REPORT TO AUDIT COMMITTEE

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Staff
February 15, 2011

Honorable Members of the Audit Committee

Title: Semi-Annual Recommendation Follow-up Report

Location/Council District: Citywide

Recommendation: Accept the Auditor's Office Semi-Annual Recommendation Follow-up Report for the July 2010 to December 2010 period and forward to City Council for final approval.

Contact: Jorge Oseguera, City Auditor 808-7270

Presenters: Jorge Oseguera

Department: Office of the City Auditor

Division:

Organization No: 01001201

Description/Analysis

Issue: According to Resolution No. 2009-407, the City Council should be kept apprised of the City Auditor's work. The Audit Committee shall receive, review, and forward to the full Council the City auditor's updates and reports. This report details the implementation status of open audit recommendations during the first half of Fiscal Year 2010-2011.

Policy Considerations: The City Auditor's presentation of the Semi-Annual Recommendation Follow-up Report is consistent with the Mayor and City Council's intent to have an independent audit function for the City of Sacramento.

Environmental Considerations: None.

Sustainability Considerations: None.

Rationale for Recommendation: This staff report provides the Audit Committee with information that may be used to meet its responsibility to provide oversight and supervision of the City Auditor.

Financial Considerations: The costs of the audits listed in the Audit Activity Quarterly Report are funded out of the 2010-11 Office of the City Auditor Budget.

Emerging Small Business Development (ESBD): No goods or services are being purchased as a result of this report.

Respectfully Submitted by: _____
Jorge Oseguera, City Auditor

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Attachment 1

CITY OF SACRAMENTO
CALIFORNIA

Office of the City Auditor
Jorge Oseguera, City Auditor

February 15, 2011

Honorable Members of the City Council
915 I Street - Fifth Floor, New City Hall
Sacramento, CA 95814-2604

Honorable Members of the City Council:

The City Auditor's Office conducts audits and makes recommendations to strengthen accountability and improve the efficiency and effectiveness of City programs. The office monitors the implementation of all audit recommendations, and reports on the status of all open audit recommendations every six months. In accordance with the City Auditor's approved 2010-11 Audit Plan, we prepared a report of the status of open recommendations for the six months ending December 30, 2010. To prepare this report, we met with department staff, reviewed documentation provided by departments, and performed some testing to determine implementation progress.

We categorized recommendations by Auditee progress:

- Not started – The Auditee temporarily postponed implementing the audit recommendation or did not demonstrate sufficient progress toward implementing the recommendation
- Started – The Auditee began implementing the recommendation, but considerable work remains
- Partly Implemented – The Auditee satisfied some elements of the audit recommendation, but additional work and testing remains.
- Implemented – The Auditee provided documentation and the Auditor verified the satisfactory implementation of the audit recommendation
- Drop – The auditor recommends eliminating the recommendation as a change in circumstances rendered it unnecessary

On behalf of the Auditor's Office, I would like to express my appreciation to the City staff for their cooperation and assistance during our reviews.

