November 9, 2006

James Oberdorfer
Director of the Department of Community and Economic Development
175 S. Main Street, Room 207
Akron, OH 44308

Dear Mr. Oberdorfer:

Attached are the results of the second Follow-up Audit regarding the issues that were identified in the Department of Community and Economic Development Preliminary Audit report dated March 28, 2005 and the Follow-up Audit Report dated August 19, 2005.

SECOND FOLLOW-UP AUDIT SUMMARY

The follow-up process should monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

Follow-up by internal auditors is defined as a process by which they determine the adequacy, effectiveness, and timeliness of actions taken by management on reported engagement observations.

Factors that should be considered in determining appropriate follow-up procedures are:
- The significance of the reported observation.
- The degree of effort and cost needed to correct the reported condition.
- The impact that may result should the corrective action fail.
- The complexity of the corrective action.
- The time period involved.

We appreciate the cooperation and assistance received during the course of this follow-up audit. If you have any questions about the audit or this report, please feel free to contact me at extension (330) 643-2655.

Sincerely,

Bernard F. Zaucha
Director, Internal Audit

cc: Audit Committee

DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT
SECOND FOLLOW-UP AUDIT
(APPROVED BY AUDIT COMMITTEE DECEMBER 19, 2006)

Auditor:

Joseph George, Senior Auditor

Objective:

To determine if management has implemented their corrective management action plans as stated in response to the previously issued Preliminary Audit report and the Follow-up Audit report.

Scope:

An overview and evaluation of policies, processes, and procedures implemented by the department/agency as a result of management actions stated in the corrective management action plans during the Preliminary Audit process.

Testing Procedures:

The following were the major audit steps performed:

1. Review the final preliminary audit reports and Follow-up Audit reports to gain an understanding of IAD issues, recommendations, and subsequent management action plans completed by the audited department/agency.
2. Review the work papers from the Preliminary Audit and Follow-up Audit.
3. Review any departmental/agency response documentation provided to IAD with management action plan responses following the Preliminary Audit and Follow-up Audit.
4. Identify management actions through discussions/interviews with appropriate departmental personnel to gain an understanding of the updates/actions taken to address the outstanding Follow-up Audit.
5. Review applicable support to evaluate management actions.
6. Determine implementation status of management action plans.
7. Complete the second follow-up report noting status of previously noted management actions.

DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT
SECOND FOLLOW UP AUDIT
COMMENTS

The Internal Audit Department (IAD) conducted a second Follow-up Audit of the Department of Community and Economic Development (DOD) Follow-up Audit. The original Preliminary Audit ended November 2004 and was approved by the Summit County Audit Committee on March 21, 2005. The Follow-up Audit was concluded August 19, 2005.

The accompanying second Follow-Up comments to previously stated Preliminary Audit issues present an overall summary of the status of the corresponding management action plans.

Listed below is a summary of the major issues/management action plans and their status as noted in the Preliminary Report. Each issue number is in reference to the preliminary report:

Management Action Plans Fully Implemented:

Department of Development - Ohio Building

- Issue 2 - Creation of a cross-training flowchart that will be distributed to each employee and implementation of employee cross training within the department.
- Issue 3 - CDBG loans currently being monitored and policies are being created to ensure proper tracking. Creation and implementation of policies and procedures for the Housing Rehabilitation program effective 1/1/05.
- Issue 11 - Implementation of the Deputy Director of Building Standards review and approval of all expenditures/invoices through the Department of Building Standards.
- Issue 6 - Proper segregation of duties within the cash collection process in the Planning Division and the Enterprise Zone function to ensure that one person is not responsible for collection, receipt writing, and depositing of fees collected.
- Issue 7 - Completion, implementation, and formalization of departmental directive and policies addressing proper depositing of cash/check collections in accordance with ORC § 9.38.
- Issue 8 - Completion/oversight by the Deputy Director of Planning of a reconciliation process of plan reviews completed to the amount of applicable fees collected. In addition, management oversight of proper handling/recording of funds collected and deposited.

Building Standards – Tallmadge Avenue

- Issue 15 - Performance of daily reconciliations from daily receipts reports to management activity reports derived from the BS&A software system.
- Issue 23 - Action taken to bring the daily cash change fund balance up to the $150.00 as indicated by Codified Ordinance.

Management Action Plans Partially Implemented:

<u>Department of Development - Ohio Building</u>

- Issue 1 - Development and implementation of internal policies and procedures by each respective division within DOD to create a master copy for the use by all employees.

  Per an email from the Senior Administrator on 9/29/06, the first time homebuyer program no longer exists. On 9/29/06 the Deputy Director, provided IAD policies and procedures for the Community Development Block Grant (CDBG), effective 6/27/06, and the Internal Policy and Procedure Manual for DOD. Upon review of the procedures it was noted that they did not contain procedures for planning, GIS, or the Enterprise Zone program. The manual appears to be geared for personnel administration. Per the Deputy Director on 10/13/06, this will be completed by the end of October 2006.

<u>Building Standards – Tallmadge Avenue</u>

- Issue 13 - Implementation of the Chief Building Official of Building Standards review and approval of all refund, reimbursements, and payments.

