



Internal Audit

Permitting

February 2012

Bernalillo County Internal Audit Permitting

Executive Summary

SUMMARY OF PROCEDURES

REDW performed an internal audit of the Bernalillo County permitting process for the Fire Department, Zoning, Building and Planning (ZBP), and Public Works. Our internal audit focused on evaluating the County's permitting process to determine compliance with applicable State Statutes and County policies and procedures. Additionally, we assessed the controls over cash collection and the reconciliation process between the various permitting and collection systems.

We performed a variety of procedures over the Fire Department, ZBP, and Public Works, including:

- Reading relevant State Statutes and Bernalillo County policies and procedures in order to gain an understanding of the permitting process.
- Testing a sample of permits and inspections, to determine if:
 - Permits issued were supported by inspection reports and other credentialing information.
 - Fees assessed were accurately charged according to the County “Permit Fee Schedule” as required by Administrative Resolution 25-2009.
 - Fees were posted to the correct account in the Kiva permitting system and reconciled to the SAP accounting system.
- Testing a sample of cash receipts to determine if SAP daily cash desk postings collected were properly posted in KIVA and deposited timely.
- Testing a sample of ZBP cash receipts to determine if the administrative fee was calculated properly and accurately posted to SAP.
- Comparing accounts receivable listing from QuickBooks, KIVA and SAP to determine if all listings were in agreement and determining if there were significant outstanding receivables greater than 30 days.

SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS

We found areas during the course of the audit where controls were functioning properly and established procedures were followed. Most notably, all permits tested involving the assessment of impact fees were accurately calculated and accounted for in accordance with Chapter 46 of the Bernalillo County Code.

Fire Department

- Compliance with Administrative Instruction (AI) No. 57—Cash deposits were not made within 24 hours of collection as required by AI 57. Cash receipts applied in the KIVA permitting system were not reconciled to the receipts recorded in SAP. There was not adequate segregation of duties surrounding the cash receipting process.
- Invoicing and Accounts Receivable (A/R)—The Fire Department was using an accounting system that was not approved by the County. This created unreconciled differences between the systems.

Zoning, Building, and Planning

- Professional Deposit Accounts—Cash collected for prepayment deposits was properly deposited and accurately posted to the general ledger. However, these prepayments were not always accurately posted to contractor accounts. Additionally, collected prepaid deposits were recorded in the general ledger as permit revenue instead of as a liability until the permit was issued.
- Inspection of County Buildings—We identified several instances where required inspections of County buildings did not appear to have been completed but were marked as complete in the system.

Public Works

- Barricading and Traffic Engineering Permits—Cash receipts were not consistently recorded and applied to specific permits in the KIVA permitting system. Two of the seven permits tested did not properly calculate fees. Documentation to support the issuance of a permit was not always retained. We also found the invoicing of these permits was a manual process and monthly invoices were not always generated.

The lower risk observations are included in the attached detailed report.

* * * * *

Further detail of our purpose, objectives, scope, procedures, observations, and recommendations is included in the internal audit report. In that report, management describes the corrective action being taken for each observation.

We received excellent cooperation and assistance from the various departments during the course of our interviews and testing. We very much appreciate the courtesy extended to our personnel.

REDW LLC

Albuquerque, New Mexico
April 11, 2012

Bernalillo County Internal Audit Permitting

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Bernalillo County Internal Audit Permitting Report

INTRODUCTION

We performed the internal audit services described below solely to assist Bernalillo County in evaluating the permitting and cash collection process for the Fire Department, Zoning, Building and Planning (ZBP), and Public Works. Our services were conducted in accordance with the Consulting Standards issued by the American Institute of Certified Public Accountants, Generally Accepted Government Auditing Standards, and the terms of our contract agreement for internal audit services. Since our procedures were applied to samples of transactions and processes, it is possible that significant issues related to the areas tested may not have been identified.

An entrance conference was held on February 14, 2012, at which time most items needed for the audit were requested. Fieldwork began the week of February 20, 2012. An exit conference was held on March 28, 2012, and final management responses were received by April 11, 2012.

Although we have included management's responses in our report, we do not take responsibility for the sufficiency of these responses or the effective implementation of any corrective action.

PURPOSE AND OBJECTIVES

Our internal audit focused on evaluating the County's permitting process to determine compliance with applicable State Statutes and County policies and procedures. Additionally, we assessed the controls over cash collection and the reconciliation process from the permitting system to the accounting systems.

