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Office of the City Auditor

Audit Report

**AUDIT OF BUILDING PERMITS
CASH COLLECTIONS INTERNAL CONTROLS**
(Report No. A15-006)

March 20, 2015

City Auditor

Craig D. Kinton

Table of Contents

Executive Summary

The Department of Sustainable Development and Construction (SDC) has established internal controls over cash handling and collections (cash collections) for building permit fees. The SDC, however, could improve internal controls over cash collections for building permit fees by addressing the following:

<table>
<tr><td>

Background Summary

The Department of Sustainable Development and Construction (SDC) is responsible for collection of permit fees related to commercial and residential buildings including building plan compliance with standards, landscaping, zoning code interpretations and the issuance of trade permits.

Fiscal Year (FY) 2013 actual revenue for SDC was $26,876,968. The FY 2014 estimated revenue for SDC is $26,808,991.

The SDC manages all building permit fee related activities through the iNovah cashiering software application. The Current Planning and Real Estate Divisions do not handle building permit fees and do not currently use the iNovah cashiering software application.

Sources: Office of Financial Services (OFS) FY 2015 Adopted Budget and SDC

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</table>

- User access to the iNovah cashiering software application is not properly controlled and monitored. As a result, user access may be granted to: (1) unauthorized personnel; or, (2) personnel with incompatible job responsibilities, i.e., segregation of duties conflict. There is also an increased risk for unauthorized activity when inactive and privileged user accounts (users who have access to all aspects of the software application) are not monitored regularly.

- Policies and procedures for cash collections and reconciliations are incomplete and not approved. Internal control effectiveness may be reduced when policies and procedures, which are intended to *"reflect management's statement of what should be done and actions that implement a policy,"*[1] do not reflect actual SDC operations, supervisor job responsibilities, and have not been formalized and properly approved.

- Training curriculum for cashiers and cashier supervisors is not documented and evidence to show the dates training occurred and the personnel who attended training is not retained. As a result, the SDC cannot demonstrate cashiers and cashier supervisors are adequately trained to perform their assigned responsibilities, including back-up responsibilities.

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[1] Committee of Sponsoring Organizations of the Treadway Commission (COSO), Internal Control – Integrated Framework, 2013

The SDC has also not established adequate internal controls over cash collections in the Current Planning and Real Estate Divisions as follows:

- Current Planning Division's cashier activities are not properly segregated for recording, authorizing, and approving transactions. Without proper segregation of duties over cash collections, the Current Planning Division cannot: (1) determine whether transactions were recorded completely and accurately; and, (2) identify potential fraud.

- Real Estate Division has not developed adequate internal controls over cash collections and reconciliations. As a result, cash collections may not be recorded completely and deposited timely. Additionally, missing cash collections may not be readily identified.

- Current Planning and Real Estate Divisions' documented policies and procedures for the cash collections and reconciliations are incomplete and not approved in accordance with City of Dallas (City) policy. As a result, Current Planning and Real Estate Divisions could perform cash collections and reconciliations that are not consistent with the City requirements.

We recommend the Directors of SDC and the Department of Communication and Information Services (CIS) improve internal controls by addressing the recommendations made throughout this report.

These issues and the associated recommendations were discussed with SDC management throughout the course of the audit. According to SDC, they immediately took action to address the recommendations.

The audit objective was to evaluate the adequacy of internal controls over certain building permit processes which may include issuance, billing, cash handling, and cash collections. The audit period covered the most current cash collection procedures for SDC, which included Fiscal Year (FY) 2013 and FY 2014. We also reviewed certain related transactions and records before and after that period.

Management's response to this report is included as Appendix III.

Audit Results

Overall Conclusion

The Department of Sustainable Development and Construction (SDC) has established internal controls over cash handling and collections (cash collections) for building permit fees. The SDC, however, could improve internal controls over cash collections by addressing the following: (1) user access to the iNovah cashiering software application is not properly controlled and monitored; (2) policies and procedures for cash collections and reconciliations are incomplete and not approved; and, (3) training curriculum for cashiers and cashier supervisors is not documented and evidence to show the dates training occurred and the personnel who attended training is not retained.

