

**MANAGEMENT AUDIT REPORT**

**OF**

**PERMIT AND INSPECTION PROCESSES**

**PLANNING DEPARTMENT**

**REPORT NO. 05-105**



**City of Albuquerque**  
**Office of Internal Audit and Investigations**



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**Office of Internal Audit and Investigations**  
**P.O. BOX 1293 ALBUQUERQUE, NEW MEXICO 87103**

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Accountability in Government Oversight Committee  
City of Albuquerque  
Albuquerque, New Mexico

Audit: PERMIT AND INSPECTION PROCESSES  
PLANNING DEPARTMENT  
05-105

**FINAL**

INTRODUCTION

The Office of Internal Audit and Investigations (OIAI) conducted a management audit of the permit and inspection processes performed by the Planning Department (Planning). The audit was included in the Fiscal Year (FY) 2005 audit plan.

The Building Safety Division administers the building permit process for both residential and commercial construction. The purpose of this process is to ensure the protection of life and property. The process begins with the submittal of construction documents which are reviewed for compliance with applicable building codes and standards. Approved projects are issued a building permit allowing construction to begin. The Division also conducts field inspections to monitor compliance. The inspection process culminates with the issuance of a Certificate of Occupancy.

In calendar year 2005, Planning issued 4,844 building permits, with a construction value of \$1,025,096,240. From January 2006 through March 2006, Planning issued 1,175 building permits, with a construction value of \$242,162,028.

AUDIT OBJECTIVES

The objectives of the audit were to determine:

- Are the cash receipts and accounts receivable processes properly controlled?

- Is a reconciliation process between accounts receivable and the general ledger performed to ensure the City is receiving all of the revenues relating to Planning permits and inspections?
- Is the collection of impact fees properly controlled to ensure the City is receiving all related revenues?
- Are building inspection processes properly controlled to minimize the danger of substandard building practices to the public?
- Are processes and controls adequate to ensure the timely review of plans so that service to the public is maintained and private building construction projects are not delayed?
- Is Planning in compliance with the City ordinance requirement to ensure that code enforcement income is reviewed annually and recommendations are made to the City Council to increase or decrease code enforcement fees as necessary?

### SCOPE

Our audit did not include an examination of all functions and activities related to the inspection and permit processes managed by Planning. The scope of our audit was:

- Planning activities relating to the permit and inspection processes from April 2005 through March 2006.
- Compliance with the fee requirements of the Zoning, Planning and Building Uniform Administrative Code Ordinance for the preparation of Planning's FY2007 budget.
- Planning's accounts receivables as of June 2006.

This report and its conclusions are based on information taken from a sample of transactions and do not purport to represent an examination of all related transactions and activities. The audit report is based on our examination of the Planning's activities through the completion of fieldwork, June 29, 2006 and does not reflect events or accounting entries after that date.

The audit was conducted in accordance with Government Auditing Standards, except Standard 3.49, requiring an external quality review.

## METHODOLOGY

During the audit OIAI interviewed staff in Planning and the Treasury Division of the Department of Finance and Administrative Services (DFAS). Judgmental samples were used for testing. Documentation and processes reviewed included the following:

- Collection of plan review fees and permit fees associated with construction permits;
- Planning's accounts receivable monitoring and control processes;
- Construction permits where impact fees were collected;
- Yellow Tags issued;
- Planning performance measures relating to the permit and inspection process.

## FINDINGS

The purpose of an internal audit is to identify changes in the auditee's activities, which would improve its effectiveness, efficiency, and compliance with administrative policies and applicable rules and regulations. Therefore, the auditee's activities that appear to be functioning well are not usually commented on in audit reports.

The following findings concern areas that we believe could be improved by the implementation of the related recommendations.

1. PLANNING SHOULD COMPLY WITH THE FEE REQUIREMENTS OF THE ZONING, PLANNING AND BUILDING UNIFORM ADMINISTRATIVE CODE ORDINANCE.

