



GARLAND

INTERNAL AUDIT

Engineering Investigation Follow-up

August 16, 2016

Report 201641

City Auditor:

Jed Johnson, CIA, CGAP

Major Contributor:

Marla Hamilton,
Staff Auditor

Contents

Overall Conclusion..... 1

Authorization..... 1

Objective..... 1

Scope and Methodology..... 1

Background 2

Audit Follow-up..... 3

Exhibit A – Sampling Methodology 10

Overall Conclusion

IA's found that there was no overages or shortages during the surprise cash count. Furthermore, the department utilizes the workflow process within the permitting system to properly track the elevation certificate program. IA's review of previous audit findings and recommendations revealed that two (2) recommendations were fully implemented, one (1) recommendations was partially implemented and seven (7) recommendations were not implemented. One (1) recommendation was not applicable.

Authorization

We have conducted a follow-up audit of the Engineering Investigation. This audit was conducted under the authority of Article VII, Section 5 of the Garland City Charter and in accordance with the Annual Audit Plan approved by the Garland City Council.

Objective

Our objective was to determine if previous audit recommendations from the "Engineering Investigation" report issued on March 26, 2015, were implemented.

Scope and Methodology

The scope of the audit was from March 1, 2015 to March 31, 2016.

In order to determine if previous recommendations were implemented, IA:

- Reviewed Finance Directive 1 – Cash Handling.
- Performed a surprise cash count for the Engineering Department.
- Obtained and review training records to ensure appropriate employees received Cash Audit Training.
- Visually confirmed that a safe was purchased for the department.
- Reviewed access rights in the permitting system for the Engineering Department.
- Obtained screen prints from the permitting system to review for activation to force password changes system-wide.
- Reviewed receipts for the User ID field to ensure appropriate tracking of transactions in the system.
- Inquired with the department's Civil Engineer about the workflow in the permitting system and verified that it was in place.
- Obtained transactions from the permitting system to ensure that work was not initiated prior to payment.
- Reviewed permits issued from the system to ensure they were not changed to "Completed" with a balance remaining.

-
- Reviewed the Civil Engineer’s database to determine if elevation certificate permit numbers were cross-referenced.

For data reliability purposes, IA determined that the system, application, database, processes and individuals involved did not change significantly from the previous audit. As a result, IA believes that data continues to be sufficiently reliable for the purposes of this report.

Background

On February 19, 2015, two individuals met with Internal Audit (IA) to report a possible theft of cash by Employee A, within the Engineering department, involving Elevation Certificates and payments for the Sidewalk Participation program. The results of our original investigation were distributed to the members of the City Council on March 26, 2015.

The permitting system is an application used by various departments within the City to accept payments for building permits, fire inspections, the Sidewalk Participation program, Elevation Certificates and prints/copies requested by customers. Users log into the system with a unique User ID and password to allow the system to capture and track user activity and payments applied to permits/receipts issued from the system. The system includes some manual entry fields such as the “Receipt User” field where users enter his/her initials for further tracking purposes. Once a customer has paid for the permit and the work has been completed, users change the status of the permit in the system from “Approved” to “Completed” to show that all payments were received and the permit is finalized.

The Engineering department utilizes the permitting system to accept payments for the Sidewalk Participation program and Elevation Certificates for homeowners’ insurance. The Sidewalk Participation program was approved by the City Council and requires Garland homeowners to share the cost of sidewalk repairs in front of their homes. The cost of the Sidewalk Participation program varies with the estimate of repairs needed, while the cost of an Elevation Certificate is \$325. Homeowners often agree to make payments of their portion owed to the City for sidewalk repairs. Elevation Certificates are issued to homeowners for flood insurance purposes. The department maintains a separate database of Elevation Certificates issued by the City and other outside engineering firms.

The process to obtain an Elevation Certificate begins with a request from the homeowner. Once notified, the Engineering department performs preliminary work to determine if an Elevation Certificate would be beneficial (in other words, save money on flood insurance) to the homeowner. If an Elevation Certificate would be beneficial to the homeowner, the Department requests payment from the homeowner which is then processed through the permitting system. The Engineer then issues an Elevation Certificate. The Engineer maintains manual files, along with a copy of the receipt for the Elevation Certificate.

