

AUDIT REPORT

CITY AUDITOR

Report Date:	May 28, 2019
Department:	Development Services
Subject:	Fees & Charges
Lead Auditor:	Kate Witek, Sr. Internal Auditor

OBJECTIVE

This audit was conducted to determine whether effective controls are in place to ensure all due fees and charges for plan review and permit activities are accurately calculated, recorded, and collected; and to evaluate the department's internal audit process.

SCOPE & METHODOLOGY

The scope of the audit was Development Services fees and charges assessed from July 1, 2017 to June 30, 2018. To accomplish our objective, we:

- Reviewed City and department policies and procedures to identify applicable process controls.
- Interviewed personnel and observed operations to assess compliance with established procedures and effectiveness of controls.
- Tested transactions to verify accuracy.
- Evaluated the effectiveness of information system change and access controls.
- Evaluated the effectiveness of the department's internal monitoring procedures.

BACKGROUND & DISCUSSION

Development Services (DSD) reviews building and infrastructure improvement plans and issues construction permits in accordance with the City of Mesa Administrative Code. According to statistics provided by Development Services, in FY 2018 there were 11,638 plans reviewed and 5,840 permits issued, including 5,244 commercial and residential building permits. In FY 2018, revenue from DSD permitting activities was \$13,128,575.

In June 2017, the City of Mesa launched the Digital Innovation for Mesa's Electronic Services (DIMES) system, an updated online permitting system. DIMES is used by Development Services, Fire, Police, Animal Control, Transportation, Engineering, and Tax and Licensing, to help process 53 types of permits and licenses. A technology improvement fee is added to each permit fee and service charge, to help pay for system improvements and maintenance.

CONCLUSION

In our opinion, Development Services has done an excellent job of ensuring that fees and charges for plan review and permit activities are accurately calculated, recorded, and collected. However, improved internal controls are needed to ensure the continued prevention and/or detection of errors or fraud. Our observations and recommendations are briefly summarized below. For additional details and management's action plans, please see attached Issue and Action Plans.

SUMMARY OF OBSERVATIONS & RECOMMENDATIONS

- 1. Observation:** Internal controls related to cash handling need improvement, to reduce the risk that fraud or errors could occur without being detected in a timely manner.

Recommendation: Management should ensure that cash receipts are reconciled daily to the DIMES system; policies and procedures are updated regularly; employees receive required cash handling training; and checks are stored in a secure location.

- 2. Observation:** Fees and charges were not updated in the DIMES system.

Recommendation: All fees and charges programmed into the DIMES system should be reviewed and updated annually, to ensure they match the City of Mesa Schedule of Fees and Charges.

- 3. Observation:** Permit Technicians can change dollar amounts on permit invoices, with no subsequent review or approval process.

Recommendation: Management should implement system and/or process controls to mitigate the risks associated with manual changes to permit fees.

- 4. Observation:** System access was not revoked for 2 temporary workers and 1 transferred employee.

Recommendation: Management should implement a more effective process to ensure that system access is immediately revoked when an employee is transferred or a temporary worker is terminated.

- 5. Observation:** The department's internal audit process needs improvement, to increase its efficiency and effectiveness in providing reliable quality assurance to management.

Recommendations: Management should implement staff training, written procedures, improved sample selection methods, and a more thorough follow-up process.

Issue and Action Plan #1

Issue #1: Cash handling controls need improvement.

Observations:

- Cash receipts were not reconciled daily to the DIMES system.
- The Development Services Cashiering Function Policy, last updated in 2015, refers to outdated systems and former employees.
- Staff members accepting customer payments had not completed the required cash handling training.
- Checks received were not stored in a secure location.

Criteria:

Management Policy 210 requires:

- Reconciling accounts to ensure all receipts are deposited.
- Documenting cash handling procedures as well as any modifications/updates and submitting them to the Accounting Division for review and approval.
- Cash handling training at least every two years.
- Safeguarding cash and cash equivalents by storing them in a secure location.

Comments:

- In 2017, when the DIMES system was launched, a process was not developed to reconcile daily receipts in DIMES to the cashiering system.
- Departmental policies were not updated when processes changed.
- Management was not aware that cash handling training is required for employees who handle only credit cards and checks.
- Staff members were leaving checks on top of their desks, within reach of the public and other staff members.

Recommendations and Management's Action Plans:

Recommendation #1-1: Cash receipts recorded in DIMES should be reconciled daily to receipts recorded in the City's cashiering system.

Action Plan #1-1: Development Services has implemented a process to reconcile the daily receipts as recorded in the City's cashiering system. Cashiers reconcile their own receipts and the Permit Supervisor reconciles all cashier receipts daily.

Individual or Position Responsible:

Heather Basford, Permit Supervisor
Chase Carlile, Sr. Fiscal Analyst

Estimated Completion Date: 4/1/2019

Recommendation #1-2: The department's cashiering policy should be updated to reflect current processes and remove outdated content.

Action Plan #1-2: Cashiering Function policy to be updated to include current processes and remove outdated content.

Individual or Position Responsible:

Heather Basford, Permits Supervisor

Chase Carlile, Senior Fiscal Analyst

Estimated Completion Date: 5/30/2019

Recommendation #1-3: Management should develop a process to ensure employees complete cash handling training within required time periods.

Action Plan #1-3: Permits Supervisor receives an email from Accounting monthly identifying the training status of employees. Permits Supervisor will monitor the list monthly to ensure that all members training is current.