Section 14-1-1, INTENT, of the Zoning, Planning and Building Uniform Administrative Code Ordinance requires that the City recover 100-percent of the full cost, including indirect charges, from fees derived from Building and Safety code enforcement activities. It further requires that Building and Safety code enforcement income is reviewed at yearly intervals and recommendations are made to the City Council regarding the need to increase or decrease fees according to the result of this review.

The Planning Department, Building and Safety Division, is responsible for enforcing compliance with these requirements. Planning's FY07 budget indicates that the direct costs associated with the Building and Safety Division are budgeted for \$6.6 million, and the revenues from fees are budgeted for \$9.3 million.

Planning management stated that it was not aware that the ordinance required the department to determine indirect charges associated with Building and Safety code enforcement activities. A calculation of indirect charges associated with the activities of this division was not performed by the Department. Planning has not done an analysis to determine if fees derived actually cover 100 percent of the full cost of the Building and Safety Division. Consequently, Planning does not know if they are in compliance with the fee requirements of this ordinance. Planning may be charging the public an inappropriate amount to recover the full cost of the Building and Safety Division activities, including indirect charges. This will enable Planning to determine if fees should be increased or decreased as required by ordinance.

Planning management indicated that Planning would comply with this requirement when it prepared its FY2008 budget proposal.

#### RECOMMENDATION

Planning should ensure that fees collected cover 100 percent of the cost of Building and Safety Division activities, including indirect charges.

#### RESPONSE FROM PLANNING

***“Planning will work closely with the Budget Office during the FY/08 budget cycle to insure that the City is recovering 100% of the full cost, including indirect charges, from fees derived from building and safety code enforcement activities.***

***“Even though an informal analysis is performed annually in the Budget Office during the preparation of the budget, Planning, subsequent to this audit’s field work, performed a more detailed analysis of the costs associated with the One Stop Shop and City-wide code enforcement programs. The analysis looked at direct and indirect costs in the Building & Safety, Land Development Coordination, Building & Development Services and Construction Management activities of the One Stop Shop Program, as well as costs associated with the Code Compliance activity of the Code Enforcement program, a portion of the Strategic Support Program, and the Safe Cities Strike Force activity. Based on the analysis, Planning projects these costs will total about \$12.4 million for FY/07.”***

2. PLANNING SHOULD COMPLY WITH THE REQUIREMENTS OF ADMINISTRATIVE INSTRUCTION NO. 2-2, CREDIT, COLLECTIONS AND ACCOUNTS RECEIVABLE POLICY.

Administrative Instruction No. 2-2, Credit, Collections and Accounts Receivable Policy, states that departments are responsible for the following:

- Administering the transaction of credit that they extend to their customers.
- Reconciling of accounts receivable to the general ledger monthly.
- Reviewing and monitoring accounts receivable reports monthly.
- Developing written procedures for credit, collections and accounts receivable.

As of June 1, 2006, Planning had a total of \$283,414 in accounts receivables:

- \$48,470 of this total was 31 days or older, of which \$19,639 was older than 120 days.
- Thirty four of 342 accounts receivable had credit balances, which means that the City could have a potential liability of \$5,312.

Planning fiscal personnel told OIAI that they do not perform the following functions, as required by the City's Credit, Collections and Accounts Receivable Policy:

- Reconcile their accounts receivable on a monthly basis.
- Review and monitor the accounts receivable aging reports on a monthly basis.
- Collect past due accounts receivable.
- Research credit balances, amounts potentially owed to customers.

Planning fiscal personnel stated that they have not performed the above noted functions because they thought it was the responsibility of the DFAS, Treasury Division (Treasury), to monitor and collect accounts receivable. OIAI informed Planning fiscal personnel that Treasury only sends accounts receivable statements to customers. If Planning personnel do not monitor and collect their accounts receivable, the City may lose revenue.

OIAI provided a copy of the City's Credit, Collections and Accounts Receivable Policy to Planning fiscal personnel. Planning fiscal personnel stated that they would begin performing all of the required functions for the Department's accounts receivables.

### RECOMMENDATION

Planning should ensure that it complies with the requirements of Administrative Instruction No. 2-2, Credit, Collections and Accounts Receivable Policy.

