required three (3) day period.
3. Licenses/Permits were issued without any fees being received.

WRITTEN POLICIES/PROCEDURES NOT IN PLACE

The Inspections Office has no written policies/procedures in place to provide guidance for their cash collection process.

RECOMMENDATION 1

IA recommends that the Inspections Office document internal policies and procedures, business practices, and goals and objectives. Employees should have ready access to departmental policies and procedures (hard copy, computer-based or web-based). The Inspections Office should document receipt of such policies by all staff. These procedures should ensure proper internal controls, which include but are not limited to:

- Segregation of Duties
- Proper Authorization and Approval
- Proper Review and Reconciliation
- Proper Physical Security of Assets
- Proper Training and Supervision

AUDITEE RESPONSE

The Land Development Office agrees that no written policies/procedures are in place. After consulting with Finance, Audit, and Public Works Administration, I will prepare a Policies and Procedures Manual for the clerical staff of the Department within the next six (6) months.

SEGREGATION OF DUTIES NOT ADEQUATE

The Office Manager at the Inspections Office collects cash as well as performs daily cash reconciliations and prepares the daily collection reports that are submitted to the Treasurer's office. Proper review/authorization controls surrounding the collection process are not in place. The act of collecting cash, performing reconciliations, and preparing Collection Reports simultaneously by the same employee is not appropriate.

RECOMMENDATION 2

IA recommends that the daily receipt reconciliation and Collection Report preparation only be completed by an employee that is independent of receiving/processing payments that are received from customers.

AUDITEE RESPONSE

A hallmark trait of all of the employees at the Land Development Office is customer service. Considering the staff available, the Office Manager often must fill-in when a permit clerk is at lunch or otherwise absent. As director, I understand the need to separate the duties of collecting, reconciling, and preparing collection reports. As the Land Development Office team works through the preparation of the Policies and Procedures Manual, we will develop operating procedures that will provide better supervisory oversight of this function.

MISSING SUPPORTING DOCUMENTATION

Supporting documentation was missing and could not be located for seven (7) of the fifty-one (51) licenses/permits (13.72%) that were randomly selected for accountability testing. Support for five (5) of the seven (7) items listed above relate to street cut permits. Support for two (2) of the seven (7) items listed above relate to sign permits. The hard copy support maintained in the Inspections Office file cabinets is essential underlying support for the cash collection transaction data that is maintained in Accela.

RECOMMENDATION 3

IA recommends that the Inspections Office retain all supporting documentation related to licenses/permits.

AUDITEE RESPONSE

The Land Development Office Staff agrees that hard copy documentation should be retained in the Land Development Office files in accordance with “Records Management for Municipal Governments” by MTAS. The staff also understands that it is imperative to maintain hard copies of all documents. A policy to maintain the supporting documentation will be prepared and placed in the Policies and Procedures Manual.

PERMITS ISSUED PRIOR TO PAYMENT BEING PROCESSED

Of the fifty-one (51) licenses/permits selected for testing, IA found that eight (8) permits (15.68%) were issued prior to the payment being processed by the Inspections Office. These eight (8) permits consisted of five (5) street cut permits, one (1) sign permit, one (1) gas permit, and one (1) mechanical permit. The City Code (Chapter 32 – Streets and Sidewalks, Chapter 19 – Gas, Chapter 22.5 - Mechanical, Chapter 3 – Advertising) requires specific permit fees to be collected when Street Cut, Gas, Mechanical, and Sign permit applications are received. Payments for five (5) of the eight (8) permits mentioned above were processed approximately two months after the permit issue date. Payments for three (3) of the eight (8) permits mentioned above were processed by the Inspections Office within one week after the permit issue date.

RECOMMENDATION 4

IA recommends that the Inspections Office collect all appropriate fees prior to issuing any licenses/permits in order to be in compliance with the City Code sections related to license/permit fees.

AUDITEE RESPONSE

Street cut permits are issued on a daily basis, and the utility companies (Tennessee American Water Co.; Chattanooga Gas; Comcast; Electric Power Board; AT & T; and Hixson Utility District) are billed on a monthly basis. In order to facilitate our utility companies and to comply with the City Code, the Land Development Office will request the City Attorney draft the appropriate amendments to the ordinance for Council approval.

