

OFFICE OF THE CITY AUDITOR

AUDIT OF DEPARTMENT OF DEVELOPMENT SERVICES MANAGEMENT CONTROLS



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Memorandum



CITY OF DALLAS

December 17, 2004

Honorable Mayor and Members of the City Council
City of Dallas

We have conducted a performance audit of the Department of Development Services Management Controls for the period of October 1, 2002, through September 30, 2003. This audit was conducted under the authority of Chapter IX, Section 2 of the Dallas City Charter and in accordance with the Annual Audit Plan approved by City Council.

We conclude that the means to attain the Department of Development Services (DDS) strategic objectives are not complete two years after the reorganization. The segregation of duties, control over forms and receipts, and the permit and registration process in the Building Inspection Division should be improved. Finally, we found that fire inspector job functions are not required to be performed by uniform employees in accordance with statutes or rules by oversight state agencies.

These concerns are discussed in the Opportunities for Improvement section of this report.

We appreciate the cooperation of City staff during our examination.

Paul Garner

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c: Mary K. Suhm, Interim City Manager

**AUDIT OF DEPARTMENT OF DEVELOPMENT SERVICES MANAGEMENT
CONTROLS**

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EXECUTIVE SUMMARY

We have conducted an audit of Department of Development Services (DDS) Management Controls. Our audit covered October 1, 2002, through September 30, 2003.

Our review of management controls was at the management level. We also reviewed the internal controls of the cash handling process which had been requested by the Director of DDS.

Our objectives were to determine whether:

- DDS' mission statement and goals are adequate.
- Management controls are adequate to ensure documented mechanisms are in place to monitor and evaluate compliance with rules, laws, and regulations.
- Program operations have been improved and meet program objectives; and operating results are adequately monitored and evaluated against established objectives.
- DDS uses uniform employees for the job functions that are not required to be performed by uniformed employees.
- The internal controls over Building Inspection (BI) cash (payment receipt) handling and related process are adequate.

In our opinion the means to attain the DDS strategic objectives are not complete two years after the reorganization. The implementation of the Land Management System (LMS), a Comprehensive Land Use Plan (CLU), and the modified policies and procedures that the divisions within the department follow to obtain the objectives have not been completed. Only one division, BI, has established a performance "scorecard" that is updated and reviewed by management.

The segregation of duties, controls over forms and receipts, and the permit and registration process in the BI division should be improved.

Fire inspector job functions are not required to be performed by uniform employees in accordance with statutes or rules by oversight state agencies.

In the course of this audit, it came to our attention that the South Dallas/Fair Park Trust Fund has significant internal control deficiencies. These issues will be discussed in detail in a separate audit report.

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Authorization

At the request of the City Manager's Office, we performed an audit of Department of Development Services (DDS) Management Controls. We also included a limited review of the DDS Building Inspection (BI) cash handling process. We conducted this audit under the authority of Chapter IX, Section 2 of the Dallas City Charter and in accordance with the Annual Audit Plan approved by City Council.

Scope and Methodology

We performed our audit in accordance with generally accepted government auditing standards and included inquiries and other audit procedures that we considered necessary in the circumstances.

Our objectives were to determine whether:

- DDS' mission statement and goals are adequate.
- Management controls are adequate to ensure documented mechanisms are in place to monitor and evaluate compliance with rules, laws, and regulations.
- Program operations have been improved and meet program objectives; and operating results are adequately monitored and evaluated against established objectives.
- DDS uses uniform employees for the job functions that are not required to be performed by uniform employees.
- Internal controls over BI cash (payment receipt) handling and related processes are adequate.

Our principal review of management controls was at the management level. We also reviewed the internal controls of the cash handling process, which had been requested by the Director of DDS.

We reviewed the cash handling process from when the payments were received by the cashier(s), to the time that deposit warrants were given to the deposit courier (to take to the bank). We did not perform detailed sampling tests regarding the process or bank reconciliation. Additionally, our review did not include the process regarding non-sufficient funds or refunds to customers.

Our audit covered October 1, 2002, through September 30, 2003. However, we also reviewed certain related procedures, events, and matters occurring before and after this period.

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We developed an understanding of relevant control structures through:

- Interviewing selective City personnel.
- Reviewing applicable guidelines and procedures.
- Observing operations.
- Analyzing operational processes.
- Reviewing applicable documentation and transactions.