The SDC also has not established internal controls over cash collections in the Current Planning and Real Estate Divisions as follows: (1) Current Planning Division's cashier activities are not properly segregated for recording, authorizing and approving transactions; (2) Real Estate Division has not developed adequate internal controls over cash collections and reconciliations; and, (3) the Current Planning and Real Estate Divisions' documented policies and procedures for cash collections and reconciliations are incomplete and not approved in accordance with City of Dallas (City) policy.

Section I:
Building Permit Fees Cash Collections

User Access Is Not Properly Controlled and Monitored

User access to the iNovah cashiering software application is not properly controlled and monitored. Specifically:

- Personnel duties are not properly segregated:

  o Two cashiers have both cashier and supervisor access roles

  o Department of Communication and Information Services (CIS) Programmer Analyst has both configuration and supervisor access roles

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Segregating Duties

Segregation of duties generally entails dividing responsibility for recording, authorizing and approving transactions, and handling the related asset. A control activity in this area could include reviewing access requests to the system to determine whether segregation of duties is being maintained.

Source: Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework, 2013

- The CIS grants access to the iNovah cashiering software application without verifying that the access request is valid and appropriately approved by authorized SDC personnel. The CIS personnel accept e-mail to request and grant access to iNovah cashiering software application rather than the approved Security Authorization Request (SAR) form required by CIS policy.

- Access to the iNovah cashiering software application is not restricted to current personnel. Five cashiers were identified as no longer employed with the SDC; however, they still had access to the iNovah cashiering software application.

- Privileged user (users who have access to all aspects of the software application) access to the iNovah cashiering software application is not monitored for unauthorized activity either by CIS or SDC

As a result, user access may be granted to: (1) unauthorized personnel; or, (2) personnel with incompatible job responsibilities, i.e. segregation of duties conflict. There is also an increased risk for unauthorized activity when inactive and privileged user accounts are not monitored regularly.

According to the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework, 2013, access should be granted to individuals with proper approval based on their roles and responsibilities. The City Administrative Directive (AD) 2-24, *Computer Security,* Sections 5.3.4, 5.3.5 and 5.9.3, and CIS Information Security Standard*, Documentation Standards for Account Access,* Section 11, adds further clarification on CIS' and SDC's responsibilities in relation to requesting and granting access.

Recommendation I

We recommend the Director of SDC properly control and monitor the iNovah cashiering software application user access to ensure: (1) personnel duties are properly segregated; (2) access is granted only after verifying the request is valid and appropriately approved by authorized SDC personnel, and is submitted on a SAR form; (3) only active users have access; and, (4) compliance with AD 2-24, *Computer Security* by monitoring privileged user accounts for unauthorized activity.

Recommendation II

We recommend the Director of CIS comply with AD 2-24, *Computer Security* and CIS' Information Security Standard by: (1) ensuring that the SAR form is used prior to granting access; and, (2) identifying and implementing an appropriate security strategy(ies) for iNovah to allow SDC to monitor application privileged user access.

Please see Appendix III for management's response to the recommendation.

Policies and Procedures Are Incomplete and Not Approved

The documented policies and procedures for cash collections and reconciliations are incomplete and not approved in accordance with City policy. Documented policies and procedures do not include:

- Certain daily cash handling and reconciliation activities which support the internal control structure. For example, the procedures do not indicate: (1) who should perform the cash reconciliation and deposit procedures and how often these procedures should occur; (2) cash drawers should be counted at the beginning of each day; and, (3) how to enter daily revenue collections into the AMS Advantage 3 general ledger software application.

