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DEVELOPMENT SERVICES DEPARTMENT
DEVELOPMENT CENTER
REVENUE COLLECTION

FEBRUARY 28, 2012

February 28, 2012
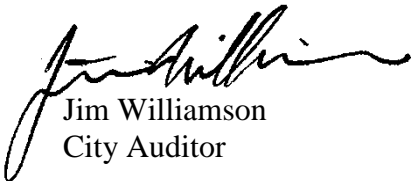
The Mayor and City Council:

The Office of the City Auditor has completed an audit of management controls reasonably ensuring the completeness of revenue collected in the Development Services Department - Development Center.

Based upon the results of our audit, we believe that as of September 30, 2011, adequate controls have not been established by management to reasonably ensure the completeness of revenues collected in the Development Center. Additionally, while we did not identify instances of materially incomplete revenue collections, given the extent of control weaknesses identified, we are unable to conclude as to the completeness of revenues collected during the audit period and offer no opinion thereon.

Significant control weaknesses identified during our audit and addressed in the attached report include:

- Lack of reconciliations between permit/license sales records to revenue collections;
- Inadequate controls over contractor prepaid account activity;
- Inconsistent application of established procedures; and,
- Incomplete supervisory oversight and review.

The content and emphasis of the items in this report have been discussed with appropriate management representatives to assure a complete understanding of the observations arising from our audit. Management's response is attached to this report in its entirety.

Jim Williamson
City Auditor

Michele Keller
Audit Manager

Development Services Department
Development Center Division
Revenue Collection

Audit Objective, Scope and Methodology

The Office of the City Auditor has completed an audit of the Development Services Department - Development Center Division (Development Center). The objective of the audit was limited to the following:

- Evaluating the adequacy and determining the effectiveness of management controls reasonably ensuring the completeness of revenue collected during the nine months ended September 30, 2011.

During the course of our audit, we performed certain procedures to assess management controls established to ensure the completeness of revenue collected by the Development Center. Our procedures included interviews with management, database analysis, analytical reviews, examination of supporting documentation, observations, and other tests of control procedures. We did not perform procedures to assess management controls ensuring the accuracy of amounts collected by the Development Center.

A follow-up audit was not performed on our previous audit report issued in April 2002 relating to cash handling in the Development Center. A follow-up audit was not appropriate since a new cash register and permitting system had been implemented in 2007 and the division was moved from Public Works to the Development Services Department under the direction of different management in FY 2010. We did however note throughout the report those areas that had been identified as weaknesses in 2002 and remained unaddressed as of September 30, 2011.

Also, a follow-up audit was not performed on our audit report issued in July 2011 relating to three previously issued audits of permits and license activities. We noted in this report issues similar to those identified and detailed in our 2011 report.

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 audit 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.

Background

The Development Center is one of four divisions in the Development Services Department. Development Center employees operate in a complex and widely

dispersed environment, dealing with millions of dollars, thousands of customers and accounts, and multiple departments, computer systems, services and fees. Responsibilities of the Development Center are divided among three distinct sections. Generally, the Plan Review Section coordinates and performs building plan reviews; the Construction Inspections Section visually inspects construction projects to ensure compliance with adopted construction codes; and the Permit Section issues construction-related permits and collects a wide range of permit and license fees and related revenue.
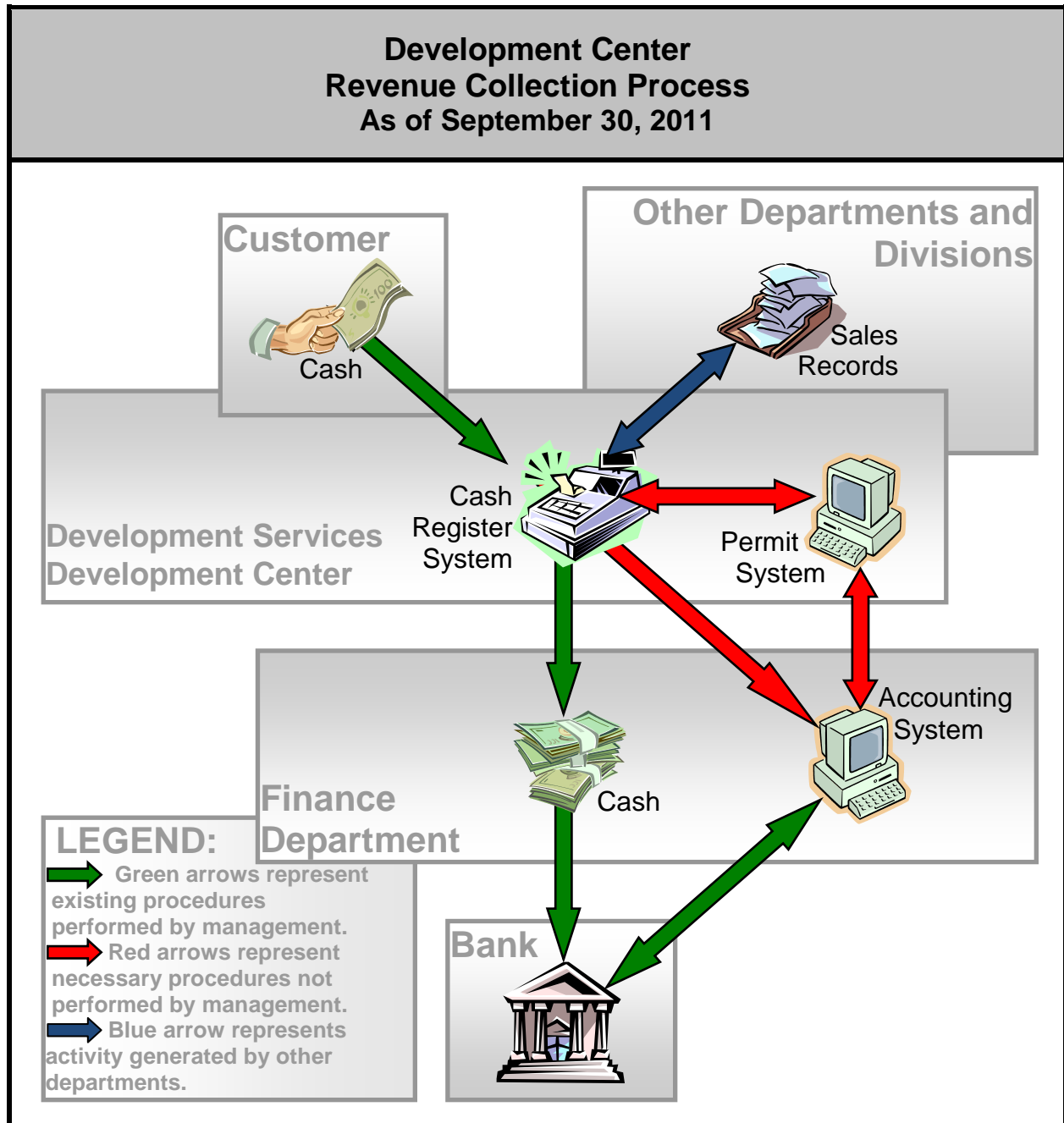
During FY 2011, the Development Center issued approximately 44,000 construction permits and 28,500 license / residential sale permits and collected a total of over $11 million in revenue. Although the Permit Section primarily collects the Development Center's revenue, a significant amount of revenue is also collected for permits, fees and services offered by various Public Works divisions and other City of Oklahoma City (City) departments. These divisions and departments use multiple computer systems in a wide range of operations. We did not perform work relating to systems outside the Development Center.