Overall Conclusion

DDS has developed a mission and goals statement that guides the operations of the department. However, the means to attain the Department of Development Services (DDS) strategic objectives are not complete. Consequently, performance measures, needed for the accomplishment of the strategic objectives, are evolving over time instead of being pre-defined. At the present time, BI is the only organization within the department that has developed performance measures to track their progress. We also found that fire inspector job functions are not required to be performed by uniform employees in accordance with statutes or rules by oversight state agencies. Finally, the segregation of duties, control over forms and receipts, and the permit and registration process in the Building Inspection Division should be improved.

These issues are discussed in more detail in the Opportunities for Improvement section of this report.

Additionally, we have noted significant internal control deficiencies over the South Dallas/Fair Park Trust Fund. The lack of adequate internal controls of this entity, which falls under the auspices of the Economic Development Division, raises questions about other financial controls within the department. Internal control deficiencies over the South Dallas/Fair Park Trust Fund will be addressed in detail in a separate audit report.

Generally accepted government auditing standards (GAGAS), Chapter 8, (Reporting Standards for Performance Audit), section 8.16 states, "The audit report should also include any significant deficiencies in internal control, all instances of fraud and illegal acts unless they are clearly inconsequential, significant violations of provisions of contracts or grant agreements, and significant abuse." Although these issues shown below will be discussed in detail in a separate audit report, we present them here.

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- A. The Trust Fund financial management oversight is inadequate.
- B. Grants have not been adequately monitored or administered.
- C. The Special Initiatives Grant has been implemented without an administrative policy.
- D. The loan and grant application review process needs to be improved.
- E. The Trust Fund administrative expenditures are excessive.
- F. The vendor payment approval process was inadequate.

Management's Comments:

Development Services has a Quarterly Report that documents strategic objectives and consistently reports progress toward meeting each objective. Building Inspection is only one of the divisions requested in the Quarterly Report, all other divisions with the department of Development Services are included as well.

The Economic Development Division, specifically the South Dallas/Fair Park Trust Fund, is a separate entity in Development Services that consists of programs and services intended to encourage economic development in the South Dallas area using grants and loans to stimulate business. Accounting and managing finances for the SDFPTF is complex, involves a variety of special funds and is extremely different than managing finances in other divisions in DDS and should be treated as such. Internal control deficiencies in the SDFPTF have no direct bearing or relationship to other general fund or enterprise fund divisions and applicable financial controls within the department.

Background

In 2002, members of the E-Team were directed by City management to review the various processes within the divisions of what is now the Department of Development Services (DDS). The E-Team members received "feed-back" from the divisions and presented this information to management.

Management decided to form DDS, and in August 2002 an interim director for DDS was appointed. City Council was briefed, and it subsequently approved the creation of DDS in September 2002. The Director of DDS was appointed in May 2003.

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In October 2001, the assigned assistant city manager was in charge of five departments, but presently is responsible for only two departments (includes DDS).

The department mission is “To encourage growth in a progressive community environment and facilitate the land development process by focusing resources on comprehensive planning activities, attracting investment in new and expanding businesses, supplying unparalleled real estate and predevelopment services, and providing high quality plan review, permitting and inspection services.”

The goal of the department is to “Provide high-quality customer service, while protecting the health, safety and welfare of Dallas residents.” Some DDS division goals include:

- Improving the consistency of zoning and building code compliance by providing accurate, complete and timely plan review.
- Implementing innovative processes to improve customer service while maintaining a competitive fee structure.
- Maintaining construction codes that include the latest technological innovations in the industry.

DDS includes the following divisions:

- BI - Primarily responsible for ensuring compliance with construction standards and enforcing City building codes; reviewing construction, engineering and site plans; issuing construction trade licenses and building permits; registering contractors doing business in the City; and inspecting new and renovated structures and privately built public infrastructure.
- Engineering – Primarily responsible for reviewing subdivision plats and private development engineering plans.
- Current Planning – Responsible for formulating land use recommendations and providing information and services relative to zoning and subdivision regulations; administering City’s zoning ordinances and processing amendments, adjustments, and special provisions.
- Economic Development – Primarily responsible for providing services to stimulate economic development and assist the development process.

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- Long Range Planning – Primarily responsible for developing comprehensive and strategic land use planning and urban design; producing citywide comprehensive plan involving community and technical resources; preserving the City's architectural and cultural heritage by preserving individual buildings and neighborhoods; and producing small area plan in priority areas.
- Real Estate – Responsible for administering real estate owned or to be acquired by the City of Dallas.
- Business and Customer Service – Responsible for providing quality customer service to external and internal clients.