PERMITS ISSUED WITHOUT FEES BEING RECEIVED

Section 32-64 of the City Code requires each street cut permit application to be accompanied by the appropriate fee. Section 3-8 of the City Code requires each sign permit application to be accompanied by the appropriate fee. IA found that multiple permits were issued in which no payment was received by the Inspections Office. The majority of these items that were found by IA relate to street cut permits that were issued to the Tennessee American Water Company. IA found that forty-two (42) street cut permits were issued to the Tennessee American Water Company with no payment being received by the Inspections Office. The total amount that should have been collected by the Inspections Office related to these forty-two (42) street cut permits is \$14,428.00. IA also found that thirteen (13) additional permits were issued in which no payment was received. Twelve (12) of the thirteen (13) were street cut permits. One (1) of the thirteen (13) was a sign permit. The total amount that should have been collected by the Inspections Office related to these thirteen (13) permits is \$3,110.00. Without any fees being received for these permits that were issued, the Inspections Office is in violation of Section 32-64 and Section 3-8 of the City Code.

RECOMMENDATION 5

IA recommends that future licenses/permits be issued only after the appropriate fees have been received by the Inspections Office in order to be in compliance with Section 32-64 and Section 3-8 of the City Code. IA also recommends that the Inspections Office recover the funds related to any licenses/permits that they have issued in which no payment was received.

AUDITEE RESPONSE

This comment is also related to the section of the audit immediately above. The utility companies are billed on a monthly basis. It is the intent of the Land Development Office to request the City Attorney to modify the City Code in order to allow us to bill the utilities on a monthly basis.

The audit year (see General comment no. 1 below) was the first year for the new permit system. All of the files did not get converted from the old system to the new system. In addition, some of the billings to Tennessee American Water Company were disputed. Until now, the Land Development Office staff has not had the personnel to reconcile the permits with the utility companies. We now have a temporary employee who is in the process of reconciling all of the permits that have been billed to the utility companies with the fees due. This reconciliation should be complete in about 4 weeks. It should be noted at this time, that the invoices over which there are disputed billings from Tennessee American Water Company, cover a period of approximately four (4) to six (6) months during the conversion period from the old to the new permit systems.

INITIAL RECEIPT DATE NOT DOCUMENTED

TCA 6-56-111 requires all funds collected by a municipal official to be submitted to the Treasurer's office within three (3) working days of the initial receipt. In most instances, the initial receipt date for license and permit payments are not documented by Inspections Office staff. The absence of the date of the initial payment receipt by the Inspections Office makes it difficult to determine if the Inspections Office is in compliance with TCA 6-56-111.

RECOMMENDATION 6

IA recommends that management implement a policy that requires the initial receipt date for each payment that is received to be documented in Accela.

AUDITEE RESPONSE

A policy and procedure for conforming to TCA 6-56-111 will be included in the new Policies and Procedures Manual.

COLLECTIONS NOT SUBMITTED TIMELY

As mentioned in the previous finding, TCA 6-56-111 requires all funds collected by a municipal official to be submitted to the Treasurer's office within three (3) working days of the initial receipt. IA performed a count of the change fund and other funds that were on hand at the Inspections Office on 2/8/08. IA observed that twenty-one (21) of the twenty-four (24) checks/money orders that were on hand at the Inspections Office totaled \$7,983.23. These twenty-one (21) checks/money orders all appeared to have been held longer than three (3) working days. IA also observed that the Inspections Office had \$170.00 in cash that appeared to be held longer than three (3) working days.

Nine (9) of the twenty-one (21) checks observed by IA had either a May 2006 or June 2006 check date (all nine were over 18 months old). The \$170.00 cash amount consisted of six (6) separate collections and these collections were documented with a receipt. Based on the dates listed on the receipts compared to IA's observation date, it appears that portions of this \$170.00 amount were held by the Inspections Office from 226 to 451 calendar days.