Results of Work Performed

*Results of our audit indicate that controls reasonably ensuring the completeness of revenues collected in the Development Center **are not** adequate as of September 30, 2011. While we did not identify instances of materially incomplete revenue collections, we are unable to conclude as to the completeness of revenues collected during the audit period due to the extent of the control weaknesses identified.*

As depicted in Exhibit 1, revenue collection and cash handling responsibilities require the coordination of several entities and computer systems. During our review of these responsibilities and related management controls we noted several opportunities for improvement. The following report sections include recommendations intended to provide management with constructive suggestions for improving revenue collection, customer account activity and related computer systems. Each recommendation is immediately followed by *management's response*. The entire text of *management's response* is attached.

Exhibit I

Development Center
Revenue Collection Process
As of September 30, 2011

Customer

Cash

Other Departments and Divisions

Sales Records

Development Services Development Center

Cash Register System

Permit System

Accounting System

Finance Department

Cash

LEGEND:

Green arrows represent existing procedures performed by management.

Red arrows represent necessary procedures not performed by management.

Blue arrow represents activity generated by other departments.

Bank

Revenue Collection and Cash Handling Procedures

Most permits issued by the Development Center are generated by an automated permit system. The remaining permits and other fees are either generated manually or by other stand-alone systems. The Development Center records revenue and other cash receipts on an automated cash register system. Total receipts on the cash register system are reconciled to cash collections and uploaded to the City's accounting system

on a daily basis. After completion of the reconciliation, cash collections are submitted to the City Treasurer and subsequently deposited in the bank. See Exhibit 1 above.

Comment 1 (Similar comment in 2002)

The Permit Section recorded over $11 million in revenue during the nine months ended September 30, 2011. Approximately 88% of this revenue was collected for permits, fees and services provided by the Development Center. The Development Center has not consistently performed procedures to ensure the completeness of this revenue other than balancing daily cash register activities to the deposits made with the City Treasurer's Office. The completeness of revenues recorded by the Development Center cannot be assured without periodic reconciliations between the cash register, permitting and accounting systems.

23% of the revenue collected comes from prepaid customer accounts. Customer accounts are created on the Development Center's permit system and used to record customer names, addresses, license numbers, permit sales and other information. As an optional convenience, customers may also deposit prepaid funds to their accounts to obtain permits in the future. Prepaid funds are subsequently deposited with the City Treasurer's Office and recorded in restricted agency funds in the City's account system until the customer obtains a permit or requests a refund.