- Supervisor job responsibilities

- Ownership, impacted SDC divisions, effective date, revision history, and other identifying information that formalize policies and procedures

- Approval by the Treasurer or City Controller

Internal control effectiveness may be reduced when policies and procedures, which are intended to *"reflect management's statement of what should be done and actions that implement a policy,"* [2] do not reflect actual SDC operations, supervisor job responsibilities, and have not been formalized and properly approved.

According to COSO Internal Control – Integrated Framework, 2013, management should periodically reassess policies and procedures and related control activities for continued relevance and effectiveness. The AD 4-20, *Cash Handling and Cash Receipts,* Section 5.1.1, states department's should obtain approval by the Treasurer or City Controller of cash handling methods, policies, and procedures prior to implementation.

Recommendation III

We recommend the Director of SDC review and update the cash collections policies and procedures.

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[2] COSO Internal Control – Integrated Framework, 2013

Recommendation IV

We recommend the Director of SDC obtain formal approval of the policies and procedures from the Treasurer or City Controller's Office in accordance with AD 4-20, *Cash Handling and Cash Receipts*, Section 5.1.1.

Please see Appendix III for management's response to the recommendation.

Training Curriculum and Attendance Are Not Documented and Retained

The SDC does not document the training curriculum for cashiers and cashier supervisors and retain evidence to show the dates training occurred and the personnel who attended the training. As a result, the SDC cannot demonstrate cashiers and cashier supervisors are adequately trained to perform their assigned responsibilities, including back-up responsibilities.

According to SDC, cashiers and supervisors receive training when hired and are re-trained as supervisors deem appropriate. For example, SDC monitors possible training needs monthly by logging employee errors on a Microsoft Excel spreadsheet.

The COSO Internal Control – Integrated Framework, 2013 states: *"Entities develop and maintain documentation for their internal control system for a number of reasons. One is to provide clarity around roles and responsibilities, which promotes consistency in adhering to desired practices. Documentation also provides evidence of the performance of activities that are part of the system of internal control, enables proper monitoring, and supports reporting on internal control effectiveness."*

Recommendation V

We recommend the Director of SDC document the training curriculum for cashiers and cashier supervisors and retain evidence to show the dates training occurred and the personnel who attended training.

Please see Appendix III for management's response to the recommendation.

Section II:
Current Planning and Real Estate Divisions' Cash Collections

Current Planning Division's Cashier Activities Are Not Properly Segregated

The Current Planning Division has not properly segregated cash collections responsibilities for recording, authorizing, and approving transactions. The Current Planning Division cashiers have the ability to perform all cash collections activities, such as:

- Collecting funds from customers

- Voiding transactions without required justification or review from a supervisor

- Performing reconciliations on their own cash collections without additional supervisor review

- Preparing bank deposits for their own cash collections

> **Current Planning Division Transactions**
>
> The SDC Current Planning Division collects monies for zoning transactions. Zoning activities include: (1) responding to developers', citizens', and internal customers' questions regarding the City Development Code; (2) processing requests for changes/amendments to zoning; (3) processing development plans and development plan/site plan amendments; (4) providing technical and professional support to the City Plan Commission; and, (5) providing early notification and general notification to property owners and interested parties regarding zoning requests.
>
> **Source:** City of Dallas FY 2013-14 Adopted Budget View, Working Bid Number DEV-010

- Modifying standard fees, as necessary, without approval from a supervisor

- Preparing handwritten receipts for customers

Without proper segregation of duties over the cash collections process, the Current Planning Division cannot determine: (1) whether transactions were recorded completely and accurately; and, (2) identify potential fraud. According to COSO Internal Control – Integrated Framework, 2013 and AD 4-20, *Cash Handling and Cash Receipts,* Section 5.1.6, departments are responsible for ensuring proper segregation of duties between: (1) collection and recordation; (2) reconciliation; and, (3) deposit processes.

Recommendation VI

We recommend the Director of SDC implement segregation of duties controls over the cash collections process for the Current Planning Division.

Please see Appendix III for management's response to the recommendation.