Source: Permitting System Administrator and Engineering Departments

Audit Follow-up

This follow-up audit was not intended to be a detailed study of every relevant system, procedure and transaction. Accordingly, the Follow-up section presented in this report may not be all-inclusive of areas where improvement might be needed.

The following results for each finding are as follows:

CASH HANDLING PROCEDURES	
CONDITION (THE WAY IT IS)	<ol style="list-style-type: none">1. Independent third-party reconciliation is not performed daily on receipts processed from the system. Employees currently have sole custody of payments received and do not count funds received on a daily basis. Voided receipts are not reviewed for appropriateness.2. Deposits are not made daily. Deposits were processed approximately twice each month, however IA noted that a deposit was not made during the month of May 2014. In some instances, large check amounts up to \$71,000 and \$58,000 were held for up to 21 days and 14 days, respectively. According to Finance Directive 1.3, "Each day's receipts will be deposited intact no later than the following business day."3. The department does not have a safe to store collected funds.
RECOMMENDATION	<ol style="list-style-type: none">1. Implement a cash handling policy to ensure that segregation of duties is present and daily reconciliation of payments with the permitting system reports is performed and voided receipts are reviewed for appropriateness.2. Ensure compliance with Finance Directive 1 – Cash Handling Procedures regarding daily deposits.3. Obtain a drop-safe to store collected funds until a deposit is processed.
MANAGEMENT	Engineering concurs.

RESPONSE	
ACTION PLAN	<p>In the interim, Employee X/Employee Y will accept all payments. Employees X, Y and Z will all three verify amount to be deposited. Our goal is to deposit the money daily. All employees involved will take training classes when available. We are currently looking into purchasing two safes, one for each floor.</p> <p>We will work toward a more permanent process when we fill the vacant position.</p>
IMPLEMENTATION DATE	Interim solution will be immediate. The permanent solution will be after we fill the vacant position and have proper training.
FOLLOW-UP	<ol style="list-style-type: none"> 1. IA performed a surprise cash count at the Engineering Department and found no overages/shortages. However, checks were not endorsed when received and deposits were not made daily. In addition, IA's review of receipts revealed that there were no voided or cancelled receipts during the audit period. However, inquiries indicated that there is no monitoring. 2. IA's review of the Finance Directive 1 - Cash Handling in comparison to the surprise cash count revealed that the department was not in compliance as noted in #1 above. Furthermore, IA's review of training records revealed that individuals accepting payments in the Engineering Department did receive appropriate Cash Handling Training. 3. IA visually confirmed that a safe was purchased for the Engineering Department; however, funds were maintained in a locked drawer at the desk of one of the department coordinators.
IMPLEMENTATION	<ol style="list-style-type: none"> 1. Not Implemented 2. Not Implemented 3. Partially Implemented

PERMITTING SYSTEM ACTIVITY FOR ENGINEERING DEPARTMENT

**CONDITION
(THE WAY IT IS)**

1. Too many individuals have access to accept/edit/void payments in the system.
2. There are no requirements to change passwords on a periodic basis.
3. User ID is not listed on the customer receipt. This field shows the users login ID of who accepted the payment.

RECOMMENDATION

1. Re-evaluate employee access rights to the permitting system for appropriateness.
2. Ensure permitting system is enabled to force password changes periodically.
3. Include User ID on the receipts to allow for tracking of who accepted the payment in the permitting system.

**MANAGEMENT
RESPONSE**

Engineering concurs.

ACTION PLAN

Engineering will also work with Building Inspection (BI)/IT to revise the level of access in Permits Plus for all employees. We understand BI/IT is already working on the Permits Plus software modifications to include periodic forced password change and User ID tracking. We will verify.

**IMPLEMENTATION
DATE**

Immediately and when BI/IT can have the software modified.