Exhibit II

Revenue as of September 30, 2011
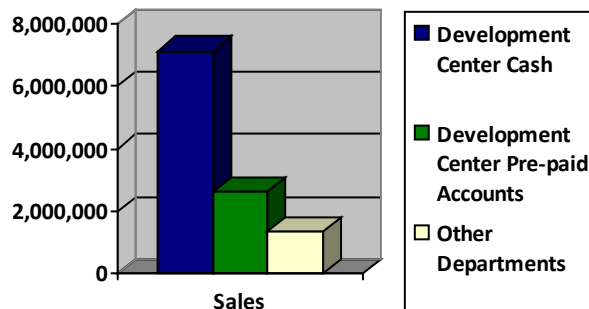
Source: Cash Register and Permitting Systems

There are no procedures performed to ensure that the permits or licenses issued from the permitting system balance to cash register reports. Permits sales made from prepaid accounts are processed internally through the permitting system. A separate process uploads those sales into the accounting system to update the agency fund and revenue accounts daily. Currently there is no process to ensure that the transactions in prepaid accounts posted accurately and completely to the revenue and agency funds. See Recommendation 12.

During meetings with Permit Section staff we were told that overages from daily receipts were set aside and researched later. We looked at the number of overages from August 2006 (when the cash register system went live) to December 2010 (prior to the audit period) and noted there were no overages recorded. Four shortages were booked in the four year period totaling $204. During the audit period, management began recording overages and shortages.

Recommendation 1

Significant revenues collected by the Development Center should be reconciled to related sales records and account system data on a periodic basis. This should include:
- Prepaid account deposits and sales between the cash register, permitting and accounting systems (agency fund and revenue accounts).
- Cash register sales to the permitting and accounting systems.
- Overages and shortages should be recorded through the cash register system to track those events and identify needed training opportunities or potential risks.

Development Services Response 1

Agree with recommendation. By April 1, 2012, the Development Center will reconcile significant revenues collected to related sales records and account system data on a periodic basis. This will include prepaid account deposits and sales between the cash register, permitting and accounting systems; cash register sales to the permitting and accounting systems; and the recording of overages and shortages through the cash register system to track those events and identify needed training opportunities or potential risks.

Comment 2

During the day, there are various activities that require non-routine actions be performed by Customer Service Representatives (CSR's) and supervisors. The only position that does not perform some type of cashiering activity is the Unit Operations Supervisor (UOS). All positions excluding the UOS rotate duties. Management reports that the volume of activity during the day, in addition to employee absences require individuals to have broad system authority to perform necessary transactions including assessing and voiding fees, taking and voiding payments and transferring funds between permits and prepaid accounts.

System access to conflicting duties such as the ability to take and void payments, coupled with the ability to take and void assessed fees increase the opportunities for undetected loss of revenue and/or misappropriation of customer funds.

Recommendation 2

Security access to the cash register system and the permitting system should be reviewed to determine how daily activities can be performed while minimizing risk related to contradicting duties and responsibilities such as the ability to assess and void fees and/or take and void payments. Another option would be to implement oversight activities such as a notification to management when payments are voided to ensure that appropriate procedures are followed. See Recommendation 3.

Development Services Response 2

Agree with recommendation. By April 1, 2012, The Development Center will implement oversight activities, including notification to management when payments are voided to ensure that appropriate procedures are followed.

Comment 3

There are several ways that fees are assessed during the permitting process.
- When building plans are submitted or contractor permits are issued;
- during work for re-inspections or plan changes;
- and, auto-assessed based on types of permits issued or inspected.

When fees are assessed incorrectly, due to inaccurate information, plan changes or auto assessed incorrectly, the fees are voided in total and the correct fees (as appropriate) are assessed. There were 8,668 void transactions totaling $1.9 million in voided assessed permit fees during the nine months ended September 30, 2011.

During our review of the voided assessed fees, we identified fees that were being inaccurately assessed due to incorrect auto assessed re-inspection fees. When inspectors reject multiple items on a single visit, the system auto-assessed multiple re-inspection fees rather than a single re-inspection fee. Inaccurately assessed multiple re-inspection fees comprised 60% or 5,226 of the void transactions totaling $206,313 during the audit period.

We also noted two fee codes with five voids totaling $624,420 which was related to an inaccurate unit description in the permitting system.

There are sixteen positions in the Permit Section of the Development Center. The majority of these individuals have the ability to assess and void fees without supervisory review/approval.

Management review and approval of voided fees will assist management in identifying potential system errors or human errors, and could provide information needed to reconcile the permitting and cash register systems during the end of day balancing. See Recommendation 1.

Recommendation 3

Reports should be developed to summarize voided fees by fee code to ensure that there are no specific fee codes with obvious errors. This report should be reconciled to daily records of approved voided fees to ensure all voided fees have been approved by supervisory staff.

Development Services Response 3

Agree with recommendation. By June 1, 2012, the Development Center, working with Information Technology (IT), will develop reports to summarize voided fees by fee code to ensure that there are no specific codes with obvious errors. This report will be reconciled to daily records of approved voided fees have been approved by supervisory staff.

Comment 4

The Development Center processes corrections to assessed fees differently depending on how the payment was received. Payments can be voided directly in the permitting system, independent of the cash register system. See Recommendation 1.

Voided Cash Payments:
Development Center personnel stated that permits paid with cash should be corrected by voiding the incorrect fee without involving the payment record in the permitting system. However, in our review of voided cash payments, we noted that some CSR's were voiding the payment (similar to a prepaid account process – see below) to correct the assessed fee. There were $58,000 in voided cash payments during our audit period.

While some of the voided payments were obviously related to correcting a fee, others were not, and management was unable to provide reasons for the CSR's voiding cash payments.