SCOPE AND PROCEDURES PERFORMED

In order to gain an understanding of the processes and operations of permitting, we interviewed the following personnel:

- Nano Chavez, Zoning, Building, and Planning Director
- Rene Sedillo, Development Process Manager
- Chris Gober, Fire Marshall

- Caroline Aldrich, Administrative Officer I
- Raeleen Bierner, Engineer Technician
- David Hall, Engineer
- Larry Herrera, Fiscal Officer

In order to understand the permitting process we:

- Read applicable portions of :
 - Administrative Instruction (IA) Number 57, “Collection of Monies and Handling Requirements”;
 - Administrative Instruction Number 44 (B), “Accounts Receivable”;
 - Chapter 46, “Impact Fees,” of the Bernalillo County Code;
 - Ordinance Number 2011-12, “Bernalillo County Building Ordinance”;
 - Administrative Resolution 25-2009, “Permit Fee Schedule”;
 - County Impact Fees Ordinance and New Mexico State Statute 2011 NMSA 1978, Chapter 5 Municipalities and Counties, Article 8 “Land Development Fees and Rights”; and,
 - Daily Deposit Procedures for Zoning, Building, and Planning, updated January 12, 2012.

We performed the following testwork:

- *Permit Testing:* We selected a sample of 90 permits completed during fiscal year (FY) 2011 from the Fire Department, ZBP, and Public Works.
- For each permit selected we tested:
 - The permits issued were supported by inspection reports and other credentialing information.
 - Fees assessed were accurately charged according to the County “Permit Fee Schedule” as required by Administrative Resolution 25-2009.
 - Fees were posted to the correct account in the Kiva permitting system and reconciled to the SAP accounting system.
- *Cash Receipts and Collection Process:* We selected 30 daily SAP Cash Desk postings between July 1, 2010 and June 30, 2011 from the Fire Department, ZBP, and Public Works and tested:
 - The SAP cash desk posting agreed to Kiva and reconciled to the daily desktop deposit.
 - The desktop deposit was completed within 24 hours as required by Administrative Instruction 57.
 - Checks were destroyed within seven days as indicated in the Zoning, Building, and Planning Daily Deposit Procedures.
 - Voids were properly approved by the department manager.

- If applicable, the 3% administrative fee for impact fees was properly calculated and posted to SAP.
- *Outstanding Invoices and Accounts Receivable:*
 - *Zoning, Building and Planning* does not have any accounts receivable and therefore this process was not tested.
 - *Fire Department and Public Works:* We obtained accounts receivable listings from all systems used as of June 30, 2011. We compared the listings to ensure they were in agreement. We also tested the accounts receivable aging balances to determine if there were significant amounts greater than 30 days past due.

OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

We identified the following weaknesses relating to the Bernalillo County Permitting.

Fire Department Observations

1) *Compliance with AI No. 57*

- a. AI 57 requires that cash and checks be deposited within 24 hours of receipt or the next business day. Cash deposits were not made within 24 hours of collection for any of the 10 deposits tested. The current practice was to prepare and make deposits weekly.
- b. SAP Cash Desk postings should be reconciled to cash receipting records in the Kiva permitting system on a daily basis. None of the 10 days tested had a reconciliation of the SAP cash desk posting to the cash receipts recorded in the KIVA system.
- c. There should be adequate cash receipts segregation of duties. The Administrative Officer handles all payments received in person and by mail; posts payments in Kiva, Quick Books and SAP; sets up customer accounts receivable; maintains custody of cash receipts and prepares the bank deposit. This creates the risk that errors or fraud could occur without being detected or corrected in a timely manner.

Recommendation

- a. The County has implemented Wells Fargo Desktop Deposit which allows departments to electronically deposit checks. This technology was implemented to help departments meet the 24 hour deposit requirement. The Fire Department has been issued the equipment for the Desktop Deposit, but it was not being used at the time of our audit. Every effort should be made to deposit currency within 24 hours to ensure compliance with AI 57.
- b. The Fire Department should create a process for reconciling the daily cash receipts recorded in the permitting system to the general ledger. This reconciliation should be reviewed by management or a Financial Administrator. This will help ensure payments collected have been recorded at the correct amount and applied to the correct applicant's account/permit.
- c. Custody of the checks and currency should be separated from the position that records and posts cash receipts in the permitting and general ledger systems. In accordance with AI 57, a second staff should be utilized for receipting payments received by mail.

Management Response

- a. The Fire Department will begin using the desktop deposit once staff has had the proper training on how to use the equipment, and the process for destroying checks. Timeframe: June 01, 2012.
- b. The Fire Department will develop a policy to review the reconciliation of daily cash receipts between staff and the Fire Marshal. Timeframe: June 01, 2012.
- c. The Fire Department will change the policy on how checks are received in the mail, to meet the requirements as set out in AI 57. Timeframe: June 01, 2012.