The DDS divisions are funded by both an enterprise fund and the general fund. BI, Engineering, and Business and Customer Service are enterprise fund divisions, while Long Range Planning, Economic Development, Current Planning, and Real Estate are general fund divisions. According to the City's Comprehensive Annual Financial Report for Fiscal Year Ending September 30, 2003, BI has operating revenues of \$16,305,000.

DDS BI Cashier's Office, located at Oak Cliff Municipal Center (OCMC), and the cashiers in the four BI district offices are responsible for handling payment receipts for building and trade permits, registrations, and other sales for the entire department. Additionally, the OCMC Cashier's Office collects and processes payment receipts relevant to water and sewer permits for Dallas Water Utilities.

In December of 2003, the City Council authorized the purchase of a Land Management System (LMS). The LMS is expected to improve business processes, allow staff to be more efficient, and save customers' time and money, while providing a greatly improved level of customer service. The Housing Department and Special Collections Division of Dallas Water Utilities are also participating in development of the system to assist with their processes. LMS is tentatively scheduled to be operational in 2005.

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During our audit, we identified certain policies, procedures, and practices that can be improved. Our audit was not designed or intended to be a detailed study of every relevant system, procedure, and transaction. Accordingly, the opportunities for improvement presented in this report may not be all-inclusive of areas where improvements may be needed.

1. The means to attain the Department Of Development Services' strategic objectives are not complete.

Management stated that the reason for the consolidation of other departments into DDS, that occurred in August 2002, was to reduce City of Dallas' expenditures and to improve service delivery. Although the objective of reducing expenditures was achieved immediately, service delivery enhancement has been evolving since the formation of DDS. Management was unable to fully plan and develop adequate management controls for the DDS reorganization because of the short time period allowed for the creation of the department.

A considerable amount of time elapsed between the formation of DDS and the establishment of strategic objectives for the department. The means to obtain the strategic objectives of the department are, in part, the implementation of the Land Management System (LMS), a Comprehensive Land Use Plan (CLU), and the modified policies and procedures that the divisions within the department follow to obtain the objectives. An interim director was named in August 2002 and had served in that capacity for nine months before a permanent director was appointed. The LMS and the CLU were elements management defined as being needed to enhance the performance of DDS. However, the LMS will not be available until mid to late fiscal year 2005, and the CLU is approximately 18 months from being presented to the City Council. Consequently, the enhanced service delivery for some of the department's activities will be delayed until the LMS and CLU are in place and functioning effectively.

Policies and procedures established prior to the creation of the DDS in October 2002 are still being used by the divisions. DDS personnel stated that they were not aware or involved in whether management controls were in place and modified due to the reorganization. Additionally, they stated that they were not aware that there were adequate controls to ensure mechanisms were in place to monitor and evaluate the efficiency and effectiveness of the organization.

BI established a performance and effectiveness "scorecard" and a strategic plan that included its values, goals, objectives, and performance measures. The scorecard is updated on a quarterly basis and is reviewed by management. Management indicated the other divisions within DDS will have "scorecards" in the future.

GAGAS states that the concept of accountability for public resources is key in the governing process. Legislators, other government officials, and the public want to

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know whether (1) government resources are managed properly and used in compliance with laws and regulations, (2) government programs are achieving their objectives and desired outcomes, and (3) government services are being provided efficiently, economically, and effectively. Managers of these programs are accountable to legislative bodies and the public.

Although DDS is not required to follow the GAGAS standards in carrying out its daily operations, we found that GAGAS clearly defines management controls within the department's structure. GAGAS, Chapter 7.10 (c), states, "Internal control, often referred to as management controls, in the broadest sense includes the plan of organization, methods, and procedures adopted by management to meet its missions, goals, and objectives. Internal control includes the processes for the planning, organizing, directing, and controlling program operations. It includes the systems for measuring, reporting, and monitoring program performance. Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors, fraud, and violations of laws, regulations, and provisions of contracts and grant agreements."

Total Quality Management (TQM) is one concept that uses a set of management practices throughout the organization, designed to ensure that the organization consistently meets or exceeds customer requirements. TQM incorporates the concepts of product quality, process control, quality assurance, and quality improvement. TQM places a strong focus on process measurement and controls as means of continuous improvement. Total quality management is based on internal or self-control, which is embedded in each unit of the work system (technology and people).