RECOMMENDATION 7

IA recommends that the Inspections Office submit all funds received to the Treasurer's office within three (3) working days of the initial receipt in order to strengthen internal control and be in compliance with TCA 6-56-111.

AUDITEE RESPONSE

A policy and procedure for conforming to TCA 6-56-111 will be included in the new Policy and Procedures Manual.

The checks that were found with the May 2006 or June 2006 dates are among those checks that were held because of discrepancies in the billings to the utilities that occurred during the switch over to the new permitting system. As previously stated, we are presently working to reconcile all of those permits.

Some of these checks may be from the Sewer Easy Pay Accounts, and the system has not been completed so that these accounts may be reconciled.

BLANK CHECKS ACCEPTED FROM CUSTOMERS

IA found that some customers have been allowed to leave a signed blank check with permit clerks when they apply for a permit. When a blank check is accepted, Inspections Office staff members have agreed to later complete all of the check information once the customer's permit is approved and all of the information needed to completely fill out the check has been determined. During a count of funds on hand (during the time that this audit was conducted), IA discovered that the Inspections Office had one of these blank checks in their possession.

RECOMMENDATION 8

IA recommends that the Inspections Office implement a policy that prohibits customers from leaving their blank checks with permit clerks.

AUDITEE RESPONSE

This is a tradition that has been accepted by our customers in the past, and we believe that this expresses the trust that the public has for our employees. However, we understand the need for not accepting blank checks, and this policy will be implemented in the future with the promulgation of the new Policies and Procedures Manual.

SEPARATE CASH DRAWERS NOT UTILIZED

Title 3, Chapter 1, Section 6 of the “Internal Control and Compliance Manual for Tennessee Municipalities” requires that each cashier be assigned a separate cash drawer that is accessible only to that cashier. During IA’s observation of the change fund on 2/8/08, IA noted that only one cash drawer is being utilized by the Inspections Office staff.

RECOMMENDATION 9

IA recommends that the Inspections Office obtain and utilize a separate cash drawer for each cashier in order to improve internal control and be in compliance with Title 3, Chapter 1, Section 6 of the “Internal Control and Compliance Manual for Tennessee Municipalities.”

AUDITEE RESPONSE

The Land Development Office will establish a policy in the new Policies and Procedures Manual to meet the requirements of Chapter 1, Section 6 of the “Internal Control and Compliance Manual for Tennessee Municipalities”. It has been determined and approved by the Administrator and Deputy Administrator of Public Works that the Land Development Office may establish a policy of accepting no cash. Therefore, with proper notification to our customers, the Land Development Office will stop processing cash payments for licenses and permit fees. Based on our understanding, we can then continue to process payments with one cash register, one check validator/receipt printer, and one credit card machine. We will establish controls to prevent theft of funds from the office.

AUDITEE GENERAL COMMENTS

1. The audit period chosen was for FY07, beginning on July 1, 2006. This was a particularly exasperating and tedious time for the Land Development Office since a new web-based permitting system was being implemented. During the time that the new software was being negotiated, it was determined that the Land Development Office clerical staff, in lieu of the vendor, would manually enter the files which were still active under the old permit system to the new system. This was done in an effort to save the City money. Some of those files did not get converted, and some of them, as of today, have not yet been converted. This is the major cause of the problems with the street-cut permits not being resolved as noted in Recommendation Nos. 4 and 5.

2. The Land Development Office does not have access to the BANNER program. Therefore, we cannot determine if the numbers from the Accela Permit Reports and the BANNER reports balance.
3. During the time of conversion from PWPE to Accela, the Office Manager continued to stress to the vendor and IS that more and different reports needed to be provided to help with the financial reconciliation. These reports took several months write and be tested.
4. Several items in the Audit Report mention time limits on accepting payments and depositing them with the Treasurer's Office. In the past, applications for sign and street cut permits were accepted with payment before approval. The payment was held until the application was approved and issued. Section 32-63 of the City Code specifies that the Building Official has five days to approved or reject the application for street cut permits. If the permit was denied, the payment was returned to the applicant. This policy will also be revised is the New Policies and Procedure Manual.