2) *Invoicing and Accounts Receivable*

- a. AI No. 44 (B) - Accounts Receivable requires that all County Departments and Offices use the County approved electronic system to generate bills. SAP is the County approved invoicing system, but the Fire Department uses QuickBooks. We observed an unreconciled difference of approximately \$6,000 between QuickBooks and SAP accounts receivable at June 30, 2011.
- b. One out of 40 permits tested was not invoiced; therefore, revenue was never recorded and cash was not collected. It appears that this occurred because permits completed in KIVA were not reconciled to billings generated from QuickBooks.

Recommendation

- a. To ensure compliance with AI 44, the Fire Department should exclusively use the SAP system. This will eliminate QuickBooks and the need for a reconciliation between the two systems. It will also reduce the risk of error or fraud.
- b. Permits invoiced in the system should be reconciled daily to the inspections completed in the KIVA system. The reconciliation should be reviewed by the Fire Marshall or the Financial Administrator.

Management Response

- a. The Fire Department will begin using the SAP system once the staff have received proper training in using the system and when the invoice and receipt are changed to reflect the address of the Fire Department. Timeframe: June 01, 2012.
- b. The Fire Department will update its policies on how fees are entered into KIVA and by whom and will also conduct in house training on how to enter those fees into the KIVA system. Timeframe: June 01, 2012.

Zoning, Building and Planning Observations

3) *Professional Deposit Accounts*

- a. Prepayment deposits were not always posted accurately to contractor accounts. We observed 2 of 10 days where two deposits were collected but the accounts to which the deposits were posted to could not be found. We also identified one deposit that was not applied to the contractor's account.

- b. Collected prepaid deposits were recorded in the general ledger as permit revenue instead of as a liability until a permit was issued. Prepaid deposits for ZBP totaled approximately \$55,000 at June 30, 2011.

Recommendation

- a. A daily process for reconciling prepayments collected to contractor accounts should be implemented. This will help ensure that prepayments collected are accurately posted to the correct contractor's account.
- b. Contractor prepayments should be posted to individual liability accounts within SAP, or at a minimum, should be posted to one deposit liability account so that prepaid balances can be reclassified from revenue for financial reporting purposes at year-end.

Management Response

- a. Effective March 2, 2012, Zoning, Building, and Planning permitting staff now provide bookkeeping a printout of any Miscellaneous Receipt created on a payment. When bookkeeping reconciles the daily balance sheet, the information obtained on those Miscellaneous Receipts is reconciled with any postings to contractor accounts to satisfy an exact match. In this fashion, any irregularities between the General Ledger and Contractor Accounts will be corrected and posted before the next business day deposit.
- b. Management has been made aware of the potential for a liability to exist for customer prepayments related to the Zoning Department permitting process. The accounting department will request a balance for all zoning prepaid accounts annually at June 30th. The accounting department will make a journal entry to debit revenue and credit a liability account. This will have the effect of reclassifying revenues from the income statement to liabilities on the balance sheet. The process will provide a more accurate financial status.

4) Inspection of County Buildings

Required inspections have not been consistently performed on County buildings. One of 40 permits tested was marked as completed in the system, but the required inspection of the related County building did not appear to have been performed. We identified eight additional County properties that were also missing permits and/or inspections but were marked as completed in the system. Without proper inspections or permits, safety or occupancy problems may not be identified or addressed in a timely manner.

Recommendation

The County should immediately ensure that County properties and buildings that are missing inspections or permit documents have had the required inspections in accordance with County Codes and Ordinances. A process should be implemented to ensure that in the future all County facilities are inspected and permitted in a timely manner and that the associated documentation is on file.

Management Response

County Permits are signed off "DONE" in Kiva manager status, but are left open in the final SIGNOFF portion so an expired letter is not sent to the County by the County. We still require that all applicable inspections must be approved and completed prior to final completed status indicated within Kiva database. Effective April 2, 2012 we will notify County Departments via letter, email and phone that any specific permit in their department's name is not meeting the necessary inspections and county code requirements prior to completing the permit.