Voided Prepaid Account Payments:
Prepaid account payments for incorrect fees are refunded or voided in the permitting system (creating the same effect to the prepaid account). Development Center personnel stated this was done to keep the history of the contractor account obvious in relation to fees assessed and paid. All of this activity occurs outside of the cash register system but is uploaded to the accounting system daily.

We noted $5,000 in voided payments and $92,000 in refunded payments (outside of the refund process – See Recommendation 5) during our audit period that were inconsistently documented or undocumented preventing conclusions as to the validity or nature of the transactions.

Inconsistent processing and/or incomplete or missing documentation can result in inaccurate reporting, undetected loss of revenue and/or misappropriation of funds.

Recommendation 4:

Management should correct fees without involving valid payment records. Reasons for void and refund payments should be completely recorded. The fee corrections in

prepaid accounts should include comments to detail the incorrect fee assessment without involving the corresponding payment.

Additionally, management should determine when void and refund actions are appropriate, develop procedures and include activity reports in the end of day balancing to ensure that these actions, when performed, are accurate, valid and complete.

Development Services Response 4

Agree with recommendation. By July 1, 2012, Management will correct fees without involving valid payment records. Reasons for void and refund payments will be completely recorded. The fee corrections in prepaid accounts will include comments to detail the incorrect fee assessment without involving the corresponding payment. Additionally, management will determine when void and refund actions are appropriate, develop procedures and include activity reports in the end of day balancing to ensure that these actions, when performed, are accurate, valid and complete.

Comment 5

Approved refunds can occur in three ways, refunding permit fees if work is cancelled, overpayment of a permit fee (credit balance) or closing a prepaid account. A Council Resolution adopting policy on refunds of permit and application fees most recently amended March 25, 2008, requires that refunds be made through the claims and payroll process and details required documentation and fee retention guidelines based on permit types and situation. The Development Center handles refunds differently depending on the source of the overpayment.

Prepaid Accounts:
Contractors with prepaid accounts have not been required to submit an application or documentation for a refund. The Development Center reports that they confirm how far an item is in the process including any inspections and then approves a refund of the permit fee by putting the funds back into the prepaid account. This is performed by a supervisor without documentation. There were 1,067 refunds to prepaid accounts during the nine months ended September 30, 2011. Nearly 100% of those permits were "permit counter permits" or permits that did not require plans which, if no work had been completed, would have required at minimum the retention of a $10 administrative fee. Based on the way that the Development Center uses the "refund" action in the permitting system, there is no way to distinguish whether these refunds were actual refunds or corrections to incorrectly assessed fees. See Recommendation 4.

Cash Payments:
Those refunds made to contractors/individuals that have paid cash for a permit or request a refund to close their prepaid account complete a refund application

form, pay a retention fee according to the resolution and receive a check through the claims and payroll process. There was $25,310 in refunds processed through the claims and payroll process for the nine months ending September 30, 2011. See Recommendation 6.

We noted inconsistent methods for documenting the refund of a permit fee in the permitting system. Some permits had notes in the comment section, some had a status change of "claim filed" or "paid" and others had no indication of a refunded payment.

Recommendation 5

All refunds should be processed in compliance with the Resolution, should be adequately documented and the permitting system should consistently and accurately reflect refunds completed.

Development Services Response 5

Agree with recommendation. By April 1, 2012, the Development Center will implement the processing of all refunds in compliance with the Resolution. Refunds will be adequately documented and the permitting system will consistently and accurately reflect refunds completed.

Comment 6 (Similar Comment in 2002)

The refund Resolution allows full refunds of prepaid account balances to customers requesting to close their account. However, the Development Center does not maintain permanent records evidencing the identity of customers (or designees) owning prepaid accounts. Without a permanent record evidencing account ownership or authority, Development Center management cannot verify the validity of refund requests or that refunds are paid to an appropriate person.
In addition, a single Development Center employee is responsible for initiating refund requests and updating the permitting system when the refund process is complete. Allowing one employee to initiate and complete refund requests increases the risk of an undetected alteration and misappropriation of funds. We noted one account that had been refunded but had not been updated to reflect a withdrawal. The account was still open with the amount of the refund in the account balance.

Recommendation 6

Development Center management should retain sufficient documentation to identify prepaid account owners. Approved refund request forms should be updated in the permitting system by an employee other than those responsible for initiating refunds.

Development Services Response 6

Agree with recommendation. By April 1, 2012, Development Center management will retain sufficient documentation to identify prepaid account owners. Approved refund request forms will be updated in the permitting system by an employee other than those responsible for initiating refunds.

Comment 7

When customers submit plans for a permit they are required to pay a submittal fee which includes half of the estimated fees up to $2,750. Occasionally, if fees are calculated incorrectly a credit balance remains on a permit after final payment has been made. Management does not systematically notify customers of their credit balances.

We initially identified over $32 million in such credit balances on the permit system, most of which were later determined to be the result of system errors. Once permits with errors were eliminated, we determined approximately 446 permits with approximately $23,000 in credit balances existed at September 30, 2011.

Recommendation 7

Management should develop a process to notify customers when an overpayment has been received. If the customer does not respond, management should work with the Municipal Counselor's Office to process long-outstanding credit balances as unclaimed property.

Development Services Response 7

Agree with recommendation. By July 1, 2012, management will develop a process to notify customers when an overpayment has been received. If the customer does not respond, management will work with the Municipal Counselor's Office to process long-outstanding credit balances as unclaimed property or other appropriate process.