FOLLOW-UP

1. IA's inquiry with the Permits Supervisor revealed that access had not been restricted in the system. Furthermore, IA's review of Engineering Department employees' access rights in the permitting system revealed that access had not been adjusted since the investigation took place.
2. IA's review of screen prints from the permitting system provided by IT revealed that the module to force password changes across the system for all users was not activated.
3. IA's review of receipts from the permitting system generated by the Engineering Department revealed that the

user ID was listed for tracking of who initialized the transaction. Our inquiry with IT and the Permits Supervisor revealed that the functionality is not available.

-
- IMPLEMENTATION**
1. Not Implemented
 2. Not Implemented
 3. Not Applicable
-

ENGINEERING DEPARTMENT'S WORKFLOW PROCESS

**CONDITION
(THE WAY IT IS)**

1. Permit Plus has the feature to track the workflow process, which is currently not being used by the department.
2. Original payment receipts of Elevation Certificate requests are not delivered and/or maintained consistently.
3. Payments are not verified in the PermitsPlus system prior to work being initiated/performed by the Engineering staff.
4. Some of the transactions in the system listed the Permit status as "Completed" yet showed a balance due.
5. The permit numbers for the Elevation Certificates were not included in Engineering's Access Database, to allow for cross-referencing to the PermitsPlus system to verify payments were made.

RECOMMENDATION

1. Utilize PermitsPlus system functionality to track the workflow process from creation to finalization of projects such as Elevation Certificates and the Sidewalk Program.
2. Ensure work is not initiated and/or Certificates are not issued by the assigned Engineering staff until payment has been verified in the PermitsPlus system.
3. Ensure permit status is not changed to "Completed" until all payments are received and work is completed.
4. Conduct periodic reviews to verify that a balance does not exist for permits listed as "Completed."
5. Reference the permit number in the Civil Engineer's Access Database for proper tracking and cross-referencing to the PermitsPlus system.

**MANAGEMENT
RESPONSE**

Engineering concurs.

ACTION PLAN

Engineering will implement a plan to track the workflow process for the Elevation Certificates and 50/50 Sidewalk

program. Engineering will work with Building Inspection concerning Permits Plus and how to achieve end result as well as include necessary training. Engineering will also conduct periodic reviews to verify that “Completed” permits do not show a balance due. Drainage Engineer will continue to keep current Access database due to historical data already included in the database and reference the permit number as stated in the above recommendation.

**IMPLEMENTATION
DATE**

1-3 month implementation. Depends on whether modification to Permits Plus software is required.

FOLLOW-UP

1. IA’s review of the workflow process within the permitting system revealed that the process is in place and updated regularly by the Civil Engineer.
2. IA reviewed elevation certificates and a sample of other permits (See Sampling Methodology, Exhibit A) issued from the permitting system by the Engineering Department. IA’s comparison the date payment was processed with the date the work was initiated and completed revealed that payments were verified prior to initiation of the project.
3. IA’s review of transactions in the permitting system revealed that many of the transactions were not changed from “Approved” to “Completed.” Discussions with management revealed that a process will be put in place to change the projects permitted in the system to “Completed” so that the Department Coordinators can verify work was completed prior to initiating payment to vendors.
4. As mentioned in #3 above, IA’s review of “Completed” transactions in the permitting system revealed that there is no balance due, however our inquiry with management indicated that they are not actively monitoring. IA brought this to Management’s attention who immediately took steps to put measures in place to clean up the current errors and prevent any future entry errors.
5. IA’s review of the Civil Engineer’s database revealed that elevation certificate permit numbers are not cross-

referenced. Upon notification, the Civil Engineer added a column in the database to begin cross-referencing the elevation certificate numbers.

- IMPLEMENTATION**
1. Fully Implemented
 2. Fully Implemented
 3. Not Implemented
 4. Not Implemented
 5. Not Implemented
-

Exhibit A – Sampling Methodology

IA obtained a list of all transactions involving the Sidewalk 50/50 Participation program (79 transactions for the audit period). IA used an interval sample to select 11 transactions from the population of 79. The interval sample was chosen to allow each item in the population an equal chance of selection. IA then compared the date the payment was entered in the system with the date the work order was requested for the project. No exceptions were found and this sample can be projected to the entire population.