Real Estate Division Has Not Developed Adequate Internal Controls

The Real Estate Division has not developed adequate internal controls to ensure completeness and timeliness of cash collections. Specifically, the:

- Received check log is not reconciled against the daily deposit check log to verify that all Real Estate transaction checks received are deposited timely

- Distribution of Real Estate transaction checks to employees for further processing is not monitored for loss and/or theft and compliance with City policy for timely deposit

> **Real Estate Division Transactions**
>
> The Real Estate Division collects monies for transactions, such as the sale of tax foreclosed property and unneeded City property, i.e. streets, alleys, easements, surplus land, or buildings. In addition, the Real Estate Division leases City-owned facilities and land to private sector developers, citizens, non-profit, or other governmental agencies. The Real Estate Division also licenses rights-of-way for development purposes and neighborhood enhancement projects.
>
> **Source:** City of Dallas FY 2013-14 Adopted Budget View, Working Bid Number DEV-012

As a result, cash collections may not be recorded completely and deposited timely. Additionally, missing cash collections may not be readily identified. According to COSO Internal Control – Integrated Framework, 2013, transactional controls should be developed and reside in the business process, such as cash collections. Transactional controls include reconciliations to help identify differences in a timely manner and help address the completeness and/or accuracy of transactions. In addition, the AD 4-20, *Cash Handling and Cash Receipts,* Sections 5.1.5 and 5.2.3, state that departments are responsible for:

- Requiring collections for each individual cash drawer be reconciled daily, documented, and signed off by the responsible cashier

- Ensuring that cash collections are turned over to the Treasurer within 24 hours. The Treasurer will have been deemed to have received cash collections when deposited into the City Treasury as required by the City Charter.[3]

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[3] City Charter Ordinance No. 29376, amended on November 4, 2014, requires cash to be deposited promptly in a commercially reasonable manner in City depositories.

Recommendation VII

We recommend the Director of SDC implement proper internal controls for the Real Estate Division to ensure completeness and timeliness of cash collections.

Please see Appendix III for management's response to the recommendation.

Documented Policies and Procedures Are Not Approved

The Current Planning and Real Estate Divisions' documented policies and procedures for cash collections and reconciliations are incomplete and not approved in accordance with City policy. Additionally, documented procedures do not include the following best practices for internal controls over cash collections:

- Development of the proper segregation of duties for the Current Planning Division's cash collections

- Implementation of reconciliation procedures for the Real Estate Division

As a result, the Current Planning and Real Estate Divisions could perform cash collections and reconciliations that are not consistent with City requirements. According to AD 4-20, *Cash Handling and Cash Receipts,* Section 5.1.1, departments are responsible for ensuring that any changes to the Divisions' cash handling methods, policies, and procedures are approved by the Treasurer or City Controller prior to implementation.

Recommendation VIII

We recommend the Director of SDC ensure the policies and procedures for the Current Planning and Real Estate Divisions are complete and include best practices for internal controls over cash collections and reconciliations.

Recommendation IX

We recommend the Director of SDC obtain formal approval of the Current Planning and Real Estate Divisions' policies and procedures from the Treasurer or City Controller's Office.

Please see Appendix III for management's response to the recommendation.

<div align="right">**Appendix I**</div>

Background, Objective, Scope and Methodology

Background

The Department of Sustainable Development and Construction (SDC) is responsible for collection of permit fees related to commercial and residential buildings including building plan compliance with standards, landscaping, zoning code interpretations, and the issuance of trade permits. Fiscal Year (FY) 2013 actual revenue for SDC was $26,876,968. The FY 2014 estimated revenue for SDC is $26,808,991.

Cash Collection Locations
The following four locations currently process cash collection and permit activities:
• Northeast Building Inspection Office
• Northwest Building Inspection Office
• Southeast Building Inspection Office
• Oak Cliff Municipal Center / Southwest Building Inspection Office
Source: SDC

The SDC manages its building permit fee related activities through the iNovah cashiering software application and all permit related activity in the POSSE software application. The POSSE software application tracks all activity associated with a permit from the initial submission to the final issuance of a Certificate of Occupancy or Certificate of Approval. According to management, the delineation of activities between these two software applications ensures appropriate segregation of duties.