Performance measurements of an organization are key in organizational decision making. Performance measurement is the ongoing monitoring and reporting of program accomplishments, particularly progress towards pre-established goals. Performance measures may address the type or level of program activities conducted (process), the direct products or services delivered by the program (outputs) and/or the results of those products and services (outcomes). A "program" may be any activity, project, function, or policy that has an identifiable purpose or set of objectives.

Prior to the implementation of organizational changes, management should ensure that the strategic objectives are clearly defined and that the means of accomplishing the objectives are in place, or will be in place shortly after a re-organization.

We Recommend that the City Manager:

- A. Review all future reorganizations and restructures of departments and/or divisions to ensure that strategic objectives are established, management

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staff is in place to oversee efforts to achieve these goals, and adequate management controls have been instituted.

- B. Review the existing DDS organization and put in place those management controls that are necessary to ensure that the mission, goals, and objectives of the department are met.

Management's Response:

Ideally, reorganizations would have goals, objectives, and internal controls are fully established concurrently with initial operation of a newly created department. In some instances, deadlines may not allow that. However, the Quarterly Performance Report does address the management controls. All progress is tracked against the goals and objectives of divisions within the department, and reported on regularly. Nevertheless, DDS will continue to work under the directions of City Manager's office to refine and improve the goals and objectives of the department.

Other Management Comments:

The department formalized its mission statement, goals and objectives within three months after the department was created. Until then, the various divisions operated under the mission statements, goals and objectives in place before being incorporated into the new department. These were consistent with the new department's roles and responsibilities, and were therefore appropriate to use during the interim.

As soon as City Council authorized creation of the new department, staff began developing the Request for Bid for the land management system. The procurement process for a professional services contract of this magnitude takes a year or longer.

The City Auditor's Office participated in the development of the bid document and assisted in the review of bids and development of the contract. Implementation of the product is taking place over 26 months with the first go live approximately fourteen months after the contract was signed. This project is proceeding on pace with the original time frame and within the adopted budget.

Where possible, many administrative policies and procedures were standardized within the first year of the department's creation such as dress code, ethics, leave policies, etc. However, because of the uniqueness of operation between divisions, other policies that affect daily operations should remain distinct to reflect the business practices of the individual divisions.

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All divisions in Development Services are currently reflected in the Quarterly Performance Report and the “scorecards” will continue to be expanded and refined over time.

2. The permit and registration process is not adequate.

During our audit, we found that certain processes are not adequately verified or updated and that certain documentation is not adequately reconciled.

- A. The applicant’s stated value of the proposed project for building and trade permits is not adequately supported or verified. A building permit is a building construction permit that generally involves a plan review. It is processed at OCMC. A trade permit is a license permit issued for a single, specific type of construction, other than building construction. Trade permits are handled at both OCMC and Building Inspection district offices.

Currently, building and trade permit fees are generally calculated based on the applicant’s stated value of the proposed project. Our discussions with building inspection personnel revealed that permit applicants are generally not required to provide supporting documentation for the stated value of the proposed project. They indicated that:

- For building permit fee calculations, the plan examiners (who calculate building permit fees) may question the stated value of the proposed project. If the plan examiners believe that the applicant’s stated value does not seem to match the project description and square footage, they will look up building valuation data for the average cost of the proposed building type and ask the applicant to provide supporting documentation. The building valuation data is published in *Building Standards* (publication) representing average cost per square footage of the building type for most buildings.
- For trade permit fee calculations, DDS personnel determine the permit fee amount based on the applicant’s stated value of the proposed project.

We also noted that permit fee calculation accuracy is not verified by other staff. We were told that computer reports are generated and reviewed periodically to identify major permit fee calculation errors. However, these reports are reviewed after the permit has been issued, instead of during the permit application process.

- B. The control over the trade registration process should be improved. A trade registration is a registration requirement by Building Inspection for any trade contractor to do permitted work in the City of Dallas (General

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contractors and builders are not required to be registered with BI). Trade registrations are processed at OCMC and district offices. Some of the registrations include electrical, mechanical, and plumbing contractor registrations. During the audit, we noted that:

- Customer's registration information may not be timely updated in the computer system at OCMC. The registration process at OCMC primarily includes that the registration clerks:
 - Check the completeness of the registration application;
 - Review and copy the applicant's applicable supporting documentation (e.g., photo ID, state license...etc.);
 - Input new applicants' information into the computer system;
 - Verify existing applicants' data in the system to ensure the data is accurate and updated; and
 - Ask the applicant to take the application to the cashier's office to pay for the registration.

