



Lexington-Fayette Urban County Government
OFFICE OF INTERNAL AUDIT

MANAGEMENT ACTION PLAN PROGRESS REPORT

DATE: May 30, 2014

TO: Jim Gray, Mayor

CC: Sally Hamilton, Chief Administrative Officer
Glenn Brown, Deputy Chief Administrative Officer
Derek Paulsen, Commissioner of Planning, Preservation, & Development
William O'Mara, Commissioner of Finance & Administration
Janet Graham, Commissioner of Law
Dewey Crowe, Director of Building Inspection
Phyllis Cooper, Director of Accounting
Susan Straub, Communications Director
Urban County Council Members
Internal Audit Board Members

FROM: Bruce Sahli, CIA, CFE, Director of Internal Audit
Jim Quinn, CIA, CISA, Internal Auditor

RE: Building Inspection Fee Collection Management Action Plan Progress

EXECUTIVE SUMMARY

On July 12, 2012, the Office of Internal Audit issued a report on Building Inspection Fee Collection Audit for the period from March 2010 through March 2012. Included in that report were eight findings. As is customary, the Director of Building Inspection and the Commissioner of Public Safety (Commissioner over Building Inspection at the time), both responded to seven of the eight findings with action plans. Likewise, the Commissioner of Law responded with an appropriate action plan to one finding requiring a legal opinion.

This review is provided for management information only. It is not an audit and gives no opinion regarding internal controls or procedures. The period of transaction sampling was November 2012 through February 2014.

A summary of each finding from the original July 2012 audit report, and a summary of the results of our follow-up, is provided in the table below. The original findings and risk observation, management's original responses, and details of the results of this follow-up are contained in the ORIGINAL AUDIT RESULTS AND FOLLOW-UP DETAILS section of this report.

Finding or Risk Observation	Summary of Original Finding	Follow-up Results
Finding #1 High Priority	Late Deposit of Payments Received.	Our review noted more late deposit activity, although there has been some improvement in the timeliness of deposits since the cashiering area became fully staffed in April 2013.
Finding #2 High Priority	Receipts and Deposits Not Properly Safeguarded.	We noted a daily deposit was unsecured on an employee's desk awaiting the Director's review and approval, and the change lock box was unlocked and stored in an unlocked file cabinet instead of the Division safe. Access to the Division safe is now limited to three employees and the safe is reportedly locked at all times.
Finding #3 High Priority	Inadequate Segregation of Duties.	Our review indicated an inadequate segregation of duties remains in the preparation of deposits.
Finding #4 High Priority	Deposits Not Reviewed by Management.	The results of our review indicated proper management oversight has been implemented.

Finding #5 High Priority	Checks Not Immediately Endorsed Upon Receipt.	The results of our review indicate checks are now being endorsed immediately upon receipt in accordance with CAO Policy #40. The Division's SOPs need to be updated to include this procedure.
Finding #6 High Priority	Cashier Close-Out Procedures Need Improvement.	The results of our review indicate the cashier close-out procedures are generally complied with. The Division's SOPs need to be updated to include this procedure.
Finding #7 High Priority	Improvement Needed in Tracking and Safeguarding Permit Sticker Tag Inventory.	Permit sticker tags are being properly safeguarded. However, permit sticker tag inventory is not being appropriately tracked or monitored through standard inventory recordkeeping or through periodic physical counts of inventory.
Finding #8 Moderate Priority	Discrepancy Noted Between Fee Rates in Code of Ordinances.	Fee rate indicated in the most recent ordinance (as suggested by the Division of Law) is the fee rate now in effect and being charged.

ORIGINAL AUDIT RESULTS AND FOLLOW-UP DETAILS

Original Finding #1: Late Deposit of Payments Received **Priority Rating: High**

Condition:

Although it appears that Building Inspection makes daily deposits, we identified 32 deposits out of 65 fee deposits tested (49%) that contained one or more payments that were not deposited within 24 hours, in violation of CAO Policy #40 Policy and Procedure

for Cash & Check Handling. CAO Policy #40 states that deposits received at the Government Center and Neighboring Locations are to be entered into PeopleSoft and submitted to the Division of Revenue within 24 hours of receiving the funds. We noted that 21 of the 32 deposits so identified contained payments that were deposited one business day late. The remaining deposits in question contained payments that were deposited from two to eight business days late.