### RESPONSE FROM PLANNING

*“Planning agrees more effort should be directed toward Departmental compliance with Administrative Instruction No. 2-2. However, the Planning Department believes that an active effort to collect past due accounts receivable is not required because of their regular business processes. Before issuing a permit, the Department reviews the account to determine if it is current. When noting the “delinquent” flag on an account, the Department will not issue any additional permits until the delinquency has been cleared.*

*“The Department will immediately begin to review and monitor the aging reports and reconcile the accounts receivable on a monthly basis.”*

3. PLANNING SHOULD RECONCILE ITS REVENUE TO THE CITY’S GENERAL LEDGER SYSTEM.

Treasury receives, records and deposits monies paid by Planning’s customers. Planning management stated that it does not have a reconciliation process in place to ensure that all of the revenues paid by its customers are recorded to the City’s general ledger and to the correct City general ledger account and activity numbers. Treasury’s Cash Handling Manual requires departments to ensure money received is appropriately recorded to the correct account and activity numbers. For the sample of 40 Application for Building Permit Forms selected for review, all the forms showed the Treasury endorsement indicating that the fees collected were received by Treasury.

This is a repeat finding from Audit Report No. 01-102, Planning Department Revenue Procedures and Controls, issued in December 2001. The report recommended that Planning ensure that actual cash received and accounts receivable are reconciled weekly to cash receipts and accounts receivable charges recorded in the City’s general ledger. The audit determined that daily fees charged for plan reviews, inspections and permits were not reconciled consistently.

Planning stated that it had worked with Treasury to reconcile the Building and Safety Division monthly accounts receivable reports to the General Ledger. They were unsuccessful due to the lack of adequate financial software systems in place at Planning.

Planning has deferred reconciling its revenues to the City's general ledger system until implementation of the KIVA system. KIVA tracks building permit activities performed by the Building and Safety Division. According to Planning management, KIVA is a permitting system; it is not a financial system. Planning management also informed OIAI that it would take steps to interface the Planning revenue data with the Treasury Point of Sale cashier system, and anticipates reconciling the two systems. Since the KIVA system is still under development, OIAI was not able to determine if Planning would actually be able to use this system to reconcile revenues paid by its customers to the City's general ledger.

A proper reconciliation process ensures that Planning revenues received from customers are recorded to the City's general ledger system and posted to the correct account number. Without a reconciliation process, there is an increased risk that City monies may not be deposited and recorded properly.

#### RECOMMENDATION

Planning should develop a process to ensure that actual revenue billed to customers is reconciled regularly to payments recorded in the City's general ledger system. Planning should determine if the KIVA system provides a subsidiary ledger of fees charged to customers, which could be used to reconcile to the City's general ledger.

Planning should ensure that its fiscal personnel are adequately trained on the accounting and reconciling of revenues.

#### RESPONSE FROM PLANNING

***“Planning agrees with the recommendations. While KIVA is primarily a permitting system, it is possible to generate reports that could be useful in the reconciliation process. Planning fiscal staff will work with Treasury to develop an acceptable reconciliation process by the end of FY/07.”***

4. PLANNING SHOULD ENSURE THAT IMPACT FEES FOR CONSTRUCTION PROJECTS ARE CHARGED CORRECTLY.

The City enacted an Impact Fee Ordinance on December 10, 2004. The purpose of the ordinance is to assess fees on new construction to help cover the additional costs of City services provided. The ordinance requires that any person who initiates a new development pay an impact fee.

The ordinance assigned Planning the responsibility to be the Impact Fees Administrator. Planning is also responsible for developing regulations to implement the ordinance. Planning prepared the Development Process Manual for Impact Fees, which includes formulas to be used for the calculation of the amount of Impact Fees to be collected.

OIAI reviewed 11 Impact Fee permit calculations that Planning charged to its customers. OIAI could not select a statistical sample for testing, since there was not a single comprehensive listing available of all Impact Fee calculations prepared by Planning. OIAI's review of these Impact Fee permit calculations determined the following:

Calculation of Roadway Impact Fees.

