Summit County Executive Office
Department of Community & Economic Development
Building Standards Division
Preliminary Audit Report

PREPARED FOR:

Russell M. Pry
Audit Committee

Approved by Audit Committee
June 25, 2013

Summit County
Internal Audit Department
175 South Main Street
Akron, Ohio 44308

Lisa L. Skapura, Director
Meredith Merry, Deputy Director
Jon Keenan, Senior Auditor
Lucas Immel, Internal Auditor
Jaime Vedrody, Internal Auditor
Adam Schmitt, Auditor Intern

Summit County Executive Office
Department of Community & Economic Development
Building Standards Division
Preliminary Audit Report

Table of Contents

Summit County Executive Office
Department of Community & Economic Development
Building Standards Division
**Preliminary Audit Report**

GENERAL BACKGROUND

The County of Summit Building Standards Division (BSD) regulates the construction, demolition, and occupancy of buildings and structures within the Summit County jurisdiction, in order to protect the health, safety and welfare of our residents. Specifically, BSD reviews, approves, and issues all permits required by the State of Ohio, regarding the new construction, repair, alteration, or addition to all public and private buildings and structures, as well as annually register all construction contractors; including general building trades, electrical, mechanical, and plumbing. [1]

The BSD consists of twenty-eight (28) employees (0.8% of Summit County employment) comprised of field inspectors, plan examiners, clerical staff and administrators. The BSD's 2012 adjusted operating budget totalled $2.4 million (0.5%, of the 2012 County operating budget). [2]

The BSD's primary source of revenue is obtained from the inspections, permits and plans examination services. Operating revenue for 2012 year end was $3.2 million, an 18.5% increase from 2011 revenue of $2.7 million. [3]

IAD compared the BSD's 2012 year end revenue, staffing levels, and number of completed inspections (building, electrical and mechanical) to Montgomery and Lucas Counties. The comparisons are represented in the graphs below:

2012 BENCHMARK STATISTICS

---
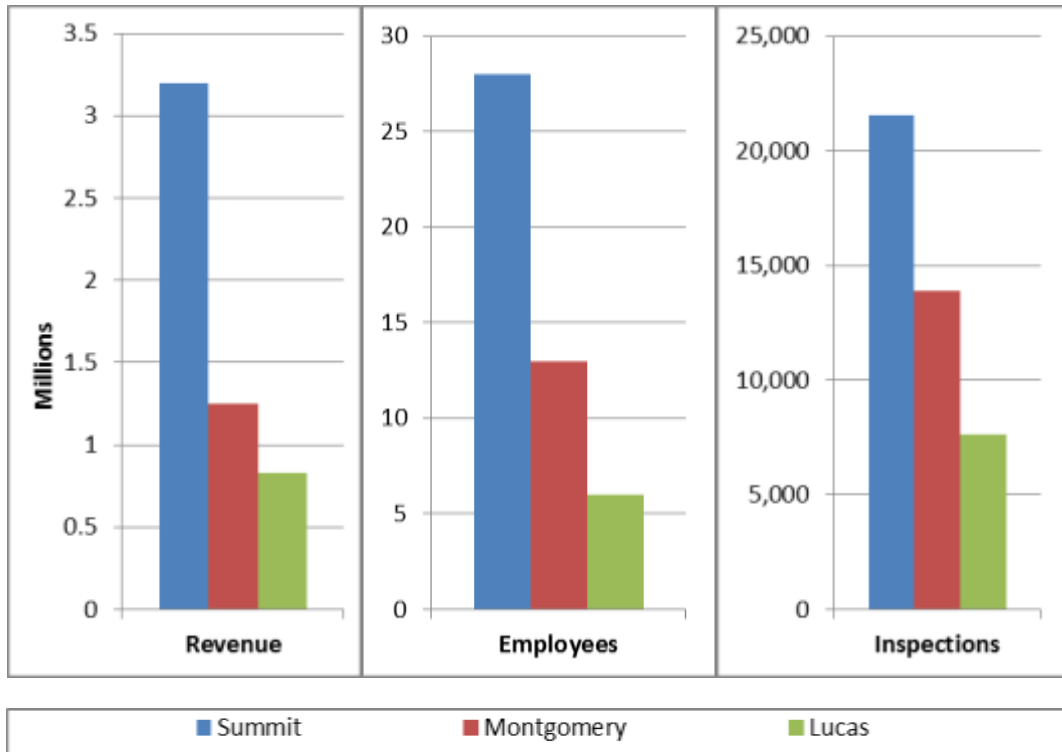
[1] http://www.co.summit.oh.us/index.php/departments/community-a-economic-development/building-standards
[2] 2013 Proposed Operating Budget
[3] These figures were obtained from the Building Standards Revenue Report which was not audited by IAD.