Respectfully submitted,

Jorge Oseguera

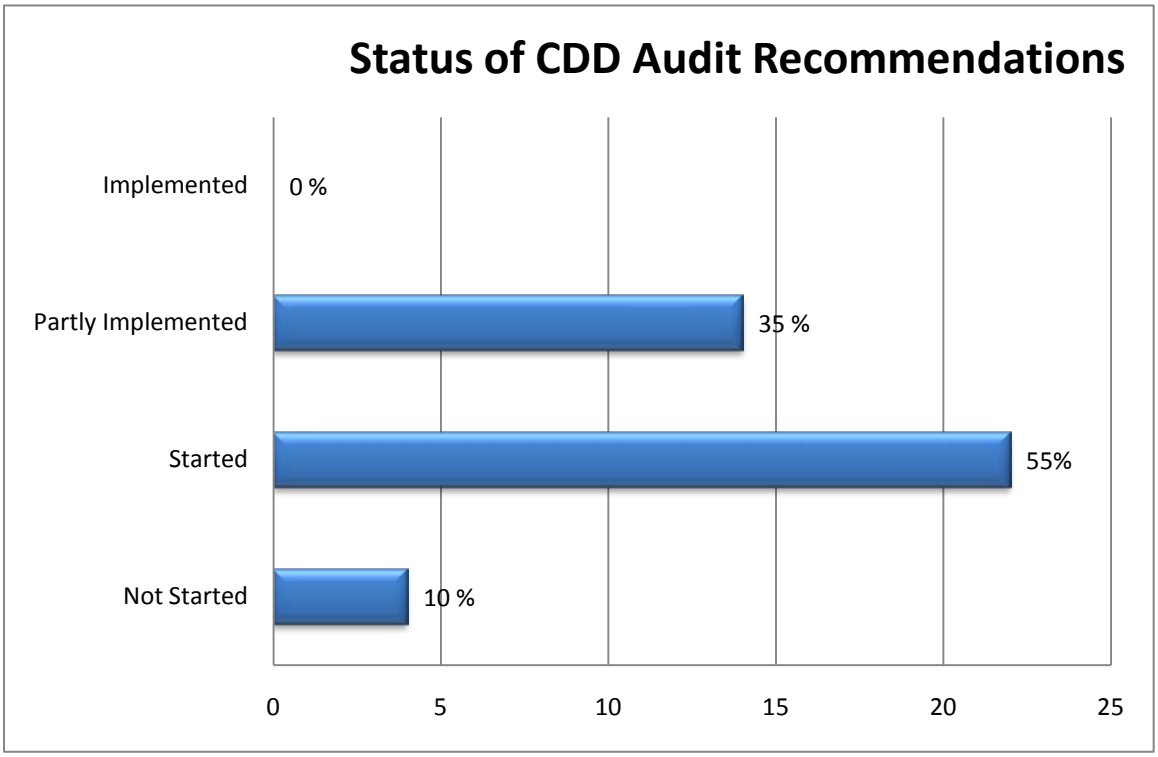
Attachment 2

Post Audit Summary of the Audit of the Community Development Department

The Performance Audit of the Community Development Department (CDD) contained five chapters, identified $2.3 million[1] in required permitting fees that the City did not receive, and made 40 recommendations for improving CDD's operations, controls, and management. The audit specifically reviewed the City's processes for issuing building permits and collecting the requisite fees. Following the audit's release in October 2010, my office worked closely with CDD staff to assess and ensure adequate implementation of the adopted recommendations.

We are pleased to report that CDD has made substantial progress towards implementing the recommendations given the relatively short time that has transpired since the report's release. As shown is Exhibit 1, we designated 22 recommendations as started (55%) and 14 recommendations as partly implemented (35%) documenting progress towards implementation on 90 % of the 40 recommendations. While this is a good start, we anticipate a lengthy period for completion due to the complexity of establishing policies and procedures, automating systems, the recent merger of two departments (Code Enforcement and CDD), a change of senior management, and on-going budget cuts within the City.

Exhibit 1



[1] According to the Attorney's Office, the City is still evaluating whether the City may successfully recoup some or all of the previously noted $2.3 million in uncollected fees.

COMPLETE LIST OF OPEN AUDIT RECOMMENDATIONS

Performance Audit of the Community Development Department (CDD)

SECTION 1: ORGANIZATION AND POLICIES

#1 Ensure the necessary changes are made to the automated permitting system to limit access based upon critical job needs and position-analysis should include CDD employees as well as external users. This will likely require contracting with the system vendor as CDD recently lost its in-house Accela expert. (p. 10 of the performance audit report issued October 2010)

Started CDD responded that system access changes are under way and that only managers and supervisors will be able to make revisions, updates, or corrections. The director will authorize specific positions to apply fees. CDD provided a list of people with various levels of access and is analyzing the list to make further changes. We are looking forward to reviewing the risk analysis management performed to develop the access list and user groups.