The SDC has also established four separate collection locations (see text box). All collection locations have access to use the iNovah cashiering and POSSE software applications to execute cash collection and permit related activities.

Objective, Scope and Methodology

This audit was conducted under the authority of the City Charter, Chapter IX, Section 3 and in accordance with the Fiscal Year 2014 Audit Plan approved by the City Council. This performance audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The objective of the audit was to evaluate the adequacy of internal controls over certain building permit processes which include issuance, billing, cash handling, and cash collections. The audit period covered the most current cash collection procedures for SDC, which may include FY 2013 and FY 2014. We also reviewed certain related transactions and records before and after that period.

To achieve the audit objectives, we performed the following procedures:

- Reviewed and analyzed best practices recommended by the Committee of Sponsoring Organizations of the Treadway Commission (COS) Internal-Integrated Framework, December 2011, Administrative Directives, SDC policies and procedures

- Performed walkthroughs of cash collection operations

- Obtained documented cash controls policies and procedures

- Obtained a listing of all general ledger posted cash receipts for building permit transactions for FY 2014

- Reviewed and analyzed supporting documentation for a sample of cash receipts

- Obtained user access listings for the iNovah cashiering software application

- Interviewed personnel from SDC and the Department of Communication and Information Services (CIS)

Appendix II

Major Contributors to This Report

Aaron Munoz, CPA, CIA, CGAP – Project Manager
Mamatha Sparks, CIA, CISA – Audit Manager
Carol Smith, CPA, CIA, CFE, CFF – First Assistant City Auditor
Theresa Hampden, CPA – Quality Control Manager

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Appendix III

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Management's Response

Memorandum

RECEIVED

FEB 27 2015

City Auditor's
Office

CITY OF DALLAS

DATE: February 26, 2015

TO: Craig D. Kinton, City Auditor

SUBJECT: Response to Audit Report: Audit of Building Permits Cash Collections Controls

Our responses to the audit report recommendations are as follows:

Recommendation I

We recommend the Director of SDC properly control and monitor the iNovah cashiering software application user access to ensure: (1) personnel duties are properly segregated; (2) access is granted only after verifying the request is valid and appropriately approved by authorized SDC personnel, and is submitted on a SAR form; (3) only active users have access; and, (4) compliance with AD 2-24, *Computer Security* by monitoring privileged user accounts for unauthorized activity.

Management Response / Corrective Action Plan

Agree ☒   Disagree ☐

SDC will properly control and monitor the iNovah cashiering software application user access to ensure: (1) personnel duties are properly segregated; (2) access is granted only after verifying the request is valid and appropriately approved by authorized SDC personnel, and is submitted on a SAR form; (3) only active users have access; and, (4) compliance with AD 2-24, Computer Security by monitoring privileged user accounts for unauthorized activity.

Date
6/30/15

Responsible Manager
Budget Manager III
Cash Management Coordinator II

Recommendation III

We recommend the Director of SDC review and update the cash collections policies and procedures.

Management Response / Corrective Action Plan

Agree ☒   Disagree ☐

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SDC will review and update the cash collections policies and procedures.

Implementation Date
6/30/15

Responsible Manager
Budget Manager III
Cash Management Coordinator II

Recommendation IV

We recommend the Director of SDC obtain formal approval of the policies and procedures from the Treasurer or City Controller's Office in accordance with AD 4-20, *Cash Handling and Cash Receipts*, Section 5.1.1.

Management Response / Corrective Action Plan
Agree ☒   Disagree ☐

SDC will obtain formal approval of the policies and procedures from the Treasurer or City Controller's Office in accordance with AD 4-20, Cash Handling and Cash Receipts, Section 5.1.1.