AUDIT OBJECTIVES AND METHODOLOGY

The primary focus of this review was to provide the Summit County Building Standards Division (BSD) with reasonable assurance, based on the testing performed, on the adequacy of the system of management control currently in effect for the audit areas.

Management controls include the processes for planning, organizing, directing, and controlling program operations, including systems for measuring, reporting, and monitoring performance. Management is responsible for establishing and maintaining effective controls that, in general, include the plan of organization, as well as methods and procedures to ensure that goals are met. Specific audit objectives include evaluating the policies, procedures, and internal controls related to the BSD.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Based on the results of our review, we prepared specific issues and recommendations for improvement that were discussed with management. These recommendations, as well as management's unaltered written response, can be found in the following sections of this report.

Note: This audit was not intended to assess the accuracy and adequacy of the inspections and plan examinations that were conducted at the Summit County Building Standards Division.

Objectives:

1. To obtain and review the current policies and procedures.

2. To review the internal control structure through employee interviews and observations.

3. To perform a general overview of the physical environment and security of the facilities, data, records and departmental personnel.

Scope:

An overview and evaluation of the existing policies, processes, procedures, contracts and internal control structure utilized by BSD.

The following were the major audit steps performed:

OBJECTIVE 1 – POLICY AND PROCEDURES REVIEW

1. Obtain and review the current policies and procedures.
2. Meet with the appropriate personnel to obtain an understanding of the current department processes and procedures. Compare those existing processes to the policies and procedures manual for consistency, noting all exceptions.
3. Obtain and review the document retention policy and determine if policies and procedures are currently in place and being followed.
4. Test procedures for mandatory compliance where applicable.
5. Identify audit issues and make recommendations where appropriate.

OBJECTIVE 2 – REVIEW OF INTERNAL CONTROLS

6. Meet with the appropriate personnel to obtain an understanding of the control environment.
7. Document the existing control procedures in narratives and/or flowcharts.
8. Compare existing processes to the policies and procedures manual for consistency.
9. Test procedures for compliance where applicable, noting all exceptions.
10. Investigate discrepancies and summarize results.
11. Make recommendations where appropriate.

OBJECTIVE 3 – REVIEW OF SECURITY (covered in a separate report in compliance with ORC §149.433).

1. Perform a general overview of the physical environment and security of the department/agency being audited.
2. Interview various personnel to determine that confidential information is secure and processed only by appropriate parties.
3. Test security issues where appropriate.
4. Analyze current policies and make recommendations.

<u>**Interviews:**</u>

To gain an understanding of the BSD, IAD performed interviews with the following positions throughout the agency:

    a. Assistant Director/Chief Building Officer,
    b. Inspection Administrator,
    c. Office Administrator,
    d. Plan Examiner,
    e. Inspector,
    f. Cashier,
    g. Code Technician.

Any issues noted are addressed in the respective sections of this report.

I. <u>Policy and Procedures Review:</u>

BSD policies and procedures were reviewed for each of the following applicable testing sections within the audit for accuracy and completeness and compared to current processes for consistency.

The following issue was noted during detail testing:

1. <u>Issue</u>:

Upon review of the BSD Policy and Procedure Manual, IAD noted the following:

    a. The Policy and Procedure Manual did not contain formal detailed policies and procedures for the following functions:

- Expenditures,
- Travel and expense reimbursement policy,
- Purchasing,
- Inspector training and education expenses,
- Cash shortages/overages,
- Receiving cash payments in the mail.

    b. The Policy and Procedure Manual contained incomplete and outdated information. Specifically, IAD noted the following:

- The manual does not contain effective dates or dates of revision.
- There is no evidence that the manual was formally approved by management.
- Staff is not required to sign off indicating that they have reviewed the manual.
- Reference to the adopted building codes appears to be outdated.
- There are hand written edits contained in the manual.
- There are documents marked as no longer used in the manual.
- The organizational chart appears to be outdated.

Recommendation:

IAD recommends that the BSD create/update, approve, and disseminate formal written administrative and operational policies and procedures for all of the functions of the department and incorporate them into the existing manual. These policies and procedures should include effective and revision dates as well as proper approvals. This will help to ensure that employees are aware of the most current policies and procedures.