#2 Develop processes to create and regularly utilize system exception reports to monitor system usage, detect process errors, or identify unusual or abnormal activities to ensure all employees and system users follow proper permitting processes and policies and procedures. (p. 10)

Started CDD responded that the operations manager of the building division reviews Accela reports weekly and trains staff at weekly counter meetings. We will be sampling the content of the reports, and to see if the operations' manager's job description is revised to reflect the recommended controls.

#3 Formalize a complete reconciliation process between the three systems: Accela permitting system, CDD's cashiering system, and the City's eCaps financial systems. (p. 11)

Started CDD's administrative services unit is drafting a policy and procedures manual. In addition the city's finance department is in the process of developing a query to enable CDD's accounting function to reconcile eCaps, the city's financial system, with the department's cashiering system. Once the query is built, we will review the reconciliation process for adequacy.

#4 Draft a complete, detailed, formal, and comprehensive set of policies, procedures and guidelines, and standards for operations with specific parameters that cover all of CDD's permitting and fee assessment processes and practices that are widely distributed to all employees. Hold all employees accountable for following and adhering to all system and process policies and procedures. (p. 13)

Started The director has assigned the code enforcement manager to coordinate writing the department's policies for all permitting and fee assessment processes. He has compiled a 115-page draft manual. Upon completion we will review the manual for completeness, appropriate supervisory review points, segregation of duties, and accountability. Ideally management in charge of specific processes will review and authorize written procedures annually and be held to this as part of annual review by the director.

#5 Establish a formal employee training program to ensure all employees have sufficient knowledge and experience to handle job responsibilities and functions, particularly employees that handle permit counter operations and all employees that interact with the permitting system. (p. 13)

Partly Implemented The director and division managers are discussing details of the types of training, phasing and staffing. The building division counter manager has posted a draft 75-page counter procedure manual on the department's intranet site as guidance for staff. We will review the training program with a focus on the permit counter and permitting system.

#6 Develop conflict of interest policies that require employees to disclose any conflict or appearance of conflict related to job responsibilities and duties that could adversely influence their judgment, independence or objectivity. (p. 13)

Started CDD responded that the City currently requires all exempt managers to complete a conflict of interest statement, Form 700, before the end of the fiscal year. We've noted that non-exempt managers have the ability to make permitting decisions. We do not think the Form 700 is sufficient and we'd like to see a detailed policy requiring the disclosure of conflicts of interest. CDD will be working with the Attorney's office to create a conflict of interest form for represented and unrepresented staff.

#7 Establish an organizational culture that places importance on adhering to proper policies and processes while also meeting service level goals. Also, create a "tone at the top" that circumvention of proper permitting and fee assessment polices and processes will not be tolerated. (p. 15)

Partly Implemented CDD responded that the current director schedules monthly meetings with exempt managers to discuss department goals, policies, procedures and system controls. This will be connected with implementation of Recommendation #4.

#8 Complete a comprehensive analysis of employee positions and organizational reporting structure to ensure proper control, oversight and authority is present. (p. 19)

Started CDD reported that the director and division managers are assessing existing positions and roles and responsibilities in the building division. We will review management's analysis of the entire department.

#9 Ensure that the City's Chief Building Official, who is held responsible by state law and City Code for enforcing the City's building laws, codes and regulations, has the ability to control all of the activities and processes for which he or she is responsible. (p. 19)

Started CDD responded that the chief housing and dangerous buildings inspector has *ex officio* powers as the building official for housing & dangerous buildings matters and that the operations manager, who supervises the building division, assists in decision making and issue resolution. The department, the City Auditor's office, and the City Attorney will review the Chief Building Official's position within the organization for compliance with City and State code.