After the applicant has made the payment (fee amount generally shown on the trade application form), the applicant is sent back to the registration section with the original registration application form that has been validated with the cash register for the payment. The registration clerk, then, inputs the applicant's registration payment information into the computer system and issues a certificate of registration to the applicant.

However, if the applicant does not bring the payment information back to the registration section, the system may not be updated; the applicant may not receive a certificate of registration; and the applicant's registration may be expired. According to DDS personnel, all registrations need to be renewed every two years.

The registration process in the district office that we selected to visit is slightly different. We did not note this concern in that district office.

DDS personnel stated that:

- There are rare cases when an applicant does not come back to the registration section after making the payment.
- The department may know that the system is not updated if the applicant requests a permit and the issuing clerk sees the registration has expired; or if

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- The applicant is working on a project that the City's inspector sometimes does a spot check and asks to see the applicant's license.
- Registrations processed by the registration clerks at OCMC are not reconciled with the related documentation received by the Cashier's Office. Discussions with the registration section personnel revealed that registration clerks do not count the total number of registrations processed at the end of a business day or compare the number to that of the Cashier's Office. Cashier's Office staff reconciles the registration payment receipts with the copy of registration application forms that are received by the Cashier's Office.

Additionally, we found that computer system reports were not used at OCMC or the district offices for the reconciliation of registration activities and payments.

If the value of the proposed project is not adequately supported or verified, the City may not collect what it is entitled to for the provided services. The City's interests may not be adequately protected. Also, if permit fee calculation errors are not timely identified, there may be additional efforts and related costs involved in the collection process.

Without the timely updating of a customer's registration information in the computer system and the issuing of a certificate of registration to the applicant, the computer system data will not be accurate. Consequently, the customer (i.e., applicant) will not be pleased with the City's services, and the operation process may not be effective. Additionally, without adequately reconciling the total number of registrations processed with the payment receipts, payment receipts and customer data may be improperly manipulated without timely detection.

Control mechanisms are not adequate. BI's documented policies and procedures do not include provisions regarding requirements for adequate support or verification of the permit applicant's stated value of the proposed project or for timely verification of permit fee calculation accuracy. Additionally, BI does not have provisions regarding requirements for adequate reconciliation of the registrations processed. Also, control mechanisms are not adequate to ensure the effectiveness of the operational process and customer service satisfaction.

Policies and procedures should be adequately developed and implemented to ensure that operation processes are efficient and effective, the City's interests are adequately protected, and the operations meet the satisfaction of the City's customers.

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We Recommend that the Director of the Department of Development Services develop and implement control mechanisms to ensure:

- A. Permit applicant's stated value of the proposed project is adequately supported or verified. Written policies and procedures have the applicable criteria regarding support or verification for the stated value.

Permit fee calculation accuracy is timely verified.

- B. Effectiveness of the trade registration process and customer service satisfaction.

Adequate reconciliation of the registrations processed.

Management's Response:

A. Concur. Plans examiners review several hundred applications per week. In addition, most have a background in construction, or architectural experience. As a result, they possess an intimate working knowledge of valuations of construction projects. In June, the Building Inspection established a written policy that states where a quoted value looks low, the plans examiner will determine the value in accordance with the building valuation data tables, and where the difference exceeds 10%, a contract showing cost breakdowns is required. This reflects industry standard. Cities throughout the region typically accept the stated values of the applicant. The potential risk of increased bad will and increased service does not warrant changing the current practice.

Additionally, the current LINC system does not have a real time checking capability; however, there is a quality control check of all permits issued based on an overnight computer run of permits issued that day. The new land management system, scheduled for implementation in April 2005, will automatically calculate the fees, and resolve this issue.

B. Concur. However, it would be an extremely rare occurrence if a customer left the office after paying without completing the transaction and obtaining the registration. In the event an applicant does not bring the validation payment information back to the registration section immediately after payment, he or she can submit it later to update their registration. If necessary, proof of payment can be obtained from the DDS accountant's file to update the records. In a few months, the land management system will issue the registration upon payment and the transaction will be completed at the same time.

Our system analyst is currently designing a program in LINC to capture registration updates and generate a report to assist with reconciliation. In addition, a new cash management system (Revenue Collector) has been

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purchased and will provide computerized reports to reconcile all registration payments to the applications.

