



OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



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FILE COPY

April 30, 2014

Frank Oswald, Building Division Commissioner
1200 Market Street, City Hall, Room 426
St. Louis, Mo, 63103-2826

RE: Building Division-Revenue Review (Project #2014-RRV02)

Dear Mr. Oswald:

Enclosed is the Internal Audit Section's revenue review report of the Building Division for the period July 1, 2012 through June 30, 2013. A description of the scope of our work is included in the report.

Fieldwork was completed on October 24, 2013. Management's responses to the observations and recommendations noted in the report were received on April 28, 2014 and have been incorporated in the report.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised, and has been conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

If you have any questions, please contact the Internal Audit Section at (314) 657-3490.

Respectfully,

Dr. Kenneth M. Stone, CPA, CGMA
Internal Audit Executive

Enclosure:



CITY OF ST. LOUIS

DEPARTMENT OF PUBLIC SAFETY

BUILDING DIVISION

REVENUE REVIEW

JULY 1, 2012 THROUGH JUNE 30, 2013

PROJECT #2014-RRV02

DATE ISSUED: APRIL 30, 2014

**Prepared by:
The Internal Audit Section**



OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

**CITY OF ST. LOUIS
BUILDING DIVISION
REVENUE REVIEW
JULY 1, 2012 THROUGH JUNE 30, 2013**

EXECUTIVE SUMMARY

Purpose

The purpose was to determine if the Building Division's internal controls over revenue effectively and efficiently manages risks to ensure:

- Compliance with applicable laws, regulations, and policies and procedures.
- Proper and timely recording and reporting of revenue.
- Adequate safeguarding of revenue.

Scope and Methodology

The review included revenues from July 1, 2012 through June 30, 2013 and was confined to evaluating internal controls over fiscal activities relating to the objectives noted above. The review procedures included:

- Inquiries of management and staff.
- Observations of relevant processes.
- Limited tests of controls.
- Follow-ups on prior audit observations.
- Other procedures considered necessary.

Background

The City of St. Louis Charter, Article XIII, Section 15, established the Building Division as a division within the Department of Public Safety. The Building Division is responsible for enforcement of all codes and ordinances regulating the protection of the public health, safety and welfare as it relates to the "mode or manner of construction and the materials to be used in the erection, alteration, repair, removal, or demolition of a building or structure, or the installation of service equipment, and the location, use, occupancy and maintenance of all buildings, structures or premises".

Exit Conference

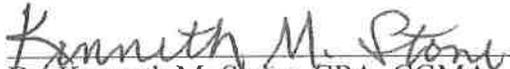
An exit conference was offered to the department on March 28, 2014, but it was declined.

Conclusion

The Building Division adequately addressed internal controls and risk related to its fiscal activities, except for the following observations:

1. Opportunity to improve control over revenue collection and reporting.
2. Opportunity to improve segregation of duties.

Each of these observations is discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.


Dr. Kenneth M. Stone, CPA, CGMA
Internal Audit Executive


Date

**CITY OF ST. LOUIS
BUILDING DIVISION
REVENUE REVIEW
JULY 1, 2012 THROUGH JUNE 30, 2013**

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OBSERVATIONS

Status of Prior Observations

The Internal Audit Section (IAS) performed a revenue review of the Building Division's fiscal activities, issued March 11, 2011. The prior report contained six observations, of which four were outside the scope of this examination, and they are as follows:

- Opportunity to improve on the collection of unpaid administrative fees (Unresolved).
- Opportunity to improve and document supervisory review (Resolved).
- Opportunity to improve monitoring of backflow device cash receipts (Resolved).
- Inadequate retention period for source documents (Unresolved).

Summary of Current Observations

The Building Division has introduced a new web-based permit application and inspection management system for licensed contractors to increase their ability to apply and pay for permits and request inspections for jobs at their convenience. This web-based procedure was a significant improvement in the application and inspection process.

However, the opportunity exists for management to improve internal controls over the Building Division's fiscal activities, as noted in the following observations:

1. Opportunity to improve control over revenue collection and reporting.
2. Opportunity to improve segregation of duties.

Each of these observations is discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.

**DETAILED OBSERVATIONS, RECOMMENDATIONS
AND MANAGEMENT'S RESPONSES**

**1. Opportunity To Improve Control Over Revenue Collection and Reporting
(Repeated)**

A review and comparison of the Cashier's daily receipts' reports to the City's general ledger balances was made for the months of September and December 2012 and April 2013. The total revenues from the selected permits for the three months per the Cashier's report and the City's general ledger reports are as stated below:

PERMIT TYPE	TOTAL REVENUE A (Cashier's Report)	TOTAL REVENUE B (City G/L)	DIFFERENCES A-B
1. Building	\$189,229	\$193,753	\$ (4,524)
2. Electrical	3,821	171,176	(167,355)
3. Demolition	3,715	1,645	2,070
4. Mechanical	14,940	31,902	(16,962)
5. Occupancy	10,745	10,225	520
6. Plumbing	3,688	3,033	655
Total	\$226,138	\$411,734	\$(185,596)

Based on the above, revenues (fees) per the Cashier's report for each permit did not agree with the City's general ledger balances.