#10 Ensure that the City's Chief Building Official has reporting authority over the positions that carry out those activities and processes for which he or she is responsible, including but not limited to Permit Counter staff, Process Assessment Unit staff, inspectors, plan reviewers, etc. (p. 19)

Started CDD responded that the chief housing and dangerous buildings inspector has *ex officio* powers as the building official for housing & dangerous buildings matters and that the operations manager, who supervises the building division, assists in decision making and issue resolution. The department, the City Auditor's office, and the City Attorney will review the Chief Building Official's position within the organization for compliance with City and State code.

#11 Consider the City's Chief Building Official's responsibilities related to housing and code enforcement activities, and ensure that proper control and reporting authority is provided, particularly since Building Services already provides plan review related to housing permits. (p. 19)

Started CDD responded that the chief housing and dangerous buildings inspector has *ex officio* powers as the building official for housing & dangerous buildings matters and that the operations manager, who supervises the building division, assists in decision making and issue resolution. The department, the City Auditor's office, and the City Attorney will review the Chief Building Official's position within the organization for compliance with City and State code.

#12 Analyze the duties of CDD staff to ensure all conflicting responsibilities are sufficiently segregated and controlled. (p. 20)

Started CDD responded that the director is evaluating specific roles and responsibilities based on classifications and available resources. He will further clarify duties during completion of procedures manuals.

#13 Continue working to create a systematic process to organize, store and image CDD's project plans. (p. 20)

Partly Implemented CDD provided a written policy, used by the records management unit, outlining how residential and commercial plans should be catalogued and stored per code. We observed CDD's project plans and the process. We will select plans to test they are being organized as intended by management's policy.

#14 Develop processes to ensure key documentation is maintained to support process decisions. (p.21)

Started CDD reports that staff have begun to document and upload supporting data in Accela along with a rationale for the changes. We will review the formalized written process when complete to verify that the new process mitigates the concerns regarding recordkeeping, incomplete documentation of permitting processes and decisions. We will also review how this process complies with the chief building official's responsibility to keep records per the California Building Code Appendix Chapter 1 Section 104.7.

SECTION 2: PROPER PERMITTING

#15 Develop formal policies and procedures that cover all permitting processes, including points where supervisory review is conducted. Hold employees accountable for not following proper processes. (p. 28)

Started The director has assigned the code enforcement manager to coordinate writing the department's policies and procedures for all permitting processes. The draft is currently 115 pages. Upon completion we will review, for supervisory decision points, segregation of duties, and accountability.

#16 Insert automatic system process routing protocols that ensure all processes are complete prior to a permit being issued, including (but not limited to) ensuring construction plans have gone through all required reviews and approvals and all prerequisite permits have been properly obtained from other City entities. (p. 28)

Started Department management is looking into whether CDD's IT unit can make automatic system changes so projects can be routed into these systems without staff having to manually check the boxes.

#17 Determine which system fields must be completed during permit application intake and program the system to not allow permits to proceed in the process without all required data inputs. Once project data is input and a permit application is accepted as complete, restrict the ability to make modifications to the permit record to managerial or supervisory staff. (p. 28)

Partly Implemented The director has authorized the building division's operations manager to determine which fields must be completed for an application to be created to ensure plans are reviewed for code compliance, i.e. for electrical, structural, life safety, mechanical/plumbing, Planning, Fire, Utilities, Transportation, and special districts like design review or historical. The IT unit added red asterisks to identify required fields which include job value, parcel number, and applicant name. The operations manager has determined which staff can make modifications. We will perform testing to verify that only managerial or supervisory staff can modify required fields.

#18 Restrict system access and ability to provide approval of project plans in the system to only those employees employed by the City in such a capacity; ensure the employees given access to input approvals in the system have the necessary qualifications, training and education to review and approve project plans. Also, only allow those employees with proper qualifications to sign and approve the hard copy of project plans. (p. 29)

Started The building division operations manager plans to regulate access to specific entries in Accela to a list of authorized staff, similar to internal controls for Recommendation #1. We would like to see the assessment of what qualifications, training and education is required for those positions (possibly in job descriptions). To provide assurance we'll test access and sample hard copies of project plans to review for signature and approval by employees with requisite qualifications.