Effect:

Failure to deposit payments in a timely manner reduces LFUCG cash flow and increases the risk of collections being lost or stolen.

Recommendation:

All payments received by the Division of Building Inspection should be deposited within one business day of collection as required by CAO Policy #40.

Director of Building Inspection Response:

Staffing issues have hindered our ability to meet the required deposit schedule; however we will require that each employee who acts in a cashier capacity turns in a deposit report prior to leaving for the day in order to limit late deposits and better address our compliance with CAO Policy #40.

Commissioner of Public Safety Response:

I concur with the finding.

Follow-Up Detail Results:

We judgmentally selected 21 deposits from November 2012 to January 2014 to test for compliance with CAO Policy #40 regarding cash handling and timeliness of deposits. We noted 12 out of 21 deposits tested (57%) were from one to three days late during this time period. Building Inspection management informed us that the cashiering/collection area became fully staffed in April 2013, and there was some improvement thereafter, with 3 of the 12 (25%) deposits posted after April 2013 being just one day late.

CAO Policy #40 specifically states that all deposits received at the Government Center and neighboring locations must be entered (i.e., posted) and submitted to the Division of Revenue with 24 hours of receiving funds. We recommend consistent compliance with this Policy.

Director of Building Inspection Response:

As we indicated originally, staffing issues hindered our ability to meet the deposit schedule. Although, we had completed hiring in the cashiering/collection area in April 2013 the majority of those employees were not fully trained for several months. We continue to review and adjust our deposit process to better comply with CAO Policy #40. However, there will be times when multiple employee absences and workloads will cause deposit delays.

Commissioner of Planning, Preservation, & Development Response:

I concur with the finding and will work with Building Inspection to ensure that adequate staffing is in place.

Original Finding #2: Receipts and Deposits Not Properly Safeguarded**Priority Rating: High****Condition:**

Although the Division of Building Inspection has a safe for securing receipts and collections prior to deposit, both the safe and the room that contains it are kept unlocked during office hours so the cashiers can access the change drawer in the safe and make change for customers. This safe also contains the daily deposits after they are prepared but before they are delivered to the Division of Revenue.

Effect:

Since the safe and the room that contains it are both kept unlocked during office hours, it is possible for any Division of Building Inspection employee to access the safe and its contents. As a result, funds stored temporarily in the safe during office hours are not adequately secured. This is a violation of CAO Policy #40's requirement that funds be secured at all times.

Recommendation:

Funds collected by Building Inspection should be consistently secured in a locked safe with access limited to only a few designated employees within Building Inspection. We also recommend each cashier be given a small beginning till balance from which to make change for customers during the day to reduce their need to access the safe.

Director of Building Inspection Response:

The main cashier will be assigned a till for day to day change needs. The safe will be locked during the day with access limited to a few employees. This will ensure compliance with CAO Policy #40.

Commissioner of Public Safety Response:

I concur with the finding.

Follow-Up Detail Results:

On the day of our field review to assess receipt and deposit safeguarding procedures, the daily deposit was observed unsecured on an employee's desk awaiting the Director's review and approval instead of being stored in the Division safe. Also, the change lock box was observed unlocked and kept in an unlocked file cabinet instead of the safe. Building Inspection personnel indicated this is their current method for storing and safeguarding change rather than using the safe. We confirmed with Building Inspection management that access to the safe has been limited to three employees (the Director of Building Inspection, an Administrative Assistant, and a Staff Assistant Sr.) and that the safe is kept locked at all times when not in use.

CAO Policy #40 specifically states that all Divisions must safeguard all monies at all times. We recommend consistent compliance with this Policy.