3. The control over some receipts, forms, and related authorization stamps is not adequate.

Management oversight is not adequate to ensure that all applicable forms and receipts, authorization stamps, and reconciliation of applicable documents are adequately controlled. Personnel do not have adequate awareness of internal controls.

- A. Three-part receipts are not pre-numbered. Three-part receipts are manually written receipts that are widely used by various areas/offices in DDS for some service requests and associated payment amount. They are also used as a payment record for the requested services.

Customers are asked to take the three-part receipts to the Cashier's Office to pay for the requested services. As a proof of making the payment, the customer brings one part of the receipt back to the service providing area/office to exchange for the requested service.

Currently, three-part receipts are not sequentially pre-numbered. Un-serialized three-part receipts may increase the difficulties of tracking services provided and payments received. With three-part receipts sequentially pre-numbered for each area/office and adequate reconciliation, the risks that customers receive free City services could be reduced.

- B. Unused City of Dallas electrical registration license cards (cards) are not pre-numbered/serialized, and the cards and related authorization stamps for the cards are not adequately controlled. The electrical registration license card is a pre-printed pocket license card to be issued to eligible individuals after:

- A payment is made for registration;
- The card is completed by the registration clerk with applicant's applicable information (e.g., applicant's name, date of birth, etc.) and registration payment information; and
- The card is then stamped by the registration clerk with the signature of City's Chief Electrical Code Administrator, a City of Dallas stamp, and a dated City of Dallas Building Inspection stamp.

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We noted that there are no serial numbers on the cards. We also found that a number of the unused cards along with their authorization stamps were located in an area of the Building Permit Registration Section where general employees may have access. DDS personnel indicated that leaving the cards and stamps where they are does not cause a concern, because customers would not have access to the cards and stamps.

In addition, we were not provided evidence that a reconciliation is performed between the license cards issued and the payment receipts for the cards. Currently, registration clerks enter the applicant's registration information and charge amount on the three-part receipt. Then they have the applicant take the receipt to the Cashier's Office for payment. The cashiers reconcile the registration payment receipts to their copy of the three-part receipts. However, the cashier's reconciliation would not detect whether the license cards were properly issued.

Three-part receipts or license registration cards without serial numbers may increase the difficulties of tracking the applicable services provided and the payments received. Without adequate controls, the risk to the City may include customers receiving free services.

Also, without adequate control and reconciliation of the certification of registration cards and stamps there may be increased risks of these being misused or stolen.

To ensure adequate controls are in place and the City's interests are adequately protected, management oversight should be adequate. Additionally, employees responsible for these functions should have adequate awareness and understanding of internal controls.

We Recommend that the Director of the Department of Development Services develop and implement control mechanisms to ensure that:

- A. Three-part receipts are sequentially pre-numbered and properly controlled.
- B. Electrical registration license cards are sequentially pre-numbered.

License cards and related authorization stamps are adequately controlled.

License cards issued are reconciled to the applicable payment receipts.

Applicable employees are adequately trained to improve the level of employee awareness and understanding of internal controls.

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Management's Response:

A. Concur. The three-part receipts used are not pre-numbered because the validation stamp impressed to each receipt by the cash registers (after payment) provides a date and control number that serializes the receipts. Each cash register in the department has a unique set of control numbers assigned to it that is used to identify the transaction number, date, and provide a numerical code that identifies the office where the transaction takes place. The validation information on the receipt is sufficient information to research any discrepancies. Nevertheless, once the current stock of approximately 10,000 receipts has been depleted pre-numbered receipts will be ordered to comply with the audit recommendation. Until then, we will keep the receipt stock locked up, and will continue to reconcile registration and electrical license receipts to the cash registration tape and payments. The risk of customers providing a receipt to receive free City services is minimal; if receipts are not validated using DDS's cash register then they are not recognized as authentic. As a further precaution, the land management system has been designed to assign a serial number to registrations after payment is received.

B. Concur. Land management system is being programmed to address this issue. The system will be operational by April 2005.

4. Segregation of duties is not adequately followed in Building Inspection district offices.

Without proper or adequate segregation of duties, individuals may cause and conceal improper actions. We judgmentally selected and visited one of the four Building Inspection district offices and analyzed the relevant operation process. We found that the primary duties/responsibilities of the Office Assistant in this district office include:

- Taking in customer's permit and registration applications;
- Collecting payments;
- Updating the computer system;
- Issuing permits, registration certificates, and payment receipts to customers;
- Preparing a daily cash fee report, used to reconcile/balance daily payment receipts to applicable documentation (i.e., permits, registration application forms, etc.); and
- Preparing deposit warrants for the deposit courier to take to the bank.