#19 Ensure all professional approval stamps, such as engineering, plan review, etc. are secured and cannot be misused. (p. 29)

Partly Implemented CDD reported that the building division operations manager is monitoring stamps and has put reasonable precautions in place. Per interviews with staff in administrative services division and process assessment, stamps are used by staff as they see the need. We will observe secure storage of professional approval stamps, who has access to them, and policy on securing them.

#20 Create permitting process business mappings to ensure all required processes, participants, and stakeholders are identified and all corresponding roles are included and considered in the development of formal processes and procedures to ensure that key permitting process participants are not overlooked, such as CDD's environmental planning group. (p. 30)

Started The building division operations and code enforcement managers are drafting flow charts of the building permit process. When complete we will review, and survey stakeholders and employees.

#21 Establish protocols to require that counter staff review permit applications and other appropriate notices for conditions of approval and proof of payment and input such stipulations into Accela. Employees must be trained to ensure all required conditions are appropriately entered and tracked. (p. 32)

Partly Implemented CDD reported that its planning division and units within its building division note conditions (processes to complete prior to issuing permits) on the physical construction plans, and that the chief building official reinforces review of construction valuation at meetings with staff in the public counter customer service unit of the building division. The paper application for permit, revised in November 2010, includes a section listing 14 "disciplines" (processes to complete prior to issuing permits). The building division counter manager has posted a draft 75-page counter procedure manual on the department's intranet site as guidance for staff.

We will review the manual and select and test permits for required plan review and approval.

#22 Program the permitting system to ensure the acknowledgement and resolution of permitting conditions and require the signoff of such provisions by designated individuals before permits can be appropriately issued or finaled. (p. 32)

Partly Implemented. According to CDD, management set up the Accela system to allow city staff to input free-form conditions to ensure that specific issues are addressed and actions occur prior to permit issuance. The department reported that the director authorized the building division operations manager to determine which staff can sign off on permitting conditions. Only these authorized staff are allowed to remove a "lock" in the system.

CDD management is exploring with Accela vendors additional security controls to implement in the system related to locks and holds.

#23 Limit approval or signoff authority to certain City employees and restrict access to the system for functions that would allow removal, resolution, or clearing of conditions of approval. (p. 32)

Partly Implemented According to CDD, the director will create an access list to authorize staff to make specific entries in Accela, as for Recommendation #1. We will test that a condition cannot be modified by those that are not on the approved list.

#24 Within policies and procedures, clarify when phased or partial permits can be utilized and ensure proper protocol is followed. Particularly, eliminate the ability to utilize phased permits when main permits are ready for issuance to simply avoid paying required permitting fees. (p. 33)

Started The building division operations and code enforcement managers are drafting policies and procedures for phased and partial building permits. We will review and test samples for internal controls.

#25 Investigate the feasibility within the permitting system to link together related permit documents. Otherwise, develop an alternative process that will ensure all requirements of all permits associated with a project have been formally and appropriately completed and resolved prior to providing final approval of a project. (p. 38)

Started CDD reported that City management will be speaking with vendors to determine if Accela can link related permit documents. We will review how the chief building official or building division operations manager currently insures that related documents are linked together and that all permits associated with a project have been appropriately completed and resolved prior to providing final approval of a project.

#26 Ensure process policies and system controls are developed and maintained that require permits to be properly issued before any construction work begins. (p. 39)

Partly Implemented The building division counter manager has posted a draft 75-page counter procedure manual on the department's intranet site as guidance for staff. We will review the policies and system controls management developed to ensure specific programs are not inappropriately expanded.