Comment 8

We noted the following transactions that are carried out without supervisory review:

- **Permits/licenses issued at no charge**
  Permits and licenses issued at no charge include those to certain utility companies and non-profit home builders. There were 203 permits and 36 licenses issued at no charge for the nine months ended September 30, 2011 (52 included voided assessed fees totaling over $5,500 and 187 had no fees assessed). The reason many of these were issued at no charge was not evidenced and management was unable to provide explanations.

- **Transfers between permits or licenses**
When payments are made to the wrong permit or license, a "transfer" can be made from one permit to another. There were 76 transfers in the nine month period totaling $9,279.

- **Transfers between contractors prepaid accounts**
When contractor deposits are recorded in the wrong account, a "transfer" can be made from one account to another. We noted 72 transfers between contractor accounts totaling over $42,000 during the audit period.

Without oversight, there are increased opportunities for undetected loss of revenue and/or misappropriation of funds.

Recommendation 8

Permits issued at no charge and transferring funds between permits/licenses and prepaid accounts should be monitored by management to ensure that these transactions are appropriately documented and valid. Reports listing permits/licenses issued at no charge and transfers between permits, licenses and/or prepaid accounts should be developed and subject to supervisory review during end of day procedures.

Development Services Response 8

Agree with recommendation. By July 1, 2012, permits issued at no charge and transferring funds between permits/licenses and prepaid accounts will be monitored by management to ensure that these transactions are appropriately documented and valid. Reports listing permits/licenses issued at no charge and transfers between permits, licenses and/or prepaid accounts will be developed and subject to supervisory review during end of day procedures.

Comment 9 (Similar Comment in 2002)

As previously stated in the Background section of the report and depicted in Exhibit 1, the Development Center operates in a complex and widely dispersed environment. However, the Development Center has not developed written policies and procedures to support these operations. Most practices and expectations are verbally communicated to employees. As of September 30, 2011, there were no written policies for system actions including voiding fees, voiding payments, issuing permits/licenses at no charge, transferring funds or balancing permits to sales. During interviews with CSR's, a recurrent theme was the lack of consistent communication regarding how to perform daily processes.

A lack of clear and formal guidance from Development Center management may result in ineffective and inefficient employee performance (e.g., misapplication of fee exemptions, misuse of the permit or other systems, untimely adjustments to customer

accounts, etc.), which could lead to poor employee morale and/or poor customer service.

Recommendation 9

Development Center management should develop and distribute written policies and procedures providing employees with clear, practical and essential guidance in performing responsibilities. At a minimum, these policies and procedures should address the following:

- Collection, handling and reconciliation of cash. See Recommendation 1.

- Collection and handling of payments received in the mail and not immediately processed. See Recommendations 10, 11 and 16.

- Compliance with statutory fee exemptions and/or requirements including no fee licenses and permits. See Recommendation 8.

- Segregation of conflicting responsibilities (e.g., custody of cash, record keeping, and reconciliations or reviews). See Recommendations 2 – 6 and 8.

- Customer refunds and/or other direct-pay claims processing. See Recommendation 6.

- Effective and efficient use of the permit system. There are multiple ways to void payments and fees. Some of those processes, when performed in the wrong order create additional steps in the future when errors such as unapplied payments created from correctly voided assessed fees are found. (i.e., user manuals). See Recommendation 4.

- Periodic reconciliations of prepaid deposits, withdrawals and account balances held in prepaid accounts. See Recommendation 12.

- Periodic reviews of customer account activity. See Recommendation 13.

Development Services Response 9

Agree with recommendation. By December 31, 2012, the Development Center will develop and distribute written policies and procedures providing employees with clear, practical and essential guidance in performing responsibilities.

Comment 10

During our audit, we examined 209 license renewal checks ranging in age from late 2010 through April 2011 and totaling $17,356. Several staff members told us that the volume of mail they received caused them to get behind so they would put the mail that

had not been processed in a drawer. License renewal checks are processed singularly, even when a single owner maintains multiple licenses. We noted 122 owners responsible for the 209 license renewals. One owner had 44 license renewals with one check and another owner submitted five license renewals with five checks. With past permitting system upgrades, opportunities have been available to group licenses by owner which would allow multiple licenses to be renewed by updating the group, rather than individually. Additionally, while management has recently started grouping licenses in mailing renewal notices, owners have not been encouraged to submit one check.

Recommendation 10

In order to process checks timely, management should work with Information Technology to implement the group processing of license renewals. Information Technology estimates that this process will cut down on data entry time by 50%.

Development Services Response 10

Agree with recommendation. By April 1, 2012, the Development Center will work with Information Technology to implement the group processing of license renewals in order to process checks timely.

Comment 11

Plan Review forwards checks to the Permit Section, who puts them in the vault until the permit is ready for processing. We examined ten checks in the vault totaling $341 as much as three months old that had been forgotten.

Recommendation 11

Checks that are not processed within the next business day should be logged, and reviewed weekly to ensure that checks do not get overlooked. A policy should be developed to determine an appropriate length of time checks will be held while plans are being reviewed.

Development Services Response 11

Agree with recommendation. By April 1, 2012, the Development Center will log checks that are not processed within the next business day and review them weekly to ensure that checks do not get overlooked. A policy will be developed to determine an appropriate length of time checks will be held while plans are being reviewed.