Director of Building Inspection Response:

Employees preparing the daily deposit have been instructed to place the completed deposit in the locked safe if the Director is not immediately available to review and approve it. Once approved the deposit is delivered to the Division of Revenue or placed in the safe until it can be delivered. Employees have been instructed to keep the change box locked and stored in a locked file cabinet when not in use during the day. The box is not stored in the safe during the day to limit the necessity of repeatedly unlocking the safe for change purposes.

Commissioner of Planning, Preservation, & Development Response:

I concur with the findings and will work with Building Inspection management on the follow up of the changes to procedure.

Original Finding #3: Inadequate Segregation of Duties

Priority Rating: High

Condition:

The employee responsible for preparing the Building Inspection daily deposit also performs cashier functions, creating an inadequate segregation of duties in violation of CAO Policy #40.

Effect:

Inadequate segregation of duties in a collections function increases the risk of fraud or theft.

Recommendation:

An adequate separation of duties should be established between employees accepting and recording receipts, preparing the deposit, and reconciling the deposit.

Director of Building Inspection Response:

It is our intention to ensure that no cashiers will do the daily divisional deposit. There are currently two employees who share the job of the daily deposit. These two employees will try to ensure that one does not act as a cashier on any given day so that the deposit is in compliance with CAO Policy #40. Again, staffing issues may sometimes prevent us from complying with the segregation of duties and/or the 24 hour deposit requirements.

Commissioner of Public Safety Response:

I concur with the finding.

Follow-Up Detail Results:

In 17 of the 21 deposits (81 %) reviewed, the employees preparing the deposit also collected and recorded receipts for the deposit, indicating an insufficient segregation of cash handling duties. We found this pattern consistent throughout the time period examined (November 2012 through January 2014) even though, as noted earlier, the cashiering/collection area became fully staffed in April 2013. CAO Policy #40 specifically states that all Divisions must maintain clearly defined separation of duties for the deposit process. We recommend consistent compliance with this Policy.

Director of Building Inspection Response:

As we indicated originally, it is our intention to ensure that employees who act as cashiers will not do the daily deposit. Deposit responsibility is shared by two employees who do not act as cashiers on a routine basis to better address the segregation of duties issue. Although our collections unit is fully staffed it is at a minimum level and routine absences can result in all available employees serving as cashiers. When this occurs it is brought to the attention of the Director during the deposit review. To completely address this issue additional staff would be needed.

Commissioner of Planning, Preservation, & Development Response:

I concur with the finding and will work with Building Inspection to address the issues associated with staffing and segregation of duties.

Original Finding #4: Deposits Not Reviewed by Management

Priority Rating: High

Condition:

Building Inspection deposits are prepared by a staff employee and are not reviewed or approved by a supervisor or anyone in management.

Effect:

There is insufficient management oversight of the collection and depositing of funds. As a result, discrepancies between collections and deposits may not come to the attention of Division management.

Recommendation:

The Director of Building Inspections should review and approve all deposits before they are submitted to the Division of Revenue. This review and approval should be indicated by his signature or initials.

Director of Building Inspection Response:

The Director or Deputy Director will review and sign off on every divisional deposit, prior to sealing the deposit for transfer to Revenue.

Commissioner of Public Safety Response:

I concur with the finding.

Follow-Up Detail Results:

Deposits were reviewed and approved by the Director in all but one of the 21 deposits (95%) tested. We also observed the Director's process for deposit review and approval. It appears that proper management review and oversight is now in place.

No management response required.

Original Finding #5: Checks Not Immediately Endorsed Upon Receipt
Priority Rating: High

Condition:

Checks received by Building Inspection were not immediately endorsed with an LFUCG “Deposit Only” endorsement stamp as required by CAO Policy #40. Instead, the checks were stamped when they were prepared for deposit.

Effect:

Failure to endorse checks immediately upon receipt increases the risk of check tampering and theft.