#27 Ensure process policies and systems controls are developed and maintained that require permits to be properly issued before inspection services are rendered, including removing related existing system security gaps. (p. 41)

Partly Implemented CDD has begun developing and posting policies and procedures on the department's Intranet site. These include policies that pertain to all employees, and administrative and building procedures. The counter manager has posted a draft 75-page counter procedure manual. We will review policies and systems controls requiring permits prior to services, and will test to verify that inspections services are not provided prior to fees being paid.

#28 Immediately prior to permit issuance, establish a formal, final review process of permit applications to ensure all required reviews and approvals have occurred and all fees have been assessed and paid prior to permit issuance. Assign the responsibility to conduct the final review to specific individuals that have sufficient training and ensure these employees provide their signatures acknowledging their acceptance of processes undertaken and granting approval for the permit to be issued. (p. 42)

Started According to CDD, the building division operations manager has put a system in place to assess fees and ensure that all conditions are resolved during processing of plans. The operations manager assigned the individuals who process plans to review outstanding balances and ensure accurate notes and supporting data are input in Accela prior to permit issuance or Certificate of Occupancy. We will interview the operations manager to gain an understanding of why specific staff were assigned and will sample permits for signatures of designated individuals.

#29 Develop regular spot check processes where a sample of permits are selected and reviewed to ensure all required processes were appropriately completed. Determine any training needs or increase in frequency of spot checks based on the outcome of the review process. (p. 42)

Not Started CDD reported that the chief building official was checking deviations made in the Accela system at the time of occurrence and on a weekly basis. While this is an important control, we would like to see the department add a sampling component.

#30 Require that any deviations from regular permitting processes defined through formal policies and procedures are formally approved and documented by CDD management and sufficient and detailed justification for decisions and approvals is maintained. (p. 43)

Started The building division operations and code enforcement managers are drafting policies and procedures for the permitting process. We'll sample work allowed to start, specifically projects that deviate from regular permitting processes. We'll test for documentation and justification of management's approval.

SECTION 3: COLLECTING FEES

#31 Ensure fees are finalized and approved by staff with sufficient training and experience and require signature approval and sign-off acknowledging acceptance of final fee assessment calculations. Once fee assessments are finalized, restrict the ability to make modifications to the fee assessment to managerial staff. Ensure sufficient support and justification for any fee assessment change is maintained. (p. 48)

Started CDD reported that the director will limit the ability to make revisions, updates, and corrections in Accela system to managers and supervisors only. In addition, the director or the building division operations manager will analyze job duties to determine who will be able to apply fees in Accela. We will interview management to gain an understanding of what training and experience are requisite to verify final fee calculations. We will sample preliminary fee assessments and final invoices for supervisory signature approval of calculations, and confirm CDD staff followed the required processes.

#32 Develop formal and detailed policies to guide fee assessment processes, including the proper establishment of job valuation figures on a project as well as points in the process where supervisory review is conducted. Hold employees accountable for not following proper processes. (p. 48)

Started The building division operations and code enforcement managers are developing policies to guide fee assessment processes. This may be implemented in conjunction with Recommendation #4. When complete, we'll review the policies to gain an understanding of how management establishes job valuations. We will test samples of fees paid for supervisory review and to confirm CDD staff followed the required processes.

#33 Insert automatic system calculation of all permitting fees to reduce the risk that required fees are missed as well as the ability of employees to disregard or circumvent proper fee assessment processes. (p. 48)

Partly Implemented CDD reported that this is done and that IT staff are providing on-going review and updates. To provide assurance, we will review evidence that the building division operations manager provided written guidance to the IT unit and has a plan to continue to do so as fees change. We are reviewing CDD's list of all permitting fees in the draft counter procedures manual.