DDS personnel indicated that the operational process in the other three district offices is the same, except that one district office does not take cash payments or process deposits.

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We discussed our concerns regarding the segregation of duties in BI district offices with applicable DDS personnel. We were told that the concerns regarding this issue are minor primarily because:

- District Office Assistants have a lot fewer transactions than the main office (Cashier's Office at OCMC),
- District Managers are able to monitor the Office Assistants' activities closely and check their work for accuracy. District Managers sign the daily cash fee report, verifying they have reviewed the report and checked it against the applicable payment receipts. Although payment receipts are not pre-numbered, they have sequential cash register transaction numbers.
- A DDS accountant further reconciles the daily cash fee report.

Separation of duties is one of the key elements of a strong system of internal controls to prevent or to decrease the risk of errors or irregularities. Adequate and proper segregation of duties has a major impact on ensuring that relevant transactions are valid and properly recorded.

Presently, control mechanisms are not adequate to ensure that applicable operational duties/responsibilities are adequately and properly segregated. However, the current system has some check and balance function, which may have eased the applicable concerns.

Office Assistants have full control of the relevant process from start to finish. The duties/responsibilities of the BI district Office Assistant (cashier) should be adequately and properly separated.

We Recommend that the Director of the Department of Development Services develop and implement control mechanisms to adequately and properly segregate the duties/responsibilities of the Office Assistants in the applicable district office(s).

Management's Response:

Given the current workload volume, efficient business practices should not support additional administrative personnel at district offices. The district managers are responsible to oversee the cashier's work (then forwarded to the accountant for audit), which eases some concerns of the possibility of errors or wrongdoing. Therefore, without additional specific guidance from the Auditor's office, we cannot support the recommendation of additional staff at this time.

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Auditor's Follow-up Comment:

Management must assess the risk of the lack of segregation of duties to the cost of providing additional staff.

5. Fire Inspector job functions are not required to be performed by a uniform employee.

A DDS goal is to facilitate the interdepartmental flow of information and thereby increase efficiencies and reduce duplication of efforts. The effect would be to minimize project delays. Without the consolidation of inspections into one department, this may impede operational efficiency.

BI is responsible for new construction inspections within the City of Dallas. After an applicant has applied for permitting of a building, a series of inspections are performed to determine whether the structure has complied with city codes. Building, electrical, mechanical, zoning, and fire inspections are among the types of inspections that may be performed on any given building. A failure of any of these inspections of the building will require a remedy to the problem before final approval is given for the building to be occupied.

Building inspectors, except for fire inspectors, are civilian employees. Fire inspectors are uniform employees and report to the Fire Chief. There are ten fire inspectors, along with two supervising lieutenant's who perform all the fire inspections.

City Auditor's Office (CAO) contacted the Texas Commission on Fire Protection (TCFP) and asked whether the fire inspectors were required to be a uniform employee by any law, statute, or the Standards for Fire Protection Personnel (Standards). The TCFP stated that there is not a regulation that requires the fire inspector to be a uniform employee. The TCFP indicated that fire inspectors are not required to report to someone who is certified as a fire official. However, TCFP indicated that all fire inspectors must meet the Standards' qualifications.

CAO met with Dallas Fire-Rescue Department (DFR) and asked if there was other information on this matter that they had that differs from the CAO information. DFR indicated that they did not know of any regulation that required the fire inspector to be a uniform employee.

City management has not decided to restructure the fire inspectors under DDS. In a memorandum dated July 30, 2002, to the City Auditor, the Fire Chief strongly recommended that fire inspectors remain sworn uniform officers reporting to DFR.

Texas Administrative Code, Title 37, Part 13, Chapter 421, Rules section 421.5 (19), definitions, states that fire protection personnel is "any person who is a

OPPORTUNITIES FOR IMPROVEMENT

permanent full-time employee of a fire department or governmental entity and who is appointed duties in one of the following categories/disciplines: ...fire inspection...thereto.”