Management Action Plan:

The Building Standards Division Policies and Procedures Manual will be rewritten for all functions of the department and will be finished by 1/31/14. The plan will be approved by the Director of Community and Economic Development and each employee will receive a copy and sign a confirmation of receipt.

The Policies and Procedures manual will include effective and revision dates and all proper approvals moving forward. The manual will be reviewed semi-annually to make sure the most current policies are part of the manual.

II. **Internal Control Testing:**

Risk-based internal control testing and/or observations were performed in the following areas:

- Personnel Files,
- Expenditures,
- Purchasing,
- Cash Receipts,
- Fringe Benefits,
- Inspections,
- Plan Examination,
- Payroll.

PERSONNEL FILES

The Executive's Office Employee Personnel Manual was obtained and the Executive Office Human Resource Department (HRD) was contacted to gain an understanding of the personnel file structure for the BSD. A current BSD table of organization was compared to Banner to confirm a complete and accurate listing of active employees maintained by the BSD.

All inspectors, plan examiners, and a sample of the remaining employees were selected and detail testing was performed to verify that the personnel files contained the required documentation. This documentation is limited to documents where the BSD is responsible for completing and submitting to the Executive Office Human Resource Department, as well as items IAD considered best practice.

The following issue was noted during detail testing:

2. Issue:

Upon review of the personnel files selected for testing, IAD noted the following:

- Twenty-four (24) of twenty-four (24) instances where a current annual performance evaluation was not completed and located in the respective employee personnel file. Upon discussion with personnel, evaluations have not been completed since the Chief Building Official (CBO) assumed responsibility of the BSD, in 2009.
- Fourteen (14) of twenty-four (24) instances where there was no acknowledgment receipt and review of the 2003 revision of the Executive's Office Employee Personnel Manual.
- Seventeen (17) of seventeen (17) instances where copies of the inspectors and plan examiners certifications were expired and not located in the respective personnel file. It is noted that these certifications are being maintained at the BSD.
- Ten (10) of eleven (11) instances where there was no acknowledgement receipt and review of the 2004 revision of the Computer and Telecommunication Policy.

Recommendation:

IAD recommends that annual performance evaluations be completed for all employees, all employees sign-off, acknowledging receipt and review of the most current revision of the Executive Office Personnel Policy and Procedure Manual and Computer and Telecommunication Policy, and current certifications for inspectors and plan examiners be obtained. Additionally, IAD recommends that all personnel documents, including the above-noted, be sent to the Executive Office HRD for inclusion in the respective employee's personnel file.

Partial Action Taken Prior to the End of Fieldwork

The BSD Administrator obtained copies of the employee's current certifications and forwarded the information to the Human Resource Department. IAD confirmed with the Human Resource Executive Assistant that the certification copies were received.

Management Action Plan:

Annual performance evaluations will be completed for all Building Standards personnel by 7/1/2013 and will be filed with the Human Resources Department. For each subsequent year a performance evaluation will be performed by supervisors and will be forwarded to HRD to be included in personnel files.

Each employee will be given a copy of the Executive's Office Employee Personnel Manual and will sign an acknowledgement by 7/1/13

Inspectors and plan examiners current certifications are now in the personnel folders at the HRD and will be forwarded as current certifications are received.

Acknowledgement receipts for 2004 Revised Computer and Telecommunication Policy have been forwarded to HRD.

EXPENDITURES

Applicable ORC sections were reviewed, staff interviews were conducted, and flowcharts were created and approved to gain an understanding of the expenditure cycle, the laws and regulations that govern it, and internal controls in place. A sample of expenditures was randomly selected and detail expenditure testing was performed to verify that funds do not remain encumbered for prior year purchase orders, confirm proper approval, proper

authorizations, the funds were encumbered prior to incurring the expense, and that the appropriate vendor and amount were paid.

Banner user and Banner Class Form reports were obtained and reviewed to gain an understanding of BSD employee Banner roles, and to test for proper segregation of duties.

The following issues were noted during detail testing:

3. Issue:

    Upon discussion with BSD personnel and review of the BSD expenditures flowchart, IAD noted that one employee is responsible for the ordering and receiving functions within the department.

    Recommendation:

    IAD recommends that the BSD assign the ordering and receiving functions to separate individuals and designate backup employees so that no one person is responsible for both functions. This will provide an appropriate segregation of duties and help to ensure proper control over and safeguarding of assets.

    Management Action Plan:

    Ordering and receiving of supplies will now be segregated duties. The Assistant Administrator will order supplies and the Operations Manager will receive them. If the Operations Manager is not available, one of the clerks will receive the supply order. This will be noted in the new policies and procedures manual.