  On 9/22/06, IAD obtained and reviewed a folder of refunds for 2005 and 2006, from the Executive Assistant. Executive Orders 05-275 and 06-123 for refunds were reviewed. It was noted by IAD that Executive Order 05-275 was signed by the Chief Building Official one day after the Executive and that Executive Order 06-123 was signed by the Chief Building Official four days after the Executive. Per the Executive Asst. and the Chief Building Official on 9/22/06, this will be implemented immediately.

- Issue 16 - Procedure implemented whereby the issuance of a Certificate of Occupancy (CO) should be the indication that all monies/fees owed have been collected and procedural infractions have been properly addressed.

  Per the Executive Assistant on 10/2/06, it is still possible to generate a Certificate of Occupancy (CO) with fees still owed. Management was attempting to utilize the issuance of the CO as a compensating control to ensure the collection of charge fees because a CO should not be issued until all inspections have been completed and paid. Effectively this means that there is no compensating control to ensure the collection of fees charged to a permit. On 10/2/06, the Executive Assistant emailed Jason Soldan, BS&A Bldg Dept. System, and IS Support, inquiring if it is possible that a Certificate of Occupancy not be generated until all fees are paid. BS&A Software indicated that it is not possible, however, they stated that Building Standards can "set a Prerequisite for paying fees that will hold the C of O until that is cleared") and he will forward this to his superior as a suggestion. IAD contacted Jason Soldan, BS&A Bldg Dept. System, and IS Support, on 10/13/06. He indicated that this is a temporary solution and he informed IAD that they are currently working on a stop work solution for this issue. Per an email from the Executive Assistant this "may cause more trouble at this time" and the Chief Building Official "will prepare a statement for issuing CO's for the clerks as it regards monies owed". IAD requested clarification as to why this is more trouble to implement and whether or not Building Standards has requested a system control solution be created. The Chief Building Official responded by indicating that "it may not be apparent, or as easily recognizable to the clerk" and did not address the system control request. The Chief Building Official created a re-inspection procedure indicating that the clerk "shall verify

that all re-inspection fees are collected before scheduling the final inspection." Per the Chief Building Official, he feels that holding up the final inspection will give Building Standards more leverage to collect the fees than to hold the CO before issuing. The Preliminary Report Management Action Plan indicated that they informed the Clerks to hold the CO's until all fees are paid. As noted by the fact that CO's can still be issued while fees are still owed, Building Standards Management did not attempt to implement a system control to prevent this from occurring.

In summary, this issue was an attempt to ensure that fees charged are collected which appears to not be occurring as noted in Issue 17 of the Preliminary Report and the Follow Up Reports regarding amounts due. Due to continual issues regarding the lack of controls in the Department of Building Standards regarding the charging of fees and not collecting them, IAD recommends that a system control be implemented to address the issue of charging re-inspection fees and not collecting them.

Management Action Plans Not Implemented:

Building Standards – Tallmadge Avenue

- Issue 17 - Reconciliation of all outstanding balances as noted by the Reports on Permits with Monies Due. The daily reports are to be verified by the Executive Assistant. Also scheduled for completion is the production and review of monthly aging reports by Building Standards management to verify collection of all departmental revenues.

  On 9/22/06, IAD had the Executive Assistant generate a report for permits with money due. Further discussion with the Executive Assistant and the Chief Building Official revealed that they felt the report may be inaccurate. Therefore, IAD and the above-mentioned employees, had a telephone conference with BS&A Software and requested that they generate a report with all monies owed to Building Standards. After several telephone discussions with BS&A software they generated reports, from 1/1/1900 through 9/28/06, showing a balance due of $102,440.49 for permits that were not issued and a $47,716.23 balance due for permits that were issued. Upon review of the reports it appears that the following issues exist: permits are being created in the software application with associated fees and a permit is not being issued, re-inspections are being performed prior to collection of the fee, and plan reviews are charged and not collected.

  On 9/28/06, IAD emailed the Chief Building Official and recommended that Building Standards create a formal policy and procedure for re-inspection fees as well as for the process for entering permits into the software system (e.g.; inspections not be performed until fees are paid, not entering a permit into the system until monies due are present). Per an email from the Chief Building Official on 10/2/06, they will perform the following:
  1. *Review the report of outstanding fees, to determine which are out-dated and no longer apply (these are the fees carried over from the software conversion years ago).*
  2. *Upon review of the more recent fees, they will first determine the status of the project to determine if the fees are valid. This will be done by coordinating with the respective clerk.*

3. *If the fees are not valid, they will remove them from the system by over-riding the software input.*
4. *If the fees are valid, they will advise the respective clerk to issue a letter to the agency responsible for payment.*

Conclusion:

Based on the above noted information, IAD believes that the Department of Community and Economic Development has made progress towards the implementation of their corrective management action plans; however, additional work, specifically in the Building Standards department, is needed to fully implement management action plans as stated in response to the audit issues identified during the preliminary audit. Internal Audit will conduct another follow-up audit to confirm implementation based on the new target dates.

Security Follow-Up:

Security follow-up issues noted during fieldwork are addressed under separate cover in the accompanying report in compliance with Ohio Revised Code §149.433[248].