Recommendation:

All checks should be stamped with an LFUCG deposit only endorsement stamp immediately upon receipt as required by CAO Policy #40. An endorsement stamp should be provided to all Building Inspection cashiers to ensure consistent compliance with the Policy.

Director of Building Inspection Response:

This finding has been addressed. We have purchased endorsement stamps for all cashiers, and they are currently endorsing checks upon receipt. This process has been added to the Standard Operating Procedures for Cashiers.

Commissioner of Public Safety Response:

I concur with the finding.

Follow-Up Detail Results:

On two separate days, we inspected all checks prior to deposit for evidence of proper restrictive endorsement. We noted all these checks had previously been stamped by the cashiers with an LFUCG deposit only endorsement stamp (presumably when first received/collected) in accordance with CAO Policy #40. We also verified and confirmed through inspection that each cashier now has their own endorsement stamp in order to facilitate the immediate restrictive endorsement of checks they collect.

However, we found no evidence Building Inspection had added this new check endorsement procedure to the Division’s written Standard Operating Procedures (SOPs) for Cashiers, as management previously stated had been done in response to our original finding. This procedure should be added to the Division’s SOPs for training purposes.

Director of Building Inspection Response:

The check endorsement requirement has been added to our SOP's. See attached SOP.

Commissioner of Planning, Preservation, & Development Response:

I concur with the finding.

Original Finding #6: Cashier Close-Out Procedures Need Improvement

Priority Rating: High

Condition:

Building Inspection cashiers do not sign off on any collection documentation after closing out and balancing their collections for the day. They run calculator tapes to balance their receipts to collection activity recorded in the Building Inspection system, but these tapes are discarded by another Building Inspection employee who then verifies and consolidates all collection activity and prepares the daily deposit.

Effect:

The absence of cashier sign offs to affirm they have balanced their receipts to the Building Inspection system and the failure to retain all documentation regarding the cashier's daily balancing process diminishes individual cashier responsibility and accountability for collection activity.

Recommendation:

Each cashier should sign off on their collection documentation to indicate their verification and acceptance of the final collection totals. This documentation with the cashier's sign off should be maintained in the Building Inspection collection and deposit records.

Director of Building Inspection Response:

This finding has been addressed. Cashier's are now attaching calculator tapes to their deposit reports and initialing by the totals, to ensure they are verifying the funds they placed in the safe for deposit are accurate totals. This has been added to the Standard Operating Procedure for Cashier's.

Commissioner of Public Safety Response:

I concur with the finding.

Follow-Up Detail Results:

The new cashier close-out procedures require each cashier to attach calculator control tapes to their deposit reports and initial these tapes next to the control totals. Our review of 21 deposits noted the new cashier close-out procedures were in place and followed completely in 11 of 21 (52%) deposits tested, and were followed by a majority of the cashiers in 9 of 21 (43%) deposits tested. In only one of the 21 deposits tested did we note the new close-out procedures were not followed at all.

However, we found no evidence that Building Inspection had added these new cashier close-out procedures to their written Standard Operating Procedures (SOPs) for Cashier's as management previously stated had been done in response to our original finding. This procedure should be added to the Division's SOPs for training purposes, and employees should be reminded to adhere to them consistently.

Director of Building Inspection Response:

See response to Finding # 5. This had been added to our SOPs and all employees will be instructed to adhere to them consistently.

Commissioner of Planning, Preservation, & Development Response:

I concur with the findings.

Original Finding #7: Improvement Needed in Tracking and Safeguarding Permit Sticker Tag Inventory
Priority Rating: High**Condition:**

Book inventory records of HVAC and electrical permit sticker tags are not being maintained by the Division of Building Inspection. As a result, there is no formal recordkeeping or accounting for these sticker tags. We also noted that the physical inventory of sticker tags was stored in an unlocked file cabinet.

Effect:

Unless accurate book inventory records are maintained for these sticker tags and are periodically compared to the results of physical inventory counts, adequate control over the sticker tags cannot be assured. Storing sticker tag inventory stock in an easily accessible unsecured location increases the possibility of loss or theft.