Individual or Position Responsible:

Heather Basford, Permits Supervisor

Estimated Completion Date: 5/2/2019

Recommendation #1-4: All cash equivalents should be stored in a secure location until they are deposited.

Action Plan #1-4: Each of the cashier desks have been equipped with a Lock Box and key. The Lock Box has been placed on the filing cabinet and the key is kept on the wrist using a wrist coil. When cashier takes payment by check, once the check has been processed and endorsed, the check is placed in the lock box until the end of the day. At the end of the day the checks are removed, and drawers are balanced as usual.

Individual or Position Responsible:

Heather Basford, Permits Supervisor

Estimated Completion Date: 4/23/2019

Issue and Action Plan #2

Issue #2: Fees and charges were not updated in DIMES when changes occurred.

Observation: A commercial water meter charge was not accurately calculated, due to outdated rates in the DIMES system.

Criteria: The City of Mesa Schedule of Fees and Charges, which is updated and approved annually by the City Council.

Comments: The correct commercial water meter fee was not charged on 1 permit. The fees for 4", 6" and 8" commercial meters were increased effective July 1, 2017; however, the fees were not updated in the DIMES system.

Recommendation and Management's Action Plan: **Recommendation #2-1:** Management should implement a regularly scheduled annual review of all fees and charges in the system, to coincide with City Council's annual approval of the revised Schedule of Fees and Charges.

Action Plan #2-1: Sr. Fiscal Analyst will be reviewing all proposed fee changes as new schedules are adopted by council. If new or updated fees and charges are identified Sr. Fiscal Analyst will coordinate with DIMES ITD to have the DIMES system updated. Note: this review will be conducted annually.

Individual or Position Responsible:

Chase Carlile, Sr. Fiscal Analyst

Estimated Completion Date: 7/1/2019

Issue and Action Plan #3

Issue #3: Manual changes to permit fees are not reviewed or monitored.

Observation: Permit Technicians can manually change the dollar amounts on permit invoices prior to issuance, with no subsequent review or approval process.

Criteria: Preventative and/or detective controls are necessary to protect against loss from errors or fraud.

Comments: Permit Technicians review permits for errors before issuance. If an error is found, the Technician manually changes the amount on the invoice. The invoice is then issued without further review. This process increases the risk that an incorrect amount could be entered, without being detected.

**Recommendation
and
Management's
Action Plan:**

Recommendation #3-1: Management should implement system controls (i.e. field validation or limitations) and/or process controls (i.e. workflow, supervisory review, exception reports/monitoring), to mitigate the risks associated with manual changes to permit fees.

Action Plan #3-1: Permits Supervisor is working with DIMES ITD to develop a report that identifies all fees that have been manually updated by staff. Staff is required to enter a reason for the manual update. Permits Supervisor will review the report on a weekly basis to identify and correct any inconsistencies and to determine if there are any patterns in fee deletion or any errors that can be fixed by improving the system.

Individual or Position Responsible:
Heather Basford, Permits Supervisor

Estimated Completion Date: 6/30/2019

Issue and Action Plan #4

Issue #4: System access was not revoked for terminated/transferred users.

Observation: DIMES system access was not revoked for 2 temporary workers and 1 transferred employee.

Criteria: Temporary Agency Worker End Assignment guidance states departments are to, "Notify Information Technology department (ITD) via Security Access Management (SAM) request, of the end of assignment." Also, ITD Security Standard 3.8.4 states, "Access of terminated users must be immediately revoked upon notification of termination."

Comments: The City has effective internal controls in place to ensure system access is revoked when a regular employee is terminated. However, the same process does not work for temporary agency workers or employees who are transferred to another department.

**Recommendation
and
Management's
Action Plan:**

Recommendation #4-1: Management should implement a more effective process to ensure that system access is immediately revoked when an employee is transferred or a temporary worker is terminated.

Action Plan #4-1: Management has updated their process for employee transfers and terminations that includes notification to DIMES ITD through a SAM request to revoke access immediately upon termination/transfer.

Individual or Position Responsible:
Chase Carlile, Sr. Fiscal Analyst

Estimated Completion Date: 2/1/2019

Issue and Action Plan #5

Issue #5: The department's internal audit process needs improvement.

Observation: The department's internal audit process needs improvement, to increase its efficiency and effectiveness in providing reliable quality assurance to management.

Criteria: Internal controls are necessary to ensure permit fees and charges are accurately assessed.

Comments: A monthly audit process is performed by administrative staff members, to monitor the accuracy of fees for issued permits. There are no standard written procedures, forms or follow-up processes, and staff have not been uniformly trained. As a result, the process is inefficient and is not always effective.

**Recommendation
and
Management's
Action Plan:**

Recommendation #5-1: Management should develop a more effective internal auditing process, including staff training, standard forms, written procedures, and a more thorough follow-up process. The process could also be improved by using a larger sample size, developing a risk-based sample selection process, and applying results to affect process improvements.

Action Plan #5-1: Development Services Audit process will be updated to include a larger sample size of more complex projects. Department will develop work instructions, checklist to use for auditing, and a training plan for staff conducting audits. Results of the audit will be reviewed monthly at the Management Team meeting. DSD will continue to work with the City Auditor to optimize our internal auditing process. The auditing process will be reviewed on an annual basis.

Individual or Position Responsible:
Chase Carlile, Sr. Fiscal Analyst

Estimated Completion Date: 10/1/2019