Prepaid Customer Accounts

As previously discussed, customer accounts are created on the Development Center's permit system and used to record customer names, addresses, license numbers, permit sales and other information. As an optional convenience, customers may also deposit prepaid funds to their accounts to obtain permits in the future. Prepaid funds are subsequently deposited with the City Treasurer's Office and recorded in a restricted agency fund until the customer obtains a permit or requests a refund. As of September 30, 2011, the permit system contained 2,707 customer accounts with prepaid balances totaling $497,672 while the total restricted agency fund balance was $965,603.

Comment 12 (Similar Comment in 2002)

Development Center management does not perform important reconciliations or reviews to ensure the accuracy of customer accounts and the related agency fund. As of September 30, 2011, total balances held in the restricted agency fund exceeded customer account balances recorded on the permit system by $467,930. Development Center employees do not reconcile prepaid deposits or deductions on the permit system to corresponding deposits or deductions on the cash register system.

Without periodic reconciliations, reviews and corrections of prepaid account activity, Development Center management cannot determine the accuracy and completeness of customer account balances. This could result in an undetected loss of revenue and/or misappropriation of funds.

Recommendation 12

Development Center management should work with the City Treasurer's Office, the Information Technology Department, the Accounting Services Division and the Municipal Counselor's Office to reconcile and correct current prepaid account, agency fund and revenue account balances.

Development Center management should also perform regular and timely reconciliations of prepaid account activity recorded in the cash register system, permit system and agency funds. Responsibilities for reconciliations and variance corrections should be appropriately segregated and subject to supervisory reviews. Evidence of the reconciliations and reviews should be retained.

Development Services Response 12

Agree with recommendation. By November 1, 2012, the Development Center will work with the City Treasurer's Office, the Information Technology Department, the Accounting Services Division and the Municipal Counselor's Office to reconcile and correct current prepaid account, agency fund and revenue account balances. Development Center management will also perform regular and timely reconciliations of

prepaid account activity recorded in the cash register system, permit system and agency funds. Responsibilities for reconciliations and variance corrections will be appropriately segregated and subject to supervisory reviews. Evidence of the reconciliations and reviews will be retained.

Comment 13 (Similar Comment in 2002)

Development Center management does not monitor customer account activity. During the nine months ended September 30, 2011, prepaid transactions exceeded $2.5 million. As of September 30, 2011, 1,152 of the total open accounts had no transactions since FY2010. 383 of these accounts have not been used since the Development Center converted from the previous permit system in 2007. During each of the subsequent years, additional customer accounts have also become inactive. See Exhibit III.

EXHIBIT III

"OPEN" ACCOUNT - LAST ACTIVITY As of September 30, 2011		
Calendar Year	**Number**	**Value**
2007*	383	$ 48,382.36
2008	203	15,130.30
2009	198	22,381.79
2010	368	48,295.02
Sub-Total	**1,152**	**134,189.47**
2011	1,438	363,246.50
Total	**2,590**	**$497,435.97**

Source: Development Center permit system.
*2007 data started March 4, 2007

Recommendation 13

Customer account activity should be regularly monitored. These monitoring procedures should include the following:

- Developing reasonable criteria for identifying and determining when a customer account will be considered inactive.

- Regularly reviewing customer account activity and contacting customers with suspected inactive accounts to ensure that inactive accounts are identified and closed in an accurate, complete, and timely manner.

- Requesting that the Information Technology Department regularly produce reports from the permit system to facilitate reviews of customer account activity.

After reasonably determining the accuracy and completeness of prepaid account and agency fund balances as discussed in Recommendation 12, Development Center management should also work with the Municipal Counselor's Office and customers to determine whether currently inactive customer accounts should be closed and how funds should be disbursed.

Development Services Response 13

Agree with recommendation. By July 1, 2012, the Development Center will regularly monitor Customer account activity. These monitoring procedures will include developing reasonable criteria for identifying and determining when a customer account will be considered inactive; regularly reviewing customer account activity and contacting customers with suspected inactive accounts to ensure that inactive accounts are identified and closed in an accurate, complete, and timely manner; and requesting that IT regularly produce reports from the permit system to facilitate reviews of customer account activity. After reasonably determining the accuracy and completeness of prepaid account and agency fund balances as discussed in Recommendation 12, Development Center management will also work with the Municipal Counselor's Office and customers to determine whether currently inactive customer accounts should be closed and how funds should be disbursed.

Comment 14 (Similar Comment in 2002)

Development Center management does not provide convenient and timely summaries of account activity to customers. Consequently, customers are not able to compare account activity and/or balances to their records. Providing account statements to customers could help ensure that accounts are accurate and customers are satisfied. Failing to provide customers with access to account activity increases the risk of an undetected loss of revenue and/or misappropriation of customer funds. Currently, management can run account activity as requested.

Recommendation 14

Development Center management should consider providing account statements to customers. Possible alternatives include mailing manual statements, sending electronic statements, providing Internet access to accounts, or printing opening and closing prepaid account balances on each permit or cash register receipt.

Development Services Response 14

Agree with recommendation. As of January 30, 2012, the Development Center, through IT, has provided electronic account statements via Accela online access to prepaid account information that includes account balances as well as transaction history.