#34 Establish strong system controls so that only employees with sufficient managerial authority have the ability to make critical changes in the permitting system, including changes to fee assessments (voids, deletions, etc.) and to key aspects of permit records such as addresses, parcel numbers, etc. (p.48)

Partly Implemented CDD reported that only managers and supervisors will be able to make revisions, updates, and corrections in Accela relevant to fees prior to permit issuance. In addition, the director will analyze job duties to determine who will be able to apply fees in Accela. This may be implemented as part of response to Recommendation #1.

#35x Develop formal and detailed policies to guide fee assessment processes, including requiring project valuations to be submitted by all applicants and supported with sufficient justification and documentation, such as customer contract. (p.52)

Not Started CDD states they will request contract from applicant when valuation verification is necessary. We will evaluate after CDD develops policy and procedure. This may be implemented as part of Recommendation #4.

#35y Ensure expired permits are appropriately deactivated or removed from the permitting system in compliance with building rules and laws. (p.54)

Implemented According to the department, CDD's director instructed administrative services to deactivate permits after 180 days of construction inactivity.

#35z Ensure that users cannot inappropriately modify critical project information of permits, such as addresses, parcel numbers, etc. Significant changes to project information and fee assessments should only be made by supervisory staff upon determination that changes are appropriate and justified. (p.54)

Not Started As with Recommendation #1, we will look for policies, and controls in Accela, to prevent critical project information from being edited in a way that permits can be transferred between lots.

#36 Develop processes to formally approve fee payment credits, transfers, and refunds and ensure sufficient support is obtained and all associated documentation is maintained prior to fee payment adjustments being entered in the systems. Ensure processes to credit, transfer, or refund fee payments comply with all aspects of the City code and such processes are only handled by accounting staff. Require accounting staff to review approvals for reasonableness and compliance with City rules. (p. 58)

Partly Implemented CDD's accounting function is developing written procedures including supervisory approvals. After reviewing process for evidence that analysis has been done to ensure compliance with City code, we'll test a sample of fee payment adjustments. We'll also sample plans to verify that plan review fees were collected in advance.

SECTION 4: ALIGNMENT OF OPERATIONS AND FINANCE

#37 Conduct a review of past Building Services' revenues to analyze how the monies were utilized and determine whether the usage was appropriate, complied with regulations, and was in the best interest of CDD and Building Services' operations. Make necessary adjustments in revenue utilization going forward. (p. 68)

Not Started CDD will be working with the City Auditor's Office to determine how the department can best address this recommendation.

#38 Conduct a full-scale staffing and workload study to determine the appropriate levels of staffing to ensure staffing level goals can be met and related service fees are sufficient. Also, ensure the study includes analyzing and establishing a clear reporting structure and system so that Business Services' limited resources are efficiently allocated among competing priorities. (p. 68)

Started According to CDD, the director is reformatting the department's structure by evaluating and re-classifying positions. We would like to verify that CDD's fee structure policy, when it's developed, meets the City's Fees and Charges policy and that the Matrix program complies.

#39 Conduct a comprehensive fee study of its building services fees and analyze the relationship between the cost of providing service and fees charged, including whether fees should be assessed for services. (p. 71)

Not Started We would like CDD to identify in the organization chart and by job description who is responsible for: regular analysis and adjustment of methods to calculate building permit, plan review, and technology fees; overseeing the process to ensure City Council resolutions and other factors like the City's Fees & Charges Policy are included; establishing hourly staff rates so that management can see if fees cover services; and how this will be incorporated in the budget process.

SECTION 5: REPORTING AND CONTROL

#40 Request the City Auditor follow up on the implementation of not only the recommendations the audit report provides, but also follow-up and evaluate CDD's progress with implementing various initiatives. (p. 73)

Partly Implemented We will report periodically to Council on the status of recommendations until complete. CDD's initiatives, listed in Appendix C of the performance audit, are important specific internal controls identified by CDD management which mostly fall under Recommendation #4 Draft…complete…policies, procedures. Thus we will review these as part of Recommendation #4.