Good management practices require reconciliation of revenues collected and reported by the Division to the City's general ledger at least monthly.

The timing difference between the deposits of collected fees with the Treasurer's Office by the Cashier and the posting to the City's general ledger by the Comptroller's Office may possibly account for the differences. The Division's Cashier deposits daily receipts with the Treasurer's Office on the day they are collected, while the Comptroller's Office post entries into respective accounts a couple of days later.

Failure to reconcile the Building Division's monthly revenues collected with the City's general ledger balances increases the risk for irregularities or errors in recording and reporting of revenues to appropriate accounts, which may not be timely detected.

Recommendation

It is recommended that the Building Division reconcile the monthly and cumulative revenue per the Cashier's report to the receipt coding forms (RCFs) for the daily deposit and the City general ledger. Discrepancies identified should be investigated. In addition, a responsible officer of the Building Division independent of the Cashier or Permit Supervisor should be designated to perform the monthly reconciliation.

Continued.....

Management's Response:

The Building Division looks to improve control over revenue collection and reporting on a continuous basis and disagrees with the finding of failure to reconcile monthly revenues with the City's General Ledger balances.

Currently, the Executive Assistant receives monthly general ledger and monthly PDF cash report from the Comptroller's Office. The Executive Assistant reviews these reports and prints the GL transactions report for reconciliation purposes. The Executive Assistant forwards the printed GL report to the Administrative Assistant III, who reconciles revenues to the GL. Any significant discrepancy is jointly investigated by the Executive Assistant and the Administrative Assistant III.

2. Opportunity To Improve Segregation Of Duties (Repeated)

Based on the observations and discussions with management, the following were noted:

- The Building Division Cashiers were responsible for opening the mail, which contained applications and payment checks for the Certificate of Inspection permits.
- The Permit Supervisor, with authorized access to the Division's Data Flex information system, occasionally processes applications and issues permits. The Supervisor also reconciles the daily entry totals for all permit classifications in the system to the corresponding general ledger account total from the Cashier's Cash Receipts.

Sound accounting principles recommend segregation of duties if a person performs two or more incompatible functions (for example: billing, receiving payments, and recording cash receipts entries). In circumstances where shortage of personnel prevents proper segregation, compensating controls (management review) should be emphasized. Management indicated there were shortages of staff to facilitate the segregation of all incompatible duties. The Cashiers considered the log maintained for the checks received by mail with the application for Certificate of Inspection and the rotation of functions at closing (logging and daily balancing performed by different Cashiers), as compensatory controls. Furthermore, the absence of any of the cashiers may further affect the segregation of duties station.

Failure to segregate incompatible functions, or to implement adequate compensatory controls, increases the risk that errors or misappropriation of assets may occur and not be timely detected. The permit supervisor performing other incompatible clerical duties may not be able to effectively supervise the Cashiers and the customer service representatives. Errors or omissions made by the Cashiers, customer service representative or permit supervisor performing the clerical duties may remain unnoticed. The supervisor may not effectively perform an intended control function over the activities in which he/she is also a participant.

Recommendation

It is recommended that management assign the function of opening and logging mail to someone independent of obtaining payments, billing and issuing permits or certificates, balancing, and preparing deposit of cash receipts. In addition, implement adequate supervisory review if shortage of personnel prevents proper segregation of duties.

Management's Response:

While the Building Division respects the accounting principle of segregation of duties, the reality of our fiscal situation is such that clerical staff has been reduced over 20% over the last few fiscal years. While improved technology has reduced the need for some clerical support, we are nevertheless being asked to do more with less. In most areas, we are increasing cross training and asking staff to perform more functions. However, in areas of perceived financial risk, we will endeavor to implement segregation of duties wherever practical.

There have been changes in the Permit Section that make increasing segregation of duties more feasible. The Building Division was finally able to obtain the new position of Customer Service Supervisor and she now occupies the office of the Permit Supervisor with increased responsibility to supervise processing of applications and the issuance of permits.

The Permit Supervisor position was eliminated with the Permit Supervisor position being upgraded to the position of Administrative Assistant III. With this re-classification and with the hiring of the Customer Service Supervisor position, it becomes increasingly unlikely for the Administrative Assistant III to directly process applications and/or to directly issue permits.

Her role is more upper management now and increasingly the Administrative Assistant III is charged with the responsibility to successfully help implement web based operating systems for the Building Division.

As such, we feel that her responsibility to conduct monthly reconciliations is no longer an incompatible function and is in the best interest of the Building Division and the City of St. Louis.