Comment 15

The old permitting system design required that customers with multiple licenses (e.g., electrical, mechanical, plumbing, etc.) open and maintain a separate account for each type of permit obtained. Management has maintained that requirement with the new system even though it would be more efficient to allow customers with multiple licenses to maintain a single prepaid account. This would also apply to a

single company with multiple contractors authorized to purchase permits on their behalf.

In order to work around the system, the Development Center has entered company names with a slight difference to distinguish between different prepaid accounts. Therefore it is not possible to definitively say how many accounts would be unnecessary if the Development Center changed this process.

Recommendation 15

Single prepaid accounts should be utilized for companies with multiple contractors and contractors with multiple licenses. Maintaining multiple prepaid accounts creates unnecessary risk of error and effort on behalf of the City and the customer.

Development Services Response 15

Agree with recommendation. By August 1, 2012, Single prepaid accounts will be utilized for companies with multiple contractors and contractors with multiple licenses.

Other Comments

Comment 16

During our audit, we examined outdated elevator checks dated as far back as May 2007 and totaling approximately $6,000. Elevators in the permitting system have an "account" and permits sold are associated with accounts. During a review of the elevator checks we determined that the permit system has not been used to manage elevator accounts and inspections. We noted 1,188 active elevator accounts in the permitting system and 680 elevator permits sold during the audit period. 544 of the permits sold related to elevator accounts while 136 permits were issued without an established account. Of the 544 permits related to accounts 373 had no record of inspection.

Recommendation 16 (Similar Comment in 2011)

The permitting system should be used to manage elevator accounts, permits and inspections.

Elevator accounts that have not purchased an annual permit should be included in the license renewal process in order to follow-up on locations that are required to annually purchase a permit and receive an annual inspection. This recommendation is similar to Status #7 in the Development Services Department Follow-up Audit issued July 5, 2011.

Permits that have not received an inspection should be included in the "outstanding permits" process to identify and follow-up on those permits that have not received an

inspection. This recommendation is similar to Status # 9 in the Development Services Department Follow-up Audit Issued July 5, 2011.

Development Services Response 16

Agree with recommendation. By September 1, 2012, the Development Center will utilize the permitting system to manage elevator accounts, permits and inspections. Elevator accounts that have not purchased an annual permit will be included in the license renewal process in order to follow-up on locations that are required to annually purchase a permit and receive an annual inspection. Permits that have not received an inspection will be included in the "outstanding permits" process to identify and follow-up on those permits that have not received an inspection.

Comment 17

Prepaid accounts require a substantial amount of effort to administer, including:
- Daily processes to run a report from the permitting system, forward to the City Treasurer's Office to upload expenses and corrections that have been processed in the permitting system for posting to the accounting system.
- Performing reconciliations between the permitting system, cash register system and the account system.
- Permits purchased (and corrected due to incorrect fee assessment) are processed differently than cash permits in an attempt to keep the total payment intact and prevent any confusion on the part of the contractor.
- Prepaid accounts require maintenance of those parties responsible for the account and those parties that are authorized to make purchases out of the account.
- Customers can close their accounts and a refund must be processed.
- Prepaid accounts need to be managed to ensure that stale accounts are closed and purged from the system.

Recommendation 17

Management should consider working with the contractor community to discontinue prepaid accounts. Credit cards are routinely used in the Development Center and could be a viable alternative in paying for permits or inspections.

Development Services Response 17

Agree with recommendation with modification. While Management agrees with this recommendation, Development Services believes implementation of this recommendation must be tempered by ongoing efforts to maintain and improve customer service. By June 1, 2012, the Development Center will implement procedures to encourage contractors to utilize credit cards in lieu of prepaid accounts, will close inactive accounts, will consolidate accounts where possible, and will refund prepaid accounts in compliance within Resolution guidelines.

Comment 18

A thorough assessment of management reports used by the Development Center is beyond the scope of this audit. However, we noted the following weaknesses in the permit and cash register reports:

- Cash register reports separating certain types of permits (permitting system vs. non-permitting system) do not match an overall report summarizing all activity.
- The credit balance report did not match the system data we received from Information Technology. System data reflected 446 permits with a credit balance and the report available to management reflected 31 permits with a credit balance.
- The transaction report is used to upload permit payments from prepaid accounts to the accounting system. During testing we noted that "void refund" transactions were not included in the report.
- Reports used to summarize State mandated fees did not match other activity reports.
- Several reports that summarize information such as the Accela Cash Revenue Report and the Non-Accela Cash Revenue Report returned inaccurate information. Management did not ask IT to apply the most recent update to the reports because they are no longer used.

In varying degrees, these conditions limit the accountability of system users, the accuracy and completeness of certain data, the flexibility of management reporting, and operational efficiency.

Recommendation 18

As management implements recommendations included in this report, particular attention should be given to system generated reports to ensure that those reports are accurately summarizing activity. Those reports that are not used should be removed from the menu of available reports.

Development Services Response 18

Agree with recommendation. By August 1, 2012, the Development Center will review system reports for accuracy and remove reports that are no longer useful.

MEMORANDUM

The City of
OKLAHOMA CITY

TO: Jim Williamson, City Auditor

THROUGH: James D. Couch, City Manager

FROM: Bob Tener, Development Services Director RW RBT

DATE: February 15, 2012

SUBJECT: Development Services Department, Development Center Division,
           Revenue Collection Audit

Following are management's responses to recommendations outlined in the recent
Revenue Collection Audit.