4. Issue:

    Upon detail testing of the BSD expenditures, IAD noted the following:

    - Four (4) out of seventeen (17) instances where the invoice was prior to the purchase order date;
    - Two (2) out of seventeen (17) instances where the purchase order year was not the same as the invoice year.

    Recommendation:

    IAD recommends that the BSD encumber funds prior to incurring expenditures, and that purchase order years and invoice years are in agreement. This will help to ensure compliance with ORC §5705.41 and §5705.44 respectively.

    Management Action Plan:

    BSD will encumber funds prior to incurring expenses and purchase order and invoice years will be in agreement moving forward. This will be noted in the new policies and procedures manual.

PURCHASING

BSD policies and procedures were reviewed, interviews were conducted and flowcharts were created and approved to gain an understanding of the purchasing process. Samples of requisitions, purchase orders, and purchase order change orders were judgmentally selected and detail testing was performed to test for proper approvals.

No issues were noted.

CASH RECEIPTS

BSD policies and procedures and applicable ORC sections were reviewed, an observation was performed, staff interviews were conducted, and flowcharts were created and approved to gain an understanding of the cash receipts cycle, the laws and regulations that govern it, and internal controls in place.

A sample of Banner pay-ins was judgmentally selected for detail testing to ensure proper segregation of duties, appropriate recording into the respective accounting system, and timeliness and accuracy of the deposit.

A fee listing was obtained from Codified Ordinance §1307 and compared to BS&A tables to ensure the accuracy and completeness of the fees in the system. Additionally, a sample of completed permits was randomly selected and detail testing was performed to ensure the accuracy of fees assessed/paid.

Override Request Forms were obtained and reviewed to verify completeness and that proper approval was obtained prior to the adjustment.

The following issues were noted during detail testing:

5. Issue:

   Upon observation of the cash receipt process, IAD noted one cash register being utilized by all seven (7) cashiers to process cash transactions.

   Recommendation:

   IAD recommends that each cashier be assigned and manage an individual cash drawer. This will help ensure the accountability of the cashiers for cash collected.

   Management Action Plan:

   Each cashier will be assigned and maintain an individual cash drawer to ensure accountability for cash collected. This will be completed by August 1, 2013, and will be addressed in the policies and procedures manual.

6. Issue:

   Upon detail testing of fees in BS&A, IAD noted the following:

   - Nine (9) out of three hundred fourteen (314) fees in BS&A that do not agree to Codified Ordinance §1307;

- Thirteen (13) out of three hundred fourteen (314) fees in BS&A that are not defined in Codified Ordinance §1307;
- One (1) out of three hundred fourteen (314) fees in BS&A that are no longer being utilized.

Recommendation:

IAD recommends that the BS&A fees be updated to reflect the most current fee schedule, in accordance with Codified Ordinances. This will help ensure accuracy in fee processing and compliance with applicable legislation.

Management Action Plan:

A review of all fees in BS&A is nearly complete and clean up of the old fee schedules will be complete by 7/1/13. The Operations Manager will review the fees in BS&A quarterly to assure the most current fee schedule is housed in the BS&A software.

7. Issue:

Upon review of the 2012 Override Request Forms, IAD noted one hundred twenty-eight (128) out of one hundred twenty-eight (128) override request forms, totaling $24,185.69, which did not contain supervisory approval.

Additionally, upon comparison of override transactions in BS&A to the override request forms, IAD noted two hundred two (202) instances where an override request form was not completed, totaling $64,947.23.

Recommendation:

IAD recommends one of the following:

- User profiles in BS&A be reviewed and updated to restrict all accounts from processing override transactions with the exception of individuals responsible for approving them.
- Override forms be properly completed (all fields) and signed by a supervisor prior to the adjustment being made in BS&A. Additionally, IAD recommends that an adjustment report be generated from BS&A weekly/monthly and compared to the completed override request forms to ensure forms are being completed for each adjustment.

This will help to ensure proper supervisory approval and accountability for adjustment transactions.

Management Action Plan:

Effective immediately, a properly completed override form will be signed by a supervisor (CBO, Operations Manager or Assistant Administrator) prior to any adjustment being made in BS&A and will be kept on file moving forward. The Assistant Administrator will generate a report weekly to compare the override requests with the adjustments made. This will be addressed in the new policies and procedures manual.

8. Issue:

Upon discussion with BSD personnel, IAD noted an employee responsible for collecting cash and reconciling the daily cash collections, creating an improper segregation of duty.