Recommendation:

An inventory log should be maintained to record and track all sticker tags that have been ordered and received, that are currently in stock, and that have been issued. Periodic physical inventories should be taken and compared to book balances. Any discrepancies should be promptly investigated by Building Inspection management. Sticker tag inventory should be stored in the Division's secured safe until needed.

Director of Building Inspection Response:

Inventory Control sheets have been created for the HVAC and Electrical permit stickers. This process will include periodic monthly checks of the physical inventory versus what was sold the previous month as well as inventory checks when an order is made and received for new stickers for both HVAC and Electrical. The Electrical and HVAC permit stickers will be kept in a locked cabinet or safe.

Commissioner of Public Safety Response:

I concur with the finding.

Follow-Up Detail Results:

We noted permit sticker tag inventory is still not being properly controlled, tracked, or monitored by Building Inspection. No inventory control sheets or logs are being maintained, and periodic physical counts of in-stock sticker tags are not being performed. When requested during our review, Building Inspection personnel could not provide any figures on the total number of HVAC and Electrical sticker tags then in stock. Building Inspection staff were only able to provide us spreadsheets listing sticker tags ordered and received and the supporting vendor invoices. However, we did note that sticker tags are now being adequately safeguarded and maintained in locked file cabinets and the Division safe.

We recommend the Division of Building Inspection fully implement its action plan by including monthly physical inventory comparisons to up-to-date book inventory and resolving any discrepancies.

Director of Building Inspection Response:

We initially began tracking the sticker tags through our BI program by sequential number. The number in the system was periodically compared to the number on hand. This did not provide a running inventory of stock and has been addressed by creating a separate spreadsheet. See attached spreadsheets for inventory control of permit stickers.

Commissioner of Planning, Preservation, & Development Response:

I concur with the findings and will work with Building Inspection to ensure that adequate inventory control is being implemented.

Original Finding #8: Discrepancy Noted Between Fee Rates in Code of Ordinances

Priority Rating: Moderate

Condition:

Ordinance 178-95 enacted a fee increase on August 25, 1995 raising the additional building permit fee for duplex and townhouse units from \$100 to \$120 per unit. Ordinance 199-96 enacted October 3, 1996 was apparently designed to exempt certain construction of residential structures under the expansion master plan from the rate increase enacted in Ordinance 178-95, but in amending Chapter 5, Article III, Section 5-29.1 of the Code of Ordinances, the \$100 per unit additional building permit fee for townhouses and condos appears to have been universally applied. However, the Division of Building Inspection is assessing the original \$120 additional building permit per unit fee for duplex and townhouse units.

Effect:

The fee discrepancy between the two ordinances creates confusion regarding the correct additional permit fee rate to be charged.

Recommendation:

This matter should be referred to the Department of Law for review and resolution.

Commissioner of Law Response:

The fee which was actually adopted in the text of Ordinance No. 199-96 should be applied on a going forward basis. If Building Inspection wants to assess the previous higher fee or a different fee from that which was actually adopted in the text, the Department of Law recommends that the ordinance be amended.

Follow-Up Detail Results:

The fee rate indicated in Ordinance No. 199-96 (and the fee suggested by the Division of Law as the fee to be used by Building Inspection going forward from the date of our last review) was found to be the fee rate now in effect and the fee rate currently being charged by Building Inspection.

No management response required.

STANDARD OPERATING PROCEDURES

DIVISION OF BUILDING INSPECTION



CASHIER PROCEDURES

DEPOSIT REPORT

- In the BI program, go to the “Reports” tab and select “Reports” from the dropdown.
- Go to Deposit Report in the list of items displayed
- Enter in the date for which you want the report and your initials in the box
- Hit the checkmark button
- Print the report and reconcile (attach your tape from the calculator to your report and money.)
- Initial and date the calculator tape and tape to your deposit report
- Check again that all checks are endorsed
- Do this daily at the end of your work day and put into the folder in the safe, marked “deposits”