Planning only charged 70-percent of the fees that the regulations indicated should be charged for two of these 11 fee calculations. The amount of the undercharge totaled \$18,447.

Planning could not provide OIAI with an explanation why the customers were undercharged by 30-percent. Planning agreed that it had under billed their customers, and would collect the amount owed.

Calculation of Drainage Facilities Impact Fees.

The calculation regulations are based upon rates of discharge for watersheds of 40 acres or more. Planning personnel informed OIAI that the size of the building location for these 11 calculations did not meet the criteria stated in its regulations. Instead, they developed an alternative method to calculate the Drainage Facilities Impact Fees.

The alternative method used to determine Drainage Facilities Impact Fees in these 11 calculations might not be consistent with the intent and purpose of the ordinance.

Erroneous Assessment of Impact Fees.

OIAI noted that Planning erroneously collected \$13,532 of Impact Fees for three building permits. The ordinance established vested rights for certain properties. The three properties had vested rights, which meant that they were exempt from the collection of impact fees.

Since Planning has not implemented an internal review process to ensure proper assessment of Impact Fees, the wrong amount might be collected and not detected or corrected.

RECOMMENDATION

Planning should correct the billings relating to the Roadway impact fee calculations, and collect the additional 30-percent.

Planning should revise its regulations to include formulas for calculating Drainage Facilities Impact Fees that are consistent with the intent and purpose of the Ordinance.

Planning should implement an internal review process to ensure that impact fees for construction projects are correctly charged to customers.

RESPONSE FROM PLANNING

***“Planning agrees and has now put a process in place for the calculation of impact fees to be charged. Impact fee charges are initially calculated by Planning staff and then reviewed and approved by the Impact Fee Administrator. Had this process been in place when impact fee collection was first implemented, it is unlikely there would have been two incorrect billings. Planning is not optimistic about their ability to collect for the underbilling at this time. However, overcharged impact fees were refunded to the contractor in April, 2006.*”**

***“An alternative method to the analysis for large watershed drainage runoff calculations, consistent with the intent and purpose of the ordinance, has been developed. This method is a condensed version of the elaborate and complex matrix for determining runoff and is more easily understood by contractors. This method does not require the timely and costly services of a civil engineer for every project. This alternative method will be posted in the Department for public review.”*”**

5. PLANNING SHOULD REVIEW ITS PROCESSES FOR DETERMINING WHEN INSPECTORS SHOULD CHARGE RE-INSPECTION FEES.

Planning inspectors examine new construction projects to ensure that the project meets the requirements specified in building codes. Building codes provide detailed information regarding the standards that must be met in construction. When an inspector determines that the building code requirements have not been met, he is required to issue a Yellow Tag to the contractor. Construction is not allowed to continue until the problem is corrected and applicable building code requirements are met. The contractor can then request a re-inspection from Planning. This process is to minimize the danger of substandard construction to the public.

Planning's written Uniform Administrative Code provides guidance to inspectors regarding when it may be appropriate to charge a customer for a re-inspection. However, the written procedures specify that charging for re-inspections is at the discretion of the inspector.

OIAI reviewed the disposition of a judgmentally selected sample of 40 Yellow Tags issued by Planning's inspectors. OIAI could not select a statistical sample since there was not a single comprehensive listing available of all Yellow Tags issued by Planning. OIAI reviewed weekly permit activity listings to select the 40 Yellow Tags tested. OIAI's review determined the following:

Charging Contractors Re-inspection Fees

In thirty-two cases, the inspector could have charged the contractor a re-inspection fee, since upon re-inspection the problem had not been corrected. This resulted in the inspector having to do a second or third re-inspection. In one instance a property was re-inspected on five separate occasions, with only one re-inspection fee charged.

Written procedures specify that charging for re-inspections is at the discretion of the inspector. If re-inspection fees are not consistently charged, the City incurs costs which are not reimbursed, and the public could perceive inequitable treatment of contractors.

Disposition of Yellow Tags

In four instances, there was no indication in Planning's records whether the contractor had corrected the building code non-compliance and requested a re-inspection.