Public Works Observations

5) *Barricading and Traffic Engineering Permits*

- a. Cash receipts were not recorded and applied to specific permits in the KIVA permitting system. As a result, these permits did not have any collections posted to them and it was difficult to determine which permits had been appropriately completed and closed out in permitting system.
- b. Fees were not always accurately assessed. Two of the seven permits tested did not properly calculate fees. These two mischarges resulted in \$38 of under billings. There were a total of 542 barricading and traffic engineering permits issued during FY 2011 and extrapolated to the population translates to approximately \$2,900 in estimated mischarges.
- c. One of 10 permits tested did not have an application on file to support the issuance of a permit and calculation of the fee. We were unable to determine if the fees assessed were accurate.
- d. The invoicing of barricading and traffic engineering permits was a manual process and monthly invoices were not always generated. Permits issued by Traffic Engineering were tracked on a spreadsheet and invoices were generated on a monthly basis from this spreadsheet. We observed 2 out 10 instances where a permit was issued during a month, but an invoice was never created in SAP nor sent to the contractor at month-end. The contractors in both instances did ultimately pay the fees, but this was due to contractor diligence. Failure to invoice contractors in a timely manner results in the untimely recording of revenue and could ultimately result in nonpayment.

Recommendation

- a. All Traffic Engineering permits completed and closed out in the KIVA system should have a cash receipt posted to it prior to marking it complete in the system. Additionally, all cash receipts recorded in the general ledger should be reconciled to the receipts recorded in the permitting system.
- b. Traffic Engineering should consider automating the fee calculation in the KIVA system when possible to help prevent miscalculation.
- c. Permit applications should be maintained by Traffic Engineering to support the issuance of permits and the amount of fees assessed.
- d. Traffic Engineering should implement a process for reconciling the monthly permitting spreadsheet to the invoices created in SAP to ensure that all permits issued are appropriately invoiced.

Management Response

- a. This item has been corrected as of March 21, 2012. Since the switch to SAP for invoicing, paid permits in KIVA were noted by Manager Status "Done." This process was used to avoid double posting of checks, and was approved by finance at Public Works. According to this report, we have returned to the old process of check posting in KIVA.
- b. Traffic Engineering will set up a meeting with the Zoning Department to automate the fee calculation process in KIVA, as much as is possible. We will also require that calculations of the barricading fee be shown on ALL permit applications, even for the simplest cases. Due to the complexity of the barricading ordinance, and the complexity of some of the

barricading plans submitted, often engineering judgment is required in assessing fees. Frequently, an exact fee based on the barricading ordinance is not black and white, but a grey area.

- c. We have notified all staff in Traffic Engineering that original copies of our permit applications are never to leave the office, and copies will be made for the requestor. There is a paper trail for the missing invoice with 8 KIVA permits attached. The KIVA spreadsheet was invoiced in SAP by finance. We believe the original was removed for payment by finance, paid for by a combined check (a check making payments for permits to several departments) by DR, and unfortunately lost between departments.
- d. Traffic Engineering will provide a copy of our monthly barricading spreadsheet to the O&M Finance Officer for reconciliation to SAP. The barricading ordinance requires payment in advance of work for traffic control permits. These daily checks are given to the Finance Officer for deposit. Only a few of the larger companies are invoiced in SAP (PNM, New Mexico Gas Co., Centurylink, Hard Rock Pavilion, and ABCWUA.). Invoices are created from the monthly KIVA permit spreadsheet and mailed by O&M. Going forward O&M will always create an SAP invoice. In the two instances noted, only the KIVA invoice was created and mailed.

County—Wide Observations

6) *Deposit Procedures*

There did not appear to be formal policies and procedures surrounding the use of the Wells Fargo Desktop Deposit system. We specifically observed that departments do not have consistent policies for handling and destroying checks processed through Wells Fargo Desktop Deposit. The Zoning, Building, and Planning department had a five day policy and Public Works had a 14 day policy. Treasury informed us that the bank has recommended checks be retained for a minimum of seven days.

Recommendation

The County should revise and update AI 57 to reflect the implementation of the Wells Fargo Desktop Deposit system. The electronic deposit system is more frequently used throughout the departments so it is important that uniform internal controls and policies and procedures be developed and implemented.

Management Response

The County acknowledges that there are inconsistencies with the maintenance and destruction of checks which are electronically deposited. The Accounting Department and the Treasury Department are working together to update administrative instruction 57. We anticipate completion of the update near the start of the new fiscal year. We intend to provide training regarding the entire desktop deposit process in conjunction with the update.

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This report is intended for the information and use of Bernalillo County management, the audit committee, members of the board of commissioners and others within the organization. However, this report is a matter of public record, and once accepted its distribution is not limited.

We received excellent cooperation and assistance from the various departments during the course of our interviews and testing. We very much appreciate the courtesy extended to our personnel.

REDW LLC

Albuquerque, New Mexico
April 11, 2012