



OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



DARLENE GREEN
Comptroller

Internal Audit Section
1520 Market St., Suite 3005
St. Louis, Missouri 63103-2630
(314) 657-3490
Fax: (314) 552-7670

February 5, 2015

Frank Oswald, Commissioner
Department of Public Safety
Building Division
1200 Market Street, Room 401
St. Louis, MO 63103

RE: Revenue Review of the Building Division (Project #2015-RR02)

Dear Mr. Oswald:

Enclosed is the Internal Audit Section's revenue review report of the Building Division for the period July 1, 2013 through June 30, 2014. A description of the scope of the work is included in the report.

Fieldwork was completed on December 12, 2014. Management's responses to the observations and recommendations noted in the report were received on February 2, 2015 and have been incorporated in the report.

This review was made under authorization contained in Article XV, Section 2 of the City of St. Louis Charter, 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. Ishmael Ikpeama
Internal Audit Supervisor

Ron Steinkamp, CPA, CIA, CFE, CRMA, CGMA
Internal Audit Advisor

Enclosure

Cc: Randy Mourning, Executive Assistant



CITY OF ST. LOUIS

BUILDING DIVISION

REVENUE REVIEW

JULY 1, 2013 THROUGH JUNE 30, 2014

INTERNAL AUDIT PROJECT #2015-RR02

DATE ISSUED: February 5, 2015

**Prepared by:
The Internal Audit Section**



OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

**CITY OF ST. LOUIS
BUILDING DIVISION
REVENUE REVIEW
JULY 1, 2013 THROUGH JUNE 30, 2014**

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SUMMARY

Background

The Building Division is responsible for ensuring that City residents and businesses comply with the building codes and national codes that regulate new construction and the maintenance of existing buildings. The Division issues trade and occupancy building permits, administers licensing exams, conducts inspections, demolishes vacant buildings, and enforces zoning ordinances. The Division is also responsible for enforcing the Housing Conservation Program which was established to preserve the City's housing stock.

Our focus was on the Lead Remediation and Special Demolition Fund. The chart below provides a breakdown of the estimated and actual revenues of the Lead Remediation and Special Demolition Funds in fiscal year 2014.

Revenue Fund	Account	Estimate FY 2014	Actual FY 2014	Percent of Actual to Estimate
Lead Remediation	Certificate of Inspection	\$535,000	\$1,149,867	215%
Special Demolition	Demolitions	42,000	34,812	83%
Special Demolition	Demolitions - Collector of Revenue	140,000	142,981	102%
Total		\$717,000	\$1,327,660	185%

Purpose

The purpose of this review was to determine if the Building Division effectively and efficiently managed fiscal risks related to its revenues to ensure:

- Compliance with applicable laws, regulations, policies and procedures.
- All revenues are properly recorded and reported in a timely manner.
- The proper safeguarding of assets.
- The reliability and integrity of financial and operational information.
- The economic and efficient use of resources.

Scope and Methodology

The scope of the review included revenues in the Lead Remediation and Special Demolition Fund from the period July 1, 2013 through June 30, 2014. The review was confined to evaluating internal controls over the fiscal activities relating to the objectives noted above. The review procedures included:

- Inquiries of management and staff.
- Observations of relevant processes.
- Reviews of compliance with applicable laws, regulations, policies and procedures.

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SUMMARY

- Limited tests of internal controls and transactions.
- Follow-ups on prior audit observations.
- Other procedures considered necessary.

Status of Prior Observations

The Internal Audit Section (IAS) followed up on the observations included in the revenue review report issued April 30, 2014. The observations and status were as follows:

- Improve control procedures over the collection and reporting of revenues **(Repeated)**
- Segregate the duties of the Permit Supervisor **(Resolved)**

Conclusion

Opportunities exist for the Building Division to improve controls over the processing of revenues. The following observation resulted from the review:

- Improve controls procedures and standards in accounting for revenues **(Repeated)**

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

Exit Conference and Management's Responses

An exit conference was conducted at the Building Division on January 16, 2015. In attendance from the Building Division were the Building Commissioner, Executive Assistant and the Administrative Assistant III. In attendance from Internal Audit Section were the Internal Audit Supervisor and the Internal Auditor II. At the exit conference the report observations and recommendations were discussed. Management provided written responses on February 2, 2015 which have been incorporated into this report.

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DETAILED OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT'S RESPONSES

1. Improve Control Procedures and Standards in Accounting for Revenues (Repeated)

The Building Division processes revenues through walk-ins and the *STL City Permits* web-based application and inspection management system. It is the Division's policy to daily summarize and deposit walk-in receipts for immediate recording. Revenues received on-line are summarized monthly, and then transferred from the escrow accounts, which were established on-line, to the appropriate general ledger revenue accounts.

Internal Audit found that the Building Division's procedures lacked adequate controls to ensure the revenues received on-line are accurately and timely recorded. Internal Audit noted differences between monthly revenues recorded in the City's general ledger and the management reports for the Lead Remediation Fund-Certificate of Inspection (COI) account.