Planning does not have a process to follow up if a contractor never calls for a re-inspection. This lack of follow up does not give assurance that the building code deficiency was corrected, and could create situations in which the public is exposed to unsafe situations.

#### RECOMMENDATION

Planning should develop guidelines to ensure that inspectors are consistent when charging for re-inspection fees.

Planning should follow up when contractors are issued Yellow Tags, and the contractor never calls for a re-inspection.

#### RESPONSE FROM PLANNING

***“Planning agrees and in January 2007 issued to all inspectors a written policy regarding re-inspection fees. The Department policy provides that Section supervisors are to review all correction notices and make the determination if a re-inspection fee is to be charged. Section 113.5.8 Re-Inspections, of the Uniform Administrative Code, Building & Safety Division of the Planning Department (November 2006 Revised Edition as per O-06-43) includes guidance for re-inspections, including the charges for re-inspections. Section 305.5.7 clearly spells out those circumstances when re-inspection fees may be charged:***

- “1) when the permit notice card and/or address is not conspicuously posted on the work site,***
- “2) the approved plans are not readily available to the inspector,***
- “3) failure to provide access on the date for which an inspection is requested,***
- “4) deviating from plans requiring the approval of the building official, or***
- “5) a second rejection for failure to comply with the requirements of the code.***

***“The Code does not require re-inspection fees for the first time a job is rejected.***

*“The Department will develop a protocol by the end of FY/07 to ensure proper follow-up after a contractor is issued a yellow tag.”*

6. PLANNING SHOULD DEVELOP MEASURES OF MERIT FOR ITS FY2008 GOALS.

The City utilizes performance based budgeting where inputs such as appropriations require certain outputs. The intent of performance based budgeting is to have the budget tie to the performance plan, which is approved annually in conjunction with the City of Albuquerque operating budget. A complete performance management system includes performance standards against which actual performance is reported, monitored, and compared. Planning reported the following goals and actual data:

<b>Performance Plan output measure (goal)</b>	<b>FY2005 Goal</b>	<b>FY2005 Actual</b>	<b>FY2006 Goal</b>
Turnaround time on residential plan reviews	11 days	14 days	12 days
Turnaround time on commercial plan reviews	3 weeks	4 ½ weeks	4 weeks

Planning management told OIAI that the department was not able to immediately fill several vacancies in the plan reviewer and engineer positions in FY2005. These vacancies resulted in slower service to customers than Planning anticipated when the performance goals were developed. Management also indicated that Planning reviews its performance goals each year when it prepares its next year’s budget and performance measures.

For FY2007, the City implemented a process to consolidate and reduce the number of performance goals for departments. As a result, Planning deleted these customer service goals and substituted a Measure of Merit which stated that the FY2007 goal was to review 7,550 plans. This Measure of Merit does not monitor the timeliness of customer service. Planning will not be able to provide information to citizens, City Council or the Administration regarding the timeliness of service that Planning is providing to its customers.

RECOMMENDATION

Planning should develop Measures of Merit for its FY2008 goals which provide information regarding the timeliness of service that Planning is providing to its customers.

RESPONSE FROM PLANNING

***“Planning agrees and will work with the Office of Management and Operations Improvement to develop more meaningful performance measures for FY/08.”***

CONCLUSION

Planning should ensure:

- Ensure a yearly review is performed to determine whether the full cost, including indirect charges, of the activities of the Building and Safety Division are being recovered by the fees charged.
- Ensure accounts receivable are reconciled, aging reports are reviewed and monitored, and past due accounts are collected.
- Ensure Building and Safety Division revenues are reconciled to the City’s general ledger system.
- Ensure Impact Fees for construction projects are correctly charged to customers.
- Consider whether its procedures for determining when its inspectors should charge re-inspection fees should be mandatory, rather than at the discretion of the inspector.
- Develop Measures of Merit for its FY2008 goals which provide information regarding the timeliness of service that Planning is providing to its customers.

We appreciate the cooperation and assistance of the Planning staff during the audit.

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Principal Auditor

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Senior Auditor

REVIEWED:

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Audit Manager

APPROVED:

APPROVED FOR PUBLICATION:

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