MANAGING THE CHANGE LOCK BOX

- When making change, count cash from box with a calculator tape
- Before leaving the office with cash, have a second counter double check and run a calculator tape and initialing the tape
- Go to the Metro Employees Credit union
- Make change
- Upon return with cash, run a new tape
- Have a second counter
- Both counters initial and date the tape and attach it to the top of the lock box

RECEIVING FUNDS FOR A CERTIFICATE OF OCCUPANCY AT COUNTER

- Enter C/O requested
- Ensure that you have entered your initials by which your deposit reports are tracked
- Print C/O
- Fill in receipt, by hand, in receipt book at the counter
- Give receipt for funds and copy of C/O to customer
- Endorse check with LFUCG Deposit Only stamp
- Store checks/cash received for permit into your own lock box

RECEIVING FUNDS FOR PERMITS AT COUNTER

- Enter permit requested in appropriate program (I.e. electrical/mechanical/BI)
- Ensure that you have entered your initials by which your deposit reports are tracked
- Reconcile funds collected from customer with what appropriate software says is owed for permit
- Print permit showing customer that fees paid are notated on permit/receipt
- Endorse checks
- Store checks/cash received for permit into your own lock box

RECEIVING FUNDS FOR LANDSCAPE ESCROW AT COUNTER

- Locate estimate if not included with check from inspector for project
- Complete a deposit slip
- Make a copy of deposit slip and check
- Endorse Check
- Put original deposit slip and check in folder in safe marked, deposit
- Put copy of slip and check in inspector's box for informational purposes
- Log amount paid into the Landscape Escrow Log, located on the L drive
- File copy of slip, check and estimate in file folder for Landscape Escrows

RECEIVING FUNDS FOR LANDSCAPE ESCROW BY MAIL

- Once check is opened, check must be deposited that day
- Locate estimate if not included with check from inspector for project
- Complete a deposit slip
- Make a copy of deposit slip and check
- Put original deposit slip and check in folder in safe marked, deposit
- Put copy of slip and check in inspector's box for informational purposes
- Log amount paid into the Landscape Escrow Log, located on the L drive
- File copy of slip, check and estimate in file folder for Landscape Escrows

RECEIVING FUNDS FOR CERTIFICATES OF OCCUPANCY VIA MAIL

- Once check has been opened from envelope, C/O must be issued
- Locate paperwork that has been approved for C/O
- Ensure that you have entered your initials for the C/O
- Endorse Check
- Mail the C/O and a handwritten receipt to customer
- Store checks/cash received for C/O into your own lock box

RECEIVING FUNDS FOR PERMITS VIA MAIL

- Once check has been opened from envelope, permit must be issued
- Locate permit type and ready to issue permit in appropriate software program
- Ensure that you have entered your initials by which your deposit reports are tracked
- Endorse Check
- Reconcile funds collected from customer with what appropriate software says is owed for permit
- Print permit
- Mail a copy of permit to customer
- Store checks/cash received for permit into your own lock box

HVAC Red Sticker Inventory Count

Date	Beginning Balance Count	(+) # sold in last 30 days	(-) # purchased in last 30 days	Ending Balance Count	Sticker #s in stock	Initials
4/01/2014 - 4/30/2014		1	0	1917	1082-3000	alc
5/01/2014 - 5/31/2014	1917					

Electrical Sticker Inventory Count

Date	Beginning Balance Count	(+) # sold in last 30 days	(-) # purchased in last 30 days	Ending Balance Count	Sticker #s in stock	Initials
4/01/2014 - 4/30/2014		188	0	747	106402-107150	alc

5/01/2014 - 5/31/2014	747					
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HVAC Yellow Sticker Inventory Count

Date	Beginning Balance Count	(+) # sold in last 30 days	(-) # purchased in last 30 days	Ending Balance Count	Sticker #s in stock	Initials
4/01/2014 - 4/30/2014	??	441	0	130	56871-57000	
5/01/2014 - 5/31/2014	130					