Implementation Date
6/30/15

Responsible Manager
Budget Manager III
Cash Management Coordinator II

Recommendation V

We recommend the Director of SDC document the training curriculum for cashiers and cashier supervisors and retain evidence to show the dates training occurred and the personnel who attended training.

Management Response / Corrective Action Plan
Agree ☒   Disagree ☐

SDC will document the training curriculum for cashiers and cashier supervisors and retain evidence to show the dates training occurred and the personnel who attended training.

Implementation Date
6/30/15

Responsible Manager
Budget Manager III
Cash Management Coordinator II

Recommendation VI

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We recommend the Director of SDC implement segregation of duties controls over the cash collections process for the Current Planning Division.

Management Response / Corrective Action Plan
Agree ☒   Disagree ☐

SDC will implement segregation of duties controls over the cash collections process for the Current Planning Division.

Implementation Date
9/30/15

Responsible Manager
Budget Manager III
Cash Management Coordinator II

Recommendation VII

We recommend the Director of SDC implement proper internal controls for the Real Estate Division to ensure completeness and timeliness of cash collections.

Management Response / Corrective Action Plan
Agree ☒   Disagree ☐

SDC will implement proper internal controls for the Real Estate Division to ensure completeness and timeliness of cash collections.

Implementation Date
9/30/15

Responsible Manager
Budget Manager III
Cash Management Coordinator II

Recommendation VIII

We recommend the Director of SDC ensure the policies and procedures for the Current Planning and Real Estate Divisions are complete and include best practices for internal controls over cash collections and reconciliations.

Management Response / Corrective Action Plan
Agree ☒   Disagree ☐

SDC will ensure the policies and procedures for the Current Planning and Real Estate Divisions are complete and include best practices for internal controls over cash collections and reconciliations.

Implementation Date
6/30/15

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Responsible Manager
Budget Manager III
Cash Management Coordinator II

Recommendation IX

We recommend the Director of SDC obtain formal approval of the Current Planning and Real Estate Divisions' policies and procedures from the Treasurer or City Controller's Office.

Management Response / Corrective Action Plan
Agree ☒   Disagree ☐

SDC will obtain formal approval of the Current Planning and Real Estate Divisions' policies and procedures from the Treasurer or City Controller's Office.

Implementation Date
6/30/15

Responsible Manager
Budget Manager III
Cash Management Coordinator II

Sincerely,

David Cossum, Director   Ryan S. Evans
Department of Sustainable Development   First Assistant City Manager
and Construction

C: Larry Holmes, Assistant Director, Building Inspection Division
   Neva Dean, Interim Assistant Director, Current Planning Division
   Ashley Eubanks, Assistant Director, Real Estate Division
   Renee Hayden, Internal Control Program Manager
   Kim Ray, Budget Manager III
   Te'Leisha Graham, Cash Management Coordinator II

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Memorandum

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MAR – 4 2015

City Auditor's
Office

CITY OF DALLAS

DATE: February 20, 2015

TO: Craig D. Kinton, City Auditor

SUBJECT: Response to Audit Report: Audit of Building Permits Cash Collections Controls

Our responses to the audit report recommendations are as follows:

Recommendation II

We recommend the Director of CIS comply with AD 2-24, *Computer Security* and CIS' Information Security Standard by: (1) ensuring that the SAR form is used prior to granting access; and, (2) identifying and implementing an appropriate security strategy(ies) for iNovah to allow SDC to monitor application privileged user access.

Management Response / Corrective Action Plan

Agree ☒   Disagree ☐

CIS will:
1) Ensure that the SAR form is used prior to granting access, and
2) Identify and implement a strategy that allows SDC to monitor application privileged user access in iNovah

Implementation Date
June 30, 2015

Responsible Manager
Sr. IT Manager

Sincerely,

William Finch 3/3/15

William Finch, Director
Department of Communication and
Information Services

Jill Jordan

Jill A. Jordan, P.E.
Assistant City Manager

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