The Standards, Chapter 429 (Fire Inspectors) states that:

- Fire protection personnel of a governmental entity who are appointed to fire code enforcement duties must be certified, as a minimum, as a basic fire inspector as specified in section 429.3 within one year of initial appointment to such position;
- Prior to being assigned to fire code enforcement duties, all personnel must complete a commission (TCFP) approved basic fire inspection training program and successfully pass the commission examination pertaining to that curriculum;
- Individuals holding any level of fire inspector certification shall be required to comply with the continuing education requirements; and
- Code enforcement is defined as the enforcement of laws, codes, and ordinances of the authority having jurisdiction pertaining to fire prevention.

We Recommend that the City Manager:

- Appoint a committee to study the operational efficiency and determine the placement of the fire inspector function to achieve DDS goals.
- Determine whether the fire inspectors should be classified as either a civilian or a uniform employee.

DDS Management’s Response:

Concur. DDS will work under direction of City Manager’s Office to participate in committees or studies as directed.

Other DDS Management Comments:

Auditors have presented no information or evidence to indicate that the current staff assignments, reporting structure or span of control is ineffective, inefficient or on impediment to DDS goals. In addition, auditors have presented no rationale for change and how operations could be improved if changes were implemented.

DFR Management’s Response is shown on the following pages.

Memorandum



CITY OF DALLAS

thru channels

KS FOR DEARLIN
SEA

DATE December 8, 2004

TO Kent Henderson, Auditor
City Auditor's Office

SUBJECT Audit of Development Services Management Controls

The City Auditor's Office conducted an audit of the Department of Development Services (DDS). The Fire-Rescue Department has uniformed personnel who are assigned to work in Building Inspection substations. These personnel are still assigned to and managed by the Fire-Rescue Department.

One of the issues studied during this audit was "5. Fire Inspector job functions are not required to be performed by a uniform employee." There was discussion as to whether this was an effort to move these personnel under the management of Building Inspection.

Our understanding of the findings of the City Auditor is the decision as to whether to move the fire inspectors who do new construction inspections to the Building Inspection Division is a management decision to be made by the City Manager's office.

I agree with the finding of the auditor; however, I do question and disagree with the reason statements made that refer to DDS' goal to facilitate the interdepartmental flow of information, increase efficiencies and reduce duplication of efforts. They went on to say "the effect would be to minimize project delays and without the consolidation of inspections into one department, this may impede operational efficiency." I strongly disagree with these statements. There is no basis or data upon which to base these statements. Fire-Rescue Department management is not aware of any duplication of efforts, impeding of efficiency or any problems with the flow of information. I have a close and regular working relationship with Building Inspection personnel and I was shocked by this new request to move uniformed Fire-Rescue Personnel to Building Inspection.

I have contact with the Associated General Contractors Association or "Quoin" and they have not expressed any displeasure with our inspectors. For at least the last 28 years, the fire department practice has been to not allow construction to continue on construction jobs that do not have fire hydrants or approved fire department access. These are the two most important life-safety issues on a construction job. Simply put, without water you cannot put the fire out when it occurs and without a road in place as construction progresses, fire-rescue responding units have little or no access to many if not all construction sites thereby delaying and in some cases making it impossible to

Memorandum



CITY OF DALLAS
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DATE December 8, 2004

TO Kent Henderson, Auditor
City Auditor's Office

SUBJECT Audit of Development Services Management Controls
Page 2

get to the fire area or injured worker(s) in a timely manner. We work with contractors every day to find alternate or equivalent solutions to their problems.

Assistant Chief Debra Carlin, Fire Marshal pointed out in the meeting with DDS management and the auditors that civilianizing the fire inspectors probably would not have a pension cost savings effect because the fire inspectors would still be covered by the Police and Fire Pension System. There would be many other problems inherent in a transfer of the personnel such as training and state certification issues, as well as a question as to which inspectors would actually be transferred because of seniority provisions.

The moving of uniformed Fire-Rescue personnel to Building Inspection has been an issue several times in the past. During one period in the past while Cheryl Peterman was the Director over Building Inspection, the construction site fire inspection duties were transferred to Building Inspection. There were many problems involving the proper enforcement of the ordinances. City Management discontinued this practice and returned Fire Code Enforcement to the Fire Department.

In my opinion the present system works. I cannot think of a rational reason for tinkering with something that actually works. We have a diverse staff and we provide consistent, fair enforcement of the City ordinances.

I will schedule quarterly meetings with the Building Official to be certain there are not any communication or operational efficiency problems.

Please let me know if you need additional information.

A handwritten signature in cursive script that reads "Joe Pierce".

Joe Pierce, Deputy Chief
Fire Prevention Education and Inspection Division
Fire-Rescue Department