Recommendation:

IAD recommends that the BSD assign the cash receipt and reconciliation functions to separate individuals and designate backup employees so that no one person is responsible for both functions. This will help to provide an appropriate segregation of duties and help to ensure proper control over and safeguarding of assets.

Management Action Plan:

Effective immediately, all cash/check/credit card collections will be handled by clerical staff. Cash reconciliation functions will be handled by the Assistant Administrator and her back up will be the Operations Manager, neither of those individuals will be doing any cash collections. This will segregate the duties of receiving cash and reconciling the balance at the end of the day. This will become part of the policies and procedures manual.

FRINGE BENEFITS

Detail testing of the following areas was performed, if applicable, to confirm that the BSD is properly processing fringe benefits in accordance with IRS tax code:

- Travel and meals reimbursement,
- Cash incentives, awards, gift awards and/or bonuses,
- County paid life insurance policies over $50,000,
- Uniforms and clothing allowances,
- Employment contracts,
- Agency vehicle usage,
- Allowances for firearms or tasers and/or any other non-lethal weapon,
- Tuition assistance and reimbursement,
- Subcontracted employees.

No issues were noted.

INSPECTIONS

BSD policies and procedures were reviewed, staff interviews were conducted, and flowcharts were created and approved to gain an understanding of the inspection functions and processes. A sample of building, electrical, mechanical, and plumbing permits was randomly selected and detail testing was performed to verify the accuracy of the fees, ensure that approval/denial was documented, and that inspector independence was maintained.
A Contractor Report generated out of BS&A was reviewed and compared to active BSD inspectors and plan examiners to determine if a conflict of interest exists.

The following issues were noted during detail testing:

9. Issue:

Upon discussion with the Inspection Administrator, it was noted that a formal inspection checklist is not utilized for inspections.

Recommendation:

IAD recommends that a formal inspection checklist be developed and implemented for all inspections. This will help to ensure accountability and consistency for the inspection process.

Management Action Plan:

Inspectors will follow Ohio Building Code procedures for inspections. A formal inspection checklist would be too cumbersome to implement. The Ohio Board of Building Standards has developed the Building Standards Resource Package to address the issue of local building departments creating their own forms and the BSD will follow the requirements set in place by the State Board.

10. Issue:

Upon review and research of inspectors and plan examiners, it appeared that two (2) inspectors and one (1) plan examiner own businesses in the same field and county as inspections and plan reviews that they perform, respectively.

Recommendation:

IAD recommends that the BSD develop and implement a policy, (1) prohibiting employees from performing work within Summit County, which they could potentially be responsible for inspecting or reviewing; and/or (2) prohibiting employees from reviewing/inspecting projects within Summit County that they are involved with/responsible for. This will help to ensure a proper segregation of duties and control of any conflicts of interest.

Management Action Plan:

The Department of Law is currently working on a policy for outside employment for Building Standards personnel to meet State requirements. The policy will be in place by 9/1/13.

PLAN EXAMINATIONS

BSD policies and procedures and applicable Ohio Building Code (OBC) sections were reviewed, staff interviews were conducted, and flowcharts were created and approved to gain an understanding of the plan examination process. A sample of plan examinations was randomly selected and detail testing was performed to verify that the review was completed within the allotted time frame, permits were issued after the review was completed, and the plan reviewer appeared independent of the plan submitter.

Additionally, a sample of disapproved plan examinations was randomly selected and detail testing was performed to verify that permits were not issued.

The following issue was noted during detail testing:

11. Issue:

Upon review of plan examinations, IAD noted six (6) out of fifty (50) instances not reviewed within thirty (30) days of submission, in accordance with OBC §107.2.1.

Recommendation:

IAD recommends that the BSD ensure that initial plan examinations are reviewed timely, in accordance with OBC §107.2.1. This will help ensure compliance with applicable regulations.

Management Action Plan:

An excel spreadsheet is now in place to review plan submittals and dates of review. All plans will be reviewed within 30 days according to the OBC.

FIXED ASSET INVENTORY

Upon discussion with the Department of Finance and Budget, it was determined that tracking of fixed assets for all Executive departments is centralized in the Finance and Budget Department. Therefore, IAD passes on further review and testing.

PAYROLL

BSD policies and procedures were reviewed; staff interviews were conducted; and an observation was performed to gain an understanding of the payroll process in the BSD. A payroll approval report was generated and reviewed to determine appropriate authorizations and confirm proper segregation of duties.

No issues were noted.

I. **Security:**

Security issues noted during fieldwork are addressed under separate cover in the accompanying report in compliance with ORC §149.433.