1. Agree with recommendation. By April 1, 2012, the Development Center will
    reconcile significant revenues collected to related sales records and account
    system data on a periodic basis. This will include prepaid account deposits and
    sales between the cash register, permitting and accounting systems; cash register
    sales to the permitting and accounting systems; and the recording of overages
    and shortages through the cash register system to track those events and identify
    needed training opportunities or potential risks.

2. Agree with recommendation. By April 1, 2012, The Development Center will
    implement oversight activities, including notification to management when
    payments are voided to ensure that appropriate procedures are followed.

3. Agree with recommendation. By June 1, 2012, the Development Center,
    working with Information Technology (IT), will develop reports to summarize
    voided fees by fee code to ensure that there are no specific codes with obvious
    errors. This report will be reconciled to daily records of approved voided fees
    have been approved by supervisory staff

4. Agree with recommendation. By July 1, 2012, Management will correct fees
    without involving valid payment records. Reasons for void and refund payments
    will be completely recorded. The fee corrections in prepaid accounts will

include comments to detail the incorrect fee assessment without involving the corresponding payment. Additionally, management will determine when void and refund actions are appropriate, develop procedures and include activity reports in the end of day balancing to ensure that these actions, when performed, are accurate, valid and complete.

5. Agree with recommendation. By April 1, 2012, the Development Center will implement the processing of all refunds in compliance with the Resolution. Refunds will be adequately documented and the permitting system will consistently and accurately reflect refunds completed.

6. Agree with recommendation. By April 1, 2012, Development Center management will retain sufficient documentation to identify prepaid account owners. Approved refund request forms will be updated in the permitting system by an employee other than those responsible for initiating refunds.

7. Agree with recommendation. By July 1, 2012, management will develop a process to notify customers when an overpayment has been received. If the customer does not respond, management will work with the Municipal Counselor's Office to process long-outstanding credit balances as unclaimed property or other appropriate process.

8. Agree with recommendation. By July 1, 2012, permits issued at no charge and transferring funds between permits/licenses and prepaid accounts will be monitored by management to ensure that these transactions are appropriately documented and valid. Reports listing permits/licenses issued at no charge and transfers between permits, licenses and/or prepaid accounts will be developed and subject to supervisory review during end of day procedures.

9. Agree with recommendation. By December 31, 2012, the Development Center will develop and distribute written policies and procedures providing employees with clear, practical and essential guidance in performing responsibilities.

10. Agree with recommendation. By April 1, 2012, the Development Center will work with Information Technology to implement the group processing of license renewals in order to process checks timely.

11. Agree with recommendation. By April 1, 2012, the Development Center will log checks that are not processed within the next business day and review them weekly to ensure that checks do not get overlooked. A policy will be developed to determine an appropriate length of time checks will be held while plans are being reviewed.

12. Agree with recommendation. By November 1, 2012, the Development Center will work with the City Treasurer's Office, the Information Technology Department, the Accounting Services Division and the Municipal Counselor's

Office to reconcile and correct current prepaid account, agency fund and revenue account balances. Development Center management will also perform regular and timely reconciliations of prepaid account activity recorded in the cash register system, permit system and agency funds. Responsibilities for reconciliations and variance corrections will be appropriately segregated and subject to supervisory reviews. Evidence of the reconciliations and reviews will be retained.

13. Agree with recommendation. By July 1, 2012, the Development Center will regularly monitor Customer account activity. These monitoring procedures will include developing reasonable criteria for identifying and determining when a customer account will be considered inactive; regularly reviewing customer account activity and contacting customers with suspected inactive accounts to ensure that inactive accounts are identified and closed in an accurate, complete, and timely manner; and requesting that IT regularly produce reports from the permit system to facilitate reviews of customer account activity. After reasonably determining the accuracy and completeness of prepaid account and agency fund balances as discussed in Recommendation 12, Development Center management will also work with the Municipal Counselor's Office and customers to determine whether currently inactive customer accounts should be closed and how funds should be disbursed.

14. Agree with recommendation. As of January 30, 2012, the Development Center, through IT, has provided electronic account statements via Accela online access to prepaid account information that includes account balances as well as transaction history.

15. Agree with recommendation. By August 1, 2012, Single prepaid accounts will be utilized for companies with multiple contractors and contractors with multiple licenses.

16. Agree with recommendation. By September 1, 2012, the Development Center will utilize the permitting system to manage elevator accounts, permits and inspections. Elevator accounts that have not purchased an annual permit will be included in the license renewal process in order to follow-up on locations that are required to annually purchase a permit and receive an annual inspection. Permits that have not received an inspection will be included in the "outstanding permits" process to identify and follow-up on those permits that have not received an inspection.

17. Agree with recommendation with modification. While Management agrees with this recommendation, Development Services believes implementation of this recommendation must be tempered by ongoing efforts to maintain and improve customer service. By June 1, 2012, the Development Center will implement procedures to encourage contractors to utilize credit cards in lieu of prepaid

accounts, will close inactive accounts, will consolidate accounts where possible, and will refund prepaid accounts in compliance within Resolution guidelines.

18. Agree with recommendation. By August 1, 2012, the Development Center will review system reports for accuracy and remove reports that are no longer useful.

Thank you for your professional review of this program.