Internal Audit also noted inconsistencies in amounts between management reports generated. The City's general ledger reported total revenues of \$1,149,867 for the fiscal year 2014; however, amounts in the management reports were as noted below:

Report Description	Per Report	Per City General Ledger	Difference
COI - Revenue versus Expense	\$1,154,844	\$1,149,867	\$4,977
COI - LRF Master Listing	\$1,134,486	\$1,149,867	\$15,381

The differences appear to be due to untimely monthly transfers/distributions and postings to an incorrect account. In addition, due to the lack of reconciliations and management reviews, corrections were not timely made. Specifically:

- COI revenues of \$400,650 for the eight (8) month period of June 2013 through January 2014 were incorrectly posted to the permits account within the Fund. Corrections were not timely detected and corrected until April 2014.
- COI revenues for June 2014 were also incorrectly posted to the permits account. Correction was not timely detected and corrected until November 2014.
- Revenues were not timely distributed and recorded to the general ledger. The average period was three (3) months after the initial month of receipt and ranged up to six (6) months.

Internal Audit attempted to review two accounts in Special Demolition Fund established under the Division's cost center. We were informed that revenues for the demolition accounts were processed by other City departments and therefore were not reconciled by the Building Division. Total revenues recorded in the demolition accounts were \$34,812 and \$142,981.

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The Division's personnel stated that due to other responsibilities and limited staff, only three or four of its many accounts were judgmentally selected for review and distributions were not prepared timely. Internal Audit noted that the accounting procedures did not address the reconciliation process for walk-in and on-line revenues and supervisory reviews.

According to the Government Finance Officers Association (GFOA), one method of communication that is particularly effective for controls over accounting and financial reporting is the formal documentation of policies and control procedures. The lack of control procedures increases the risk that:

- Irregularities or errors may not be timely detected and corrected.
- Revenues may be understated/overstated and not reflect the actual results of operations.

Recommendation

It is recommended that the Building Division document and implement written control procedures and standards to address:

- Monthly reconciliations of its internal records to the City's general ledger.
- The procedures for the timely distribution and recording of on-line revenues.
- Performance standards and measures to ensure revenues are timely distributed and recorded.
- Supervisory reviews and documentation of the reviews.

It is also recommended that Building Division management ensure that revenues collected and processed by other departments are accurately supported and reconciled to the general ledger.

Management's Response

The Building Division agrees with Internal Audit's recommendation to document and implement written control procedures and standards. The Building Division has already taken steps to ensure more timely distribution and recording of on-line revenues by utilizing a newly developed standardized excel spreadsheet for monthly reconciliations.

The Building Division has instituted a newly developed standard that all on-line revenues will be accounted for and sent to the Comptroller no later than the 15th of each month for the following month's on-line revenue. The amount to be distributed from the on-line bank accounts into Pulaski Bank will be recorded on a standardized dated form for documentation purposes. Included on this document will be the name of the preparer and signature and date of the supervisory review, approving the amount of on-line revenues to be entered into the general ledger.

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Unfortunately, the Administrative Assistant III, who previously served as the Building Division's manager of on-line transaction, has accepted a promotional opportunity in another City department. In light of this development, the Building Division will obviously be forced to change responsibilities for handing on-line revenues. As the promotion just became known, the Building Division's solution for replacing her functions is not yet finalized, but a solution will be made in view of and within the guidelines of your recommendations.

The following steps, while not fully operational, can be explained with a fair amount of certainty:

- The Accountant I position will be called upon to perform timely and more comprehensive reconciliation of revenues to the general ledger.*
- The Executive Assistant II will perform monthly supervisory reviews of the Accountant's reconciliations until such time a replacement for the Administrative Assistant III position is hired and trained to perform such reviews.*

Finally, the Building Division agrees to include revenues collected and processed by other departments within the monthly revenue reconciliation to ensure that they are reconciled to the general ledger. While the impact of this observation is greatly reduced by our July 1, 2014 cessation of the agreement to have the Forestry Division process and collect Building Division's board-up and demolition fees, it remains a fundamentally sound endeavor.

The Building Division feels strongly that the time of the audit and the recommendations made by Internal Audit have been most helpful and appreciated. The Building Division showed a great deal of initiative boldly forging ahead successfully implementing on-line transactions. It would be a great disservice to recognize this effort as anything but a resounding success. Revenue and customer satisfaction levels have increased significantly as a result of the availability of on-line transactions.

Year-to-date, 83.1% of Plumbing Permit, 99.7% of Mechanical Permit and 96.6% of Electrical Permit revenues are generated on-line. Our newest product to go on-line is the Pre-occupancy or Certificate of Inspection. Already 58.5% of Certificate of Inspection revenues are generated on-line. By fiscal year 16, the Building Division expects to be able to offer Occupancy Permits and some Building Permits on-line.

On-line transactions are not only customer friendly, but also Green friendly. On-line transactions support the Mayor's Sustainability Action Agenda by reducing fossil fuel consumption, reducing harmful fuel emissions and the reliance upon paper. The Building Division undertook a tremendous effort to establish this successful on-line capability. Your recommendations will enable us to fine tune the accounting procedures associated with it. Thank you again for your technical support and advice.